

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES
FINANCE AND ADMINISTRATION COMMITTEE

MINUTES

April 28, 2017
Johnson City, Tennessee

The East Tennessee State University Board of Trustees Finance and Administration Committee held its first meeting at 2 p.m. on Friday, April 28, 2017, in the President's Conference Room in Burgin Dossett Hall on ETSU's main campus in Johnson City, Tennessee.

I. **Call to Order**

Mr. Steven DeCarlo, chair of the Finance and Administration Committee, called the meeting to order.

II. **Roll Call**

Secretary Dr. David Linville informed Chair DeCarlo he did not detect a physical quorum present; however a quorum does exist by the inclusion of those members participating by electronic means. In accordance with Tennessee Code 8-44-108 section (b) (2), Secretary Linville offered up to the committee the following circumstances that necessitated the reason for holding the meeting:

- ETSU will undergo an accreditation visit by the Southern Association of Colleges and Schools Commission on Colleges on May 15-17.
- It is necessary for the Finance and Administration Committee of the Board of Trustees to meet in order to review the committee charge and proposals with history of salary increases and fees on today's agenda to better understand the trustees' role prior to the visit by SACS.
- The prompt necessity of this committee's meeting did not provide adequate time for this committee's membership to make necessary arrangements to be physically present for a quorum.
- For these reasons, Secretary Linville contended that participation by a quorum of the committee for members by electronic or other means of communication is necessary.

Secretary Linville asked Chair DeCarlo that a motion be made and a roll call vote be taken for a determination on the necessity of holding the meeting. An affirmative vote, he explained, signifies that a necessity does exist for the meeting to proceed while a dissenting vote signifies that a necessity does not exist for the meeting to proceed.

Trustee Ron Ramsey made the motion that a necessity did exist for the meeting to proceed. It was seconded by Chair DeCarlo and received unanimous approval.

Trustees in attendance were:

Steven DeCarlo, chair (via WebEx)
Dorothy Grisham (via WebEx)
James Powell (via WebEx)
Ron Ramsey
Nathan Farnor (non-voting)

Guests in attendance included Dr. B.J. King, acting CFO; Deputy Secretary Nathan Dugger; and Kristen Swing of University Relations (taking minutes).

III. Remarks by Secretary of the Board regarding telephonic meetings

Secretary Linville asked Chair DeCarlo and Trustees Powell and Grisham (all participating electronically) two questions in accordance with Tennessee Code 8-44-108 section (c)(3). He asked them if they were able to clearly hear the individuals in the President's Conference Room, to which they all said yes. He asked if trustees physically present could hear the three individuals electronically participating. Trustees Ramsey and Farnor affirmed. Secretary Linville also asked Chair DeCarlo and Trustees Powell and Grisham to identify any persons present in the room with them. Trustee Grisham said she was alone in her office. Trustee Powell said he was alone in his residence in Limestone, Tennessee. Chair DeCarlo said he was alone as well.

IV. Action Items

There were no action items on the agenda for the meeting. Chair DeCarlo pointed out there would be no voting on anything at this meeting.

V. Discussion Items

A. Committee Charge, Section 4 of Bylaws

Dr. B.J. King explained that the committee's scope of responsibility is comprised of 14 areas including approving and recommending to the full Board of Trustees the university operating budgets and student tuition and fee rates. She said the meeting would focus in three areas included in the committee's scope of responsibility:

1. Approve and recommend to the Board guidelines governing the administration's submission of a proposed annual operating budget and appropriations prior to their submission to other state agencies and officials.
2. Approve and recommend tuition and fee rates for adoption by the board.
3. Approve and recommend to the Board of Trustees any personnel policy matter requiring Board approval (i.e.: salary increases).

Dr. King said she did not have the budget documents for the committee today, but felt the meeting was laying the groundwork for the decisions that the group will have to make at its next meeting. At the next meeting of the committee, the

budgets will be available for ETSU main campus, College of Medicine, College of Pharmacy and Family Practice.

Chair DeCarlo asked how far in advance of that meeting committee members will receive those documents for review. Dr. King said the university is supposed to submit its budget to the Tennessee Board of Regents one week from April 28. At that time, she said she would have the information to bring forward to the committee. Dr. King said budget documents are ready for the College of Medicine, College of Pharmacy and Family Practice but the main campus budget is still being worked on. Next Friday (May 5), Dr. King said she would submit to the TBR, which is required for review of debt service coverage and technical correctness. TBR then submits the budgets to the Tennessee Higher Education Committee.

