



# ***Audit & Business Committee***

Sept. 18, 2018



## ***Discussion of Pending Campus Master Plan Update***

Presentation to Audit & Business Committee  
Board of Trustees

September 18, 2018





## ***Five Year Strategic Financial Plan***

Presentation to Audit & Business Committee  
Board of Trustees

September 18, 2018



# 5-Year Strategic Financial Plan

- Responds to request from Audit and Business Committee of the Tennessee Tech Board of Trustees
- Consistent with the Tech Tomorrow Strategic Plan
  - Goal 3: Exceptional Stewardship, Priority Action C: “Continue to develop, implement, and evaluate a dynamic long-term budget model that informs effective financial management and consistent strategic investment.”



# Objective

- Strengthen financial and strategic health
- Target 4-5% margin in operating budget with growing enrollments



# Outcomes

- Find ways to contain tuition increases and maintain quality
- Develop new business models that are more sustainable than current ones
- Develop expertise in scanning the market and implementing innovative programs that meet market needs
- Improve processes to be more productive
- Experiment with and implement creative new delivery modalities



# 5-Year Plan Ad Hoc Committee

## Committee Members

Dr. Claire Stinson	VP for Planning and Finance
Dr. Lori Mann Bruce	Provost
Dr. Brandon Johnson	VP for Enrollment Management and Career Placement
Dr. Paul Semmes	Dean, College of Arts and Sciences
Dr. Steve Isbell	Professor, Economics, Finance and Marketing
Dr. Deborah Ballou	Associate Professor, Decision Sciences and Management
Ms. Emily Wheeler	Associate VP for Business
Dr. Joseph Chappell	Budget Analyst



# Goal of the Committee

- To develop a unified framework for projecting future university budgets in broad categories, using **best estimates** for enrollments, tuition rates, state appropriations and expenses, including costs of existing activities and new initiatives.
- This framework will allow **testing different models and scenarios** and can include **confidence intervals** from predictive modeling.
- This effort will help inform “*effective financial management and consistent strategic investment.*”





