

DATE: May 11, 2017

SUBJECT: Policy Updates: Financial

ACTION RECOMMENDED: Approval

BACKGROUND INFORMATION

The Tennessee Higher Education Commission (THEC) Policy Manual outlines the roles and responsibilities of the Commission and its staff in the areas of academic affairs, finance, human resources, legal and regulatory affairs, and general operations. Recent legislative actions, including the Focus On College and University Success (FOCUS) Act of 2016, and changes in practice have necessitated revisions to the THEC Policy Manual's financial policies, including those concerning Financial and Statistical Reporting, Tuition and Fees, Operating Appropriations, Capital Projects, Master Plans, Lease Space Funding and License Agreements, Chief Executive Officer Housing, the Outcomes-Based Funding Formula, and Self-Supporting Academic Entities.

PROPOSED POLICY REVISIONS

The following sections provide summaries of proposed revisions to each Financial Policy. All proposed revisions align the policy with the format of other policies in the THEC Policy Manual, clarify language on THEC's statutory requirements and authorities, and add or remove language consistent with applicable legislative action.

F1.0 Financial and Statistical Reporting

This policy was originally approved on April 22, 1988 and outlines the Commission's statutory and administrative reporting procedures on matters of finance. Beyond the clarification of language, additions to the policy include the Commission's maintenance of a database on student and financial information, publication of the outcomes-based funding formula, and reporting of student fees, budgets, and recommendations to various state officials—all of which are currently in practice by Commission staff.

F2.0 Tuition and Fees

This policy was originally approved on April 22, 1988 and outlines the Commission's procedures for determining and issuing annual ranges for

tuition and fee levels. The FOCUS Act expanded THEC's authority, authorizing the Commission to issue *binding* tuition and fee ranges for in-state, undergraduate students. Proposed revisions to this policy incorporate this statutory language and align the Commission's procedures with current applicable statute.

F3.0 Operating Appropriations

This policy was originally approved on April 22, 1988 and outlines the Commission's process for developing, reviewing, and approving appropriation recommendations and operating budgets. Additions to the policy incorporate current Commission practices, including utilization of an outcomes-based funding formula and Master Plan, as prescribed by statute.

F4.0 Facilities and Capital Outlay

This policy is recommended to be renamed *Capital Projects*. It was amended on November 20, 2008 and outlines the Commission's receipt, review, and recommendation or approval of capital projects for public institutions of higher education, including capital outlay, maintenance, and disclosed projects. Additions to the policy include items updated by statute, authorization of the Executive Director to amend approved recommendations as necessary, and a reservation of the Commission's prerogative to not approve or rank projects not included in an institution's facility Master Plan.

Proposed revisions to the Capital Outlay section reflect discussions from the January 2017 Commission meeting and the Capital Policies Working Group, a committee of campus and system academic, finance, and facilities personnel which has met monthly since December 2016. The new policy on Capital Outlay describes the procedures by which Commission staff will receive, review, and recommend capital outlay projects from the Tennessee Board of Regents, University of Tennessee system, and each Locally Governed Institution.

Proposed revisions to the Capital Maintenance section reflect a change in practice in the way Commission staff recommend capital maintenance funding allocations to the Commission and Department of Finance and Administration. Recommended changes call for Commission staff to employ an industry-standard capital maintenance formula, based upon several factors, which may include building age, use, and E&G square footage, to target capital maintenance dollars in the most efficient and transparent way.

Proposed revisions to the Disclosed Projects process reflect discussions with campus and system administrators, as well as state partners in the Department of

Finance and Administration, Office of Legislative Budget Analysis, and Office of the State Architect. Recommended changes will allow the Executive Director to compile and report capital projects to be completed utilizing institutional, bond financing, or other (non-state) funds on a quarterly, rather than annual basis and maintain a public list of all disclosed projects on the Commission website.

F4.1 Institution Facility Master Plans

This policy is recommended to be renamed *Master Plans*. It was revised on November 14, 2002 and outlines the Commission's authority, requirements, review, and approval concerning institutional master plans. The proposed revisions articulate the procedures necessary for conducting, updating, or revising a master plan; the timeframe(s) by which master plans must be reviewed; and the necessary components for master plans, including academic, facility, and student metrics. The policy asserts THEC's requirement that master plans be updated on a regular basis to be considered for state capital outlay and maintenance funds.

F4.2 Lease Space Funding

This policy is recommended to be renamed *Lease Space Funding and License Agreements*. It was originally approved on April 22, 1988 and outlines the conditions by which the Commission will review and approve the lease of space by institutions of higher education. To reflect the Commission's statutory authority in this area and the responsibilities of the State Building Commission, proposed revisions to this policy delegate lease and license approval authority to the Executive Director, outline the conditions for approval, and allow Commission staff to compile and report lease and license agreements to appropriate parties.

F4.4 Chief Executive Officer Housing

This policy is recommended for removal from the THEC Policy Manual to be rescinded in its entirety. It was originally approved on February 8, 1990 and outlines the terms and conditions of use of housing for the Chief Executive Officer of the Tennessee Higher Education Commission, public governing boards, and public institutions of higher education. This policy does not concern the financial operations or authority of the Commission and is not supported by current statute.

F4.5 Academic Funding Formula

This policy is recommended to be renamed *Outcomes-Based Funding Formula*. It was revised on August 12, 1994 and outlines the Commission's operation of a funding formula to recommend the distribution of state funds in a fair and equitable manner. Proposed revisions to the policy align its language with applicable statute, clarify procedures for use of the funding formula, specify outcomes to be included

in the model (consistent with statute), and highlight the role of the Formula Review Committee. Items recommended for removal are no longer applicable to the current outcomes-based funding formula model.

F5.0 Self-Supporting Academic Entities

This policy was originally approved on July 14, 2005 and outlines the conditions under which governing boards may establish and operate self-supporting academic entities. Proposed revisions to the policy mirror the format of other Commission policies and clarify two procedural matters: the length of time in which institutions must report to the Commission on the entity's operation and the inclusion of outcomes generated at self-supporting academic entities in the Outcomes-Based Funding Formula.

RECOMMENDATION

Proposed revisions to the THEC Policy Manual's Financial Policies section have been thoroughly reviewed by fiscal affairs staff, the Office of General Counsel, and applicable stakeholders, including institutions and government agencies, and are recommended for approval and adoption. These changes reflect necessary language updates in light of legislative actions and reflect changes to the Commission's operation on financial, capital, and planning matters to promote flexibility, transparency, and efficiency.