Dr. King said she hopes to be on a different timeline next year, with the Board of Trustees recommendation on tuition and fees being ready in March to go along with the student recruitment season.

B. Salary Increase History and Proposal for 2017-18

Dr. King explained that the university received Governor Bill Haslam's recommended budget in which he outline a 3 percent salary pool. The state's appropriation covers approximately 60 percent of what is needed for a 3 percent pool and ETSU must come up with the other 40 percent. In total, the 3 percent salary pool equates to \$3.3 million, with approximately \$2 million coming from Haslam and \$1.3 needed from the university. Dr. King said the only way to fund that is through an increase in tuition and fees. She pointed out that the Governor fully funded the College of Medicine and Family Practice pool and the College of Pharmacy does not receive state appropriations so it had to come up with the \$156,000 it would take for a 3 percent salary pool. The College of Pharmacy came up with the funds through a student fee increase.

Dr. King said it is very hard to receive a budget recommendation from the governor and not fund it because employees believe it will be funded. She said a committee on campus decides how salary increases are implemented. That committee recommended a 3 percent pool with institutional funding to make up the difference. That same committee recommended the funds be used for a 2 percent across-the-board increase with a minimum/floor of \$500 to take care of the employees at the bottom of the pay scale. The recommendation for the remaining 1 percent is that it be put in a pool to be allocated through a market equity increase. There would be a \$3,000 cap, meaning the largest payment out of that pool would be \$3,000, which would allow for more funds to be distributed to people in lower ranks. Dr. King said that committee's proposal was taken to ETSU President Brian Noland, who agreed with it and signed off on it.

Dr. King provided a document sharing ETSU's equity pay plan methodology. The document included data put together for the university's compensation plan. She said it is updated each year.

The committee, at its next meeting, will look at the proposal and vote on it to recommend to the full Board of Trustees at its June 9 meeting.

Trustee Grisham asked if this proposal is similar to what has been done in the past regarding the equity route. Dr. King affirmed that this is standard operating procedure and said the committee that reviews the methodology is not new to the university. Chair DeCarlo asked about the Board committee's role in the process versus the university committee's role. Dr. King said Dr. Noland signed a document saying the TBR is not required to approve the recommendation of the institution's Market Salary & Equity Committee because there has been no change in methodologies. In the future, Dr. King said, if the university changes its methodology, it would go before the Board of Trustees for approval. She said the university does feel it needs to look at the methodology every year and decide if it needs to change.

Trustee Ramsey asked if the campus decides how to distribute the 1 percent. Dr. King said yes, adding that Human Resources does a lot of work to figure it out.

Dr. King said the plan is to implement in October with it being retroactive to July 1. Chair DeCarlo asked if that was normal and Dr. King said yes. She explained that the institution does not know what funding it will have until August because it is dependent on student fees. October has traditionally worked well for the payroll department and Human Resources has all the data by then. The equity portion takes data crunching and gets verified by both HR and Internal Review.

Chair DeCarlo made an observation that the governor is supporting his 3 percent pool with, in essence, 2 percent funding. Trustee Ramsey compared it to what the state does in K-12 school systems. He said, often, school systems have more teachers than the minimum required by the state, but the state only gives them money for the 3 percent for the minimum required. It is up to the school systems to decide if it will make up the rest or give a smaller salary increase to all of its teachers. Dr. King said that is how it works at ETSU as well. She said the university has the latitude to not go with the 3 percent pool, but it'd be very hard to tell employees that. She said she is even concerned that it may be being perceived as a 3 percent across-the-board salary increase rather than a 3 percent pool.

Trustee Powell said this is the time for this committee to learn how this process operates and not make any changes to it. Trustee Ramsey agreed, saying there are changes that they could recommend but this year, they should go with what they've got in front of them. Chair DeCarlo and Trustee Grisham agreed.

Dr. King said, in the future, it would be good to schedule a committee meeting later in the year where they bring in an HR person to walk through the whole thing.

C. History of Other Operating Expenses

Dr. King pointed out that salaries and benefits are the biggest expenses at the university. She provided a five-year comparative of operating expenses by natural classification and by functional/program classification. She said those are two different ways to look at the expenditures (Pages 14 and 15 of materials).

Dr. King addressed some variances seen on the Expenditures and Transfers by Natural Classification chart.

