



Tennessee TECH

Audit & Business Committee
December 2, 2021





Composite Financial Index



Major Metrics to Measure and Monitor Financial Health

Strategic Risk Question	Related Ratio
1. Overall – What is the institution’s overall financial health?	Composite Financial Index (CFI)
2. Liquidity – Does the institution have sufficient liquidity in the near and medium term?	Primary reserve ratio
3. Viability – Is debt managed strategically?	Viability ratio
4. Return on Assets – Does the institution have adequate return on all assets?	Return on net assets ratio
5. Net Operating Revenues – Is the institution generating adequate resources in excess of its operational costs?	Net operating revenue ratio

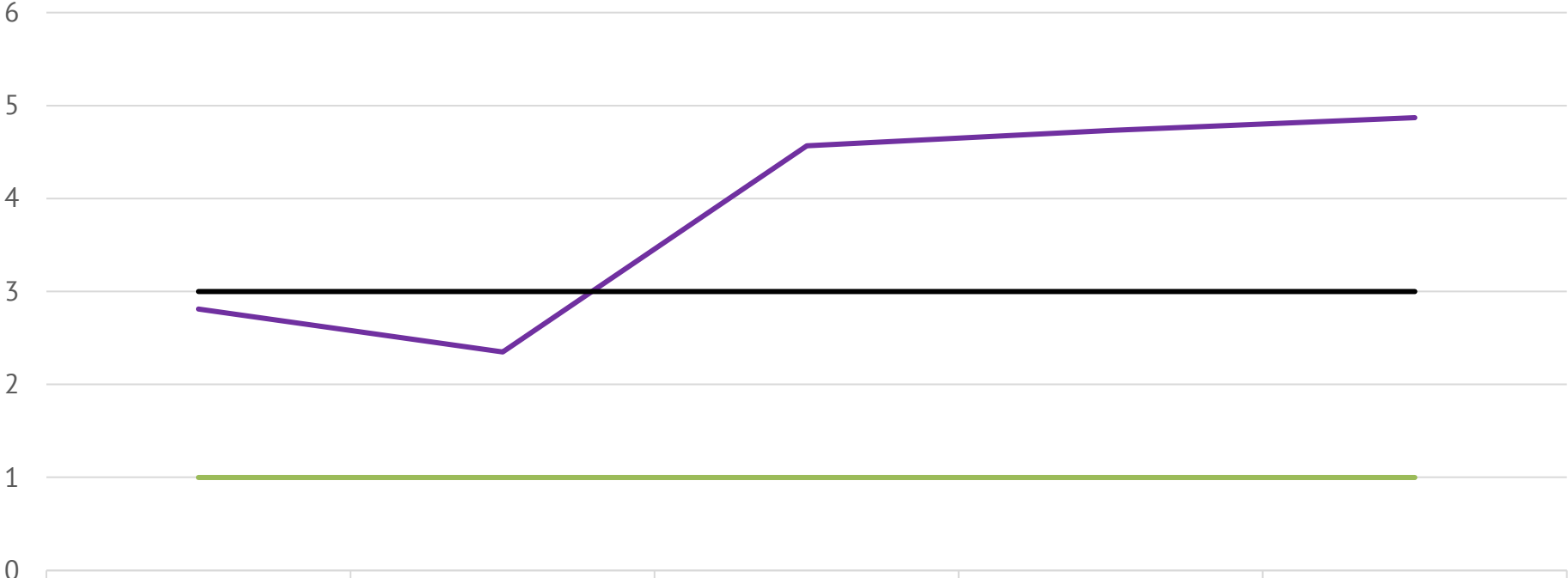


Composite Financial Index (CFI)

- Four ratios weighted and scored on a scale to create a single score of financial health.
 - Primary reserve ratio
 - Viability ratio
 - Return on assets ratio
 - Net operating revenues ratio
- Single weighted score allows weakness in one ratio to be offset by strength in another ratio.
- Expected value is a national comparison (both public and private universities).
(KPMG – Prager, Sealy & Co., LLC)



Composite Financial Index (CFI)



	FY2017	FY2018	FY2019	FY2020	FY2021
TTU (University Only)	2.81	2.35	4.57	4.73	4.87
Expected	3	3	3	3	3
Watch	1	1	1	1	1

