



THE UNIVERSITY OF TENNESSEE BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE June 30, 2023

The Finance and Administration Committee of The University of Tennessee Board of Trustees met at 8:30 a.m. (CDT) on Friday, June 30, 2023. The meeting was held in the Library of the Mooney Building, located at the University of Tennessee at Health Science Center, in Memphis, 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; Shanea A. McKinney; Donald J. Smith; T. Lang Wiseman; 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); Interim Chancellor Philip Acree Cavalier (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.

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

Fiscal Year 2023 Third Quarter Financial Summary

Luke Lybrand, Treasurer, presented the Fiscal Year 2022-23 Third Quarter Financial Summary (Tab 1). Mr. Lybrand began his remarks by stating that the first nine months of FY 2022-23 financial performance was positive overall. The performance was driven by: (i) state support; (ii) student enrollment growth; and (iii) increased auxiliary activity. When compared to this same period last year, total revenue has increased 10.9%, with total expenses rising 7%.

Mr. Lybrand advised that the increase in revenues reflect certain extraordinary state appropriations, including: (i) \$72 million for UT's Oak Ridge Innovation Institute; (ii) \$21 million increase in state funding for the salary pool; and (iii) \$7.8 million for an enhanced 401K match. In addition, gross tuition and fees increased by \$77 million, driven by UT Knoxville student enrollment growth, and grant revenues also increased by \$19 million when compared to FY 2022. He noted that expense growth was driven by increased staffing levels to meet the needs of the growing student population, increased payroll expenses needed to support the state's salary plan, and significant increases in utilities, legal/professional fees, and travel expenses.

With respect to the University's Balance Sheet, the University's assets increased by approximately \$462 million. The largest line-item increase was in cash and cash equivalents, which grew by \$118 million. Mr. Lybrand reminded the members of the Committee that certain accounting items impacting the University's balance sheet, namely: (i) the implementation of the new lease accounting practice, which required that capital leases be added to the balance sheet; and (ii) pension valuation and reporting. Mr. Lybrand noted that the University's pensions are fully funded based on the last actuarial studies. In responses to questions from Committee members, he also provided additional details regarding debt issued on behalf of the University through the Tennessee State School Bond Authority (TSSBA).

Mr. Lybrand reviewed the University's liquidity analysis as of March 31, 2023. He indicated that the median for cash on hand for universities rated by Moody's as "Aaa" is 236 days. In aggregate, the University has a total of 299 days of cash on hand. Looking at individual campuses, UT Martin and UT Knoxville are both above the median, and UT Chattanooga is very close to the median. While UT Southern and the UT Health Science Center are below the median, both institutions have improved their liquidity positions.

Mr. Lybrand concluded his presentation by stating that the three quarters of FY 2023 have demonstrated very positive financial performance with revenues outpacing expenses.

Enterprise Resource Planning Project Update

David L. Miller, Senior Vice President and Chief Financial Officer, provided a status report on the transition to the ERP system, more commonly referred to as "DASH" (Dynamic Administrative Systems for Higher Ed), which will be used to process the University's financial, human resources, and payroll activities. Mr. Miller advised the Committee members that the project is on budget and on track to go live in July 2024. Mr. Miller noted DASH is already yielding benefits, including:

- Policy updates. As the transition to DASH moves forward, the University is implementing long overdue changes to many policies. To date, 22 policies have been revised.

- Payroll processing. If the budget is passed, thousands of letters will be generated to UT personnel advising them of their annual compensation adjustments. Previously, those changes were made via Excel spreadsheets that were custom built for each department across the UT System requiring salary adjustments to be entered manually. DASH will automate that process and save thousands of hours of staff time.

Mr. Miller stated that three key goals for the implementation of DASH are: (i) security improvements; (ii) workflow reduction; and (iii) transparency in reporting. In response to a question, Mr. Miller stated that there is a change management team in place to assist during the transition, and the response to the prototypes has been positive.

FY 2023-24 Operating Budget (including Salary Plan, Student Tuition and Fees, and Room and Board Rates)

Ron Loewen, Associate Vice President, Budget, Analysis and Planning, provided a comprehensive overview of the proposed operating budget for FY 2023-24, with a focus on the proposed tuition and fee increases. He began his presentation by announcing that for the third year in a row, the State had provided funding to support the largest salary pool (5%) in the University's history. Also of note is the State's award of \$11 million in recurring funding for UT Health Science Center's general operations, which has been a goal of the University for many years.

