



THE UNIVERSITY OF TENNESSEE BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE March 1, 2024

The Finance and Administration Committee of The University of Tennessee Board of Trustees met at 8:00 a.m. (CT) on Friday, March 1, 2024. The meeting was held in the Warren-Wilson Hall Room in Martin Hall, located at the University of Tennessee Southern, in Pulaski, 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; Shanea A. McKinney; Donald J. Smith; T. Lang Wiseman; Woodi H. Woodland (Student Trustee); and Jamie R. Woodson.

University Administration: President Randy Boyd; David L. Miller, Senior Vice President and Chief Financial Officer; Luke Lybrand, Treasurer; Cynthia C. Moore, Board Secretary and Special Counsel; Chancellor Steve Angle (UT Chattanooga); Chancellor Peter Buckley (UT Health Science Center); Chancellor Yancy 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

Fiscal Year 2024 Q2 Financial Summary. Luke Lybrand, Treasurer, presented the Second Quarter Financial Summary for Fiscal Year 2024 (Tab 1). He advised the Committee that the University's overall financial performance for the first six months of FY 2024 was positive. Mr. Lybrand reviewed a condensed version of the University's Income Statement, noting that total revenues for the first two quarters increased by \$198 million (9.6%), outpacing expenses, which rose by 5.4%. The increase in revenue can be attributed to the increase in full-time enrollment (particularly at UT Knoxville), auxiliaries, and research expenditures. He noted that auxiliary revenue increased by \$33 million, reflecting the increase in student growth and the demand for on-campus housing.

Comparing expenses for the first two quarters of FY 2024 and FY 2023, Mr. Lybrand reported that the University saw the cost of salaries and benefits rise by \$78 million (11%), reflecting the State-supported pay plan and the need to hire additional personnel to provide services to the growing

student population. He attributed the increases in the category “Utilities, Supplies & Other” to that same increase in student growth, as well as \$11 million for the Enterprise Resource Planning Project (DASH), and the rising cost of utilities and supplies.

Mr. Lybrand offered a comparison of the first two quarters of the University’s Balance Sheet for FY 2024 and FY 2023. Over that time, the University’s total assets increased by approximately \$450 million, while total liabilities increased by \$126 million. The increase in total liabilities can be attributed to \$58 million directed for renovations at Neyland Stadium, \$21 million for the football and athletic facility at UT Chattanooga, and \$51 million in principal payments on the University’s existing bond debt. Most notably, the University’s investments increased by \$96 million (7.3%), which is in line with the market.

Mr. Lybrand concluded his remarks by presenting a liquidity analysis by campus. He reminded the Committee members that the Moody’s Aaa median is 236 days, and the University is well above that metric at 253 days, with UT Knoxville’s median at 295 days, followed by UT Martin with 263 days. The liquidity for both UT Chattanooga is close to the median. While UT Health Science Center and UT Southern are below the median but stable. He said that he expects to see improvement in UT Southern’s liquidity in the near future.

Enterprise Resource Planning Project Update. Mr. Miller provided an update on the transition to the enterprise resource planning project, more commonly referred to as “DASH” (Dynamic Administrative Systems for Higher Ed) (Tab 1.1). Mr. Miller provided an overview of the scope and status of the implementation of the project. Initially, DASH was designed to be used for budget and planning, finance, and human resources. The project has now evolved to include components for facilities management and real estate management, as well as a unified suite of grant and research management tools (Huron Research Suite). Additionally, the University is working with Oracle to develop a common student information system for financial aid and student record management, which is in the early planning stages. Mr. Miller stated that the University is among five early adopter institutions that are assisting Oracle in designing the student information system.

Mr. Miller reviewed the costs associated with the enterprise projects. He pointed out that by choosing a cloud-based system, the University can add enhancements and work with Oracle to plan for future deliverables. By way of example, he noted that Oracle has developed new tools that can be used for employee recruitment and employee experience/recognition. To date, the University has spent approximately \$49 million on DASH, which is slightly less than the \$50 million the State allocated to the University in support of this project. Committee Chair Rhodes highlighted that the funding from the State is an investment that will also be used by other institutions in Tennessee, and he believes that having a common reporting platform will be a tremendous asset for the Tennessee Higher Education Commission.