TTU (University Only) Expected Watch



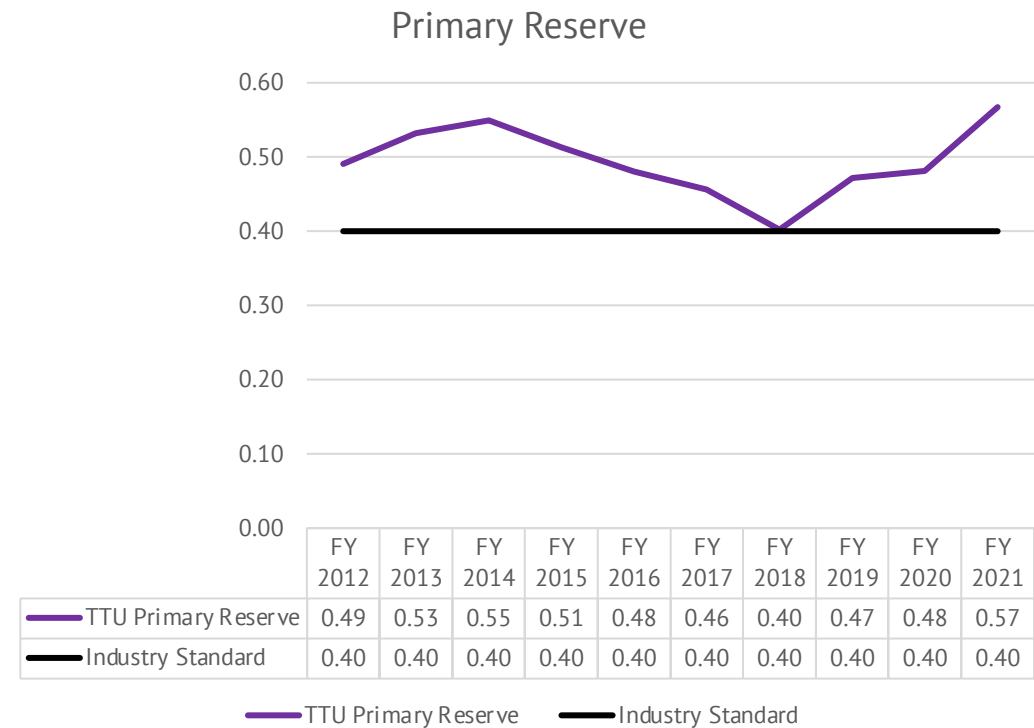
Components of CFI

Primary Reserve Ratio

Indicates the sufficiency of resources and their flexibility.

- Calculated as:
 - $\text{Expendable Fund Balance} / \text{Total Expenditures}$
- Industry standard of .40 represents about 5 months of expenses.
- At this level a reasonable level of facilities maintenance can be expected.
- Watch level – A ratio of .133 (less than 1.5 months of expenses in ready assets) or less.
 - Less flexibility to meet unexpected demands.