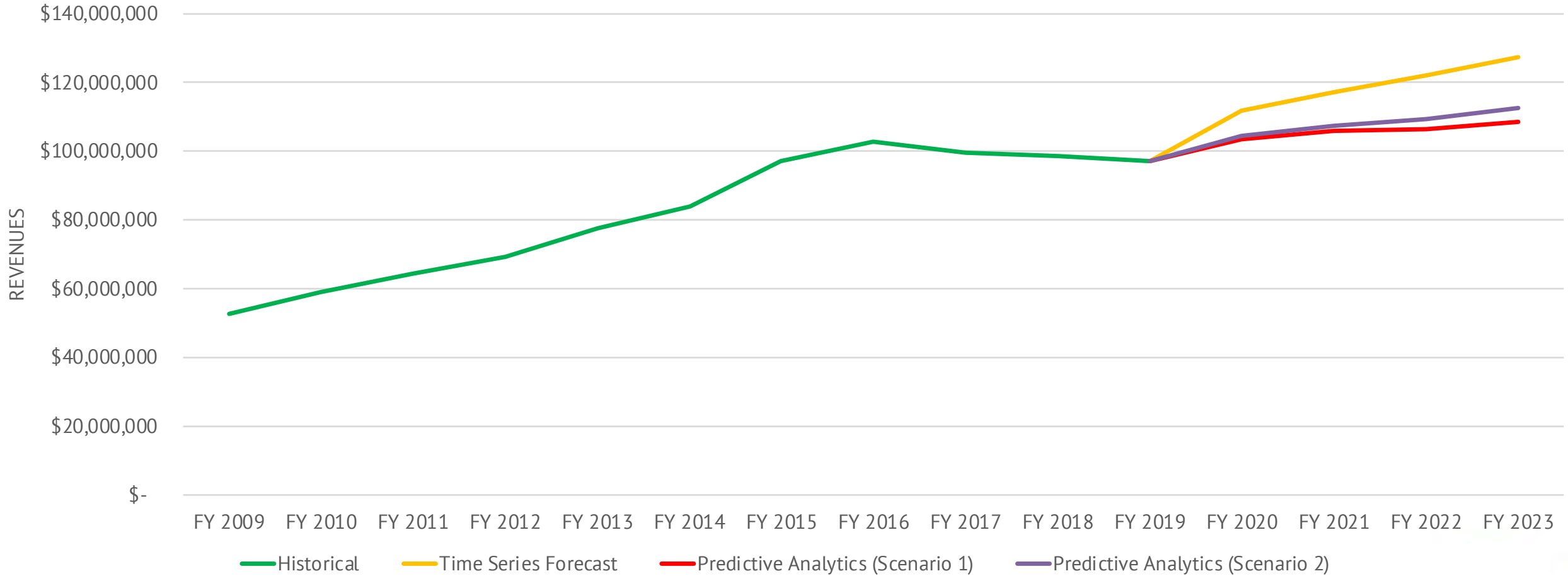
# Reevaluate – Agree on a Starting Line

- Market position
  - Gross price: current maintenance fees for UG \$3,744; Out of state \$7,932 per semester
  - Net price for UG: 21% discount rate
  - 250R rate option for out-of-state \$2,618
  - Retention and enrollment funnel
    - Predictive analytics model
    - Time series forecast model
    - Undergraduate enrollment model



# Revenue Projections

## Tuition and Fee Revenues



# Composite Financial Index (CFI)

- Four ratios weighted and scored on a single scale to create a financial health score
  - Primary reserve ratio
  - Viability ratio
  - Return on new assets ratio
  - Net operating revenues ratio
- Single score allows weakness in one ratio to be offset by strength in another ratio
- Expected value is national comparison (KPMG – Prager, Sealy & Co., LLC)
- Trend is over 10 years

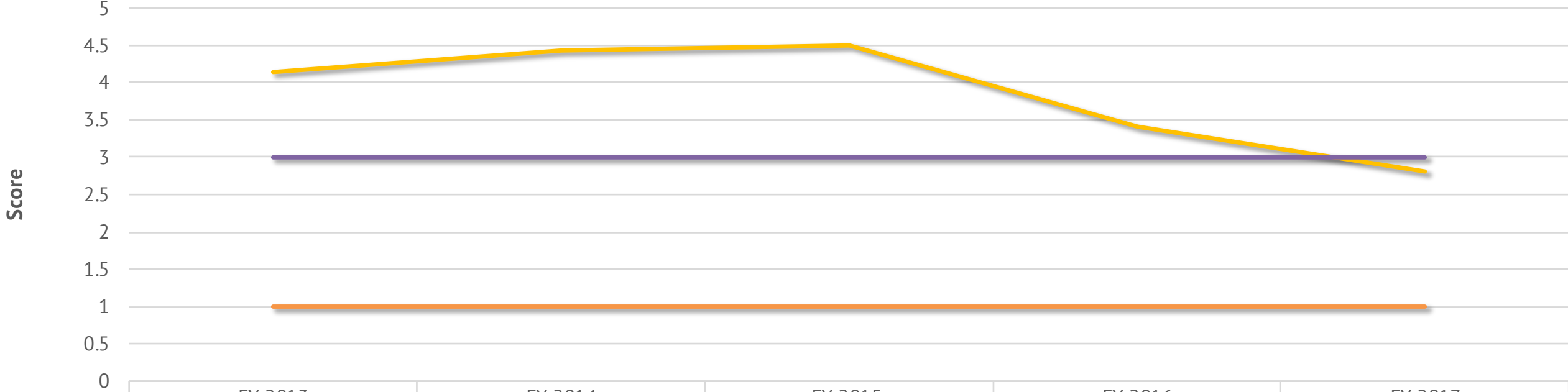


# Measuring and monitoring financial health

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 revenues ratio

# What is Tennessee Tech's overall financial health?

Composite Financial Index (CFI)

