



Tennessee TECH

Audit & Business Committee
November 30, 2023





Financial Update & Composite Financial Index





FY2022-23 Unaudited Statement of Revenues, Expenses,
and Changes in Net Position



Statement of Revenues, Expenses, and Changes in Net Position

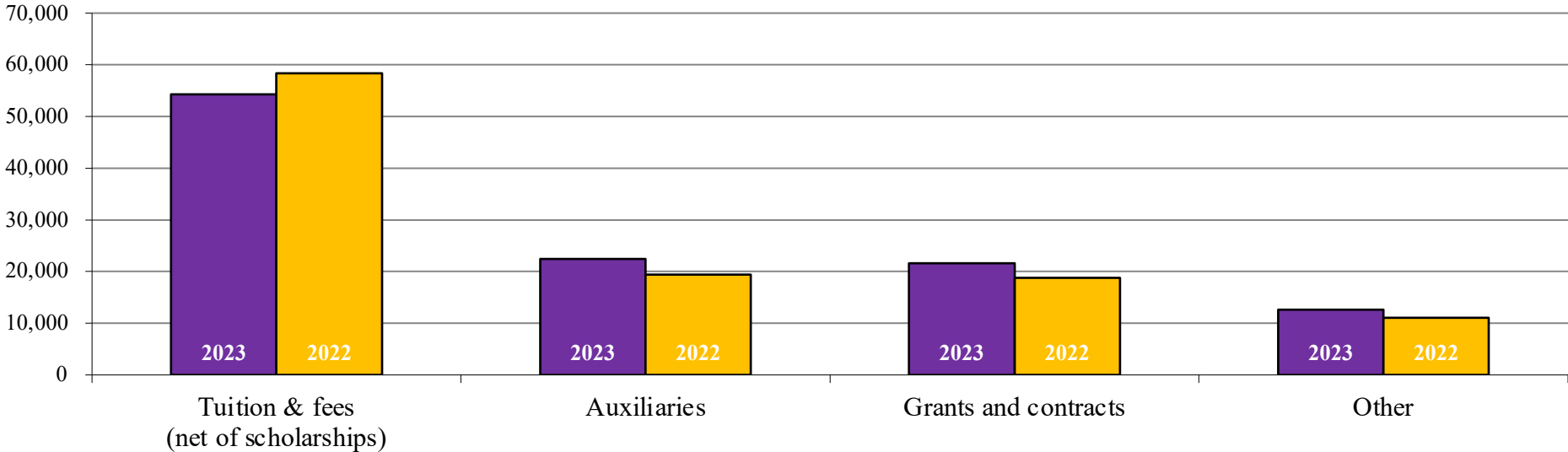
For Year Ended June 30, 2023 (unaudited)

(in thousands of dollars)

	2023	2022
Operating revenues	\$ 110,970	\$ 107,487
Operating expenses	215,360	208,990
Operating loss	<u>(104,390)</u>	<u>(101,503)</u>
Nonoperating revenues and expenses	136,617	128,051
Income (loss) before other revenues, expenses, gains or losses	32,227	26,548
Other revenues, expenses, gains or losses	<u>31,073</u>	<u>9,854</u>
Increase (decrease) in net position	\$ <u>63,300</u>	\$ <u>36,402</u>
Net position at beginning of year	\$ 386,826	\$ 350,424
Cumulative effect of change in accounting principle	<u>0</u>	<u>0</u>
Net position - beginning of year restated	\$ 386,826	\$ 350,424
Prior period adjustment	0	0
Net position at end of year	\$ <u>450,126</u>	\$ <u>386,826</u>



