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### 2019 February 22 – Board of Trustees Finance and Administration Committee Agenda and Minutes

East Tennessee State University

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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 -  $\Delta$  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  $\Delta$  in Unrest NA / Operating and Nonoperating Revenues + Foundation Unrestricted Revenue
- Standard Performance – 3%
- Weight – 10%

**Comparison of Ratios in Tennessee Higher Education**

| <b><u>ETSU Total</u></b>          | <b><u>Standard</u></b> | <b><u>FY 2018</u></b> | <b><u>FY 2017</u></b> | <b><u>FY 2016</u></b> | <b><u>FY 2015</u></b> |
|-----------------------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| 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                  |

| <b><u>Average of LGIs</u></b>     | <b><u>Standard</u></b> | <b><u>FY 2018</u></b> | <b><u>FY 2017</u></b> | <b><u>FY 2016</u></b> | <b><u>FY 2015</u></b> |
|-----------------------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| 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                  |

| <b><u>Average of UT System</u></b> | <b><u>Standard</u></b> | <b><u>FY 2018</u></b> | <b><u>FY 2017</u></b> | <b><u>FY 2016</u></b> | <b><u>FY 2015</u></b> |
|------------------------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| 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 1<sup>st</sup>. In contrast, the Governor's address was held on January 29, 2018 and the university's budget hearings were on February 12<sup>th</sup> and 21<sup>st</sup>.

# 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.

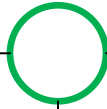
**January**  
Second round of VP Budget Hearings. BASPC recommendations to President. President recommendations to Executive Team.

**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**

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

**RFPs – Awarded, In-Process and Upcoming**

Athletic apparel (contract in negotiation)

Insurance for Medical Residents

Learning Management System

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES  
FINANCE AND ADMINISTRATION COMMITTEE

MINUTES

February 22, 2019  
Johnson City, Tennessee

The East Tennessee State University Board of Trustees' Finance and Administration Committee met on Friday, February 22, 2019, at the Millennium Center on State of Franklin Road in Johnson City, Tennessee.

**I. Call to Order**

Finance and Administration Committee Chairman Steve DeCarlo called the meeting to order at 10:15 a.m.

**II. Roll call**

Trustees in attendance were: Steve DeCarlo, Jim Powell, Ron Ramsey, and Keyana Miller (non-voting student member). Board secretary Dr. David Linville informed Chairman DeCarlo that a quorum was present.

Other guests present at the meeting were Dr. Brian Noland, ETSU President; Dr. B.J. King, ETSU Chief Financial Officer; Dr. David Linville, Associate Vice President for Health Affairs; and Melissa Nipper, Assistant Director for Communications.

**III. Approval of the Finance and Administration Committee Minutes of November 16, 2018**

The minutes of the Finance and Administration Committee Minutes of November 16, 2018, were approved as submitted, with Trustee Powell making the motion to approve and Trustee Ramsey seconding. The motion passed unanimously.

**IV. Discussion of Unaudited Comparative University Financial Ratios**

The Composite Financial Index (CFI) ratios from the university's unaudited financial statements were presented at the November Committee meeting. Since that 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.



Dr. B.J. King, ETSU's Chief Financial Officer, presented the comparison of ratios in Tennessee Higher Education. She noted that ETSU's return on net assets went from 7.3% in FY 2017 to 11% in FY 2018. This return on net assets is substantially higher than the return on net assets averages at other LGIs and the UT system. Dr. King explained that the growth to ETSU's asset base is due to major construction projects that are feeding into the university's capital assets. In FY 2018, ETSU had growth of \$10 million in grants receivable, with \$8 million of that from the City of Johnson City for the Fine Arts Center. She also noted that the ETSU Foundation, which is included in this calculation, grew its assets in FY 2018, due to increases in gifts and investment income. Dr. King explained that all of these numbers impact ETSU's net operating revenues and make the university look better comparatively than other schools. She also added that ETSU's numbers are a point of pride and an indication that the university is doing a good job managing its budget.

ETSU's CFI for FY 2018 was 3.05, which was above the standard of 3.0, higher than the average of LGIs (2.24) and the average of the UT System (2.20). To provide a frame of reference for the Committee, ESTU President Dr. Brian Noland asked Dr. King what level of a CFI would begin to cause concern either from the Board's perspective or the U.S. Department of Education when considering institutional liability from a financial perspective. Dr. King stated that the industry standard is a 3.0, and institutions that go below a 1.0 are on a watch. However, she added that she would be concerned if the ETSU went below a 2.0, which it has not done in the last three years.

## **V. Discussion of Budget Process Flowchart and Governor's Budget Calendar**

As another information item, Dr. King presented a Budget Process Flowchart, created at the request of Dr. Wilsie Bishop, Vice President for Health Affairs. The Flowchart provides an illustration of the internal and external activities involved in campus budgeting. It depicts the calendar and deliberations involved in determining revenues and allocating financial resources to units for academic and administrative priorities.

Dr. King explained that the calendar for preparation of FY 2020 budget differs from the flowchart due to the inauguration of the new Governor and the budget calendar for the State. In 2018 and in other typical years, the University would be able to come to the February board meeting requesting approval on proposed student tuition and fees and possible salary increases for faculty and staff. However, since the Governor's State of the State is not occurring until after this meeting (March 4, 2019), the University is in a "holding pattern," with additional time to discuss these items. The University's Budget Hearing will not be held until the week of April 1.

