



ANNUAL REPORT TO THE
GENERAL ASSEMBLY 2017





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From the President

I've had the privilege and honor to lead the statewide University of Tennessee system since 2011. Serving as UT president comes with a fast-paced series of challenges and opportunities, and the fiscal year that ended on June 30, 2017 was no exception.

I'm extremely proud of how the University has risen to the challenge of achieving long-term financial sustainability. We began fiscal 2015 with a two-year set of self-imposed fiscal restraints intended to narrow projected funding gaps without passing the burden on to students and their families. One of these self-imposed limits applied to tuition increases which we determined would not exceed 3 percent, assuming 3 percent annual inflation and no increase in state appropriations.

Through our self-imposed budget boundaries, cost savings and unanticipated increases in state appropriations over the last three fiscal years, the University has exceeded all expectations for holding down tuition increases.

In fact, we made history.

In June, the 1.8 percent tuition increase our Board approved was the lowest since 1984 and marked three straight years of increases at or below 3 percent. The latter is a feat unprecedented in the history of the UT system since it was established in 1968.

When we realized the looming funding gap unless action was taken, I refused to allow excessive tuition increases to be the solution. I still do.

In June, the special commission I appointed in 2016 to review our Title IX programs, policies and resources statewide issued its findings. I wasn't surprised the group acknowledged the University's obvious commitment to education about and prevention of sexual misconduct, and in response to the panel's recommendation to create and fill a position dedicated to system-wide Title IX coordination, we did so in a matter of weeks.

I remain committed to seeing the University of Tennessee establish the gold standard, nationally, in all of our efforts around Title IX issues and compliance.

Our Cherokee Farm Innovation Campus in Knoxville has achieved momentum in its development, with the first private tenant—Civil Engineering Consultants—taking up residence in the second building now in operation on the property. I anticipate opportunities to sustain that momentum in 2018, and I believe we will.

We'll be challenged to grow enrollment and, at the same time, continue to hold down tuition increases.

I'm confident in our potential to meet those challenges and to seize our opportunities—including the as yet unforeseen ones.

And I'm proud that as we do, Tennessee and the world will be better for it.

All the best,





STARON PRINE
Committee Chair

KATHY BRYL
Committee Member

THE UNIVERSITY OF TENNESSEE

Self-Limiting Tuition Increases Makes History

For the third straight year, the University held tuition increases to an historic low, achieving a first in the history of the UT system.

A 1.8 percent undergraduate tuition increase for the academic year 2017-2018 is the lowest since 1984 and marked three consecutive years of increases at or below 3 percent—a first since the UT system was established in 1968. In 2016, tuition increased 2.2 percent and 3 percent in 2015.

The majority of fees did not increase and, of those for which UT Trustees approved a change, the net increase at each campus ranged from 0 percent to less than 3 percent.

The Tennessee Higher Education Commission set its first binding tuition recommendations in 2016-2017, and the University's increase was well below that.

“Critical in our refusal to rely on tuition increases to close our funding gap is our commitment to self-limiting increases while working to maximize every dollar—regardless of its source—so that we maintain excellence in every function of the University, including stewardship of resources,” UT President Joe DiPietro said.

“Sustainable funding is our responsibility, and our goal is to achieve it while keeping college tuition affordable for all Tennesseans.”

That goal was aided substantially by unanticipated increases in state funding for the most recent three fiscal years, what DiPietro describes as a partnership to deliver future opportunity through higher education.

“Together, we are stronger,” he said. “Together, we’re making Tennessee stronger. I continue to be proud of our efforts to be a national leader in a proactive approach to hold down tuition increases.”

DiPietro said 44 percent of UT undergraduates finish with a bachelor's degree and without debt. For those who graduate with debt, the amount is around \$24,000, on average. But those with a college degree have an average seven-figure increased lifetime earning potential.

“A UT education remains a very wise investment,” he said.

Rebuilding the Business Model

In 2014, the University's financial outlook—marked by a substantial projected funding gap resulting from decreasing funds and steady costs—prompted UT President Joe DiPietro to declare the business model not only unsustainable, but broken. DiPietro was determined to find a solution to the problem and one that did not rely on tuition increases to close funding gaps.

He brought together voices from inside and outside the University to form his Budget Advisory Group. DiPietro charged the group with thoroughly reviewing University revenues and expenditures toward closing the funding gap through greater efficiency and effectiveness, all while maintaining UT excellence.

The group developed a two-year set of fiscal restraints approved by the UT Board of Trustees and implemented on July 1, 2015. These self-imposed budget boundaries were to increase revenue, cut costs, establish spending parameters, enhance internal controls and set goals for campuses to better address short- and long-term priorities for reallocating new revenue and cost savings.