Mr. Miller concluded his presentation by discussing the ways in which the University is working to mitigate risk as DASH is implemented including developing a rolling critical path and purchasing an historical archive warehouse system for data that is not being migrated to DASH. He thanked the Chancellors and University business officers who have championed this system

over the past two years and expressed his gratitude to the many members of the University who have devoted countless hours to designing and implementing DASH.

Revised FY 2023-24 Operating Budget

Ron Loewen, Associate Vice President, Budget, Analysis and Planning, presented the Revised FY 2023-24 Operating Budget. He explained that the University develops a revised operating budget proposal each fiscal year to adjust for changes that occur after the original budget is adopted in June. The primary revisions made each year include updating beginning net asset balances to reflect actual rather than projected beginning balances; state appropriations adjustments; and changes in enrollments, operating plans, organizational structure, and revenue and expense projections. Mr. Loewen observed that, typically, revised budgets do not contain dramatic changes, which is the case again this year. The revised Unrestricted Educational and General (E&G) Operating Budget represents an increase of 1.8% over the original budget, and the revised Unrestricted Auxiliary Operating Budget represents an increase of 1.5% over the original budget.

Mr. Loewen also reviewed the types of funds and sources of revenues that make up the University's revised \$3.3 billion budget, namely - Unrestricted E&G Funds (\$2.042 billion); Restricted Funds (\$868 million); and Auxiliaries (\$355 million). The E&G operating budget has three primary sources of revenue, with the two largest sources being Tuition and Fees (\$960 million) and State Appropriations (\$844 million). Committee Chair Rhodes noted that the state provides almost as much in funding as the University receives in tuition and fees, which is an exceptional level of state support for which the University is most grateful.

Upon motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the Resolution approving the Revised FY 2023-2024 Operating Budget (as presented under Tab 2).

Capital Projects

Review of Recent Capital Projects. Austin Oakes, Assistant Vice President for Capital Projects, directed the attention of the Committee members to the report on Major Capital Projects Budget Review, which was requested by the Executive Committee at its meeting on January 26, 2024. The report, which was included in the meeting materials (Tab 3.1), reviews changes to the approved budgets of 16 of the University's recent largest capital projects. Mr. Oakes stated that the most recent changes to the capital project budgets fall into four categories:

- Initial approval of the capital project budgets occurs very early in the process prior to the hiring of a design firm or performing any geotechnical studies.
- There is a significant lag time (one year) between when proposed capital projects are approved by the Board in June before those projects are proposed to the state for consideration in the budget.
- Inflation has also impacted construction budgets. Prior to the COVID-19 pandemic, construction cost inflation could be expected to rise approximately 3% annually. However,

following the pandemic and the supply chain issues that arose, construction cost inflation has risen dramatically, sometimes rising as high as 15%. The impact of inflation has been exacerbated by the lengthy budget process.

- Budget costs also increase as the University identifies new opportunities to better serve the state and its citizens. By way of example, building size and specifications may be adjusted as interest in programs grow, such as the Dorothy and Jim Kennedy Health Sciences Building at UT Chattanooga, which saw its footprint grow by 14,000 square feet to provide additional space to meet the demand for educating more nursing students.

Responding to a question raised by Board Chair Compton, Mr. Oakes indicated that funding to cover the increase in construction costs is provided by the University. Committee Chair Rhodes encouraged the University Administration to continue working with elected officials to advocate for further changes to improve the University's ability to more precisely set capital project budgets.

