THE UNIVERSITY OF TENNESSEE

PRESIDENT'S BUDGET ADVISORY GROUP / SPRING 2017

What Is The President's Budget Advisory Group (BAG)?

The Budget Advisory Group (BAG) was established in 2015 when President Joe DiPietro announced – publically and privately – that the University of Tennessee's funding model was unsustainable. Realizing that additional funding was not expected to be forthcoming from the State, and acknowledging that continued tuition increases are untenable, Dr. DiPietro appointed a system-wide group of faculty, staff, administrators and students to serve as members of the BAG to develop a two-year plan to increase revenue, cut costs, establish parameters and internal controls and outline goals that would allow campuses to better address needs around short- and long-term priorities that could be the focus for reallocation of new revenue and cost savings.

A copy of the original BAG document and a report on the BAG's work in 2015 and 2016 is included in Appendix A and on the UT System Website at *https://president.tennessee.edu/budget-advisory-group/* .

Where Is BAG Now?

In January 2017, Dr. DiPietro reconstituted the BAG to assess progress and seek additional recommendations and thus continue UT's work to achieve a long-term, sustainable financial model for the University. With an updated list of BAG members and the support of the Board of Trustees' new Subcommittee on Cost Savings and Efficiency, efforts began to develop BAG 2.0. June 2017 was set as the timeframe for the President to present new recommendations to the Board for its review and support and to share the updated approach with the UT community.

Fiscal Realities

The original assumptions associated with the BAG's efforts anticipated no meaningful growth in State appropriations and very limited growth in other revenue. During the initial two-year period of BAG recommendations, State appropriations were more favorable than previously predicted, but the University continues to feel the impact of several years of stagnant or declining State appropriations. While we are grateful for the support that the Governor and the General Assembly have shown in our most recent budget cycles, our growth and ability to address critical strategic initiatives across our System continue to be a challenge because the vast majority of new funds that come our way are pre-committed. So, our campuses and institutes continue to fund only what is needed to keep up with inflation, and they begin each new fiscal year with a funding gap that isn't effectively addressed by new State-appropriated dollars.

Traditionally, higher education has responded to the stagnancy and decline in state appropriations by increasing tuition, not filling vacant positions and delaying salary increases to faculty and staff. With the establishment of the BAG, however, UT publically acknowledged its commitment to controlling its own costs and taking responsibility for its future success and viability with a renewed commitment to strategic growth and to becoming more efficient and effective in its administrative operations and in the delivery of instruction, research and public service. Additionally, the System's leadership has been charged with making tough decisions to reallocate existing funding from areas of lesser need to higher priority areas that align with system, campus and unit strategic plans and demonstrate the potential to generate additional revenue and/or result in greater efficiency and productivity.

THE UNIVERSITY OF TENNESSEE

The 3-3-0 Model/Financial Assumptions

The approach the System will take in addressing its long-term sustainability is based on the following model and financial assumptions:

- The Higher Education Price Index (HEPI) will average < 3% (The HEPI rate will be used as an annual basis for setting tuition.)
- Non-state revenue growth will average 3% (This includes tuition, auxiliary income and other revenue streams.)
- Estimated annual Education and General (E&G) state appropriation increases will be 0%
- State maintenance support will be funded at the historical average

Underlying Principles

As we continue to drive new revenue and cut costs, we remain mindful of the importance of avoiding actions that will negatively impact programs and services that directly support UT's mission and vision. We will also remain committed to ongoing initiatives and enhancements in the following areas, even if they do not have a direct impact on the budget:

- **Tuition and Fees:** Tuition increases will be kept low and within the parameters of the 3-3-0 model and THEC binding tuition range; fees will be consistently monitored
- **Outreach:** The University is committed to Outreach/Engagement and Service to improve communities and the quality of life of Tennessee residents
- **Enrollment:** All campuses will strive to increase undergraduate enrollment and degrees granted and graduate and professional school enrollment as appropriate for each campus/institute
- **Salaries:** The University is committed to raising faculty and staff salaries to remain competitive with our peers
- **Capital Outlay:** The University will remain successful in developing Capital Construction proposals that are recommended for funding by The Tennessee Higher Education Commission
- **Complete College Tennessee Act (CCTA):** The University is committed to performing within the Top 5 Tennessee Institutions as it relates to CCTA metrics