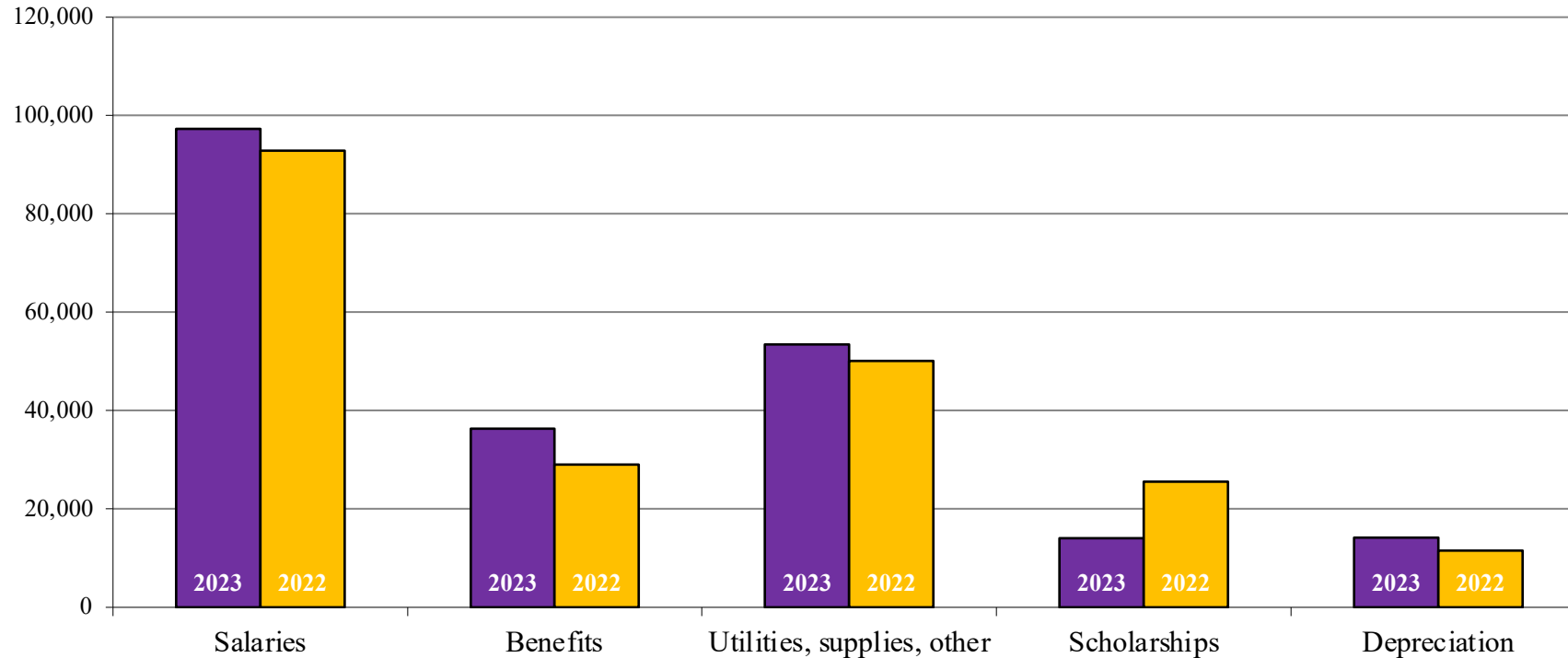
Operating Revenues by Source Comparison of FY2023 to FY2022 (in thousands of dollars)



Tuition and fees net of the scholarship allowance decreased \$4.0 million (6.9%). Although overall enrollment increased slightly between FY2022 and FY2023 and the third year of the new flat rate tuition model (implemented in FY2021) generated additional revenues totaling approximately \$2.2 million, the scholarship allowance increased \$6.2 million (14.5%) primarily as a result of the new increase to the TN HOPE scholarship award levels for all recipients. Revenues received from external agencies to support student scholarships is shown as nonoperating grants and contracts. Most research grants and contracts are shown above as operating grants and contracts to the extent expenses have been incurred.



Operating Expenses Comparison of FY2023 to FY2022 (in thousands of dollars)



- Benefits expense had an increase of \$7.4 million (25.5%) which was primarily due to changes in actuarial valuations and calculations related to pension and OPEB (other post-employment benefits).
- Scholarships and fellowships had a decrease of \$11.5 million (44.9%) which was primarily due to the result of approximately \$13.0 million in grants which were awarded to students from the federal Higher Education Emergency Relief Fund for the American Rescue Plan during the prior fiscal year 2022.



Nonoperating Revenues and Expenses (unaudited)
Comparison of FY2023 to FY2022
(in thousands of dollars)

	<u>2023</u>	<u>2022</u>
State appropriations	\$ 85,117	\$ 72,001
Gifts	2,242	1,780
Grants and contracts	44,627	52,270
Investment income	7,359	59
Interest on capital asset debt	(2,340)	(2,902)
Other	(388)	(157)
	\$ <u>136,617</u>	\$ <u>123,051</u>

Certain revenue sources that the university relies on to provide funding for operations, including state appropriations, certain gifts and grants, and investment income, are defined by the GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets.



Other Revenues (unaudited)
Comparison of FY2023 to FY2022
(in thousands of dollars)

	<u>2023</u>	<u>2022</u>
Capital appropriations	\$ 30,876	\$ 8,937
Capital grants and gifts	193	914
Addition to endowments (university)	4	3
	\$ 31,073	\$ 9,854

This category is composed of State appropriations for capital purposes, capital grants and gifts, and additions to permanent endowments.





FY2022-23 Capital Asset and Debt



Capital Assets (unaudited) Comparison of FY2023 to FY2022 (in thousands of dollars)

	2023	2022
Land	\$ 11,202	\$ 11,202
Land improvements & infrastructure	17,227	18,014
Buildings	278,199	283,013
Equipment	15,241	14,686
Library holdings	415	490
Intangible assets	66	142
Art & historical collections	174	180
Projects in progress	43,426	10,911
Leased asset - infrastructure	307	462
Leased asset - equipment	558	74
SBITAs (Subscription-Based Information Technology Arrangements)	7,227	0
Total Capital Assets, Net of Depreciation	\$ 374,043	\$ 339,173

Tennessee Technological University had \$374.0 million invested in capital assets, net of accumulated depreciation of \$178.7 million at June 30, 2023; and \$339.2 million invested in capital assets, net of accumulated depreciation of \$170.7 million at June 30, 2022. Depreciation charges totaled \$14.2 million and \$11.5 million for the years ended June 30, 2023, and June 30, 2022, respectively.