10-year Trend



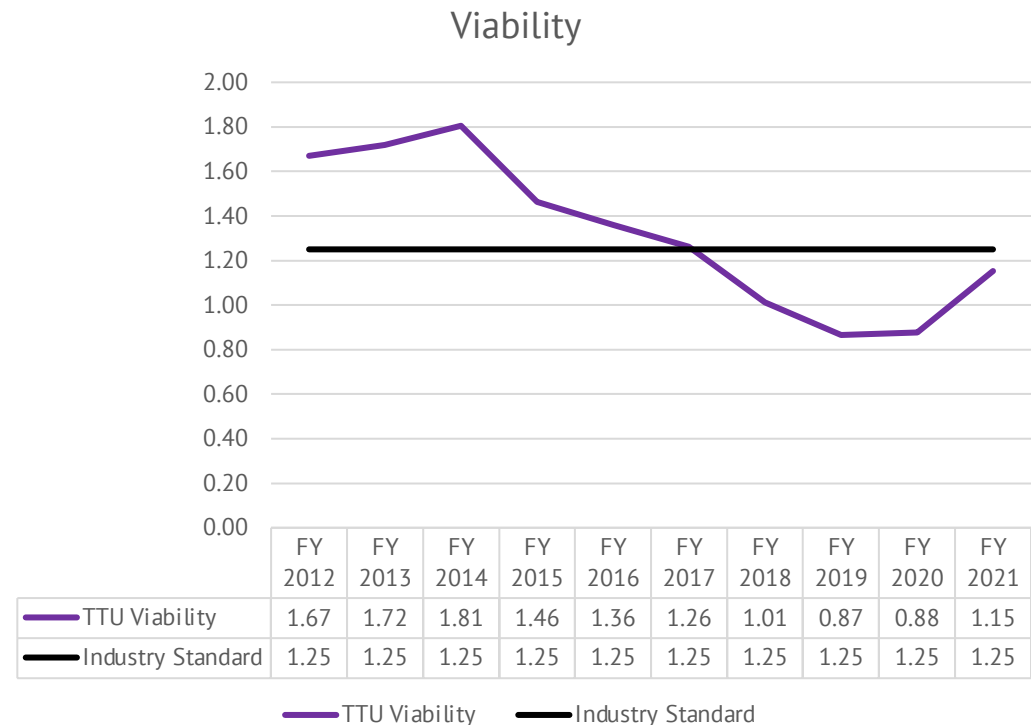
Components of CFI

Viability Ratio

Indicates the capacity to repay debt through reserves.

- Calculated as:
 - $\text{Expendable Fund Balance} / \text{Total Plant Debt}$
- Industry standard is 1.25 or greater.
- Ratio of expendable net assets over plant debt – coverage of plant debt with expendable assets.
- Watch level – a ratio of .41 or less.
 - Decreased flexibility to respond to unforeseen events or opportunities

10-year Trend



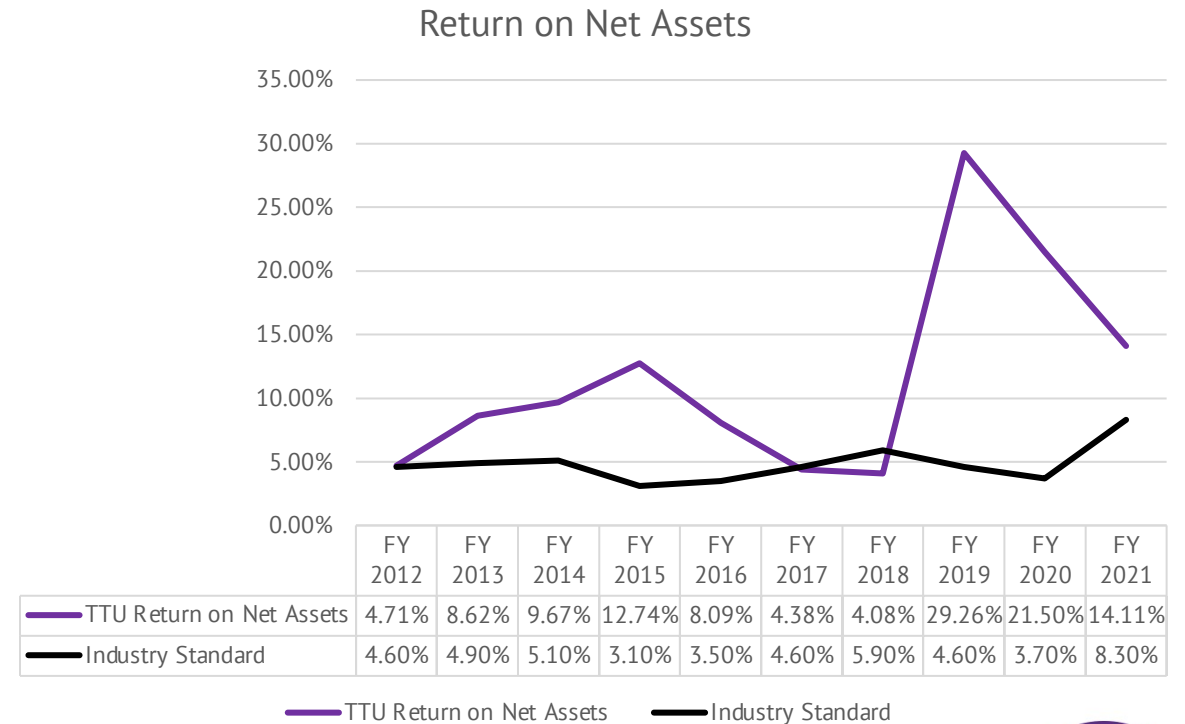
Components of CFI

Return on Net Assets Ratio

Measure of total economic return similar to ROE.