Mr. Lowen directed the attention of the Committee members to the proposed adjustments to tuition and fees as presented in the meeting materials. He explained that each year the Tennessee Higher Education Commission (THEC) is required to issue binding tuition and fee ranges that apply to undergraduate students who are Tennessee residents. He also indicated that there have been a number of years in which there were no tuition increases made by the UT campuses. Mr. Lowen credited the extraordinary funding provided by the State of Tennessee with helping the University manage affordability.

In reviewing the proposed tuition and fee increases for each campus, Mr. Lowen noted that each institution in the UT System has a unique blend of student demographics and issues and utilizes a business model tailored to support their mission. Three campuses (UT Knoxville, UT Chattanooga, and UT Martin) plan to implement modest increases to housing, dining and parking rates. Those increases can be attributed to a combination of inflation and the gap in state funding for the salary plan. Mr. Miller explained that, while the state-funded pay plan covers personnel included in the Education and General budget, the auxiliary units are considered to be standalone units. As such, they will need to generate revenue in order to fund the salary plan for their personnel.

Committee Chair Rhodes emphasized that the University has limited tuition increases over the last several years. He noted that while the Committee is hesitant to raise tuition and fees, inflationary trends over the last 18 months have seen prices rise across all sectors, and it would be unrealistic to imagine that tuition and fees would remain static. Board Chair John Compton noted that the proposed tuition and fee increases are well below the recent

increases in the Consumer Price Index. He added, however, that from the public comments received regarding the increases it was clear the combination of inflation and rising interest rates are impacting many families and students. He encouraged the University administration to continue to find ways to keep the cost of tuition and fees low.

Responding to a question regarding fees, Dr. Donde Plowman, Chancellor of UT Knoxville, stated that the University Chancellors are discussing ways to simplify and consolidate fee structures. Dr. Steven Angle, Chancellor of UT Chattanooga, agreed noting that one of the comments received from a UTC parent was focused on the aggregate impact of fees. President Randy Boyd stated that, at a future meeting of the Committee, there would be a follow-up discussion on student fees.

Mr. Loewen provided an overview of the operating budget for FY 2023-24, including the unrestricted Education and General budget and revenue trends. He noted that tuition and fees make up 30% of the \$3.2 billion Operating Budget, with the state appropriation (26%) and grants and contracts (25%) following closely behind. The remainder of the Operating Budget is comprised of auxiliaries (11%) and other forms of revenue (8%).

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 (as presented in Tab 2 of the meeting materials).

Capital Projects

Austin Oakes, Assistant Vice President for Capital Projects, began his presentation by noting that there are 187 active capital projects in design or construction (totaling approximately \$1.5 billion) across the UT System.

Capital Outlay Funding Request, FY 2024-25 through FY 2028-29

Mr. Oakes reminded the Committee members that in addition to the FY 2024-25 budget request, the Tennessee Higher Education Commission requires five-year plans. The five-year planning schedule reflects approximately \$1.54 billion in requested state funding for 15 major capital projects. For FY 2024-25, the plan requests funding for five projects, totaling approximately \$417 million (\$337 million in state funding): (i) Fletcher Hall Addition and Renovation, UT Chattanooga; (ii) Chemistry Building, UT Knoxville; (iii) General Education Building/Gross Anatomy Lab Renovation, UT Health Science Center; (iv) College of Business & Global Affairs, UT Martin; and (v) College of Veterinary Medicine Renovation and Expansion, UT Institute of Agriculture.

Mr. Oakes noted that the projects at UTC, UTK, and UTHSC were originally proposed for FY 2023-24. However, no capital outlay projects were funded during the last budget cycle. For FY 2024-25 budget, the Tennessee Higher Education Commission will allow three of the five projects to compete for funding.

Capital Maintenance Funding Requests, FY 2024-25 through FY 2028-29

For FY 2024-25, the capital maintenance funding request is \$97.6 million, representing 23 projects, which request aligns with THEC's goal to support capital maintenance statewide for which State funding would be requested. The five-year schedule reflects approximately \$364 million in requested state funding for capital maintenance projects.