Established Goals, Parameters & Internal Controls

Although the System is allowing considerable flexibility for UT campuses and institutes to explore options for achieving the recommended BAG revenue and cost-savings goals, some key parameters and internal controls must be implemented and monitored to ensure that campus actions are meaningful and in line with System and Board expectations and the underlying principles of this process. **The following outline some of the tools available to campus leadership in reaching their BAG goals, with expected parameters and controls that should guide campus plans and action steps:**

Enrollment

- In-state undergraduate enrollment goals will be set and approved annually and will be in alignment with campus strategic plans and The Drive to 55; A plan for detailing specific tactics for enrollment growth and related goals over the two-year period should be provided by each campus.
- Campuses/Institutes may use increased out-of-state enrollment as part of a financial (revenue generation) model and/or to achieve general enrollment growth, but out-of-state enrollment should, ultimately, not exceed 25% of total UG enrollment by campus. Campuses/Institutes should outline goals and objectives for increasing out-of-state enrollment and how any new funds generated will be used.

Tuition/Fees

- Undergraduate tuition should not exceed the previous year's HEPI
- Graduate/professional tuition should not exceed the previous year's HEPI plus 3%
- Executive program tuition should align with comparable programs at peer institutions
- Out-of-state tuition may be reduced to be more competitive
- Tuition and fees will be transparent and in keeping with THEC boundaries

Outreach

- Outreach goals should be established and outlined for IPS, UTIA and UTHSC; Effective existing outreach programs should not be sacrificed in support of other activities without a supporting rationale and a clear plan of action.

Workforce Development

- Units may consider a variety of workforce development strategies to meet their reallocation or cost-savings goals. Such plans should be effectively communicated and have clear guidelines and decision-making processes. Plans should also include appropriate internal controls to ensure that any savings achieved are not immediately negated by subsequent hiring practices or increases in operations that significantly reduce cost-savings or the ability to reallocate funds that were realized as part of the process.

Goals for 2017-2019

Academic Programs: Secure more accurate data on UT academic program costs and productivity, which can serve as the basis for the development of plans by each campus and institute to determine an ongoing approach for retaining, enhancing, reorganizing, merging or phasing out programs.

Funds Reallocation: Reallocate System and campus funding from areas of low productivity and efficiency to strategic priorities, critical programs and other high-return opportunities.

Research: System-wide, research and sponsored program expenditures should increase 6% annually (based on the most current 5-year average)

Development: System-wide, the total number of gifts, pledges, and bequests should increase 15% per year (based on the most current 5-year average)

Human Resources: Strengthen and streamline System HR operations for increased System-wide effectiveness, efficiency and cost-savings.

Contingency Planning (AKA- the "Oh, Gosh" Clause)

While we recognize that higher education in the State is experiencing a "tailwind" that continues to allow us to move in a positive direction and actual financial results have been more favorable than had been originally predicted, we know it's only a matter of time until we will experience a "headwind". As such, we must look to the future and be proactive in developing contingency plans that will allow us to adapt to major changes in State and Federal funding and other circumstances that are beyond our control. There are a number of areas where UT's ability to continue on a positive trajectory may be uncertain, and we are giving serious consideration to how me might address difficult or "worst case" scenarios that would negatively impact our budget and long-term sustainability should they occur.

- **State Capital Outlay and Maintenance:** The nature of the State's process for prioritizing capital outlay and maintenance funding and how UT will fare in this process remain unknown. With the six new Locally Governed Institutions (LGIs), formerly with TBR, now vying directly for these funds, there will be greater competition for funding in this area and maintaining historic numbers may be difficult. UT will continue to take an active role in working with THEC and others in the development of processes in this area.
- **Research and Federal Funding:** With a relatively new administration in the White House, UT continues to be watchful of potential changes in the federal funding climate, especially as it relates to departments and agencies that support our research, grants and contracts, and outreach efforts.
- **Fundraising/Development:** The economic/investment climate and many other factors can negatively impact our ability to meet or exceed our aggressive fund-raising goals. We must keep our finger on the pulse of institutional, state and national issues that have the potential to negatively impact our donor's ability or willingness to give, and plan accordingly.
- **Tuition:** While the general parameters related to setting tuition are outlined elsewhere in this document, it is important to note that these limits are based on current levels of funding support and would likely have to change in difficult economic times or as THEC binding tuition ranges change due to negative adjustments in the State's overall funding model for higher education.