In January 2017, a few months before the end of the two-year period governed by the budget boundaries, DiPietro reconvened the group to evaluate the approach and set goals for another two fiscal years. The group also articulated a set of underlying principles for maximizing resources and fiscal effectiveness. The president's Budget Advisory Group will be an ongoing resource for ensuring prudent use and maximization of resources.

ACHIEVEMENTS

Affordability

Three consecutive years of undergraduate tuition increases of 3 percent or lower. UT Chattanooga and UT Martin reduced regional out-of-state tuition to enhance competitiveness.

Efficiencies and Cost Savings

Budget re-balancing process at UT Chattanooga to re-allocate 5 percent of budgeted funds. Voluntary retirement incentives at UT Chattanooga, UT Martin and the Institute of Agriculture that achieved more than \$9 million in combined savings.

Enrollment

Out-of-state enrollment increased on all campuses. Out-of-state/international students increased from 9.6 percent in fall 2014 to 10.7 percent in fall 2016.

Complete College Tennessee Act Performance Funding Model

UT institutions are continually within the top five performing universities for CCTA metrics.

Research

Units reviewed direct and indirect cost sharing on grants and contracts and implemented incentives for departments to minimize the level of cost sharing.

Outreach

Customers and/or clients served increased 16 percent from 4.5 million in fiscal 2014 to 5.2 million in fiscal 2016.

Development

Total number of gifts, pledges and bequests system-wide grew more than 15 percent a year based on a five-year average.

More at tennessee.edu/bag

2017-2019 Goals:



Academics

Secure accurate data on academic program costs and productivity toward development of plans by each campus and institute for ongoing program investment and retaining, enhancing, reorganizing, merging or phasing out programs.



Funds Reallocation

Reallocate system and campus funds from areas of low productivity and efficiency to strategic priorities, critical programs and other high-return opportunities.



Research

Increase system-wide research and sponsored program expenditures by 6 percent annually (based on the most recent five-year average).



Development

Increase total gifts, pledges and bequests system-wide by 15 percent annually (based on the most recent 5-year average).



Human Resources

Strengthen and streamline system HR operations for increased system-wide effectiveness.

Title IX Commission Releases Findings

Following settlement in 2016 of a Title IX lawsuit brought against the University, UT President Joe DiPietro appointed a special commission to research and review practices, policies and resources system-wide for education, prevention and response to Title IX concerns.

In June 2017, the Commission reported its findings, including the recommendation to create a new, system-level position to coordinate all Title IX-related efforts by UT entities. That position was filled by the interim appointment in August of Ashley Blamey, former director of the UT Knoxville Center for Health, Education and Wellness. Blamey was named UT Knoxville Title IX coordinator in August and serves dually in the interim role for the UT System until a national search can be conducted to fill that position permanently.