- Calculated as:
 - Change in Net Assets/Beginning Net Assets
- Industry standard is 3% above CPI.
- Are we better off this year? Strategic direction correct?
- Watch level – anything below rate of inflation is reduction of the institution's asset base in real dollars.

10-year Trend



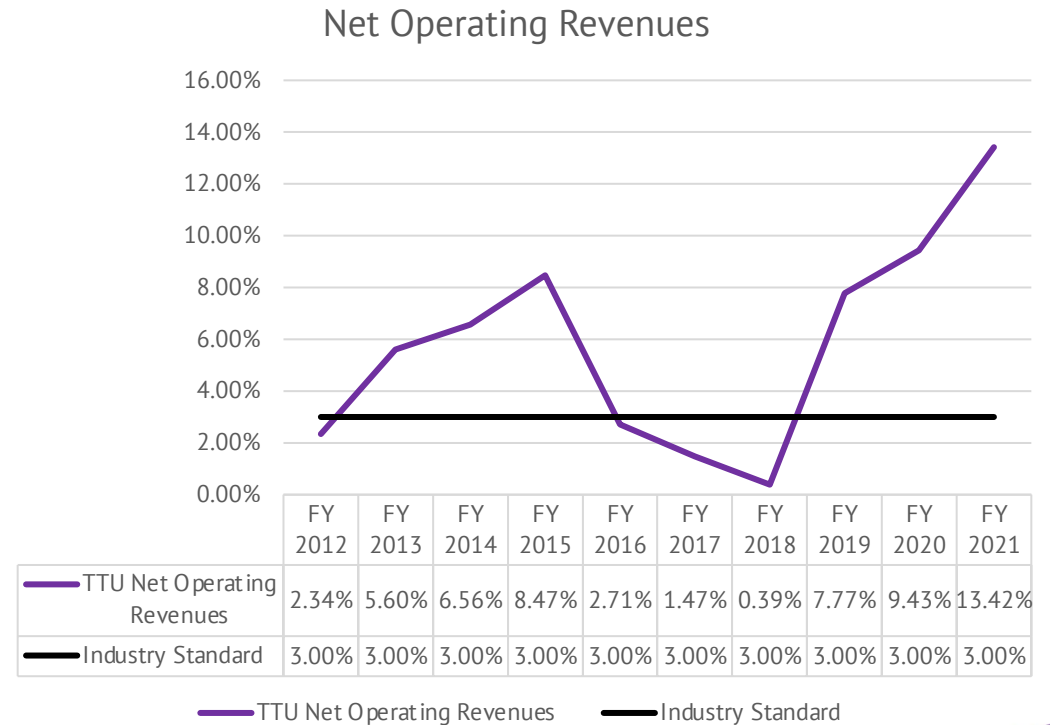
Components of CFI

Net Operating Revenues Ratio

Indicates whether institution is living within available resources.

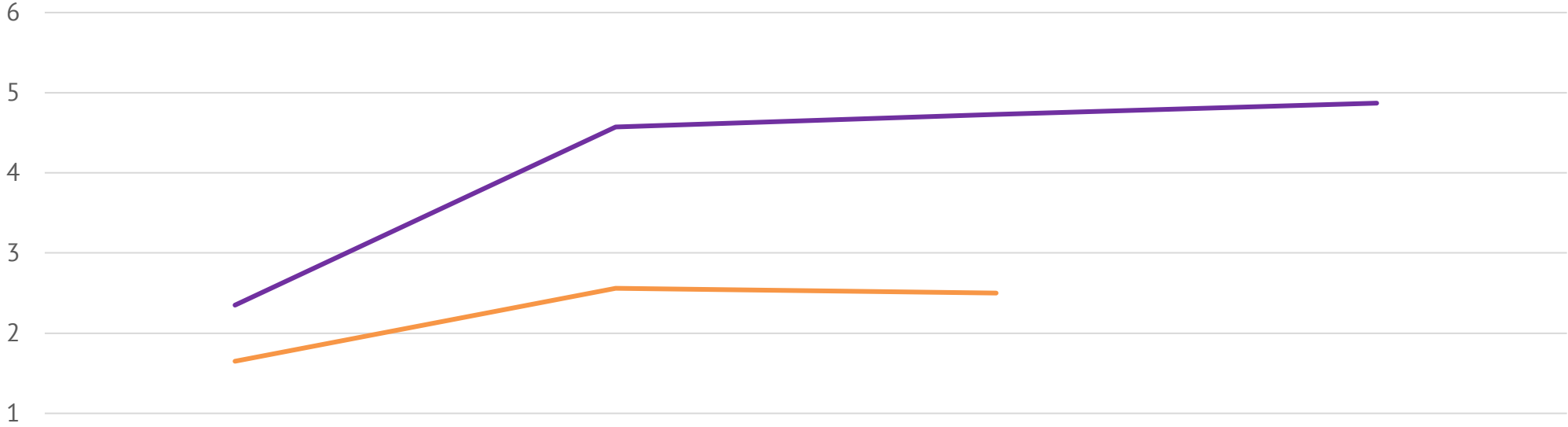
- Calculated as:
 - $(\text{Net operating result} + \text{all other revenues} - \text{expenses including interest expense}) / \text{All gross revenues}$
- Industry standard is 2% to 4%.
- Did we balance operating expenses with available resources?
- Watch level – Consistently below zero.
 - Deficits for one year not an issue. Deficits over several years suggest the institution's mission can't be sustained.