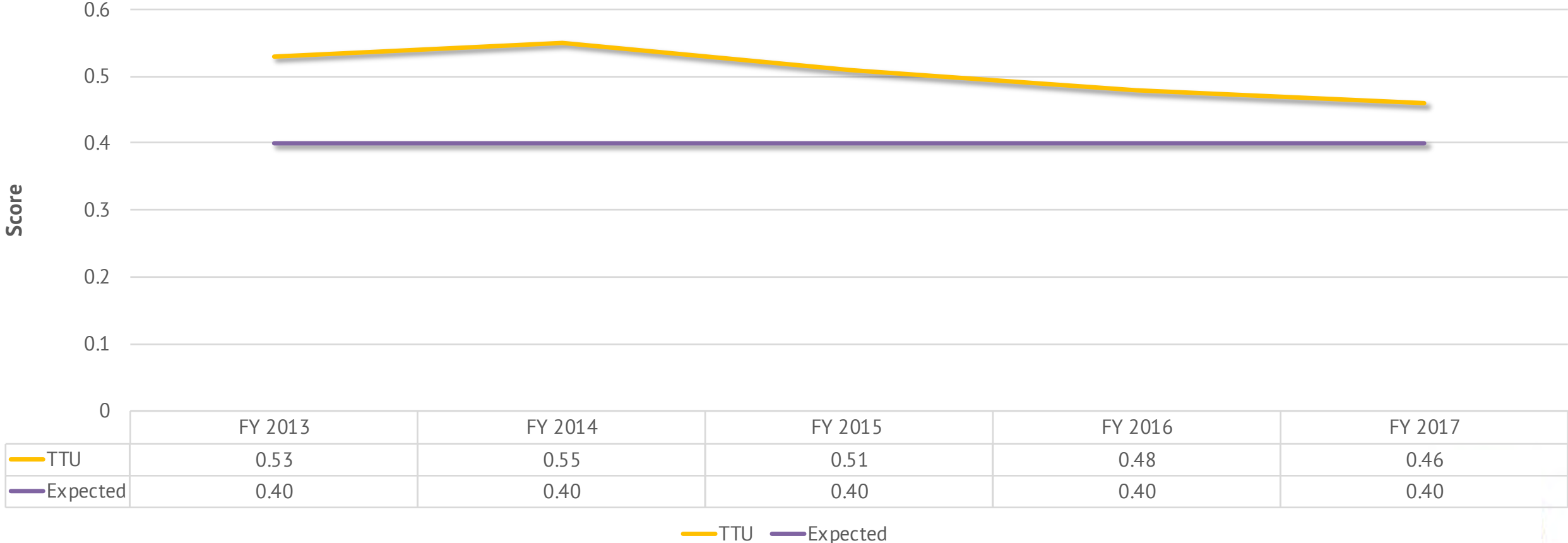


	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
TTU	4.14	4.43	4.5	3.42	2.81
Expected	3.00	3.00	3.00	3.00	3.00
Watch	1.00	1.00	1.00	1.00	1.00