Capital Demolition Funding Requests, FY 2024-25

Mr. Oakes advised the Committee members that this is the third year in which the University proposes to seek State funding for demolition projects (\$4.49 million in capital demolition funding for three projects in FY 2024-25).

Mr. Oakes concluded his presentation by discussing the gap in funding for capital outlay and capital maintenance projects. President Boyd added that he considers funding for capital outlay and capital maintenance projects to be among his most pressing concerns. He noted that with over 1,050 buildings (many of which were built 60- 100 years ago), the UT System has a backlog of capital maintenance needs estimated at \$1.35 billion over the next seven years. In addition, the University will need to construct new facilities for new programs and to meet rising enrollment demand. President Boyd said that it is time to re-evaluate how the University positions itself to encourage more investment in its physical assets and how it secures funding for those needs. The Committee members discussed the possibility of entering into a cyclical maintenance plan.

Upon motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the three Resolutions pertaining to the: (i) Capital Outlay Funding Requests; (ii) Capital Maintenance Funding Requests; and (iii) Capital Demolition Funding Requests (as set forth in Tabs 3.1-3.3 of the meeting materials).

Board Policy on Capital Project Planning and Approvals

Mr. Miller advised the Trustees that one of the top policy priorities of the University was to work with the State to create a more efficient path for advancing capital projects. That goal was accomplished with the passage of the Higher Education Capital Projects Modernization Act (effective on July 1, 2023). Among other things, the Act grants the University Board, or its designee, the authority to approve and oversee non-academic projects that are fully funded by donations received from a third party and/or with revenue from self-supporting auxiliary projects. Such projects are to be reported to the State Building Commission (the "Commission") on a quarterly basis. The Act also requires public institutions of higher education to establish a transparent process to publicly disclose to the Commission projects of up to \$10 million paid for from current or residual funds and increases the financial threshold for maintenance projects from \$250,000 to \$1 million. In order to ensure alignment with these statutory changes, it is necessary to approve a new Board Policy.

Mr. Oakes explained that the provisions of the Policy as further described in the meeting materials. He noted that the Board will continue to approve capital outlay, maintenance, and demolition requests; campus master plans, and debt obligations. Mr. Oakes briefly touched on certain provisions of the proposed Policy, including:

- Auxiliary projects now will be solely under the authority of the Board.
- The Board will approve institutionally funded projects, auxiliary projects, and real property leases/licenses that are over \$10 million, with authority to approve projects between \$1 million and \$10 million delegated to the President, who will have authority to subdelegate approvals of projects below \$1 million.
- Board approval would also be required for: acquisition of property not included in an existing campus master plan; sale or disposal of property; eminent domain actions; and acceptance of gift property.

Upon motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the Resolution approving Board Policy on Capital Project Planning and Approvals (as presented under Tab 4).

Athletics Capital Projects (UTK)

Dr. Daniel J. White, UTK Vice Chancellor and Director of Athletics, began the presentation on the Athletics Capital Projects by reviewing the highlights of the past athletic year. His remarks focused on the achievements of UTK's student athletes, media presence, facilities, and fundraising (highlights of Dr. White's comments are attached hereto as Attachment 1). Following Dr. White's remarks, Ryan Alpert, Deputy Athletics Director and Chief Operating Officer, discussed the proposed renovations to the Neyland Stadium and the Lindsey Nelson Stadium.

Lindsey Nelson Stadium

Mr. Alpert advised the Committee that the Athletics administration is requesting an increase in the project budget to account for scope and cost escalation impacts that are necessary for the completion of the project. Based on the architect and construction manager's recommendation, the University is requesting Board approval to: (i) increase the budget to \$95.8 million (an increase of \$39 million); and (ii) issuing an additional \$34.06 million in TSSBA bonds, which will bring the aggregate projected bond issuance to \$85 million. Total funding for the project would consist of: \$85 million in TSSBA Bonds (anticipated to be approximately \$12.5 million in 10-year bonds and \$72.5 million in 30-year bonds); \$1.403 million in Plant Funds (Athletics); and approximately \$9.4 million in gifts.

