

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES
FINANCE AND ADMINISTRATION COMMITTEE
FEBRUARY 2019 MEETING

10:15-11:45am EST
Friday
February 22, 2019

The Millennium Center
2001 Millennium Pl
Johnson City, TN

AGENDA

- I. Call to Order
- II. Roll Call
- III. [Approval of the Finance and Administration Committee Minutes of November 16, 2018](#)
- IV. [Discussion of Unaudited Comparative University Financial Ratios](#)
- V. [Discussion of Budget Process Flowchart and Governor's Budget Calendar](#)
- VI. [Quarterly Reports of Agreements \\$250,000 or Greater](#)
- VII. Other Business
- VIII. Adjournment

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

ACTION ITEM

DATE: February 22, 2019

ITEM: Approval of the Minutes of November 16, 2018

COMMITTEE: Finance and Administration Committee

RECOMMENDED ACTION: Approve

PRESENTED BY: David Linville, Secretary

The minutes of the November 16, 2018 meeting of the Finance and Administration Committee are included in the meeting materials.

MOTION: I move that the Board of Trustees adopt the resolution, approving the minutes as outlined in the meeting materials.

RESOLVED: The reading of the minutes of the November 16, 2018 meeting of the Finance and Administration Committee is omitted, and the minutes are approved as presented in the meeting materials, provided that the Secretary is authorized to make any necessary edits to correct spelling errors, grammatical errors, format errors, or other technical errors subsequently identified.

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES
FINANCE AND ADMINISTRATION COMMITTEE

MINUTES

November 16, 2018
Johnson City, Tennessee

The East Tennessee State University Board of Trustees' Finance and Administration Committee met on Friday, November 16, 2018, at the Millennium Center, now under the ownership of East Tennessee State University, on State of Franklin Road in Johnson City, Tennessee.

I. Call to Order

In the absence of Finance and Administration Committee Chairman Steven DeCarlo, Trustee Ron Ramsey called the meeting to order at 9:02 a.m.

II. Roll Call

Trustees in attendance were: Dorothy Grisham, Jim Powell, Ron Ramsey, and Keyana Miller (non-voting student member). Board Secretary Dr. David Linville informed Trustee Ramsey that a quorum was present.

III. Approval of the Finance and Administration Committee Minutes of September 21, 2018

The minutes of the Finance and Administration Committee meeting of September 21, 2018, were approved as submitted, with Trustee Powell making the motion to approve and Trustee Grisham seconding. The motion passed unanimously.

IV. October Budget Revision

Dr. B.J. King, ETSU's Chief Financial Officer, presented 2018-19 October Revised Budget summaries for the main campus, the College of Medicine, Family Medicine, and the College of Pharmacy. Dr. King reminded the committee that budgets prepared previously and approved in April were based on estimates of revenues and expenditures. The revised budgets are then based on fall semester enrollment and adjusted appropriation figures. Referencing total expenditures and transfers of over \$18.5 million for the main campus, she indicated that a large increase in that category in October is not unusual and that a significant portion of that amount consists of funds carried forward into the 2019 fiscal year. Among the additions to the main campus revenue budget, the university had budgeted a decrease in enrollment of 100 students, but that number turned out to be only a decrease of some 25 to 30 students, while the FTE (full-time equivalent) enrollment remained flat. Course fees that were approved after April have also been included in the revenue. A decrease occurred in the Other Post Employment Benefit category. The net effect of OPEB

implementation was a decrease in the appropriation of about \$467,000 on the main campus. This month, employees will get a health insurance holiday, and the university also will not be paying its share of health insurance costs. Taken together, these result in a decrease in the appropriation of \$570,200. Dr. King pointed to increased contracts and grants activity and increases in investment income. She explained that auxiliaries are down by almost \$230,000 because housing capacity is lower. Total revenue adjustments amounted to just over \$4.7 million. Among the additions to the main campus expenditure budget are new fees, research improvements, and academic support at the college level through the carry-forward that is now possible through the new budget model. An increase in utilities was noted, primarily because of the university's acquisition of the Millennium Center. New scholarship awards are also a factor. The result is a total expenditure adjustment of just over \$19 million. Dr. King added that the personnel budget for 2018-19 reflects an increase of 12 net positions, nine of them faculty (and most of those in Nursing). Nursing has had an increase in enrollment in undergraduate programs for the last two years.

