

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES
FINANCE AND ADMINISTRATION COMMITTEE

MINUTES

November 13, 2020
Johnson City, Tennessee

The East Tennessee State University Board of Trustees' Finance and Administration Committee met on Friday, November 13, 2020, at 10:45 a.m. Due to the extraordinary circumstances surrounding the COVID-19 pandemic, the meeting was conducted via teleconference, and public attendance to the meeting was available via livestream.

I. Call to Order

Steve DeCarlo, Chairman of the Finance and Administration Committee, called the meeting to order at 10:45 a.m.

II. Roll Call

Deputy Board Secretary Nathan Dugger led the roll call. In accordance with Tennessee Code § 8-44-108 section (c) (3), he asked the members of the committee for the record if they could clearly hear so that they could participate in the meeting, and if they would identify any persons present in the room with them from which they were participating in the meeting. All of the committee members who were present reported that they could hear and that they were alone.

Committee members present (all via teleconference) were:

Trustee Dorothy Grisham
Trustee Austin Ramsey (non-voting student member)
Trustee Ron Ramsey
Board Chairman Scott Niswonger
Committee Chairman Steve DeCarlo
Absent: Trustee Kelly Wolfe

Although a physical quorum was not present, Mr. Dugger reported to Chairman DeCarlo that a quorum did exist by inclusion of committee members participating electronically.

III. Approval of Determination of Necessity of Holding This Meeting

In accordance with Tennessee Executive Order 65 permitting safe, open, and transparent public meetings by electronic means, Mr. Dugger offered up to the board the following reasons that necessitated this meeting:

- Business critical to the operations of the institution are slated for this meeting such as approval of the October Budget Revisions, financial presentations, and an update on the ETSU Foundation;
- Due to the COVID-19 virus outbreak and subsequent recommendations from the Centers for Disease Control and Prevention as well as Governor Bill Lee, physical distancing measures and a limit on group gathers are being observed.

For these reasons, Mr. Dugger contended that participation by a quorum of the Board members by electronic or other means of communication is necessary and asked that a motion be made and a roll call vote be taken for a determination on the necessity of holding the meeting.

Board Chairman Scott Niswonger made a motion that the necessity exists for the meeting to continue. Trustee Dorothy Grisham seconded the motion. The motion unanimously passed by a roll call vote.

Mr. Dugger noted that there was a quorum and the need for the meeting had been voiced. In addition to the members of the Finance and Administration Committee, the following Trustees were also present for the meeting: Virginia Foley, Linda Latimer and Melissa Steagall-Jones.

IV. Approval of Fiscal Year 2021 October Budget Revisions

Dr. B.J. King, Chief Financial Officer for Business and Finance, presented the October 2020 revisions to the 2020-21 budgets for the one formula funded unit (Main Campus), two non-formula units (College of Medicine and Family Medicine), and one self-funded unit (College of Pharmacy). The proposed budgets for the fiscal year are based on the estimates for revenue and expenditures known at the time the budget is prepared. Dr. King explained that because the July budgets were prepared prior to COVID-19 and prior to the finalization of the Governor's budget, revisions were needed to update the budget to the reflect the current circumstances.

Dr. King went over information in the packet outlining the following revisions:

- **Main Campus:** Dr. King explained the primary reasons for the revisions to the Main Campus Budget, including the fact that state appropriations were returned to the F19 year levels and the original budget was based on an

enrollment decrease of 100 students. However, due to COVID and other mitigating factors, enrollment decreased by 474 students, affecting tuition revenues, revenues from auxiliaries (housing and food service), as well as other projected revenues.

Adjustments to the Main Campus Expenditure Budget included a \$7 million base budget reduction across all functional units (4.3 percent budget reduction for academic units and 5.3 percent budget reduction for administrative units); removal of the \$1.2 million salary increase that was part of the original state appropriation; carryforward funds for research; and a reduction in benefits and scholarships, partially due to the decrease in enrollment.

In total, the revised Main Campus Budget is writing revenue down by \$13.7 million and writing expenditures and transfer up by \$8.5 million. The revised budget also reflects a total decrease of 39 full-time unrestricted and auxiliary positions.

- **College of Medicine:** The College of Medicine is reducing its revenues by \$2 million (reductions in tuition and state appropriation being put back to FY19 levels and some reductions in medical residents' participation agreement revenues). Expenditures budget decreased. Other areas are being written-up in this budget due to carryforward funds. Medicine was not requesting any new positions in this budget cycle
- **Family Medicine:** Family Medicine is recording increases in revenue because its state appropriation reduction was offset by some increases in their medical resident participation agreements. Its expenditure increases are related to the addition of three new resident physicians, and Family Medicine is also assisting College of Medicine with the Associate Dean for Rural Programs position, adding that cost into the budget. Family Medicine is requesting three new positions in faculty and is writing its revenue up by \$96,000 and writing expenditures up by \$279,000.
- **College of Pharmacy:** College of Pharmacy has a decrease in revenue due to a slight enrollment decline. The increases in expenditures are driven by carryforward funds from the stewardship from last year. The College is adding one new faculty position and writing its revenue down about \$350,000, and writing expenditures and transfer budget up by \$1.5 million.
- **Summary of non-formula units:** Across all three of the non-formula units, there is a total increase of four faculty positions.

Trustee Ron Ramsey made a motion that the Committee approve the revisions to 2020-2021 Budget. Board Chairman Scott Niswonger seconded the motion. After a roll call vote, the motion passed unanimously.