TTU Expected Watch

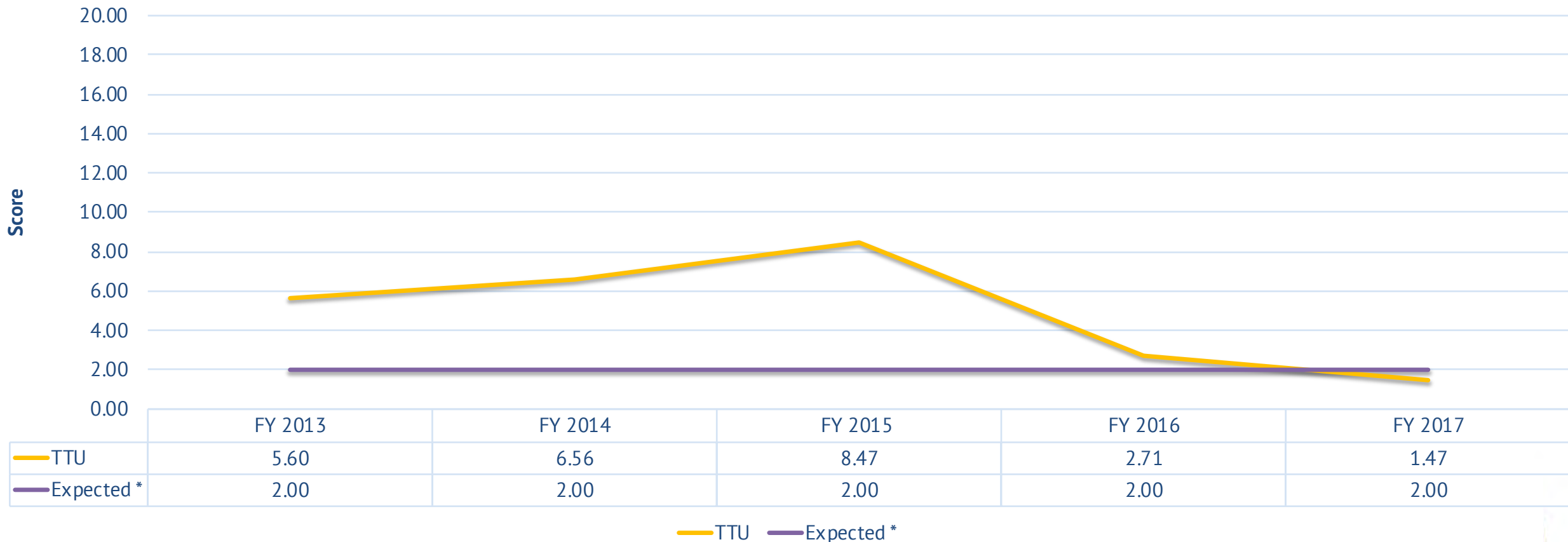
# Does Tennessee Tech have sufficient liquidity in the near and medium term?

Primary Reserve Ratio (Liquidity)



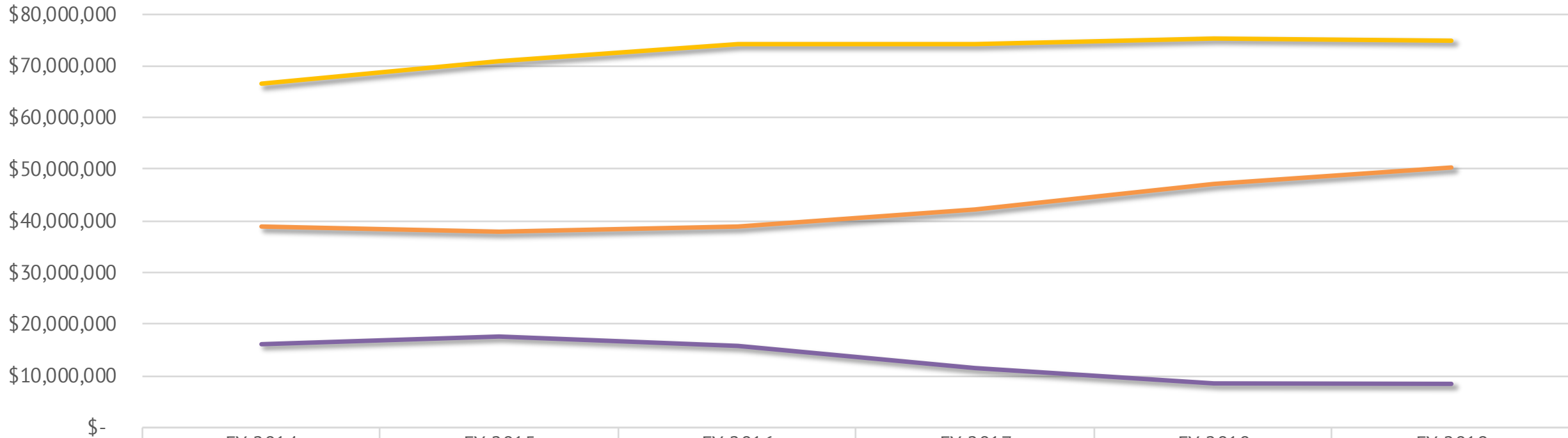
# Is Tennessee Tech generating adequate resources in excess of its operational costs?

