The University of Tennessee
Fiscal Years 2015-16 & 2016-17

State appropriations to higher education have been stagnant or declining for several years. This is not the result of lack of support for higher education by the Governor or the General Assembly but more due to budget realities that we do not expect to improve. Revenue to the state from taxes, bonds, fees, federal support and other sources has been limited despite significant improvement in the economy since the 2008 recession. Demands for state services, particularly health care costs, pensions, and infrastructure needs, have outpaced state revenues and have created a structural deficit in the state budget.

Higher education has responded to the decline in state appropriations by increasing tuition, providing no salary increases to faculty and staff, not filling or eliminating vacant positions, and becoming more efficient in the delivery of instruction, research, and public service. We take responsibility for these decisions in the past, but as we look to the future, we have concluded that current resources to fulfill our mission are unsustainable. We own the fact that our business model is broken, and we are committed to fixing it.

This document outlines a model with conditions and boundaries that campus and institute executives will use to manage their units. It includes holding tuition increases at no more than the inflationary rate and assuming no further improvements or reductions in state appropriations. We will consider and develop entrepreneurial approaches to increase revenue, efficiently and effectively manage costs and continue to strive for programmatic excellence that enhances our reputation.

We fully support the Governor's Drive to 55 and Tennessee Promise as they are without doubt Tennessee's path to further economic development by having the workforce we need, better jobs, improved financial security and better quality of life for Tennesseans. Without a significant investment from the state, neither of these important, needed and unique initiatives will be successful. Therefore, when there is growth in state revenues, it is imperative for higher education to be a funding priority.

Scenario & Boundaries

External
- Estimated annual state appropriation increases will be 0%
- Higher education price index (HEPI) will average <3% (current 5yr. avg. is 1.9%)
- State capital outlay and maintenance will continue to be funded at historical averages (FY 2011-12 through FY 2014-15 yields $47.8M for outlay and $30.3M for annual maintenance)

Internal
- Assumption that funds realized from budget actions will be reallocated to higher-priority needs.
- Undergraduate Enrollments

  - In-state enrollment should be greater than 2013-14 levels.
  - Out-of-state enrollment may increase but not exceed 25% of total undergraduate enrollment.
  - Annual goal setting will be done for growth in enrollment.

- Tuition
  - Tuition increases for undergraduates should be no more than the previous year's HEPI rate change.
  - Graduate and professional tuition increases should be no more than the previous year's HEPI rate change plus 2-3%.
  - Executive graduate programs may raise tuition based upon demand and the costs of similar programs at peer institutions.
  - Out-of-state tuition may be reduced on a regional basis to be more competitive as justified and with board of trustee action.
  - Tuition and other mandatory fees should be equal to or less than the peer average adjusted for state appropriations per student FTE.

- CCTA Performance Funding Model
  - Formula units should rank within the top 5 of the CCTA performance formula funding rankings annually.

- Research
  - UT research and sponsored program expenditures should increase 6% annually, based on a benchmark of the last five-year average.
  - Units should review direct and indirect cost sharing on grants and contracts and implement incentives for departments to minimize the level of cost sharing.

- Outreach
  - Number of customers/clients served should be ≥ than 2013-2014 levels based on a benchmark of the last five-year average.

- Development
  - Total number of gifts, pledges and bequests should grow > 15% per year based on a benchmark of the last five-year average.

<u>Required Action Plan for All Units</u>

- Conduct program realignment initiative to assess low performing programs to fund program(s) re-investment.

- Perform a feasibility analysis and develop a plan for program consolidation(s) that will produce cost savings.

- Develop a two-year allocation and reallocation plan based upon 6% of base year's (FY14-15) total unrestricted E & G expenditures to address strategic initiatives, considering the "boundaries" stated above, and to address compensation gaps.

- Develop a two-year allocation and reallocation plan to address deferred maintenance needs based upon $25M minimum system wide including current efforts. The minimum allocation to the units would be as follows:

    - UTK/UTSI $15.75m
    - UTC $ 2.50m
    - UTM $ 2.00m
    - UTHSC $ 3.75m
    - UTIA $1.00m

    *maintenance minimums as being proportional to capitalized facilities

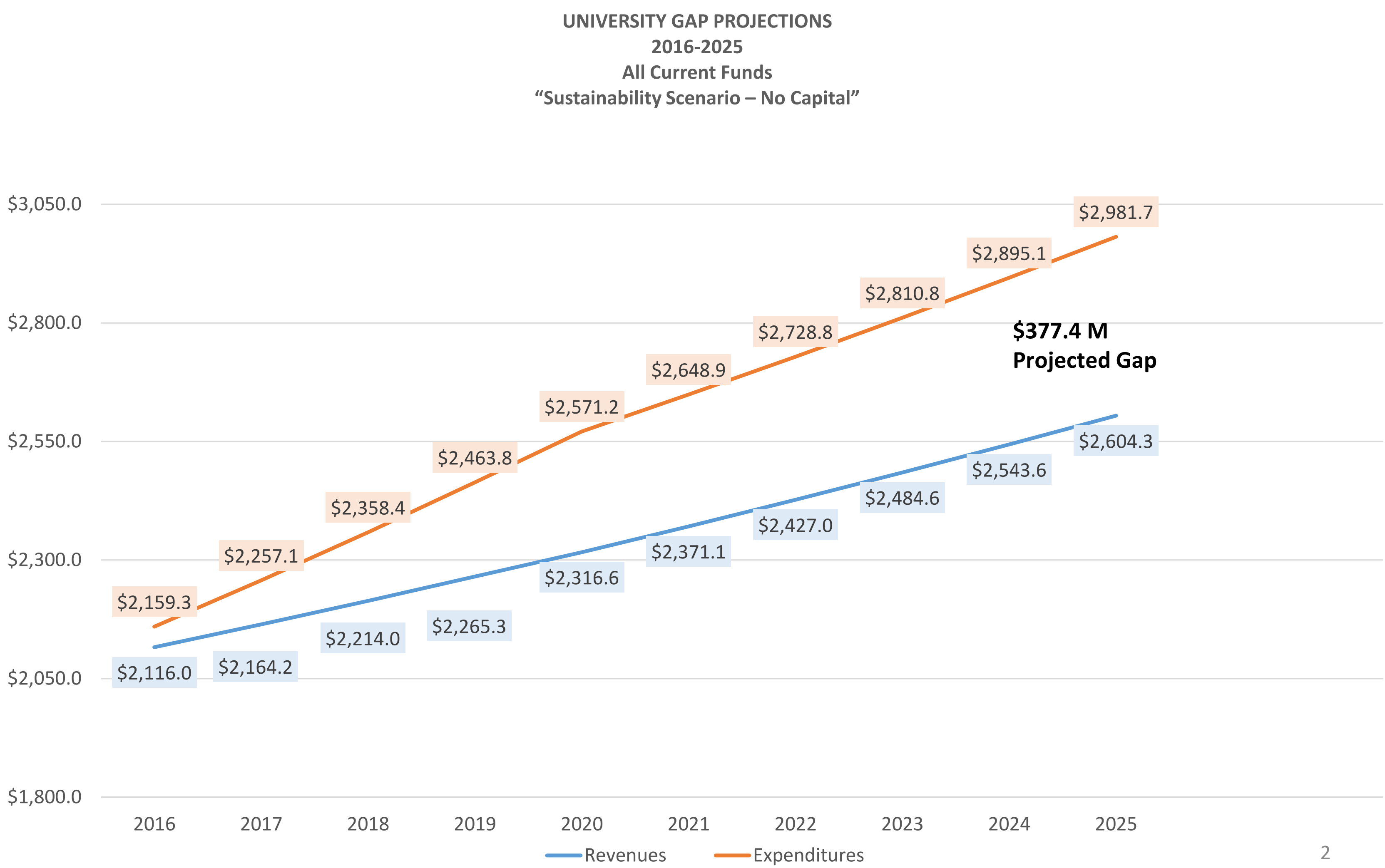
- Using a workforce development program in concert with the above actions, identify amounts that can be redeployed to address strategic initiatives, compensation gaps, and deferred maintenance.

- Conduct a tuition structure review including expanding differential tuition implementation and/or increasing it, development and implementation of an enrollment growth plan for non-resident students, and further implementation of 15/4 tuition plan.

- Non-Formula units should review fee structures to ensure activity is capturing actual cost of delivery and should review services being provided for which a fee could be established.

- Undertake a study to identify and address unfunded mandates for tuition waivers/discounts. (This action will be led by the UT system administration.)

- Undertake a review of the tenure and post-tenure review processes. (This action will be led by the UT system administration.)


UNIVERSITY GAP PROJECTIONS
2016-2025
All Current Funds
"Sustainability Scenario – No Capital"
$3,050.0
$2,800.0
$2,550.0
$2,300.0
$2,050.0
$1,800.0
$2,159.3
$2,257.1
$2,358.4
$2,463.8
$2,571.2
$2,648.9
$2,728.8
$2,810.8
$2,895.1
$2,981.7
$2,116.0
$2,164.2
$2,214.0
$2,265.3
$2,316.6
$2,371.1
$2,427.0
$2,484.6
$2,543.6
$2,604.3
$377.4 M
Projected Gap
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
Revenues
Expenditures
2