Dr. King suggested that the Finance Committee use the advantage of time to hold a discussion about several possible ways to approach tuition and fees increases.

She began the discussion by pointing out that in November 2018, the Tennessee Higher Education Commission recommended a \$3.8 million, or 5.9%, increase in the appropriation for ETSU. The state support for the main campus would be almost \$70 million, which is about 26% of the October budget. THEC also proposed a binding limit, which won't be final until THEC meets to approve it in May.

After looking at the proposed binding limit, Dr. King ran preliminary calculations. Based on what the information she had at the time (which was not final), ETSU might have a 2.3% tuition increase at 15 credit hours.

Next, she looked at what the Higher Education Price Index (HEPI) determined the inflation is for higher education. It was 2.8%. With Dr. King's 2.3% estimate, the University would be about \$500,000 below what HEPI indicates is necessary for inflation.

As ETSU was looking at its budget landscape in December 2018, another LGI proposed a block tuition rate. This raised conversations about the viability of something like this at ETSU. Dr. King noted that block tuition actually reduces revenue in the future and is not sustainable without guaranteeing other increases in revenue to offset the negative increase in revenue over time. If there is an economic downturn and the state did not increase – or even reduced – its appropriation, the institution would have to retreat from block tuition. However, a block tuition rate is desirable to market to students and parents because it guarantees tuition for all four years. More recently, it appears that the other LGI has moved away from considering block tuition.

Then in January 2019, a UT campus proposed a “15 in 4” rate, which re-centers the tuition model from 12 credit hours to 15 credit hours. Unlike block tuition, this tuition model is revenue generating.

With extra time this year because of the delayed State of the State Address, the ETSU Budget and Strategic Planning Committee met in February to consider several options for tuition. They assembled a technical team of people who work in the system with tasks such as assessing fees, registration, financial aid, and recruitment. They are examining what other institutions do and are writing a literature review to analyze the options.

Dr. King provided four options to the Finance Committee and requested that the committee discuss these and offer their input. All of these options would require

approval of the Student Government Association. The options include:

- A. **A tuition increase based on Dr. King's calculations of THEC's recommendation:** Dr. King pointed out that ETSU Institutional Research did a comparative analysis of four years in the past, and found that if this plan was in place, the institution would have lost \$300,000 in revenue by implementing this revenue-neutral model.
- B. **A combination of the block plan and the "15 in 4" approach:** While a block plan is not feasible, Dr. King pointed out that they are still exploring if a marriage of these two plans is possible.
- C. **A flat "15 in 4" approach:** This plan would require buy-in from all areas of campus, guaranteeing that the University has the resources in place to get everyone through in four years. Since this is a revenue-generating approach, the university would invest the extra revenue in tools and programs that could ensure students finish in four years.
- D. **Option A, with an adjustment of course fees:** This option goes back to the increase suggested in Option A, but also looks at a way to simply and adjust course fees.

The following items were considered during the discussion of tuition and fees:

- The discussion began with a question from Trustee Miller, who asked if ETSU knows what the other LGI schools were planning for tuition and fees increases. Dr. King said she did not, and mentioned that ETSU was the first to announce tuition and fees last year.
- Trustee Ramsey asked if tuition was locked in for four years, does the University have to stay at the THEC recommendation. Dr. King answered that if an institution cannot stay under THEC's guiding limit at 15 credit hours, which is what they use to calculate it, the University has to get special approval to increase it and there has to be justification.
- President Noland pointed out that in the discussion of the available options, the committee must consider both how a decision would impact enrollment, but also the inherent risks associated with the decision. He emphasized that the University is a unique position with "the gift of time" to consider possible options before the legislature possibly locks in the tuition and the University's hands are tied.
- Trustee Miller asked how ETSU would compare to other institutions if it chose the "15 in 4" model. Dr. King answered that ETSU's tuition would be higher than some of the other schools with this model, but likely not as high as others. She

then asked why other schools might be frightened of a “15 in 4” plan. Dr. King pointed out that this plan would require academic support systems in place to work just as hard as the students to make sure that they can graduate in four years.

- Trustee Powell asked if the ultimate goal was to increase enrollment. President Noland said increasing enrollment was a goal, but another inherent goal is to stabilize revenue.
- Chairman DeCarlo asked if ETSU had the resources in place to implement a “15 in 4” and if it was right for the institution. Trustee Miller pointed out that her advisers, professors, and others do guide students toward graduating in 4 years and that this mentality is already built into the culture of ETSU.

President Noland asked the Committee if it would be helpful to prepare some scenarios to distribute to members so they could examine the numbers before a decision is made at the April Finance Committee. They agreed that it would, and Chairman DeCarlo also requested that the committee be able to review any data from other institutions that would be appropriate to consider.

#### **VI. 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 October-December 2018.

#### **VII. Other Business**

There was no additional business to come before the committee.

#### **VIII. Adjournment**

Chairman DeCarlo adjourned the meeting at 11:23 a.m.

Respectfully submitted,



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David Linville  
Secretary of the Board of Trustees

Approved by the Board of Trustees at its April 26, 2019 meeting.