## Net Operating Revenues Ratio



# Maintenance fees, out-of-state tuition and state appropriations

Trend of Select Revenues



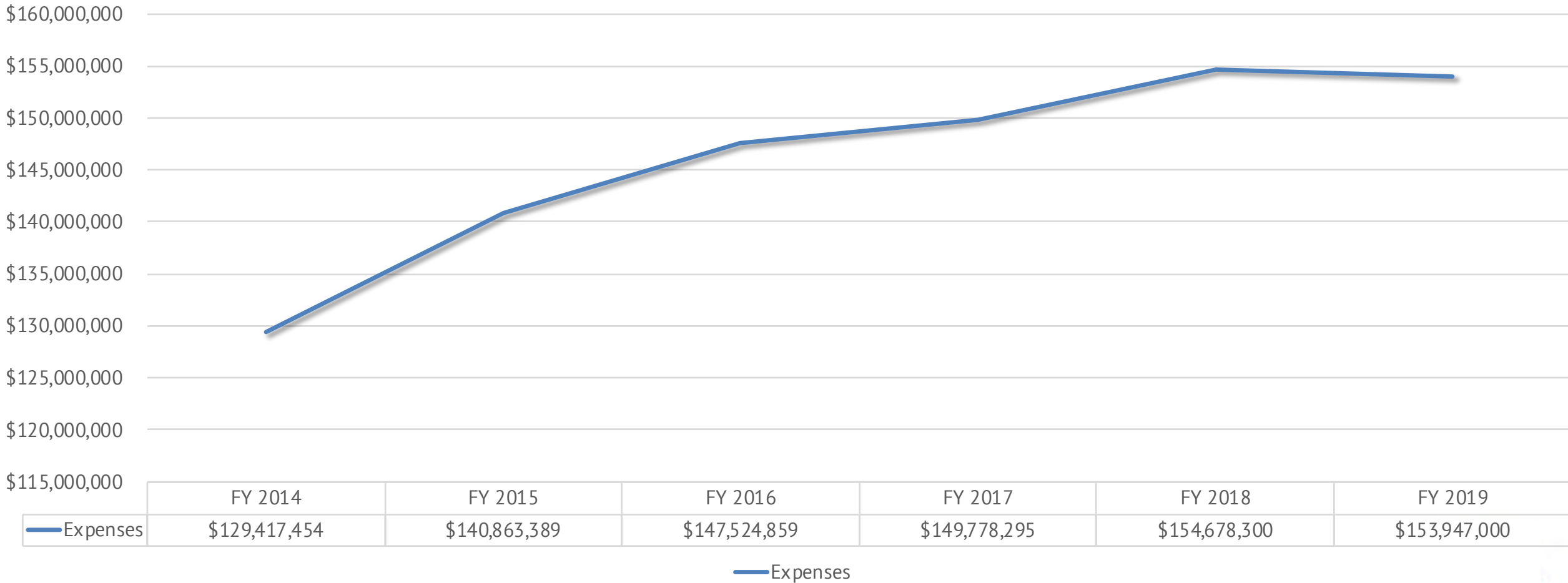
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Maint Fees	\$66,594,847	\$71,021,821	\$74,292,901	\$74,106,011	\$75,336,000	\$74,906,000
Out-of-state	\$16,019,782	\$17,632,577	\$15,709,396	\$11,399,172	\$8,573,500	\$8,463,500
State Approp	\$39,080,184	\$37,928,913	\$38,849,188	\$42,172,363	\$47,030,200	\$50,365,800

— Maint Fees — Out-of-state — State Approp



# Trend of Expenses 2014-2019

## Expenses



# Base Budget Assumptions

- Revenues
  - 2% increase in first-time, full-time freshmen and 2% transfers each year
  - 2.44% maintenance fee increase
  - State appropriations to cover 60% of 2.5% salary increase
- Expenses
  - New Costs (utilities for new buildings, faculty promotions, software escalation costs)
  - Inflationary costs based on Higher Education Price Index (2.44%) average
  - Graduate Assistantships, Athletic Scholarships and Legislatively Mandated Scholarships increase by 2.44%
  - University Academic and Transfer Scholarships reduce to 6% of gross maintenance fees
  - Reinvestment fund of 2% is established
  - Fund balance is reestablished at 2% of E&G revenues