10-year Trend



CFI Comparison to other LGIs

LGI Universities without their Foundations



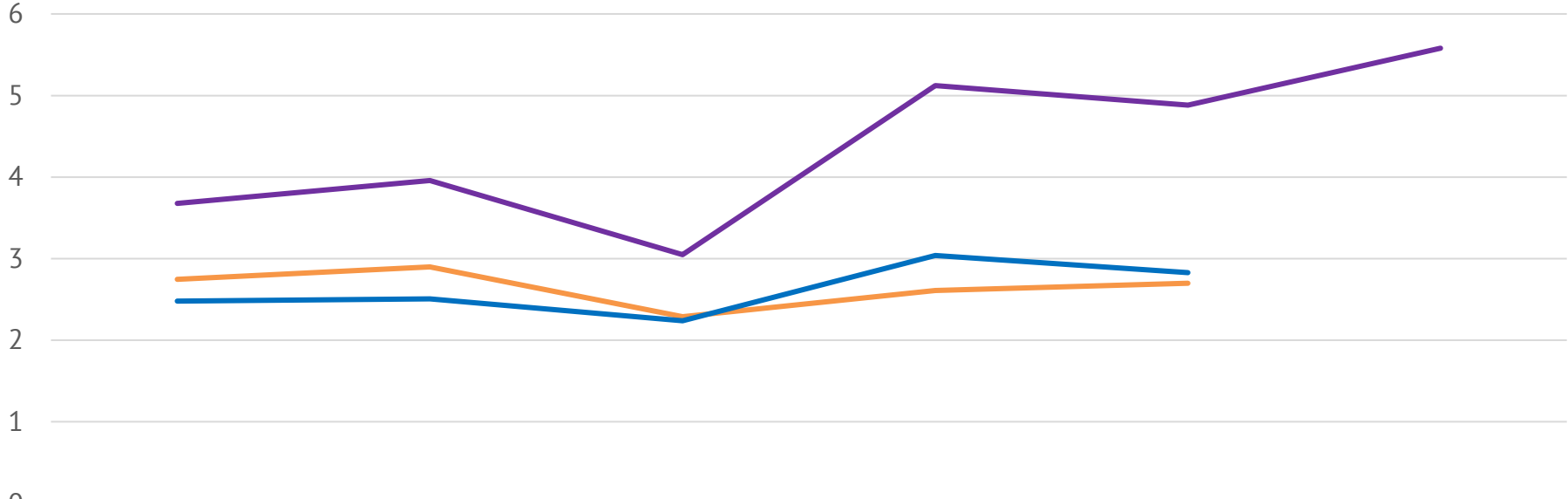
	FY2018	FY2019	FY2020	FY2021
TTU	2.35	4.57	4.73	4.87
LGIs AVG	1.65	2.56	2.50	

— LGIs AVG



CFI Comparison to other LGIs and UT

Including Universities and their Foundations



	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
TTU w/Foundation	3.68	3.96	3.05	5.12	4.88	5.58
UT AVG w/Foundation	2.75	2.90	2.29	2.61	2.70	2.70
LGIs AVG w/Foundation	2.48	2.51	2.24	3.04	2.83	2.83