The university is involved in various renovation, new construction, and other projects on campus that increased capital assets by \$34.8 million during FY2023. New construction on the Engineering Building was the largest project during FY2023.

At June 30, 2023, outstanding commitments under construction contracts totaled \$187.5 million for the new engineering building, roof replacements, new residence hall, and various other renovations and upgrades of which \$117.8 million will be funded by future state capital outlay appropriations.



Debt (unaudited)
Comparison of FY2023 to FY2022
(in thousands of dollars)

	2023	2022
Debt Instrument:		
Bonds payable	\$ 75,016	\$ 70,952
Unamortized bond premium	13,670	14,496
Revolving credit facility/comm paper	0	5,654
Total outstanding debt	\$ 88,685	\$ 91,102

The university had \$88.7 million and \$91.1 million in debt outstanding at June 30, 2023, and June 30, 2022, respectively. The table above summarizes these amounts by type of debt instrument.

The TSSBA issued bonds with interest rates ranging from 0.167% to 5.0% due serially until November 2049 on behalf of Tennessee Technological University. The university is responsible for the debt service of these bonds. The current portion of the \$88.7 million outstanding at June 30, 2023, is \$6.2 million. The university had approximately \$5.0 million in unspent bond proceeds at June 30, 2023 which are shown netted against the outstanding bond total amount in the statement of net position. At this time, it is the intention of the university to spend these bond proceeds on parking and transportation projects as originally planned in the upcoming fiscal years.



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

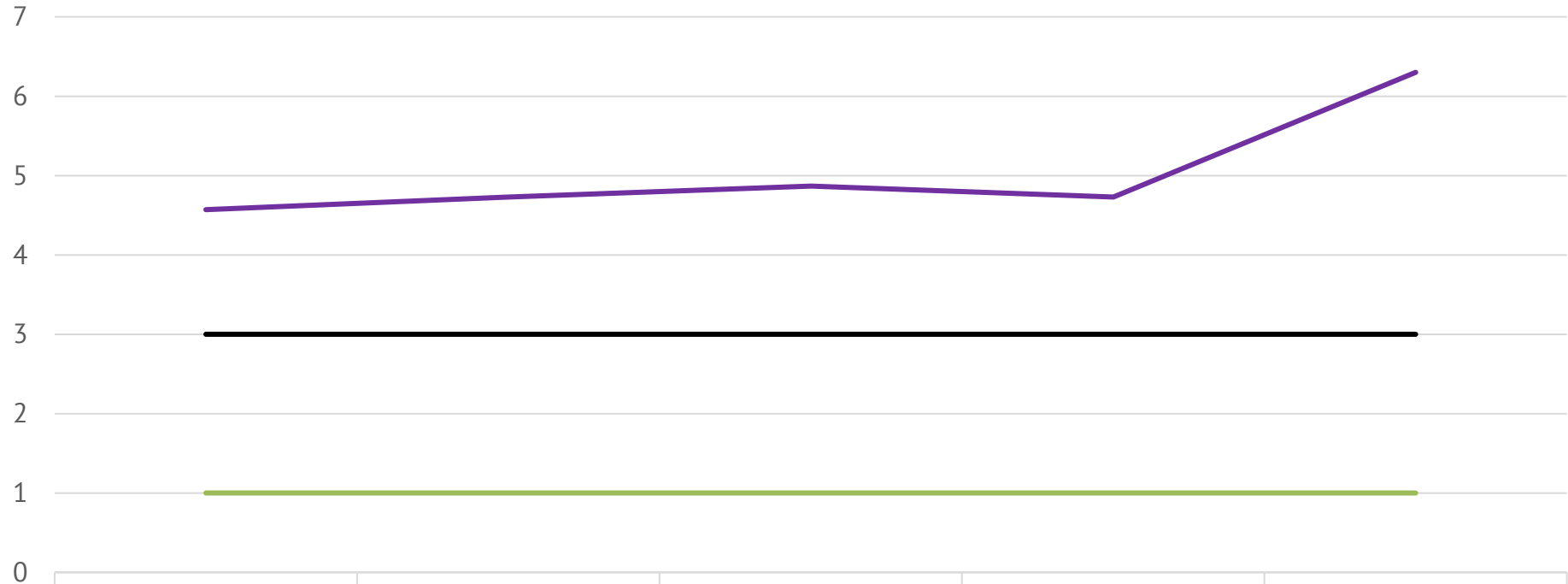


Composite Financial Index (CFI)

- 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)
- Excludes assets of Foundation



Composite Financial Index (CFI)



	FY2019	FY2020	FY2021	FY2022	FY2023
TTU (University Only)	4.57	4.73	4.87	4.73	6.3
Expected	3	3	3	3	3
Watch	1	1	1	1	1