# Alternative Budget Assumptions

- Revenues
  - 3% increase in first-time, full-time freshmen and 4% transfers each year
  - 3% maintenance fee increase each year
  - State appropriations continue at average rate of past 5 years
- Expenses
  - New Costs (utilities for new buildings, faculty promotions, software escalation costs)
  - Inflationary costs based on Higher Education Price Index (2.44%) average
  - Graduate Assistantships, Athletic Scholarships and Legislatively Mandated Scholarships increase by 2.44%
  - University Academic and Transfer Scholarships reduce to 6% of gross maintenance fees
  - Reinvestment fund of 2% is established
  - Fund balance is reestablished at 2% of E&G revenues



# Possible Reinvestment Strategy

- Lapsed Salaries
- Right size budgets based on budget model
  - Academic Units
  - Non-Academic Units
- Strategically identify “stop doing” activities



# Financial Model for New Programs

## New Recurring Instructional Costs

- Faculty Promotions
- New/Revised Academic Programs

## Previously Unbudgeted

## Historical Analysis --> Next Year's Budget

- Faculty Hires
  - Timelines to Promotions
  - Salary Increase Rates
- } Past 20 Years
- 
- Proposed/Approved New Academic Programs
  - Proposed/Approved Budgets
- } Past 3-5 Years

## Establish Budgeting Process --> Future Years



# Academic Program Budget Model Ad Hoc Committee

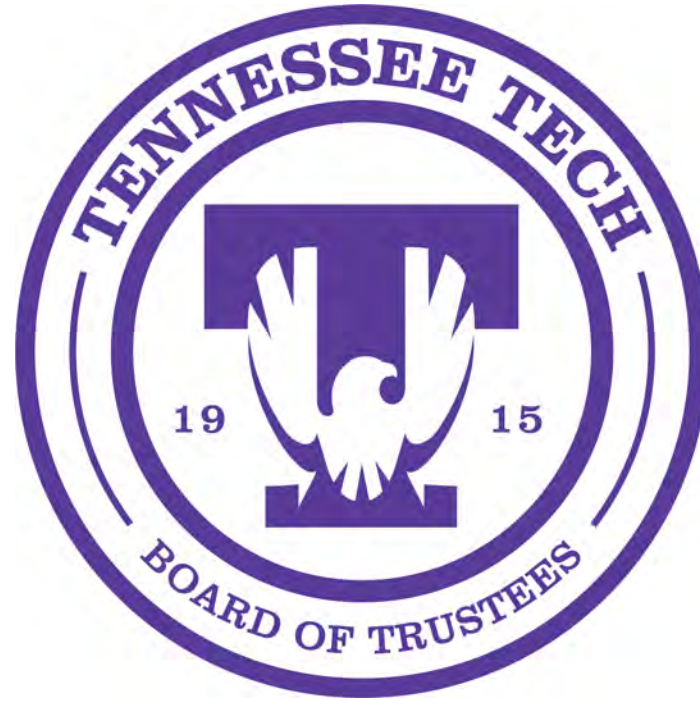
Committee Members	Department
Dr. Barry Stein	Counseling & Psychology
Dr. Kim Hanna	Nursing
Dr. Dennis Duncan	Agriculture
Dr. Jessica Oswalt	Engineering
Dr. Debbie Ballou	Decision Sciences & Management
Dr. Stephen Robinson	Physics
Dr. Jennifer Shank	Fine Arts
Ms. Carol Holley	Academic Affairs



# Current Investments

- Technology Faculty: \$1 million investment
- Master of Science in Nursing: \$150,000 for 2 years
- Master of Science in Engineering Management
- Ph.D. in Counseling and Supervision





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