



THE UNIVERSITY OF TENNESSEE BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE October 13, 2023

The Finance and Administration Committee of The University of Tennessee Board of Trustees met at 9:00 a.m. (ET) on Friday, October 13, 2023. The meeting was held in the Pilot Company Ballroom of the Student Union located at the University of Tennessee, Knoxville, in Knoxville, 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; Decosta E. Jenkins; Charles Hatcher, Commissioner, Tennessee Department of Agriculture; Shanea A. McKinney; Donald J. Smith; and T. Lang Wiseman.

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 Yancy E. Freeman (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

2023 Fiscal Year-end Financial Summary

Luke Lybrand, Treasurer, presented the 2023 Fiscal Year-end Financial Summary (Tab 1.1). Mr. Lybrand began his remarks by advising the Trustees that the state is in the process of auditing the University's financials; therefore, the information presented in the materials (Tab 1.1) represents the unaudited results. Mr. Lybrand stated that the University's overall financial performance for FY 2023 was positive, with tuition, student fees, and auxiliary revenues continuing to improve in line with the increase in student growth across the UT System.

In comparing the preliminary results of the FY 2023 Income Statement to those of FY 2022, Mr. Lybrand noted that total revenues for the UT System increased by approximately \$400 million, with expenses rising by approximately \$292 million. Mr. Lybrand pointed out that an attributional analysis for Fiscal Years 2021 and 2022, combined with the most recent data for FY 2023, shows that the University has seen an upward trend in net tuition and fees, with UT Knoxville driving much of that growth. He also noted that investment income performed much better in FY 2023 than FY 2022, which was driven by the Federal Reserve increasing interest rates in an attempt to curb inflation.

Mr. Lybrand stated that, as with revenues, expenses increased in line with the growth in student enrollment and in-person services. Additionally, salaries and benefits increased by \$187 million in FY 2023, which reflects the state's 4% pay plan. Other major increases included \$104 million in utilities, supplies, maintenance and repairs, travel, and legal/professional fees. Responding to a question raised by Committee Chair Rhodes, Mr. Lybrand confirmed that the rise in both revenue and expenses indicates that the University is returning to pre-pandemic activity.

Mr. Lybrand presented a condensed version of the FY 2023 Balance Sheet, comparing FY 2023 to FY 2022. Over that time, the University's total assets increased by approximately \$309 million, while total liabilities decreased by \$41 million. He provided additional insights on the changes reflected on the balance sheet associated with net pension assets and liabilities.

Mr. Lybrand explained that the University consolidates its operating deposits into a cash management investment pool in order to optimize liquidity and investment earnings. The key investment objectives of this pool are preserving capital and maintaining sufficient liquidity. Approximately \$5 million of the pool is held in bank deposits, with the majority of the assets invested in fixed rate treasuries and agencies that are held to maturity and are not subject to floating federal fund rates. He explained that the University is prohibited from investing in risk-based instruments. The University utilizes a laddered investment approach that employs staggered maturity dates so that each portion of the portfolio matures at regular intervals, which has allowed the University to capture higher yields.

Mr. Lybrand presented a liquidity analysis by campus and reminded the Committee that the Moody's Aaa median is 236 days, and the University is well above that metric at 251, with UT Knoxville's median at 299, followed by UT Martin with a 250 median. The University's three remaining campuses have improved their standing since the last meeting but remain below the Moody's benchmark.

Mr. Lybrand concluded his presentation by noting that the University continues to have a positive financial performance due to student enrollment growth and strong financial support from the State.

Fiscal Year 2023 Year-end Fund Balances

David L. Miller, Senior Vice President and Chief Financial Officer, provided a review of the FY 2023 Year-end Fund Balances. With respect to annual operating funds, the aggregate year-end cash fund balances totaled approximately \$140.8 million, with more than \$67 million in unallocated Education and General (E&G) reserves. Additionally, the University is permitted to carry forward certain from year-to-year as accrued fund balances. At the conclusion of FY 2023, \$1.35 billion was carried forward, with approximately \$835 million and \$405 million earmarked for renewal/replacement projects and plant funds, respectively. Mr. Miller advised that a detailed report on the FY 2023 Unrestricted Fund Balances was included with the information items in the meeting materials (Tab 7.6). In response to a question raised by Committee Chair Rhodes, Mr. Miller stated that the renewal/replacement fund is used for projects that may not rise to the level of receiving state funding. Board Chair John Compton requested that a five-year summary of total year-end carry forward balances for all funds be provided to the Board.

Enterprise Resource Planning Project Update

Mr. Miller provided an update on the transition to the ERP system, more commonly referred to as “DASH” (Dynamic Administrative Systems for Higher Ed) (Tab 1.2). Mr. Miller advised the Committee members that the project continues to remain on budget and on track to go live in July 2024. Mr. Miller stated that as the project moves forward, the University will see tangible results such as better management reporting, improved audit functionality, and faster performance.