FY21-22 Revised Budget/Organizational Chart



Reconciliation of Changes in E&G Revenues

	Actuals FY2020-21	Proposed Budget FY2021-22	Difference	Revised Budget FY2021-22	Difference
Tuition and Fees	\$99,001,296	\$98,296,000	(\$705,296)	\$99,019,300	\$723,300
State Appropriations	\$61,143,975	\$63,514,400	\$2,370,425	\$64,128,100	\$613,700
Other Activities	\$22,387,856*	\$11,758,700	(\$10,629,156)*	\$12,175,200	\$416,500
Total Revenues	\$182,533,127	\$173,569,100	(\$8,964,027)	\$175,322,600	\$1,753,500

*Includes HEERF funds of \$9,310,500



E & G Revenues Reconciliation of Difference

Actual vs Proposed

- Tuition and Fees (\$705,296)
 - Proposed budget was based on conservative estimates for tuition revenues
- State Appropriations \$2,370,425
 - Formula adjustment (\$430,900)
 - New state appropriations for outcomes funding \$1,768,800
 - Salary Pool \$2,105,200
 - Adjustments for OPEB, TCRS, Risk Management, Health Insurance \$343,600
 - NSF Match removed (\$500,000)
- Other Revenue (\$10,629,156)
 - Budgeted decline in grants revenue (\$858,000)
 - Budgeted less in proposed budget for Child Care Center (\$450,000)
 - One-time HEERF funds not in Proposed Budget (\$9,310,500)

Proposed vs Revised

- Tuition and Fees \$723,300
 - In-state tuition estimates increased by \$1,578,600 due to 2% tuition increase. This increase was used for the SACF collapse of (\$1,413,500)
 - In-state tuition estimates decreased due to enrollment decline of (\$2,612,300)
 - Out-of-state tuition estimates decreased by (\$265,000) based on better fall enrollments than our conservative estimate.
 - Online Fee estimates increase by \$2,101,450 reestablish budget from the fee being waived in prior year.
 - Tn eCampus online fee increase \$324,200
 - Student Mental Health Fee increase \$46,989
 - Application fee increase \$45,000
- State Appropriations \$613,700
 - Property Adjustment \$113,700
 - Reinstate the NSF Match \$500,000
- Other Revenue \$416,500
 - Adjustments for Athletics revenue for General Access fee portion of the Online fee \$311,450
 - Late registration fee reestablished \$62,600
 - Parking Fee budget increase \$69,500



Change in Expenses

	Actuals FY2020-21	Proposed Budget FY2021-22	Difference	Revised Budget FY2021-22	Difference
Instruction	\$72,271,306	\$77,398,100	\$5,126,794	\$89,399,100	\$12,001,000
Research	\$2,049,034	\$1,984,500	(\$64,534)	\$4,458,400	\$2,473,900
Public Service	\$1,998,073	\$2,014,100	\$16,027	\$2,486,000	\$471,900
Academic Service	\$12,312,608	\$13,049,300	\$736,692	\$14,979,100	\$1,929,800
Student Services	\$19,833,987	\$21,290,300	\$1,456,313	\$22,767,500	\$1,477,200
Institutional Support	\$14,174,960	\$18,218,200	\$4,043,240	\$19,308,600	\$1,090,400
Oper. & Maint. of Plant	\$11,985,224	\$15,514,700	\$3,529,476	\$16,281,900	\$767,200
Scholarships & Fellowships	<u>\$14,575,925</u>	<u>\$16,194,300</u>	<u>\$1,618,375</u>	<u>\$16,309,200</u>	<u>\$114,900</u>
Total Expenses	\$149,201,117	\$165,663,500	\$16,462,383	\$185,989,800	\$20,326,300

