

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,



David Linville
Secretary of the Board of Trustees

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