



THE UNIVERSITY OF TENNESSEE BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE October 25, 2024

The Finance and Administration Committee of The University of Tennessee Board of Trustees met at 8:30 a.m. (EDT) on Friday, October 25, 2024. 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; and David N. Watson.

Others in Attendance:

Trustees: Bradford D. Box; Decosta E. Jenkins; Shanea A. McKinney; Lisa N. Patel (Student Trustee); 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; 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

Committee Chair Bill Rhodes called the meeting to order.

Requests to Address the Board

Caleb Gore, a graduate student from UT Knoxville, addressed the Committee regarding graduate student stipends and healthcare benefits. He stated that, despite recent stipend increases, compensation has not kept pace with the rising cost of living. Some graduate students rely on food pantries to meet basic needs. He also raised the lack of dental and vision coverage in the graduate student healthcare plan, which imposes additional financial burdens. Additionally, he shared concerns regarding staff leave accrual policies for non-exempt employees following changes under the Fair Labor Standards Act and advocated for raising the minimum wage at UT Knoxville to \$20 per hour to address issues of retention and workload considering the increased student enrollment. President Boyd thanked Mr. Gore for his remarks and indicated that the leadership team is reviewing compensation and benefits on a regular basis. While improvements have been made, costs have continued to rise. A full copy of Mr. Gore's prepared remarks is filed with these minutes.

Report on Financial Performance

Fiscal Year 2024 Financial Summary. Luke Lybrand, Treasurer, presented materials summarizing the financial performance for the fiscal year ended June 30, 2024. Key highlights included:

- **Revenue Growth:** The university benefited from increased student enrollment, grant income, and strong investment returns.
- **Expense Increases:** Personnel costs rose due to staffing increases and inflationary pressures, though expenses remained within available resources.
- **Tuition and Fees:** Net tuition revenue increased by \$36 million (5.6%), led by UT Knoxville's enrollment growth.
- **State Appropriations:** A reported \$31 million decrease was attributed to the timing of one-time state appropriations to the University in FY 2023, including the funding for the UT-Oak Ridge Innovation Institute (\$79.8 million) and the enterprise resources planning project (\$50 million). Adjusting for these two extraordinary items, state appropriations grew by approximately 10% over the prior year.
- **Operating Expenses:** Salaries and benefits increased by \$218 million (12.2%) due to an increase in faculty and staff hiring to serve a growing student population and the impact of the 5% state pay plan.
- **Liquidity and Debt:** Cash and investments increased by \$160 million (9%). Debt rose by \$34 million (2.7%), primarily for major capital projects, including renovations to athletics facilities at UT Knoxville and UT Chattanooga.

Mr. Lybrand also reported that the \$52 million variance in scholarships and fellowships was due to a change in accounting practices. For future reports, the members of the Committee requested financial performance information by campus.

Enterprise Resource Planning Project Update. David Miller, Senior Vice President and Chief Financial Officer, provided an update on the transition to the enterprise resource planning project, more commonly referred to as "DASH" (Dynamic Administrative Systems for Higher Ed). Mr. Miller indicated that DASH is scheduled to go-live on January 6, 2025. Testing remains on track, with minor delays in technology and human capital management functions. Oracle and Accenture will provide on-site support for the transition. System improvements include: (i) automated financial reconciliation, reducing manual processes; (ii) streamlined recruitment and hiring process, integrating application tracking, onboarding, and performance evaluations; and (iii) real-time data access for financial and human resources reporting. Committee members emphasized the importance of comprehensive training for employees before full implementation.

FY 2025-26 Operating Budget Appropriations Request for Specialized Units

Ron Loewen, Associate Vice President, Budget, Analysis and Planning, reviewed the University's budget appropriations request. The primary funding priority is \$3 million in recurring state support to expand Precision Agriculture programs at the UT Institute of Agriculture (UTIA).

Senior Vice Chancellor/Senior Vice President Keith Carver and Tennessee Commissioner of Agriculture Charlie Hatcher emphasized the program's importance noting:

- Precision agriculture uses technology to increase crop yields, reduce costs, and enhance sustainability.
- Tennessee is losing farmland at one of the highest rates in the U.S., making innovation in farming practices crucial.
- The proposal has unanimous support from Tennessee's agricultural industry groups and the Tennessee Farm Bureau.

Upon motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the Resolution approving the FY 2025-26 Operating Budget Appropriations Request for Specialized Units, as set forth under Tab 2 of the meeting materials.

Affiliation Agreements

The following affiliation agreements were presented to the Committee for its consideration:

- Affiliation Agreement with The University of Tennessee Foundation, Inc. (UT Foundation);
- Affiliation Agreement with The University of Tennessee Athletics Foundation, Inc. (UTK Athletics Foundation);
- UTHSC - Master Affiliation Agreement with Methodist Healthcare; and
- UTHSC - Master Affiliation Agreement with East Tennessee Children's Hospital.