Neyland Stadium

Turning to Neyland Stadium, Mr. Alpert advised those in attendance that the Athletics administration is requesting an increase to the Neyland Stadium renovation project budget

due to various scope details identified by the project team and determined to be necessary for the proper completion of the project. In addition, the project has encountered cost escalation in certain equipment and materials attributable to inflationary conditions in the marketplace. Based on the architect and construction manager's recommendation, the administration is requesting Board approval to: (i) increase the Phase I budget to \$337 million (an increase of \$49 million); and (ii) restructure the project financing plan to provide for the issuance of additional TSSBA bonds in the amount of \$46.7 million, thereby increasing the aggregate projected bond issuance amount to \$279.3 million (anticipated to be approximately \$79.1 million in 10-year bonds and \$200.2 in 30-year bonds). Funding for the project would also include \$21.6 million in Plant Funds (Athletics), and \$36.1 million in gifts.

Upon motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the Resolutions approving adjusting the scope and increasing/adjusting the debt funding for both the Lindsey Nelson Stadium and the Neyland Stadium projects (as presented under Tab 5.1-5.2).

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).

Closing Remarks and Adjournment

Committee Chair Rhodes called the attention of the Committee members to the documents included as Information Items (Tabs 7.1 through 7.4, a complete list of which appears at the end of these minutes).

With no further business to come before the Committee, the Committee Chair Rhodes 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 23, 2023)
- Modification to Carl A. Swafford, Jr. Endowment Fund (UTC)
- Modification to Charles C. and Mary Elizabeth Lovely Verstandig Endowment Fund (UTHSC)
- Ratification of Quasi-Endowments Created during FY 2022-23
- Procedures Governing Compensation Increases during FY 2023-24
- Naming Proposals for Residence Halls (UTM)
- Utility Easement to City of Springfield (UTIA)

Information Items

- 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 2022-23
- Finance and Administration Committee Charter and Work Plan

Attachments

- Summary of Remarks made by the Director of Athletics

Report of the Director of Athletics, UT Knoxville

Competitive Success

- Tennessee is the only school to win a Bowl Champion Series/New Year's Six (BCS/NY6) and earn berths to the NCAA Men's College World Series, NCAA Women's College World Series, and NCAA Men's and Women's Basketball Sweet 16 in the same athletic year.
- Softball captured Southeastern Conference (SEC) regular season and tournament championships.
- Tennessee Athletics earned its second straight SEC All-Sports title in 2022-23.
- UT is just the second SEC school to capture both the men's and women's titles in the same year.
- Tennessee officially finished sixth in the LEARFIELD Directors' Cup standings – the best finish for UT Athletics. There were only two other times that UT finished in the Directors' Cup Top 10: 2004-05 and 2006-07.
- UT achieved eight SEC Championships since January of 2021. In the decade before January 2021, Tennessee won eight total SEC Championships.

Academic Success

- The Spring 2023 semester saw UT student-athletes achieve a cumulative GPA of 3.38 – the highest ever recorded, and for the first time, all 16 sports earned a team GPA of at least a 3.0.

“Must See Tennessee”

- A total of 20 games during the 2022-23 athletic year drew over 1 million viewers for each game.
- Tennessee is the only school to have hosted ESPN College GameDay for football, men's basketball and women's basketball.

Ticket Sales

- Tennessee Athletics has exhausted its 2023 football season ticket inventory with 70,500 purchased, including over 9,000 new season tickets. This is only the second time in the past 22 seasons that UT has sold out of its football season ticket inventory.
- Tennessee led the nation in combined football and basketball attendance in 2022-23.

Fundraising Records

- As of Monday (6/26/2023), Tennessee Athletics exceeded all three major category fundraising records that were set in FY 2022:
 - Cash receipts to date: 68.9 million (\$68.5 million in FY 2022).
 - Dollars raised to date: \$82.8 million (\$80.7 million in FY 2022).
 - Total donors to date: 28,127 (18,860 in FY 2022).

Budget and Revenue Growth

- Tennessee Athletics could reach \$200 million in revenue (FY 2022-23).
- The FY 2023 figure is projected to be 37% increase to the pre-COVID revenue high in FY 2017.
- Overall revenue generated by Tennessee Athletics (non-SEC/NCAA distribution) has increased by 28% compared to previous high in FY 2017.