New Student Housing, UTC. Mr. Oakes reminded the Committee members that funding for the new residence hall was originally approved by the Board in February 2022, as part of the schedule of revenue/institutionally funded capital projects for the amended FY 2022-23 Capital Budget. The approved budget for the project was in the amount of \$98 million, to be financed with \$95 million in Tennessee State School Bond Authority (TSSBA) bonds and \$3 million in Plant Funds (Auxiliary-Housing). Chancellor Steve Angle is requesting an increase in the project budget based on the completion of project planning, as well as cost escalation impacts that have been incurred. Specifically, the University Administration is requesting that the Board approve: (i) increasing the budget by \$16,200,000 to \$114,200,000; and (ii) adjusting the finance plan to increase TSSBA bond funds by \$14,200,000 to \$109,200,000 and Plant Funds (Auxiliary-Housing) by \$2 million to an \$5 million auxiliary funds.

Responding to questions raised by Committee members, Mr. Oakes, Mr. Miller, and Chancellor Angle explained that differences in the Knoxville and Chattanooga real estate markets preclude constructing the new residence hall using the same type of public-private partnership (P3) model being undertaken by UT Knoxville. Mr. Miller reported that attempting to use a P3 for the new residence hall would significantly increase the cost of the project and add risk exposure for the University.

Upon motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the Resolution increasing the project budget for the new student housing to be built at UT Chattanooga and adjusting the financing plan for the capital project (as presented under Tab 3.2).

Student Housing Public Private Partnership (P3), Lake Loudoun Site (UTK). Mr. Oakes provided a brief update on Phase 1 of the P3 project approved by the Board on October 13, 2024. He noted that the design now allows for the addition of 34 beds, bringing the total number of beds to 1,954. The projected interest rate on the debt decreased from 5.14% to 5.05%, resulting in a reduction in the cost per bed. Mr. Oakes then provided an overview of Phase 2 of the P3 project to be built at Lake Loudoun Boulevard. When completed in the Fall of 2026, the seven-story building will add 1,020

beds to the University's housing portfolio and will include a 1,600 square foot convenience store.¹ Mr. Oakes explained that, because the University is further along in the design/planning process for Phase 2, construction will be completed prior to the new student housing at UT Chattanooga.

In reviewing the financials for the Phase 2 project, Mr. Oakes explained that they are anticipating similar debt financing costs as those associated with the Phase 1 project. He indicated that construction costs for Phase 2 will be higher to ensure that the facility seamlessly integrates with the other surrounding buildings. Responding to a question, Mr. Oakes stated that the difference in the interest rates used in the projections for Phase 2 of the P3 project (5%) versus interest rates for the new student housing at UT Chattanooga (7.5%) is reflective of TSSBA's conservative planning purposes. TSSBA's requires the University to use a defined rate of interest, which is not generally indicative of the available market rate. Once TSSBA bonds are issued, the University will pay debt service based on the actual, prevailing market rates.

Board Chair Compton pointed out that the University will be losing parking when construction begins at the Lake Loudoun site. Chancellor Donde Plowman remarked that the campus is working with a consultant to assess and address parking needs. Board Chair Compton requested that more information regarding UT Knoxville's parking strategy be shared with the Board at a future meeting.

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 (Lake Loudoun Site) for UT Knoxville (as presented under Tab 3.3).

FY 2024-2025 State Budget Amendment Request. Mr. Oakes reminded the Committee members that each June the Board approves the University's annual budget request. Following that approval, the University often identifies projects that will not be funded by appropriations but paid for using revenue or institutional funds. These additional projects must be included in the annual capital budget to seek necessary state approvals to proceed with design and construction. Accordingly, eight projects, with an aggregate cost of \$344,050,000,² are being presented to the Committee for its approval. If approved, the list will be incorporated into the FY 2024-25 State of Tennessee Budget document, as amendments to the Governor's Budget.

Upon motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the Resolution approving the amendment to the Fiscal Year 2024-25 State Budget as further described in the meeting materials (as presented under Tab 3.4).