V. Presentation of Fiscal Year 2020 Unaudited Financial Statements

Dr. King noted that the accounting records for the university are closed and FY20 financial statements have been forwarded to State Audit for review. A finalized report should be available and mailed to the Board by State Audit by April of 2021.

Dr. King reviewed the unaudited financial information, including a comparison of FY20 and FY19 assets, operating revenue, operating expenses, and nonoperating and capital income.

In this discussion, Chairman DeCarlo asked if all the CARES Act funding that has been received is reflected in FY20. Dr. King said that yes, because ETSU had certainty of what the amounts were, the CARES Act funding was recorded as revenue in accounts receivable in FY20 account books. She mentioned that there is minimal funding associated with CARES that would be recorded in FY21.

VI. Presentation of Fiscal Year 2020 Composite Financial Index

Dr. King presented the Composite Financial Index (CFI), intended to provide a measure of financial health of the institution, for the Board's review. The CFI includes the financial resources of the ETSU Foundation, but not does include information for the Medical Education Assistance Corporation. She reviewed the following four individual ratios:

- **Primary Reserve:** This is the measure of financial strength and flexibility. All units are far above watch level and all are increasing except pharmacy, which far exceeds the industry standard.
- **Viability:** This is a measure of financial health. All units are above the watch level, and all units are increasing.
- **Return on Net Assets:** This is a measure of total economic return for the fiscal year. Dr. King mentioned that this ratio could fluctuate due to timing of gifts (such as Millennium Center). She indicated that we are returning to "a more normal level" and that the combined level is above industry standard and above the watch.
- **Net Operating Revenues:** All units are above the watch level and "coming up from where we were in 2019."

The CFI incorporates four ratios and combines them with their weights. Dr. King indicated that ETSU declined "a little on all of them," but that we are in "good financial health." At 2.72, ETSU is approaching the 3.0 CFI industry standard and is at one of the highest levels it has been at in the past six years.

For future Board meeting cycles, Dr. King recommended that the presentation of the CFI move from the November meeting to the February meeting. Since other institutions across the state present their CFIs in December, at the November meeting, Dr. King did not have their data to show the Committee members how ETSU compared to other institutions across the state. In order to have this useful comparison, going forward, she will now defer the CFI presentation to February meetings.

VII. Presentation of Tuition Transparency Report

Dr. King presented ETSU's Tuition Transparency Report, which provides information regarding expenditure of revenues derived by any tuition and fees increase in the previous full academic year.

According to Dr. King, the report for FY20 indicated that ETSU increased tuition and mandatory fees by 2.31 percent and generated approximately \$2.7 million. Of this, there were \$2 million expenditures in salary improvements, benefits increases, inflationary costs for facilities and other operations and enrollment systems, Approximately \$700,000 in fee revenue was used to enhance campus concerts, fund student organizations on campus, improve the ID Bucs system, network technology improvements, and parking facilities.

Chairman DeCarlo asked if King received other universities' reports so she could do a comparison across the board. Dr. King said that although the universities all use the same format, they have not shared with each other what is reported to the State. However, this information could be derived from other sources, such as the Tennessee Higher Education Commission website or universities' Board documents.

VIII. Quarterly Reports on Agreements \$250,000 or Greater

As an information item, Dr. King provided the committee with a list of contracts and purchase orders that exceed \$250,000, covering the time period of July-September 2020.

IX. ETSU Foundation Update

Ms. Pam Ritter, Vice President of University Advancement, updated the Committee on the work of University Advancement, which includes University Development, the National Alumni Association, and the ETSU Foundation. She began with a review of the vision and mission, Campaign for ETSU, and the strategic goals.

She reviewed the work of Goldman Sachs, investment managers for the Foundation endowment. She noted that they were worried when the endowment went down to \$84 million in March 2020. After continuous meetings and careful monitoring by Goldman Sachs, the endowment jumped to \$107 million by the time of this meeting (November

2020). Ritter explained the conservative approach to investments and reviewed the investment pool asset class ranges and total assets by fund type.

She also shared with the Committee some of the creative fundraising techniques that her staff has used in order to develop and maintain relationships with alumni and donors, even in the midst of a global pandemic. Not only have they been Zooming with donors in order to stay safe, they have created and hosted new online educational opportunities for alumni to participate in, and hundreds of alumni have taken advantage of these events. These allow the University to continue to cultivate relationships despite limitations on in-person visits and meetings.

In her report, Ms. Ritter discussed earnings required for distribution, noting that in FY20, the required distribution was \$2.9 million to the endowment and \$900,000 to the unrestricted fund, for a total of \$3.8 million. In FY21, distribution will be \$3 million to the endowment and \$1 million for the unrestricted fund, for a total of \$4 million.

She reviewed the goal of the \$120 million Foundation Comprehensive Campaign, and Chairman Niswonger encouraged them to push on toward that goal. They are currently at \$86.2 million of that goal.

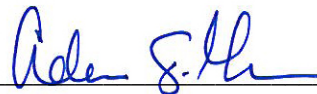
X. Other Business

No other business was brought before the Committee.

XI. Adjournment

Trustee Grisham made a motion to adjourn the meeting, and Trustees Ram Ramsey and Scott Niswonger seconded the motion. The meeting was adjourned at 11:55 a.m.

Respectfully submitted,



Adam Green
Secretary of the Board of Trustees

Approved by the Board of Trustees at its February 19, 2021 meeting.