Action Plans

Action	Responsibility	Deliverables/Expected Outcomes
1. Agree on a system-wide solution, possibly through a qualified external vendor, to develop appropriate metrics and data collection that will enable each UT campus to assess academic program costs and effectiveness. The solution will provide guidance to the campuses on deciding whether to retain, enhance, reorganize, merge or phase out programs. The primary focus will be to reinvest in programs that demonstrate consistent growth or that address mission-critical or workforce needs.	System Leaders Chancellors Chief Academic Officers	The resulting vendor report will serve as the basis for the development of campus plans related to which programs will be priority for future funding investments and how the campus will address low-performing programs or those that no longer meet institutional objectives.
2. Develop a two-year plan to reallocate unrestricted E&G expenditures to enhance critical programs, improve student progression/completion, fund key opportunities for research and economic development, and/or further develop campus infrastructure. The focus should be on addressing projected salary gaps, reducing expenditures in programs, services and operational activities in areas of low strategic priority and/or with low levels of productivity and efficiency.	Chancellors/ Unit leaders	System administration will provide a reporting format that will be used to document reallocation efforts and their impact. (*Parameters and internal controls related to some methods for achieving reallocation goals are outlined elsewhere in this document- p.3.*)
3. Units should annually review their workforce development needs and redeploy resources in support of strategic goals and objectives. Campuses/institutes may consider one-time buyouts, early retirement incentives, restructuring units and consolidation of positions, not filling vacant positions, implementing shared services agreements or other creative and strategic workforce efforts.	System/Campus/ Institute Leadership teams System-wide HROs	Units should document salary savings and resource deployment initiatives and provide summaries of the impact of these efforts.

Action Plans

Action	Responsibility	Deliverables/Expected Outcomes
4. The UT System Office of Human Resources will be reconfigured to accommodate the separation of System and UTK HR efforts, with a focus on enhancing centralized service offerings, reducing/eliminating duplicative services, addressing needed changes in organizational structure, and streamlining the employment search process for greater productivity and cost-savings.	UT EVP/COO UT System/UTK HR & CFOs	Plans for restructuring the units should be developed and implemented; all cost-savings, reallocations and enhancements in operational efficiency should be reported.
5. Train academic department heads and deans to increase their knowledge of budgets, program review metrics and faculty evaluation to ensure more effective management of units, programs and personnel.	Office of CFO Office of AA&SS Office of HR Campus CAOs Office of General Counsel UTK HR & CFOs	A summary report of faculty performance ratings will be developed and an analysis of changes in how faculty are evaluated pre- and post-training will be conducted.
6. Take action/next steps in addressing previously identified and newly determined unfunded mandates, including tuition waivers/discounts.	UT System	All current unfunded mandates will be identified with costs; plans for addressing each mandate will be outlined.
7. Non-formula units will outline current services for which fees currently exist, could be established or ones in which additional fee revenue could be generated. Units will also outline which services will continue to be subsidized and any plans for increasing or decreasing subsidies and the rationale.	Non-formula units	Develop a comprehensive report on all non-formula unit fee structures, the current cost of delivering services, and potential revenue that could be generated from new or increased fees.
8. Develop a mechanism for soliciting broad feedback and capturing and vetting other recommendations from UT stakeholders for revenue generation, cost-savings and enhanced operational efficiency.	EVP/COO CFO Communications/Marketing	A communications/marketing campaign for soliciting feedback will be developed and implemented; a process for the ongoing vetting of internal/external submissions related to cost-savings and revenue-generation will be established.

2017-2019 BAG Membership/Staff Liaisons

BAG MEMBERS:

Dr. Joe DiPietro, President, UT System
Dr. Steve Angle, Chancellor, UT Chattanooga
Dr. Keith Barber, Vice Chancellor for Institutional Advancement, UT Institute of Agriculture
Bob Bradley, Instructor of Computer Science and Information Systems, UT Martin
Tony Ferrara, Vice Chancellor for Finance & Operations, UT Health Science Center
Rachel Smith, Student, UT Chattanooga
Dr. Steve Smith, Dean of Libraries, UT Knoxville

SYSTEM STAFF LIAISONS TO THE BAG:

Dr. Tonjanita L Johnson, Executive Vice President/Chief Operating Official
(Primary Staff Liaison to the BAG)
Dr. David Golden, Executive Assistant to the President (BAG Recorder)
Tiffany Carpenter, Associate Vice President for Communications and Marketing
Anthony Haynes, Vice President for Government Relations & Advocacy
Dr. Dennis Hengstler, Assistant Vice president of Institutional Research
Dr. Katie High, Vice President for Academic Affairs & Student Success
David Miller, Chief Financial Officer
Dr. Stacey Patterson, Associate Vice President of Research
Matthew Scoggins, General Counsel