— TTU (University Only)
 — Expected
 — Watch



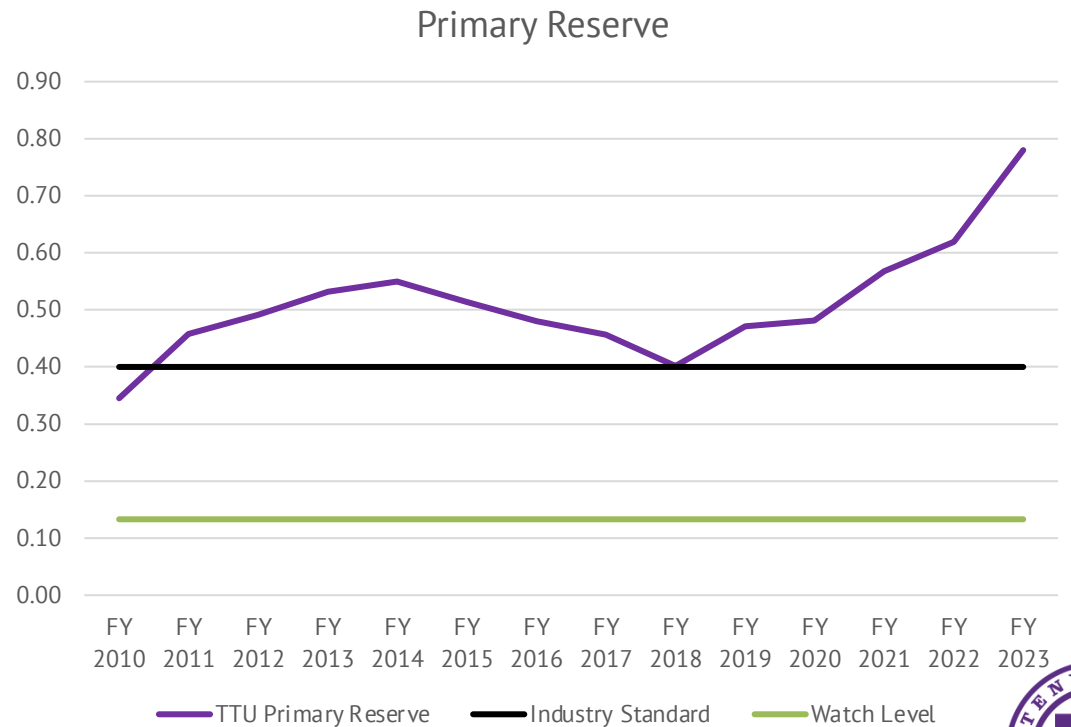
Components of CFI

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

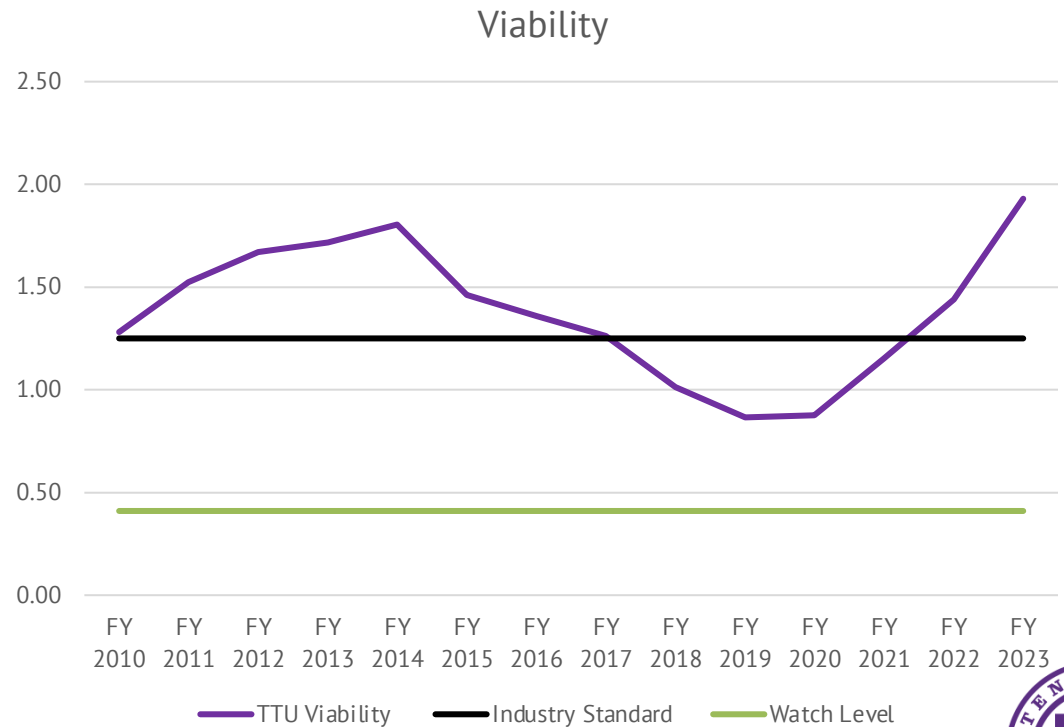


Components of CFI

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



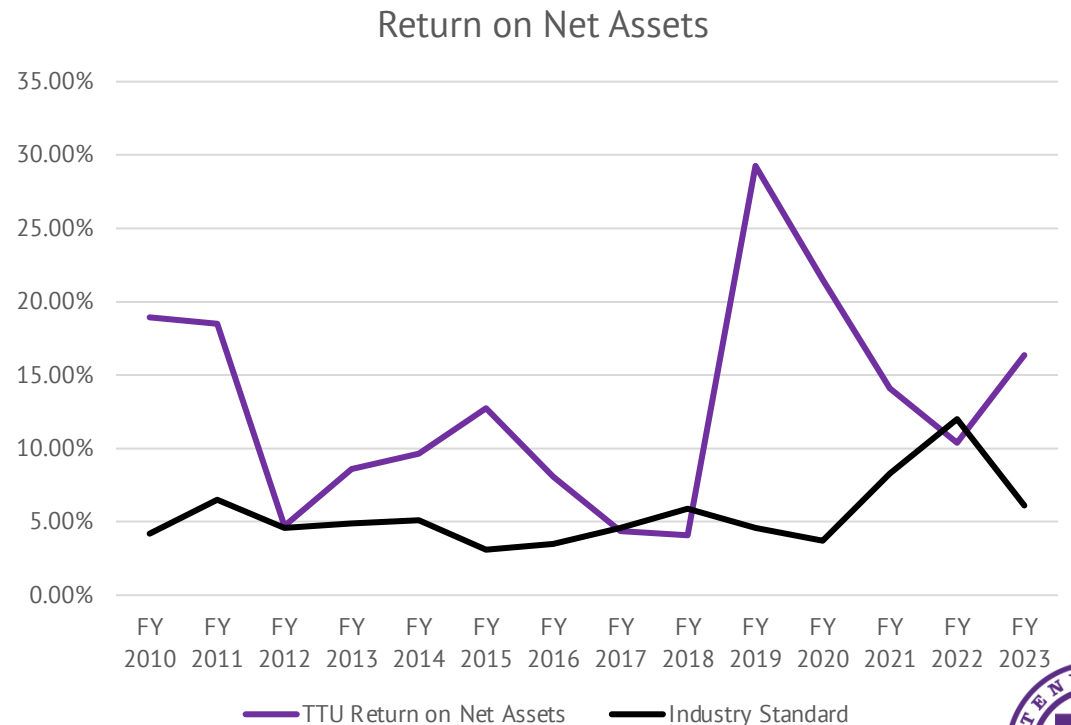
Components of CFI

Return on Net Assets Ratio