- A salary increase between 2011-12 and 2012-13, and another between 2012-13 and 2013-14, were related to across-the-board salary increases of 3 percent. She said all of the institution's restricted and grant funds also participated in the salary increase.
- The significant increase in benefits from 2011-12 to 2012-13 was due to a requirement to reclassify the university's graduate assistant tuition remissions as an employee benefit instead of being put in the scholarship line.
- A change in the benefits line from 2013-14 to 2014-15 was due to a change in the way the institution reported pensions. Dr. King said it was a huge shift required under governmental standards. She also said the State of Tennessee is one of the top five states in this country in the funding of pensions, noting that the pension fund is 93-97 percent funded. Trustee Ramsey compared that to Illinois, where the pension fund is 23 percent funded. In Tennessee, Ramsey said the fund is approaching \$40 billion and the state saw a 13 percent return on that last year. Chair DeCarlo said it was amazing the state has done that. Trustee Ramsey said in the 1970s, the state went to the TCRS system and almost everybody is in it.
- Chair DeCarlo asked about the maintenance and repair growth between 2012-13 and 2015-16. Dr. King said the university started working on maintenance projects that fell by the wayside in bad years and also got more state appropriations for those projects. Chair DeCarlo asked if it is going to be a big number for the next three to five years. Dr. King said we've got a lot of capital projects going on.
- Dr. King pointed out that utilities went down last year due to a cost decrease for natural gas.
- Dr. King said the institution had been depreciating buildings over 40 years, but decided it was more reasonable to depreciate them over 60 years, making for the decreased number in that line.

Dr. King addressed some variances seen on the Expenditures and Transfers by Function chart, pointing out that instruction is our No. 1 function on campus, as it

should be. Trustee Farnor asked where benefits fall in and Dr. King said they fall under instruction.

D. History of Student Fees

Dr. King said that although we are severing from the TBR, we still are operating under the auspices of THEC. THEC, in the fall, came up with what they think the appropriation should be and what our tuition and fee increase should be for mandatory fees. That information is given to the governor's office and sets the stage for the governor to make his recommendation. Then we get the governor's budget and he may be above or below THEC's recommendation for the state appropriation. This year, the governor budgeted \$7 million more than THEC recommended, which meant a \$450,000 impact for ETSU. THEC waits for the legislative session to close and then comes out with a binding tuition limit, which is expected to occur on May 10 or May 11. The university must stay within that binding limit. Dr. King said we have been told this year their range is 0-4 percent, meaning the maximum increase in maintenance and mandatory fees would be 4 percent (calculated at 15 credit hours). Dr. King said if we went with the 4 percent increase that is still one of the lowest we have had in the last 25 years. In the last five years, the increase at ETSU has been 3.2 percent in 2016-17; 4.3 percent in 2015-16; 5.9 percent in 2014-15; 7.8 percent in 2013-14; and 7.2 percent in 2012-13. Dr. King provided charts to show ETSU increases in maintenance and fees as compared to other Tennessee universities (Page 17 of materials).

Dr. King said she is proposing that, next year, this talk take place in February and is finalized in March. She said if we could come up with what our Board of Trustees wants by then, that allows prospective students to know what the tuition and fees will be to come to ETSU in the fall.

Dr. King said the university only gets revenue from two places: the state and from students. She said they are trying to keep costs as low as possible. She noted that a 1 percent tuition increase generates \$1.1 million. THEC expects a 2.7 percent inflation rate at the university, which would mean a 1.7 percent fee increase just to cover inflation. Then we need to come up with 40 percent of the salary pool. At a minimum, that means we need \$3.2 million from tuition and fees. The \$464,000 in additional appropriations gets us down to \$2.7 million that we need. The proposal brings in \$3.46 million, making the institution net better by \$750,000 on a \$200 million budget. Tuition increases proposed for the College of Medicine and College of Pharmacy are based on cost studies, Dr. King added.

With maintenance fees, there is a 3.17 percent increase. Last year it was a 2.5 percent increase. The 3.17 percent increase equates to \$111 per semester more.