Dr. King reported to the committee that the October figures reflect an increase in the revenue budget at the College of Medicine of \$634,800, based largely on tuition, enrollment, and the addition of an orthopedic program. Increases in research and academic support helped contribute to a total increase in the October budget by slightly more than \$3 million. A breakdown of College of Medicine staffing shows no increase compared to the original budget, with 354 employees.

In the Family Medicine budget, there is a revenue decrease of \$49,400, and that, Dr. King said, is mostly attributable to the OPEB adjustment referenced above, as well as the health insurance holiday. The total October Revised Budget for Family Medicine shows an increase of \$380,900. The total number of positions, at 110, remains unchanged from the original budget submission, although two positions were shifted from faculty to maintenance/technical/support.

Dr. King told the committee that the revenue increase of \$175,300 in the College of Pharmacy October Revised Budget reflects an enrollment increase and additional money realized from the program service fee that the board approved in April. Scholarships increased significantly, from \$215,000 to \$476,600. The total revised budget comes in at \$959,300 more than projected. College of Pharmacy staffing levels remained constant at 63, although one faculty position was reallocated to professional support.

Trustee Ramsey commended Dr. King and the university for the excellent report. Trustee Powell made a motion to approve these October Revised Budgets. Trustee Grisham seconded. The motion passed unanimously.

V. Factors Considered for Tuition Increases—Tuition Transparency and Accountability Act

Dr. King reminded the committee that state law now requires the Board of Trustees to develop a list of factors to be examined when increases in tuition and mandatory fees are being considered. Those factors include:

- a. Level of state support;
- b. Total cost of attendance;
- c. Efforts to mitigate the financial effect on students;
- d. Tennessee Higher Education Commission (THEC) binding tuition and mandatory fee increase ranges; and
- e. Other factors affecting the university's financial stability such as projected student enrollment; university enrollment goals; market and cost factors for higher education; new program or new facility cost; and cost related to operations, programs of study, or individual courses.

Trustee Grisham moved that the list of factors be approved by the committee. Trustee Powell seconded the motion, and it passed unanimously.

VI. Presentation of FY18 Unaudited Financial Statements

Dr. King reported to the committee that the unaudited financial statements for fiscal year 2018 have been delivered to the Division of State Audit for review. A finalized audit report is expected before the April 2019 meeting of the ETSU Board of Trustees.

Dr. King told the group that assets increased from 2017 to 2018, and among the reasons was the receipt of \$8 million from the City of Johnson City to fulfill its commitment for the fine arts center. There was an increase in capital assets because of the completion of the data center and the football stadium. Liabilities decreased from 2017 to 2018, due to completion of construction projects, including the football stadium. Investment in capital assets increased because of the completion of the football stadium and the beginning of construction of the Martin Fine Arts Center in 2018.

Operating revenue increased from fiscal year 2017 to fiscal year 2018. Dr. King indicated that tuition and fees were up, because of a 3.97 percent maintenance and mandatory fee increase and other increases in some non-mandatory fees. Grants and contracts increased, primarily in non-governmental grants, including a grant for outpatient drug programs and capital projects funded through grants. Sales and services remained relatively flat. The university realized an increase in auxiliaries and other operating revenues, and this was attributable to increases in campus housing and food service.

In comparing operating expenses over the same time period, Dr. King noted that salaries, wages, and benefits went up because of a two percent across-the-board pay increase for employees and an equity pay increase of one percent. Benefits increased, primarily due to a seven percent increase in health insurance costs. Depreciation increased with the completion of the data center and the football stadium.