Measure of total economic return similar to ROE.

- Calculated as:
 - $\text{Change in Net Assets} / \text{Beginning Net Assets}$
- 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



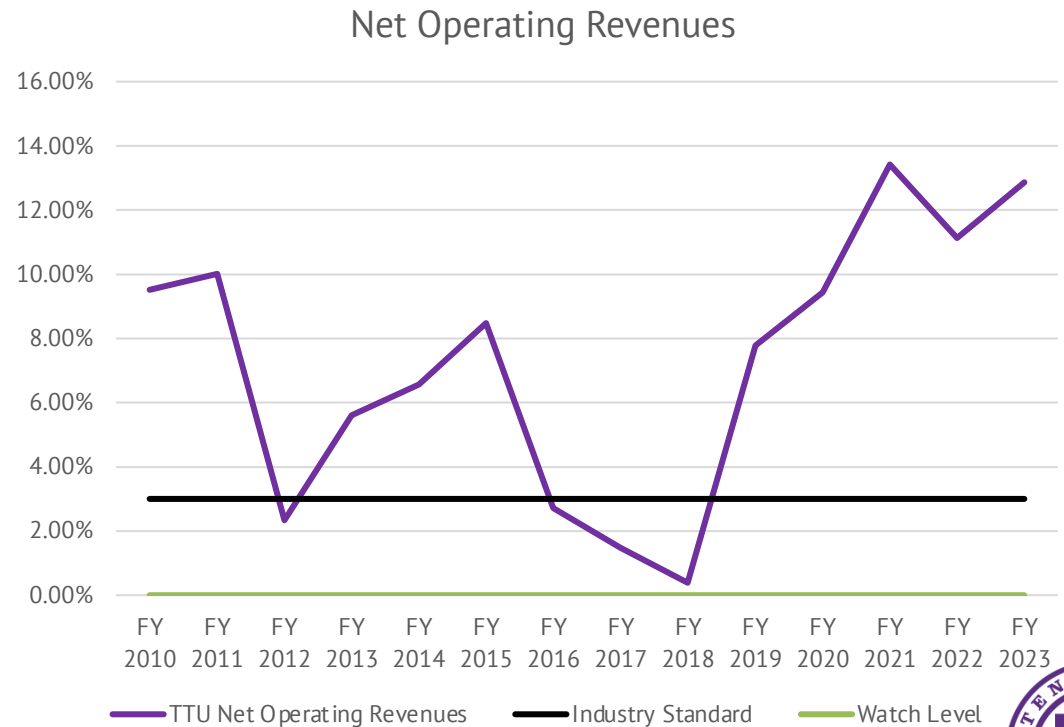
Components of CFI

Net Operating Revenues Ratio

Indicates whether institution is living within available resources.