E. Initial Review of Mandatory and Non-Mandatory Fee Requests

Mandatory Fee Requests

Dr. King shared a chart detailing mandatory fee requests (Page 20). She said all of them have been discussed with the Student Government Association's executive

committee. She explained that leaders always ask the SGA for input when proposing mandatory fee requests. Dr. King pointed out that ETSU is one of the few schools without a facilities fee, which allows for a pool of funds for basic classroom and campus renovations (i.e.: upgrades to classrooms and sidewalk repair). The proposal is for a \$40 fee per term that will generate \$1.1 million. Existing fees for which increases are proposed include the technology access fee and the student activity fee. The technology access fee has not been increased since 2001. An increase of \$13 per semester is being proposed for the student activity fee, with \$7 for library operation, to have the library open 24 hours per day, five days a week, and \$6 for program expansion at the Center for Physical Activity. Dr. King said the executive staff has approved all three proposed mandatory fee increases and SGA has supported them.

Non-mandatory Fee Requests

Dr. King explained that when THEC does its binding limit process, those are things all students should pay. Non-mandatory fees are fees that students pay based on their program of study, specific courses they are taking, etc. Dr. King shared a chart outlining non-mandatory fee requests (Page 21 of materials). The first two items listed are not non-mandatory fee requests, but Dr. King wanted to address them.

The establishment of a credit card convenience fee is being recommended. Dr. King said the university has never done this before because TBR would not allow it. This would pass on credit card charges for online payments to the end user. Currently, the university eats the cost, to the tune of \$552,000 last year alone. \$500,000 of that, Dr. King said, is related to transaction fees. She pointed out that the University of Tennessee already does this. It reduces expenses the university is bearing. Trustee Ramsey agreed with the proposal saying it is not a cost the university can afford to eat.

Dr. King also addressed an increase to meal plans at a rate of 2.54 percent. This is in the contract the university has with Sodexo and while it will generate \$55,000, the university is really just a pass-through because that money goes to Sodexo.

Twelve non-mandatory fee requests are also proposed. They include increases to Appalachian Studies individual instruction; chemistry lab fees; geosciences field lab fee; applied music fee; computing specialized course fee; engineering technology course fee; graduate school application fee; online course fee and Global Sports Leadership cohort fee. New non-mandatory fees are being proposed in areas including Appalachian Studies recording lab; Communication and Performance; ensemble music; and exercise science cardiovascular testing and EKG.

Chair DeCarlo asked if the list includes only non-mandatory fees for which increases are being requested. Dr. King said yes and pointed out that others asked for increases but, this year, the institution went through structured budget hearings

from major elements of campus. Groups presented wish lists to a budget advisory group and these fees percolated up through that process. Some were determined that could be paid for in another way, Dr. King said. She called the budget hearings process “the most thoughtful process we’ve had in place in a number of years.” Chair DeCarlo pointed out that this proposal included four new fees and 10 increases and asked how many other fees we charge. Dr. King was not sure of the exact number, but said she felt it was triple that many. Chair DeCarlo noted that this was a proposed increase of \$2 million in fees and he felt more time needed to be spent on the fee process. Trustee Powell said there were probably opportunities to reduce costs, but also noted that these are necessary items that the state will not fund. Trustee Powell also noted that ETSU is so much cheaper than a private school. Chair DeCarlo said it is the committee’s responsibility to understand the increase in fees in the aggregate and he was trying to look at the big picture, which is that fees are going up by \$2 million. He specifically pointed out the proposal for an increase in the online course fee and a portion of the justification for that fee being a Customer Relationship Management (CRM) for the entire campus.

F. Next Steps

Dr. King said the group needs to see what it is comfortable recommending. Chair DeCarlo said the committee needs to meet again before the June 9 full Board of Trustees meeting. He said May 26 was originally proposed, but with it being the Friday before the Memorial Day holiday, it might be better to look at a date before or after the holiday weekend. He said staff will reach out to the group to see what is available for everyone. Trustees Ramsey and Grisham aired their preferences for morning meetings.

VI. Information Item

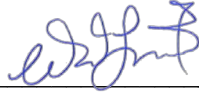
Dr. King let the committee know that state law was revised in 2015 to require local governments to establish an internal control manual for the institution. All of that is in flux with the severance from the TBR, but it is Dr. King’s understanding that the university is required to have one each for the university, the Foundation and the Research Foundation. In the process of working those up, Dr. King will be bringing to upcoming meetings policies for the committee’s review and approval. At the latest, the manual will be to the group by the June 9 meeting so it can be recommended for approval.

VII. Other Business

There was no other business.

Chair DeCarlo adjourned the meeting at 3:53 p.m.

Respectfully submitted,



David Linville
Secretary of the Board of Trustees

Approved by the Board of Trustees at its June 9, 2017 meeting.