UT Foundation. Mr. Miller explained that the proposed Affiliation Agreement has been updated to separate the key affiliation terms from routine services that may be provided by and between the University and UTFI from time to time under a separate services agreement. The restated Affiliation Agreement outlines, among other things: (i) the relationship between the University and UTFI; (ii) the governance structure of UTFI; (iii) certain expectations pertaining to the management of UTFI assets and UTFI's administration; and (iv) ongoing audit and reporting obligations. The proposed Affiliation Agreement also permits UTFI to provide certain support services to other University affiliated foundations. Previously, the University's agreement with UTFI required certain approvals by the Comptroller of the State of Tennessee, including any amendments. With the consent of the Comptroller who has approved the proposed Affiliation Agreement, these requirements will no longer apply.

UT Athletics Foundation. Dr. Donde Plowman, Chancellor, UT Knoxville, provided an update on the formation of the UTK Athletics Foundation. She noted that, in March 2024, the Board of Trustees authorized the establishment of the UTK Athletics Foundation as a nonprofit organization for the benefit of UT Knoxville's intercollegiate athletics program (UTK Athletics Program). The UTK Athletics Foundation was incorporated on June 4, 2024, and has been established for the purposes of: (i) promoting the education, health, and wellness of UTK's student athletes; and (ii) advancing the UTK Athletics Program, consistent with the University's educational, research, and public service mission. The form of the proposed Affiliation Agreement with the UTK Athletics

Foundation mirrors the approach used for the UT Foundation. It was confirmed that the proposed Affiliation Agreement would permit the new UTK Athletics Foundation to become fully operational as a separate legal entity. Board Secretary and Special Counsel Cynthia Moore provided additional information regarding the oversight responsibilities the Board of Trustees and the fiduciary obligations of the Board of Directors for the UTK Athletics Foundation. She advised that a member of the University's Board of Trustees will serve on the Board of Directors of the UTK Athletics Foundation and that the UTK Athletics Foundation will have regular reporting obligations. Committee Chair Rhodes requested that Chancellor Plowman provide future updates to the Committee regarding the UTK Athletics Foundation, given that this is a newly established entity operating in a dynamic landscape.

UT Health Science Center. Mr. Miller began his remarks by highlighting the long-standing relationships between the UT Health Science Center (UTHSC) and its hospital partners (Methodist Healthcare and East Tennessee Children's Hospital). Dr. Peter Buckley, Chancellor, UTHSC, provided an overview of the benefits of proceeding with each of the proposed Master Affiliation Agreements, especially in terms of supporting medical education and research activities.

Upon a motion duly made and seconded, the Committee approved, in a single vote, a recommendation that the Board of Trustees adopt the Resolutions approving all of the Affiliation Agreements, as set forth in Tab 3 of the meeting materials.

Board Policy of Affiliated Foundations

Ms. Moore remarked that, consistent with state law and the University's Bylaws, affiliated foundations can only be established with the approval by the University's Board of Trustees. The existing Board policy on related foundations was initially created in 2007 and only reflects the UT Foundation, The University of Chattanooga Foundation (UC Foundation), and the University of Tennessee Research Foundation (UTRF). The revised Board Policy on Affiliated Foundations is a substantial restatement that establishes a comprehensive framework governing the creation, operation, and oversight of foundations associated with the University. The intent of the policy is to ensure that such entities operate in a manner that supports the University's mission while maintaining transparency, accountability, and legal compliance. Ms. Moore outlined the main provisions of the proposed Board Policy.

Upon a motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the Resolution approving the Board Policy on Affiliated Foundations, as set forth in Tab 4 of the meeting materials.

Capital Projects

UTIA Master Plan (Component of New Ten-Year UTK CMP). Chancellor Plowman and Dr. Carver introduced the proposed Master Plan for UTIA. The plan outlines strategic initiatives aimed at enhancing UTIA's educational, research, and outreach missions over the next ten-year period, with a focus on further aligning the strategic goals of UTIA and UT Knoxville. Jessica Leonard, an architect, planner, and principal with Ayers Saint Gross, presented the details of the Master Plan.

Ms. Leonard provided an overview of the extensive scope of the project, along with the planning process. The Master Plan recognizes the importance of state-of-the-art facilities proposing the renovation of existing structures and the construction of new buildings equipped with advanced technologies to support cutting-edge research and education.