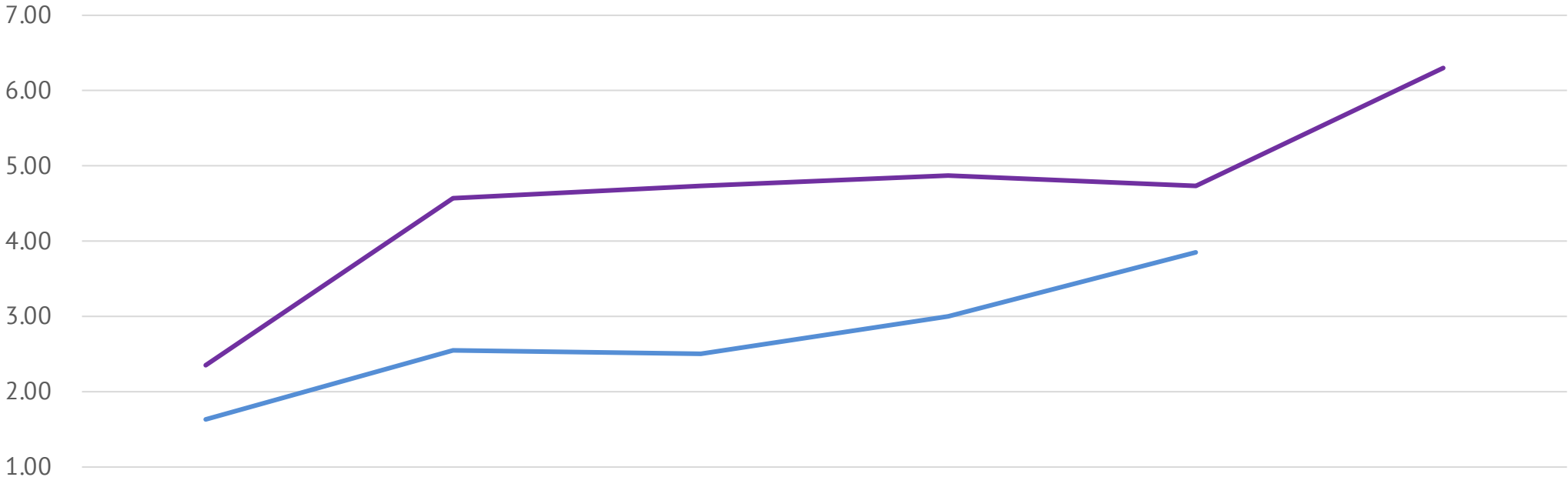
- Calculated as:
 - $(\text{Net operating result} + \text{all other revenues} - \text{expenses including interest expense}) / \text{All gross revenues}$
- Industry standard is 2% to 4%
- Did we balance operating expenses with available resources?
- Watch level – Consistently below zero
 - Deficits for 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

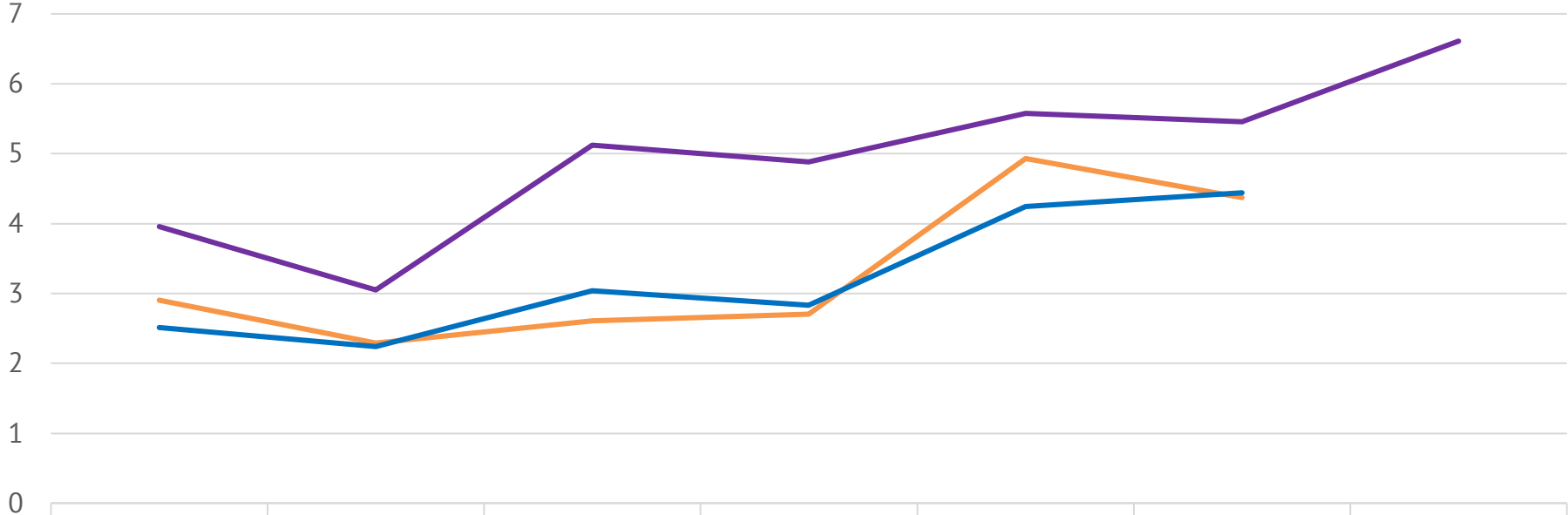


	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
TTU	2.35	4.57	4.73	4.87	4.73	6.30
LGIs AVG	1.63	2.55	2.50	3.00	3.85	