Actuals vs Proposed Reconciliation of Change in Expenses

- Instruction
 - FY 2020-21 unspent budgets \$1,559,240
 - Lapse salaries from unfilled faculty and staff positions in FY 2020-21 \$1,117,584
 - Budgeted 4% Salary Pool increase \$2,041,174
 - Faculty Promotions \$150,346
 - Unfreeze positions: Biology \$87,728, Math \$90,722, AG \$80,000
- Research
 - FY 2020-21 unspent budgets \$415,818
 - Reduce CEROC (\$500,000)
 - Budgeted 4% Salary Pool increase \$19,648
- Public Service
 - Budgeted 4% Salary Pool increase \$29,340
- Academic Support
 - Unfreeze positions IR \$27,296, CITL \$37,430
 - Budgeted 4% Salary Pool increase \$516,498
 - New Position Graduate Studies \$45,688
 - FY 2020-21 unspent budgets \$109,791
- Student Services
 - Budgeted 4% Salary Pool increase \$517,019
 - Financial Aid – Campus Logic \$104,960
 - FY 2020-21 unspent budgets \$834,334
- Inst. Support
 - Increased TCRS Benefit Rate \$343,600
 - Budgeted 4% Salary Pool increase \$457,816
 - FY 2020-21 unspent budgets \$3,241,824
- Maint. & Operations
 - FY 2020-21 unspent budgets \$2,984,179
 - Budgeted 4% Salary Pool increase \$208,468
 - Police Software \$14,000
 - Increase Utilities for new Engineering bldg. \$213,500
 - New Position Project Design Mgr. \$109,329
- Scholarships
 - Scholarships Unspent \$1,207,748
 - Reestablished International Scholarship budget \$432,000



Proposed vs Revised Reconciliation of Change in Expenses

- Instruction
 - Re-budget of Carryforwards:
 - SACF \$1,882,526
 - SAF \$44,945
 - TAF \$1,723,100
 - Engr State Appropriation funds \$2,945,867
 - Online & Alternate Delivery Fee \$812,897
 - Strategic Investment Pool \$657,098
 - Purchase Orders \$80,607
 - Departmental Requests \$139,485
 - Summer School \$1,235,735
 - Revenue generating \$427,471
 - University Future Funding \$1,367,389
 - General Access from Online Fee \$155,198
- Research
 - Re-budget of Carryforwards \$1,656,942
 - FY21 Indirect Cost Distribution Adjustment \$175,486
 - Re-budget CEROC \$500,000
- Public Service
 - Re-budget of Carryforwards \$196,328
 - Grant Match Dollars Added \$119,566
- Academic Support
 - Re-budget of Carryforwards \$1,795,653
 - Online & Alternative Delivery Fee – 15% from Colleges \$141,723
- Student Services
 - Campus Visitations \$60,000
 - Admin Publications \$42,384
 - Marketing Out-of-State Tuition \$150,000
 - Athletics (GAF portion of online fee) \$565,344
 - Counseling Mental Health \$46,989
 - Re-budget of Carryforwards \$318,822
 - Trailblazers \$60,505
- Institutional Support
 - Legal Fees \$150,000
 - Marketing Budget Continuation increase \$300,000
 - Graduation \$30,000
 - Re-budget of Carryforwards \$481,306
- Maint. & Operations
 - Property Insurance Expenses \$113,700
 - Re-budget of Purchase Order Carryforwards \$707,897
- Scholarships
 - Athletics Scholarship \$97,052



Change in Natural Classification Expenses

	Actuals FY2020-21	Proposed Budget FY2021-22	Difference	Revised Budget FY2021-22	Difference
Salary and Wages	\$78,951,283	\$81,849,100	\$2,897,817	\$83,091,600	\$1,242,500
Fringe Benefits	\$31,982,933	\$36,609,900	\$4,626,967	\$35,758,400	(\$851,500)
Travel	\$583,650	\$1,638,900	\$1,055,280	\$1,685,400	\$46,500
Operating & Utilities	\$22,164,195	\$29,039,800	\$6,875,605	\$48,608,000	\$19,568,200
Scholarships & Fellowships	\$14,575,925	\$16,194,300	\$1,618,375	\$16,309,200	\$114,900
Capital	<u>\$943,161</u>	<u>\$331,500</u>	<u>(\$611,661)</u>	<u>\$537,200</u>	<u>\$205,700</u>
Total E&G	\$149,201,117	\$165,663,500	\$16,462,383	\$185,989,800	\$20,326,300