Moving to a comparison of nonoperating and capital income, again for the same time period, Dr. King reported that state appropriations for ETSU increased, as state revenues continued to rise. Nonoperating gifts and grants increased with gifts from the ETSU Foundation and increases in federal and state grants. Capital appropriations increased for the powerhouse boiler, roof replacements, and other capital projects funded by the state. Capital gifts increased, largely in the form of contributions for the construction of the fine arts center. Dr. King indicated that investment income rose by some \$1 million.

VII. Presentation of FY18 Unaudited Composite Financial Index

As another information item, Dr. King reviewed the rationale behind the Composite Financial Index, which she described as a set of indices used to measure how the university is performing and its financial health. The index is prepared for review by the Board of Trustees annually. The ratios in the index were originally designed for private institutions. In 2002, they were modified for public institutions. The ratios were published in *Ratio Analysis in Higher Education* by KPMG and Prager, McCarthy, & Sealy, LLC. Dr. King explained that the index is comprised of four individual ratios: return on net assets, net operating revenues, primary reserve, and viability. The ETSU Foundation is included in the index. Dr. King said that the Tennessee Higher Education Commission asked ETSU to perform a stress test based on these financial ratios, and the university performed well.

Dr. King summarized some of the highlights of the most recent Composite Financial Index for ETSU. In the return on net assets category, for example, ETSU performed well, outpacing inflation. Total net assets increased by \$14 million. In net operating revenues, the university is up and in fact has surpassed the industry standard for the first time. Dr. King told the committee that she is not concerned about the very small decrease in primary reserve (from 0.33 to 0.32) and that the university will continue to move more money into reserves. She said viability is still below what we would like for it to be and that the decrease for the College of Medicine (24.57 to 20.46) in that category is investment—the fact that Building 60, which was opened this year, was paid for last year. Overall, the university's Composite Financial Index is trending upward, from 2.57 to 2.88 this reporting period, toward the industry standard of 3.0.

VIII. Fee Structure for Online Master of Arts Program in Criminal Justice

Dr. King provided an overview of the fee structure for a new online degree program, Master of Arts in Criminal Justice, that the Academic and Student Affairs Committee

was considering during its meeting that morning. The new structure is proposed to be a comprehensive fee of \$550 per credit for in-state and out-of-state students. It would remain fixed for a period of three years, beginning in the fall of 2019. The cohort of students entering in the fall of 2019 would pay the same rate for their entire three-year cohort experience. The program will be a 36-credit-hour degree, with a total cost of \$19,800. Both the online degree program and the new fee structure were action items on the Academic and Student Affairs Committee agenda.

IX. Quarterly Report of Agreements \$250,000 or Greater

As an information item, Dr. King provided the committee a list of contracts and purchase orders that exceed \$250,000, covering the time period of July through September of 2018. She pointed out that ETSU is in compliance with state law in reporting contracts and agreements.

Those items are:

- a. \$5,062,500 over five years for the NCLEX assessment and preparation system for nursing students
- b. \$598,980 to CenterPoint Energy Services for natural gas for one year
- c. \$419,816 to Data Force for one year, to print, assemble, and mail a provider survey in support of the Choose Well South Carolina grant
- d. \$262,222 for one year to Elsevier for online access to library collections and subscriptions, as part of a Tennessee Board of Regents contract
- e. An agreement with Pepsi for beverage vending and pouring rights on campus that is expected to yield almost \$4.5 million in revenue over a 10-year period

Dr. King added that all these agreements were created through a competitive bid process.

X. Other Business

There was no additional business to come before the committee.

XI. Adjournment

Trustee Powell moved that the meeting be adjourned, and Trustee Grisham seconded the motion. It passed unanimously. The meeting adjourned at 10:04 a.m.

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: February 22, 2019

ITEM: Unaudited Comparative University Financial Ratios

COMMITTEE: Finance and Administration Committee

PRESENTED BY: B.J. King, Chief Financial Officer

The Composite Financial Index (CFI) ratios from the university's unaudited financial statements were presented at the November committee meeting. Comparative information from the locally governed institutions (LGIs) and the University of Tennessee system has become available and allows a presentation in comparison for universities in the State of Tennessee.