CFI Comparison to other LGIs and UT

Including all Universities and their Foundations



	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
TTU w/Foundation	3.96	3.05	5.12	4.88	5.58	5.46	6.61
UT AVG w/Foundation	2.90	2.29	2.61	2.70	4.93	4.37	
LGIs AVG w/Foundation	2.51	2.24	3.04	2.83	4.24	4.44	





FY2023-24 Revised Budget/Organizational Chart



Reconciliation of Changes in E&G revenues

	Proposed Budget FY2023-24	Revised Budget FY2023-24	Difference
Tuition and Fees	\$105,062,800	\$104,803,000	(\$259,800)
State Appropriations	\$82,153,800	\$85,439,700	\$3,285,900
Other Activities	\$13,136,800	\$13,616,500	\$479,700
Total Revenues	\$200,353,400	\$203,859,200	\$3,505,800



Proposed vs Revised E&G Reconciliation of Changes in Revenues FY2023-24

- Tuition and Fees (\$259,800)
 - Tuition enrollment based on Fall census (\$1,728,500)
 - Tuition 3% increase \$1,999,800
 - Summer Revenue (\$245,500)
 - Out-of-state tuition decrease (\$66,250) based on actual fall enrollment in International students
 - Fee reduction (\$219,500)
- State Appropriations \$3,285,900
 - Adjustments for OPEB, TCRS, Risk Management, and Health Insurance \$958,400
 - Crossville Wind Tunnel \$2,000,000
 - 401k Enhancement Match one-time funding \$327,500
- Other Revenue \$479,700
 - Federal Indirect Cost Revenue \$400,000
 - Other Misc. \$80,000



Change in Expenses

(details on following page)

	Proposed Budget FY2023-24	Revised Budget FY2023-24	Difference
Instruction	\$82,786,000	\$92,840,800	\$10,054,800
Research	\$3,162,900	\$8,286,900	\$5,124,000
Public Service	\$2,056,400	\$3,768,800	\$1,712,400
Academic Support	\$15,728,000	\$19,422,600	\$3,694,600
Student Services	\$24,140,900	\$26,365,400	\$2,224,500
Institutional Support	\$20,367,400	\$21,560,300	\$1,192,900
Oper. & Maint. of Plant	\$19,049,300	\$22,299,700	\$3,250,400
Scholarships & Fellowships	\$20,628,000	\$21,393,100	\$765,100
Total Expenses	\$187,918,900	\$215,937,600	\$28,018,700

Proposed vs Revised Reconciliation of Change in Expenses FY2023-24

- Instruction
 - Re-budget of Carryforwards:
 - Specialized Academic Fee \$586,525
 - Technology Access Fee \$2,878,038
 - Engr State Appropriation funds \$2,738,142
 - Online & Alternate Delivery Fee \$3,175,758
 - Purchase Orders \$550,077
 - Departmental Requests \$388,962
 - Summer School \$134,768
 - Revenue generating \$795,256
 - Lapse Salary \$1,684,153
 - Adjustments due to fees collected (\$527,250)
 - Rural Reimagined transferred to Public Service (\$1,000,000)
 - CEROC transferred to Research (\$700,000)
 - Online fee 15% transfer to Provost-Academic Support (\$394,058)
 - University Wide Benefit Adjustment (\$250,000)
- Research
 - Re-budget of Carryforwards \$3,755,414
 - FY22 Indirect Cost Distribution Adjustment \$224,779
 - CEROC \$700,000
 - Water Center \$150,000
 - Faculty Start Up \$300,000
- Public Service
 - Re-budget of Carryforwards \$596,338
 - Rural Reimagined \$1,000,000
 - University Wide Benefit Adjustment \$100,000
- Academic Support
 - Re-budget of Carryforwards \$2,586,513
 - Tech Farms budget established \$315,000
 - Online Fee – College Transfer 15% - \$394,058
 - University Wide Benefit Adjustment \$350,000
- Student Services
 - Band uniforms \$190,000
 - Re-budget of Carryforwards \$1,008,408
 - Capture Contract \$240,875
 - Athletics \$90,000
 - University Wide Benefit Adjustment \$650,000
- Institutional Support
 - Increase State funding-TCRS, Risk Mgmt. Health insurance, OPEB \$590,280
 - Marketing Budget Continuation increase \$400,000
 - New Position and Adjustments \$223,518
 - Re-budget of Carryforwards \$610,576
 - University Wide Benefit Adjustment (\$750,000)
- Maint & Operations
 - Crossville TAP Wind tunnel \$2,000,000
 - Crossville TAP budget established \$552,000
 - Re-budget of Purchase Order Carryforwards \$155,537
 - Police CAD software \$22,070
 - University Wide Benefit Adjustment \$208,000
 - Facilities certificate increases \$76,335
- Scholarships
 - Presidential Scholarship \$197,000
 - Community College Transfer \$356,000
 - Athletic Scholarships \$168,498