Actuals vs Proposed Reconciliation of Change in Natural Expenses

- **Salary and Wages**
 - Lapse salaries from unfilled faculty and staff positions in FY 2020-21 (\$1,117,584)
 - Budgeted 4% Salary Pool increase \$3,789,963
 - Faculty Promotions \$150,346
 - Unfreeze positions: Biology \$87,728, Math \$90,722, AG \$80,000
- **Benefits**
 - FY 2020-21 unspent benefits due to vacant positions, estimated benefits for compensation increases, and less pass-through expense related to retirement and OPEB resulting from market performance
- **Travel**
 - FY 2019-20 unspent budgets \$1,055,280
- **Operating & Utilities**
 - FY 2020-21 unspent budgets and special fees \$6,875,605
- **Scholarships & Fellowships**
 - Scholarships Unspent \$1,207,748
 - Re-establish International Scholarship budget \$432,000
- **Capital**
 - FY 2020-21 overspent budgets due to miscellaneous departmental projects \$611,661



Proposed vs Revised Reconciliation of Change in Natural Expenses

- Salary and Wages
 - New positions funded by units \$688,282
 - Equity Adjustments \$299,301
 - Units move funds for adjuncts, temporary, and student workers \$320,000
- Fringe Benefits
 - Reduce budget to reflect estimated cost of approximately 42% of salaries (\$850,000)
- Travel
 - Funds transferred to travel by units \$46,500
- Operating & Utilities
 - Re-budget of carryforward amounts \$16,771,246
 - SACF \$1,882,526
 - Faculty Research & Indirect Cost \$1,117,579
 - SAF \$142,834
 - TAF \$1,723,100
 - Engr State Appropriation funds \$2,945,867
 - Online & Alternate Delivery Fee \$1,375,119
 - Other department requests \$ 2,563,719
 - Purchase Orders \$1,055,107
 - Summer School \$1,235,735
 - Strategic Investment Pool \$1,108,273
 - University Future Commitments \$1,367,389
 - Campus Logic \$104,960
 - Campus Visitations \$60,000
 - Trailblazers \$60,505
 - Admin Publications \$42,384
 - Marketing Budget increase \$450,000
 - CEROC \$500,000
 - FY21 Indirect Cost Distribution Adjustment \$175,486
 - Athletics due General Access Fee – Online Fee \$565,344
 - Legal Fees \$150,000
 - Property Insurance \$113,700
 - Graduation \$30,000
- Scholarships
 - Athletics 2% Tuition increase Scholarships \$97,052
- Capital
 - Purchase Order Carryforwards \$16,871
 - Funds transferred for departmental projects \$180,000



Contingency Planning for Budget

Background

- Fixed costs are \$63 million of our budget (38%)
- Variable costs are \$102 million of our budget (62%)
- Unknowns at this time
 - Spring enrollments for current year
 - Level of state appropriations for FY2022-23
 - Possible tuition increase
 - Inflation impact on utilities, software contracts, other operating expenses
- **1st action:**
 - Campus departments to identify potential reductions equal to 4% of variable costs
- **2nd action:**
 - Prepare high-level plans for potential additional 2% should fall 2022 enrollments not improve



THEC Operating Budget Recommendation for FY22-23

- Approved by Commission at November 18, 2021 meeting
 - \$90 million recurring funds to address outcomes productivity
 - Tech's net portion of this would be \$3,882,900
 - Tuition increase range of 0% to 3% (resident, undergraduate students)
- Next Steps
 - Governor's budget (late January/early February 2022)
 - Legislative budget approval (April to early May)
 - THEC approves binding tuition range based on state appropriation allocation (May 20, 2022)
 - Tennessee Tech's BOT considers tuition recommendation within binding tuition range (June BOT meeting)





Tuition Transparency Act Report (T.C.A. §49-7-1604)





Tennessee TECH

Disclosed Projects FY2022-23



Disclosed Projects FY2022-23

Tennessee Secondary School Bond Authority (TSSBA) & Campus Funded Projects

Fiscal Year	Project	Project Cost	Project Description
2022-23	Football Stadium Project	\$29,900,000	The project includes demolition of existing west stadium and replacement of stadium with an updated facility in support of football program.
2022-23	Wings Up Way Parking Garage	\$13,925,600	Construct a 4-level above grade parking garage. The garage will be cast-in-place concrete with brick and limestone/precast detailing with 412 parking spaces.
	Total Request	\$43,825,600	





Tennessee TECH

Report of Audit Activity





Tennessee TECH

Approval of 2022 Audit Plan



