

Agenda Item: II.A.**DATE:** July 22, 2021**SUBJECT:** University of Tennessee Southern
Appropriation Request Integration**ACTION RECOMMENDED:** Approval

BACKGROUND INFORMATION

The FY22 budget passed by the 112th Tennessee General Assembly included \$5.1 million in recurring and \$1 million in nonrecurring funds to address the higher education needs in southern middle Tennessee with the acquisition of Martin Methodist College (MMC) located in Pulaski, TN. At the June 25, 2021 University of Tennessee Board of Trustees meeting, approval was granted to acquire Martin Methodist College. Effective July 1, 2021, MMC became the fourth campus in the University of Tennessee System as the University of Tennessee Southern. See UT Southern institution profile and academic program inventory following Agenda Item II.B.

FUTURE APPROPRIATION REQUEST INTEGRATION

UT Southern's acquisition is the first State of Tennessee acquisition of an active university since the University of Chattanooga joined the UT system in 1969. With no direct statutory or THEC policy manual guidance on how to incorporate a new institution into an appropriation request, THEC staff recommend the Commission follow complementary statutes and policies that ensure fair and equitable distribution of public funds (T.C.A. 49-7-202(f)(1)) based on data that consistently meets the Commission's standards (THEC Policy F1.0.20)) and approved facilities master plans (THEC Policy F4.0.40B). Below are recommended pathways to incorporate UT Southern into the Commission's operating, outlay, and maintenance appropriation requests.

Operating Appropriation Request

THEC staff recommend incorporating UT Southern as an outcome formula unit after the institution produces four years of high-quality outcome data. The Outcomes-Based Funding (OBF) formula utilizes four years of data to produce an appropriation request for each of the state's community colleges and undergraduate-serving

universities. The formula measures performance by comparing each institution's most recent three-year average of outcomes with the same institution's three-year average of outcomes used in the prior year's formula. Until UT Southern produces four years of outcomes (inclusive of data from academic years FY22, FY23, FY24, and FY25) consistent with the Commission's standards contained in the Data Dictionary, the institution will be treated as a specialized unit (e.g., UT Institute of Agriculture or UT Institute of Public Service) and appropriation increases will rely on salary increases and other cost adjustments applied uniformly by the state.

Requiring UT Southern to produce outcome data consistent with the Commission's standards will ensure public funds are distributed on a fair and equitable basis. UT system President Randy Boyd agrees with this recommendation (see attached letter).

Capital Outlay Request

THEC Policy F4.1.20 requires the Commission to make recommendations and decisions for capital investment based on an approved campus master plan. The plan articulates the multi-year facility needs of an institution to accomplish its vision, goals, and objectives. The capital outlay process approved by the Commission ensures any capital project proposed by an institution aligns with its master plan. As such, THEC staff recommend incorporating UT Southern into its capital outlay recommendation only after the Commission is able to review and approve the institution's master plan.

During the upcoming transition period, the University of Tennessee System will proceed with the development of a Strategic Plan for UT Southern and will follow with the development of a facilities Master Plan that will define future facility needs.

Capital Maintenance Request

THEC Policy F4.0.50B directs THEC staff to recommend capital maintenance distributions based on the aggregate age, gross Education and General (E&G) square footage, usage, and condition of an institution's facilities. In practice, staff utilize the nationally recognized Sherman-Dergis Formula to recommend the share of state capital maintenance to award to the UT system, the Tennessee Board of Regents, and each Locally Governed Institution. Each governing board decides which projects to recommend within their respective shares.

The Sherman-Dergis Formula used to create the upcoming appropriation request for November 2021—applicable to the FY23 appropriation request—excludes UT Southern's campus footprint due to timing of the release of appropriation materials, the acquisition of the institution, and the ability to collect UT Southern's facilities data. Nonetheless, the UT

system has completed an initial facilities condition assessment for UT Southern. As such, the UT system plans to submit two capital maintenance projects as part of the FY23 appropriation request—to be presented to the Commission in November 2021. The UT system share, however, is based on the campus footprint as determined by all UT system entities prior to the acquisition of UT Southern.

THEC staff recommend allowing the UT system to request capital maintenance support on behalf of UT Southern in the FY23 appropriation request but not to revise the UT system's Sherman-Dergis Formula calculation to reflect UT Southern's campus footprint until the FY24 appropriation cycle. This recommendation will allow the UT system to seek maintenance funds on behalf of UT Southern if the system deems appropriate, while maintaining the overall share based on analysis done prior to the institution's acquisition.



THE UNIVERSITY OF TENNESSEE SYSTEM

OFFICE OF THE PRESIDENT

RANDY BOYD
President

May 17, 2021

Dr. Emily House
Executive Director
Tennessee Higher Education Commission
312 Rosa Parks Boulevard
9th Floor
Nashville, TN 37243

Dear Dr. House:

I would like to take this opportunity to thank all the staff at the Tennessee Higher Education Commission for their partnership and consultation throughout the process of planning to acquire Martin Methodist College as a UT campus and state university. We are especially thankful for the assistance in determining an appropriate level of state support for the newly acquired campus. We are planning to finalize all transactions and the acquisition on July 1, 2021, the first day of fiscal year 2022. The new campus will be named UT Southern.

During the planning phase, we discussed how to fold the new campus into the state funding formula. I am writing to confirm that we mutually agreed that the appropriate course would be to initially treat UT Southern as a Specialized Unit for the first four years while THEC acquires the data necessary to factor into the state's competitive funding formula.

We appreciate this opportunity for our new institution. Please feel free to contact me with any questions or clarifications.

Sincerely,

Randy Boyd
President

cc: Dr. Steven Gentile