Change in Natural Classification Expenses

(details on following page)

	Proposed Budget FY2023-24	Revised Budget FY2023-24	Difference
Salary and Wages	\$91,107,575	\$93,792,537	\$2,684,962
Fringe Benefits	\$36,643,521	\$38,283,477	\$1,639,956
Travel	\$2,068,849	\$2,403,354	\$334,505
Operating & Utilities	\$36,582,106	\$58,937,069	\$22,354,963
Scholarships & Fellowships	\$21,185,287	\$21,949,395	\$764,108
Capital	<u>\$331,500</u>	<u>\$571,790</u>	<u>\$240,290</u>
Total E&G	\$187,918,838	\$215,937,622	\$28,018,784



Proposed vs Revised Reconciliation of Change in Natural Expenses

- **Salary and Wages**
 - Critical salary adjustments \$281,437
 - Units move operating funds for adjuncts, temporary, and student workers \$2,300,000
- **Fringe Benefits**
 - Increase State funding-TCRS, Risk Mgmt., Health insurance, OPEB \$1,285,200
 - Benefits budgeted for new positions \$40,000
 - Funds transferred by units for GA's \$300,000
- **Travel**
 - Funds transferred to travel by units \$245,000
 - Athletics \$90,000
- **Operating & Utilities**
 - Re-budget of carryforward amounts \$21,929,171
 - Revenue Generating \$975,975
 - Faculty Research & Indirect Cost \$2,724,078
 - CEROC & Rural Reimagined Appropriations \$921,347
 - Specialized Academic Fee \$586,525
 - Technology Access Fee \$2,878,038
 - Engr State Appropriation funds \$2,738,142
 - Online & Alternate Delivery Fee \$4,900,695
 - Student Activity Fee \$619,822
 - Other department requests \$ 1,216,562
 - Purchase Orders \$680,066
 - Summer School \$134,768
 - University Future Commitments \$1,869,000
 - Lapse Pool \$1,684,153
 - State Appropriations Wind tunnel \$2,000,000
 - Marketing Budget increase \$400,000
 - Band Uniforms \$190,000
 - Capture Contract \$240,875
 - Units transfer funds from operating to salary & wages (\$2,300,000)
- **Scholarships**
 - Presidential Scholarship \$197,000
 - Community College Transfer \$356,000
 - Athletic Scholarships \$168,498
- **Capital**
 - Purchase Order Carryforwards \$240,000





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





Classification & Compensation Study Update



Classification & Compensation Study

Mercer Background and Experience

Mercer has 77 years of experience providing comprehensive human resource solutions. We work with ~30,000 diverse clients worldwide. Our services range from long-term support to targeted consulting, ensuring we meet the needs of a wide range of clients

Mercer differentiates through our commitment and expertise in serving higher education

A sample of Mercer's higher education solutions: Purple text indicates elements of TN Tech project

Total Rewards

- Faculty, administration and staff pay benchmarking, program design and implementation planning
- Executive compensation planning, analysis and compliance, and contract consulting
- Total rewards strategies
- Employee listening

Faculty and Staff Benefits

- Benefit strategy
- Benefit plan management, insurance brokerage and administration
- Consortium benefit programs
- Education and communications

Retirement Plans

- Defined benefit and defined contribution retirement strategies
- Investment research and tools
- Investment advice and solutions for endowments, defined benefit and defined contribution programs

Talent and Performance Management

- Job architecture, career frameworks and titling guidelines
- Job descriptions
- HR effectiveness
- Performance management and pay for performance
- Training and communications

Mercer has partnered with 500+ higher-education institutions across all our business lines. Tennessee Tech's project team has supported over 100 institutions in various compensation projects, including market assessments, variable pay plans, job architecture, and total rewards initiatives



We are uniquely qualified to meet your needs

Highly-Specialized and Experienced Team

Experts in higher education, as well as the broader market, to bring contemporary practices to the academic environment

Flexible and Holistic Methodology

Solutions tailored to your unique needs. We understand the complexity of governance and are accustomed to partnering with multiple stakeholders

Gold Standard Resources and Analytics

Highly regarded strength in research and study of everything that touches the workforce: compensation, benefits, careers, retirement, employment practices, performance



Classification & Compensation Study

Overall Project Status Update

Project Objectives: Develop a contemporary classification and compensation program that will allow TN Tech to attract, recruit, develop, and retain the best talent to support the institution's growth and success



- Assess current state to understand business needs / requirements to consider in design of future state job architecture and compensation program
- Develop a job architecture and catalogue to which all jobs and staff can be aligned and update job descriptions
- Conduct market analysis of base salary and total cash compensation for a selection of faculty and staff benchmark jobs
- Develop a market-referenced salary structure for staff
- Conduct outlier analysis and identify cost of structure implementation
- Deliver rollout strategy and implementation roadmap for ongoing use of the job architecture and compensation program

Project Overview *(Four Phases):*



Co-creation in action: integration of stakeholder feedback for strategy development, drawing on supervisors' insights for job mapping, and collaboration with core and extended project teams to drive innovation and shared outcomes.





Approval of 2024 Audit Plan