Primary Reserve

- Measure of financial strength and flexibility. Comparison of expendable net assets to total expenses.
- Calculation - Expendable Net Assets / Total Expenses
- Standard Performance – 0.40
- Weight – 35%

Viability

- Measure of financial health. Compares total expendable net assets to total current and noncurrent liabilities. Similar to coverage ratio.
- Calculation - Expendable Net Assets / Plant Related Debt
- Standard Performance – 1.25
- Weight – 35%

Return on Net Assets

- Measure of total economic return for fiscal year. Similar to return on equity.
- Calculation - Δ in Net Assets / Beginning Total Net Assets
- Standard Performance - Inflation rate plus 3%
- Weight – 20%

Net Operating Revenues

- Indicates an operating surplus or deficit for the year. Similar to profit margin.
- Calculation – Operating Income + Nonoperating Revenues + Foundation Δ in Unrest NA / Operating and Nonoperating Revenues + Foundation Unrestricted Revenue
- Standard Performance – 3%
- Weight – 10%

Comparison of Ratios in Tennessee Higher Education

<u>ETSU Total</u>	<u>Standard</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>FY 2016</u>	<u>FY 2015</u>
Primary Reserve	0.40	0.34	0.33	0.32	0.30
Viability	1.25	0.84	0.78	0.74	0.65
Return on Net Assets –curr yr std	5.90%	11.0%	7.3%	3.7%	5.4%
Net Operating Revenues	3.00%	4.3%	4.0%	2.8%	2.4%
CFI	3.00	3.05	2.57	2.05	2.06

<u>Average of LGIs</u>	<u>Standard</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>FY 2016</u>	<u>FY 2015</u>
Primary Reserve	0.40	0.33	0.35	0.36	0.36
Viability	1.25	1.07	1.15	1.12	1.06
Return on Net Assets –curr yr std	5.90%	4.0%	5.6%	4.2%	6.3%
Net Operating Revenues	3.00%	0.9%	0.7%	2.1%	2.6%
CFI	3.00	2.24	2.51	2.48	2.66

<u>Average of UT System</u>	<u>Standard</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>FY 2016</u>	<u>FY 2015</u>
Primary Reserve	0.40	0.41	0.45	0.41	*
Viability	1.25	0.86	1.08	0.95	*
Return on Net Assets –curr yr std	5.90%	4.4%	6.6%	7.4%	*
Net Operating Revenues	3.00%	0.4%	2.0%	1.9%	*
CFI	3.00	2.29	2.90	2.75	*

* UT did not provide CFI information prior to FY16

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: February 22, 2019

ITEM: Budget Process Flowchart and Governor's Budget Calendar

COMMITTEE: Finance and Administration Committee

PRESENTED BY: B.J. King, Chief Financial Officer

The Budget and Strategic Planning Committee developed a Budget Process Flowchart to provide an illustration of the internal and external activities involved in campus budgeting. The flowchart depicts the calendar and deliberations involved in determining revenues and allocating financial resources to units for academic and administrative priorities.

The calendar for preparation of fiscal year 2020 budgets differs from the flowchart due to the inauguration of our new Governor and the budget calendar for the State. The State of the State address will take place on March 4th and the university's budget hearing will be held the week of April 1st. In contrast, the Governor's address was held on January 29, 2018 and the university's budget hearings were on February 12th and 21st.

ETSU BUDGET PROCESS

September
Budget Process Begins

The State Appropriation/Fee Budget allocates new revenue generated by increases in state appropriations and fee increases. Revenue supports salary and benefit increases for entire main campus, scholarship increases due to fee increases, and operating costs increases for service units.

The Budget Model allocates new revenue generated by increases in credit hour production. Revenue is allocated 70% to colleges and 30% to central.