Members of the Committee expressed their gratitude for the development of the plan and raised questions regarding the capital investment needed to address the near-term and mid-term projects. The trustees recommended that the University administration consider the development of a comprehensive capital budget (improvements and maintenance) to support the Master Plan, which considers the potential sources of funding (fundraising, state support, etc.). Support was provided for approving an omnibus resolution, with annual updates, to move these initiatives forward in a more streamlined approach. Austin Oakes, Associate Vice President, Capital Projects, provided additional information regarding: (i) the relationship of the number of buildings and total square footage within the University's space portfolio, and (ii) a \$50 million grant that is addressing certain capital investments, which was received by the University through the efforts of Commissioner Hatcher.

UTK Lindsey Nelson Stadium Budget Increase. Mr. Oakes reviewed a requested \$9.3 million budget increase for the ongoing renovations of Lindsey Nelson Stadium, bringing the total project budget to \$105.1 million. The increase is primarily due to site utility relocations and unforeseen site conditions. Mr. Oakes reported that the additional funding will be sourced from gift funds. Mr. Oakes responded to questions raised by the Committee members regarding the overall size of the project, along with actions that can be taken earlier in the design phase to minimize and mitigate these types of issues later in the construction process. The campus leadership team remains confident that the revenues raised will more than support the costs of the stadium project. It was also confirmed that certain cost overruns are within the delegated authority of the UT System President; however, this item was brought back to the Board for its consideration based on the thresholds established for cumulative budget increases as required of the Board's Policy on Capital Project Planning and Approvals.

UTM New Residence Hall. A proposal for a new residence hall aimed at addressing the increasing demand for on-campus housing at UT Martin was presented. The proposed facility is designed to provide modern amenities and foster a vibrant living-learning environment, aligning with the University's commitment to enhancing student life and success. The Committee engaged in discussions regarding the project's financial costs, funding sources and financing rates, and the anticipated financial impact on all students associated with an increase in housing fees due to this project. Trustees inquired as to the advantages/disadvantages of moving forward with single bed units, including student interest and student success considerations.

UTHSC Campus Master Plan Amendment. Mr. Oakes provided an overview of the master plan amendment, which permits the option of disposing of the Molecular Science Building and an adjacent parking lot. Prior master plans have contemplated the renovation of the Molecular Sciences Building. The master plan amendment also proposes to locate the future College of Medicine along Madison Avenue north of the Vivarium Building. The revised location would move the College of Medicine toward the core of campus and enhances adjacencies with other

campus facilities. Chancellor Buckley provided additional background information on Regional One Health's main campus and the University's need for a new building for the College of Medicine. Trustees encouraged the Administration to carefully consider any plans that involve the disposition of real property within or adjacent to the campus footprint of the UTHSC's Memphis location.

Upon a motion duly made and seconded, the Committee approved, in a single vote, a recommendation that the Board of Trustees adopt the Resolutions approving all of the capital project related items, as set forth in Tab 5 of the meeting materials.

UTC Voluntary Retirement Incentive Plan

Dr. Steve Angle, Chancellor, UT Chattanooga, and Mr. Brent Goldberg, Vice Chancellor for Finance and Administration, UT Chattanooga reviewed the primary provisions of the proposed voluntary retirement incentive plan. The voluntary retirement incentive plan is part of a broader strategy to manage financial resources effectively. The plan is aimed at encouraging eligible employees to retire voluntarily, thereby reducing payroll expenses and allowing for better reallocation of funds. This initiative was seen as a necessary step to ensure long-term financial stability and to address budgetary constraints while maintaining the quality of education and services provided by the UT Chattanooga campus. The discussion focused on: (i) the results of the last voluntary retirement incentive plan; (ii) safeguard measures for ensuring that there are no adverse effects in particular units because of faculty/staff retirements; (iii) the plans for managing expectations around repeated retirement incentives; and (iv) the potential misuse of retirement incentives instead of good performance management systems.

Upon a motion duly made and seconded, the Committee approved a recommendation that the Board of Trustees adopt the Resolution approving the Voluntary Retirement Incentive Plan, as set forth in Tab 6 of the meeting materials.

Consent Agenda

Committee Chair Rhodes asked if there were any requests to remove an item 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 six Information Items included in the meeting materials. He highlighted the report on endowment performance and provided an update on the most recent Investment Advisory Council meeting. Mr. Miller introduced the chief business officers from the UT campuses and reported that there is an ongoing search for a new chief business officer for the UT Southern campus.

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 25, 2024)
- Report on Uses of FY 2024 Tuition and Fee Revenue
- Acquisition of 611 West Jefferson Street, Pulaski, TN (UT Southern)

Information Items

- Report on Use of Differential Tuition Funds (UT Chattanooga)
- Report on Use of Differential Tuition Funds (UT Knoxville)
- FY 2024 Annual Flight Operations Report
- Report on Capital Projects Approvals
- FY 2024 Report on Endowment Investment Performance
- Report on FY 2024 Unrestricted Fund Balances