FY 2024-25 Operating Budget Appropriations Request for Specialized Units

Ron Loewen, Associate Vice President, Budget, Analysis and Planning, explained that the Tennessee Higher Education Commission 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; and UT System Administration. Mr. Loewen reviewed the three priorities identified, totaling approximately \$6 million funding requests: (i) \$1.5 million (non-recurring) to support and accelerate development of the joint nursing program between the UTHSC and UT Southern; (ii) \$1.5 million (non-recurring) for renewal and replacement of medical simulation equipment at the UTHSC; and (iii) \$3 million (recurring) to expand and enhance the UTIA programs and precision livestock farming. Mr. Loewen advised the Committee members that the Operating Budget Appropriations Request does provide President Boyd and Mr. Miller with discretion to add other items to the list prior to the conclusion of the next General Assembly session.

Upon motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the Resolution approving the FY 2024-25 Operating Budget Appropriations Request for Specialized Units (as presented under Tab 2).

Annual UT System Workforce Review

Dr. Brian Dickens, Chief Human Resources Officer, provided an update to the Board on the UT System workforce (Tab 3). He began his presentation by sharing top concerns identified by the Society for Human Resource Management: (i) wage inflation; (ii) skills shortages and the gap in talent replenishment; and (iii) employee activism that may lead to incivility in the workplace. Dr. Dickens also shared the results of a survey of chief human resource officers conducted by the Human Capital Development Lab at Johns Hopkins University that identified concerns such as: (i) rising labor, benefits, and healthcare costs; and (ii) the cost of the human resource functions.

Dr. Dickens' presentation included a review of the University's workforce trends from 2020 to 2023, staffing levels, retirement eligibility, and minority and gender representation. He noted that as student enrollment grows, so does the University's workforce, which now numbers 13,435 full-time faculty and staff members, 5,591 temporary employees, and 13,853 student employees. Dr. Dickens also pointed out that the University's workforce is becoming more diverse, and the number of employees who are eligible for retirement has decreased, with more than 85% of the workforce having between less than one year to 19 years of service. The Office of Human Resources has also made strides in lowering the time it takes to fill a position, from posting the application to actually hiring a new employee.

Dr. Dickens concluded his presentation by announcing that for the second consecutive year, the University has earned certification as a Great Place to Work.™ Significantly, both the number of survey participants rose, as well as the number of individuals responding that the University was a great place to work.

Public Private Partnership (P3) - Student Housing (UTK)

Austin Oakes, Assistant Vice President for Capital Projects, provided an overview of the framework for the proposed public-private partnership (P3) to construct new student housing facilities on the Knoxville Campus. Mr. Oakes noted that, if approved, the P3 would be the first of its kind for public higher education in the State of Tennessee.

Approximately a year ago, after receiving approval from the State Building Commission (SBC), the University issued a request for proposal for the project. The University selected RISE Development, LLC, as the best evaluated proposer, and the SBC approved the selection in May 2023.

Mr. Oakes provided an overview of Phase 1 of the P3 project, which will include facilities to be built at Andy Holt Avenue and Caledonia Avenue. The facilities are scheduled to open in the Fall of 2025. The cost of construction will be financed through tax-exempt and/or taxable bonds. Neither the University nor the state will assume any financial liability associated with the issuance of the bonds.

Mr. Oakes advised that there are plans underway for Phase 2, to be built at Lake Loudoun Boulevard, which will be brought forward for approval by the Board at a later date. Committee Chair Rhodes stated that, if needed, a special meeting could be called to approve that agreement.

Committee Chair Rhodes explained that the P3 is a ground lease that will revert back to the University in 40 years. He congratulated Mr. Miller, Mr. Oakes, and the team for bringing forward a well-designed financing structure. President Randy Boyd echoed those comments.

Upon motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the Resolution approving public-private partnership for the construction of a multi-phase, on-campus student housing development for the University of Tennessee, Knoxville (as presented under Tab 4).

Updated Board Policies

Committee Chair Rhodes referred the Committee members to Agenda Item Summary pertaining to the Board's Statement of Treasury Policy (BT0024) and Investment Policies and Procedures (BT0025) as set forth in the meeting materials (Tab 5). As described in the meeting materials, it was determined that both policies needed to be revised to improve readability, remove redundancies, eliminate unnecessary historical references, and ensure that the policies reflect the University's current treasury and investment practices.

Upon motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the Resolutions pertaining to the restated Statement of Treasury Policy (BT0024) and the restated Statement of Investment Policy (BT0025) (as set forth in Tabs 5.1-5.2 of the meeting materials).

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 7.6, a complete list of which appears at the end of these minutes).

In closing, Committee Chair Rhodes stated that with respect to the endowment investment returns, it is important to remember that one should not focus on the short-term returns only.

He pointed out that since the University repositioned its assets with Cambridge Associates, the endowment has seen positive progress over the past three to five years.

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

Respectfully Submitted,

/s/ Cynthia C. Moore
Cynthia C. Moore
Secretary and Special Counsel

Approved Consent Agenda Items

- Minutes of the Last Meeting (June 30, 2023)
- Report on Uses of FY 2023 Tuition and Fee Revenue
- Acquisition Easements at Clyde Austin in Greeneville, TN (UTIA)
- Disposal Easement to Greeneville Energy Authority (UTIA)
- Proposed Building Naming (UTC)

Information Items

- Report on Use of Differential Tuition Funds (UTC)
- Report on Use of Differential Tuition Funds (UTK)
- FY 2023 Annual Flight Operations Report
- Report of Capital Projects Approvals for FY 2023-24
- FY 2023 Report on Endowment Investment Performance
- Report on FY 2023 Unrestricted Fund Balances