State Appropriation/Fee Budget

Budget Model – funded through credit hour production

State Approp/Fee Budget or Budget Model distribution?

September
Review prior FY expenditures of allocated funds to prepare TCA 49-7-1604 Tuition Transparency and Accountability Act report for Board

September
Budget Model run after census. Determination of college distribution of 70% credit hour production.

October
President issues Budget Call with institutional priorities.
Deans/units begin budget hearings.

October/November
College credit hour production budget changes loaded into Banner.

November
President issues Budget Update with THEC appropriation and fee recommendations.
ETSU Board of Trustees approves October revised budget.

November
Vice Presidents conduct budget hearings for colleges/units.
VP budget requests due to President November 30.

December
First round of VP Budget Hearings with Budget and Strategic Planning Committee.

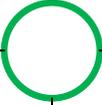
January
Second round of VP Budget Hearings.
BASPC recommendations to President.
President recommendations to Executive Team.

January
Budget Model run after census. Determination of college distribution of 70% credit hour production.

Late January – Early March
Governor releases state budget.

February
College credit hour production budget changes loaded into Banner.

February
President recommendations to University Council.
Salary and student fee recommendations to ETSUBT Finance Committee.



March
July proposed budget prepared with new base budgets for changes to College credit hour production, salary increases, and tuition increases

March
Spring final budget and July proposed budget to ETSUBT Finance Committee based on February salary and tuition recommendations.

April
Spring final budget and July salary, fee, and budget recommendations from Finance Committee to ETSU Board of Trustees for approval.

May-June
THEC approval of tuition increase.
Governor's approved budget.
TBR approval of budget.
Any changes needed.

July
New fiscal year base budgets loaded into Banner

September
Finance closes the accounting books.
Calculate "fallout" funds.

September
Allocate non-recurring "fallout" to colleges, units, and central.
Transfer funds as required for reserves or plant funds.
Changes approved in October revised budget.

Begin new budget cycle

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: February 22, 2019

ITEM: Quarterly Reports of Agreements \$250,000 or Greater

COMMITTEE: Finance and Administration Committee

PRESENTED BY: B.J. King, Chief Financial Officer

In compliance with the ETSU policy *General Purchasing, Receipt of Materials and Payment of Invoices*, all contracts greater than \$250,000 require approval by the President. Furthermore, all non-competitive contracts, including amendments and renewals, with a total value of \$250,000 or more and for a term exceeding one year require approval by the President and the State of Tennessee Fiscal Review Committee.

The university's approval process allows for compliance with Tennessee Code Annotated 4-56-107 in providing the Fiscal Review Committee, a joint committee of the Tennessee General Assembly, the information on non-competitive or multi-year agreements and contracts over \$250,000. ETSU is in compliance with the state law in reporting contracts and agreements. Included in the meeting materials are a list of agreements, both expense and revenue, with amounts totaling \$250,000 or greater for the period October through December 2018. None of the agreements are required to be presented to the Fiscal Review Committee as all were created through a competitive bid process. These are presented as an information item to the Board.

October - December 2018

Contracts / Purchase Orders over \$250,000

<u>Contract/ PO Date</u>	<u>Start</u>	<u>End</u>	<u>Contractor</u>	<u>Description of Services/Products</u>	<u>Contract / PO Amount</u>	<u>Competitive</u>	<u>Fiscal Review Approval</u>
10/25/18	12/01/18	11/30/20	Frontier Health	Provide chair for department	\$620,000 over 2 years	No – Sole Source	N/A
10/30/18	09/01/18	08/31/19	EAB Global (Royall)	Student marketing program for Admissions. Year 4 of 5.	\$378,460 for one year	Yes	N/A
12/11/18	12/31/18	12/30/19	Jaggaer	Electronic procurement system. Year 4 of 5.	\$1,427,440 over 5 years	Yes	N/A

RFPs – Awarded, In-Process and Upcoming

Athletic apparel (contract in negotiation)

Insurance for Medical Residents

Learning Management System