¹ *The University will provide a \$1.5 million capital contribution to support the building of the convenience store, which will be operated as the other foodservice venues on-campus.*

² *The list includes the formal budget disclosure for Phase 2 of the P3 project, valued at \$144 million.*

Annual Finance Report on Intercollegiate Athletics Programs

Mr. Miller noted that an annual report on finances for the intercollegiate athletics programs is required by the Board's policy on Oversight of Intercollegiate Athletics. Among the key metrics presented in the reports are the operating budgets, student fees, year-end fund balances, and debt/debt service. Annual reports were provided for UT Chattanooga, UT Knoxville, UT Martin, and UT Southern (Tab 4). This year, the reports have been standardized so that they are easier to read and compare. In reviewing the reports, the University administration found all programs are in good standing, with no signs of deficiencies or negative balances. Trustee David Watson raised a question as to why student fees at UT Martin are down, although enrollment increased. Mr. Miller explained that UT Martin has increased its enrollment of online students, who are not required to pay the student athletic fee. The actual number of students required to pay the athletic fee is down slightly.

Proposed Nonprofit Foundation

Chancellor Plowman provided an overview of a proposal to establish a nonprofit foundation in support of the campus' intercollegiate athletics program, consistent with the University's mission. She explained that most of the Southeastern Conference (SEC) member institutions have foundations and/or associations that specifically focus on supporting the needs of the athletics department and student-athletes. Chancellor Plowman acknowledged the changing national landscape of intercollegiate athletics and the need to remain nimble and competitive. At this time, the UT Knoxville is seeking the Board's permission to take the first step in establishing a foundation by approving actions as may be necessary under state law to formally establish the foundation and to apply for tax exemption under Internal Revenue Code Section 501(c)(3). She assured the Trustees that before the foundation becomes operational UT Knoxville will seek the Board's approval regarding the final governance structure, along with any affiliation, service, or other agreements with the University and/or other related foundations of the University as may be necessary.

Committee Chair Rhodes read the proposed Resolution into the meeting record. Upon motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the Resolution to establish a nonprofit foundation for the benefit of UT Knoxville and its intercollegiate athletics program (Tab 5).

Staff Engagement Survey Results

Dr. Brian Dickens, UT System Chief Human Resources Officer, presented the results of the 2023 Staff Engagement Survey (Tab 6). Dr. Dickens explained the methodology of the survey, along with key findings. Dr. Dickens advised the Committee members that the survey showed that employees have positive feelings about the UT System, including benefits, opportunities for growth, and their working relationships with colleagues and supervisors. Employees also expressed pride in their work and a sense of belonging to a supportive and dedicated team. However, the Office of Human Resources recognizes that the survey does show that there is always room for growth and improvement in certain areas. President Boyd reported that the engagement survey is a tool that the University is using to make a difference in employee retention/satisfaction. He was particularly

impressed by how University leaders are using the results of the survey to take positive action at their campuses and institutes.

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 three Information Items included in the meeting materials: (i) Report on Use of Capital Projects Approval for FY 2023-2024; (ii) Endowment Investment Report; and (iii) Composite Financial Index Report for FY 2022-2023 (Tabs 8.1 through 8.3). Mr. Miller advised that the Composite Financial Index Report indicates that the University is in a strong financial position, although, as noted earlier by Mr. Lybrand, UT Southern still has some challenges as it continues to increase its enrollment. Mr. Miller announced that the University received \$71 million in new gifts during 2023. The endowment is now valued at \$1.433 billion – a 12% increase over the last 12 months. That figure does not include the UC Foundation, which is valued at \$260 million. Mr. Miller hopes to increase the endowment to \$3 billion.

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 (October 13, 2023)
- Honorary Naming of Lt. General Dennis D. Cavin ROTC Center (UTM)
- Acquisition of Property by Gift for Institutional Use (UTM)
- Disposal Easement to Greeneville Energy Authority (UTIA)
- Utility Easement to Ben Lomand Communications, LLC (UTK/UTSI)

Information Items

- Report on Use of Capital Projects Approval for FY 2023-2024
- Endowment Investment Report
- Composite Financial Index Report for FY 2022-2023

Appendix

- 2023 Annual Financial Report