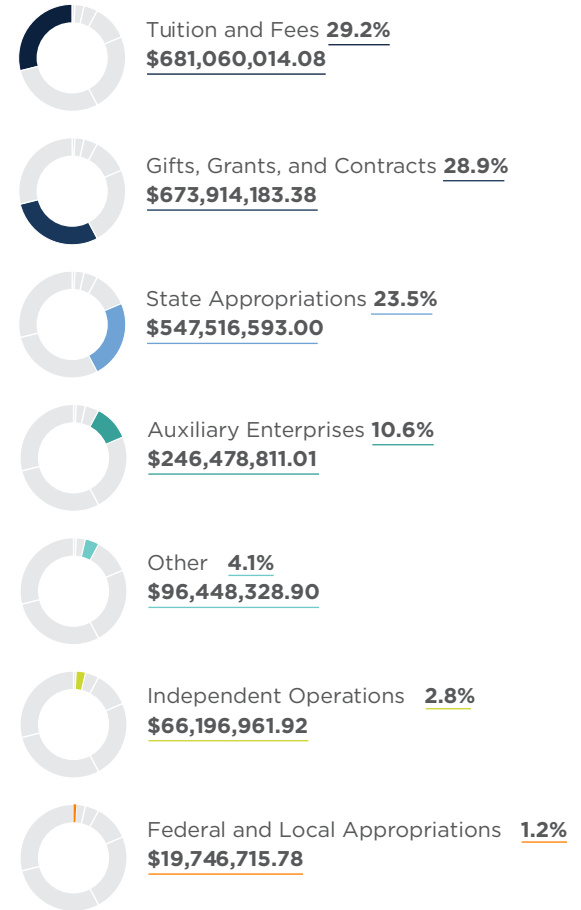
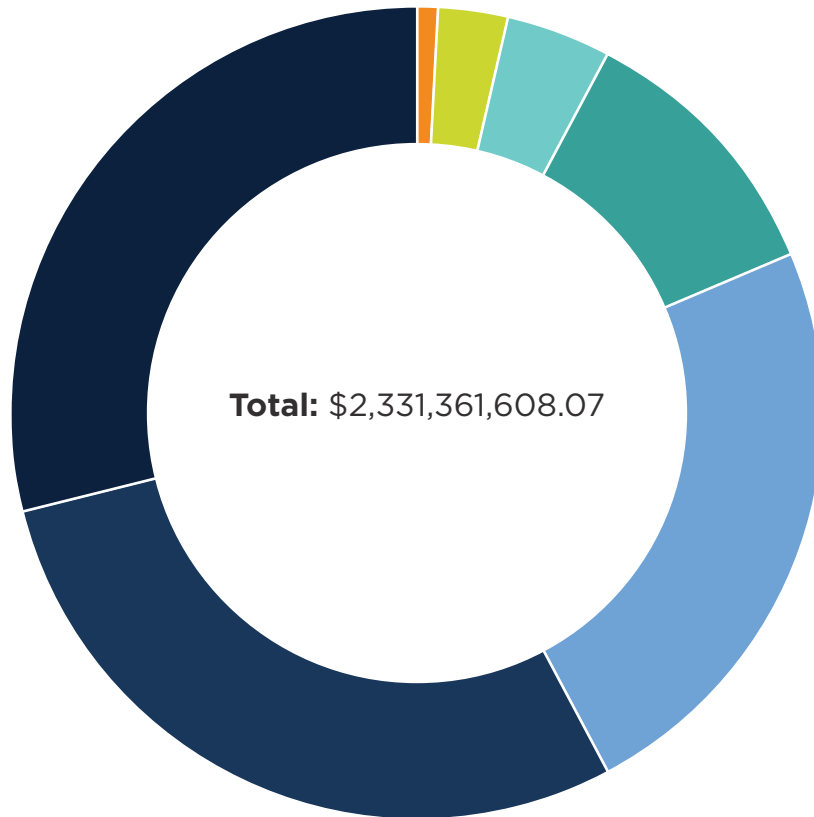
While the commission's report acknowledged the University's "focus on increasing awareness and understanding about sexual misconduct policies and procedures" toward prevention of and effective, compassionate response to incidents, DiPietro said there's more work to be done.

"Our goal always has been and remains to establish the gold standard, nationally, in our response to Title IX issues," DiPietro said. "That means being proactive, forward-thinking and emphasizing education and prevention toward reducing the number and likelihood of incidents; and when an incident does occur, taking a caring and effective approach in every aspect of response."



Sources of Current Funds

FOR THE FISCAL YEAR ENDED JUNE 30, 2017



Uses of Current Funds

FOR THE FISCAL YEAR ENDED JUNE 30, 2017



● Instruction	\$709,674,607.70	30.4%	● Public Service	\$147,609,273.66	6.3%
● Student Aid	\$273,904,434.16	11.7%	● Physical Plant	\$142,125,147.99	6.1%
● Research	\$267,518,109.39	11.5%	● Long Term Debt & Other Transfers	\$107,400,241.48	4.6%
● Academic Support	\$208,184,237.02	8.9%	● Student Services	\$98,339,430.16	4.2%
● Auxiliary Enterprises	\$187,674,639.02	8.0%	● Independent Operations	\$43,426,131.09	1.9%
● Institutional Support	\$150,080,018.08	6.4%			

Total: \$2,335,936,269.75

Investments Benefiting the University

For fiscal period ending on June 30, 2017 total assets invested for the benefit of University of Tennessee were \$1.3 billion, an increase of \$114 million over the prior year. This growth was driven by improving economic trends, corporate earnings, and the quieting reassurance of central bankers. Global stocks provided the greatest lift, along with private equity.

Beyond those two asset classes, however, high-yield debt was the only other broad category to post double-digit returns for the period. In contrast, most commodities, global investment-grade bonds, and public real estate were flat or negative for the twelve months. Inflation expectations remained modest, and investors began to anticipate a rising interest-rate cycle driven by the Federal Reserve. These combined factors left energy to trade on bearish supply and demand fundamentals, while real estate and bonds fell victim to a higher expected discount rate. In short, equity and speculative debt drove returns, as there was little else to move the markets higher over the year.

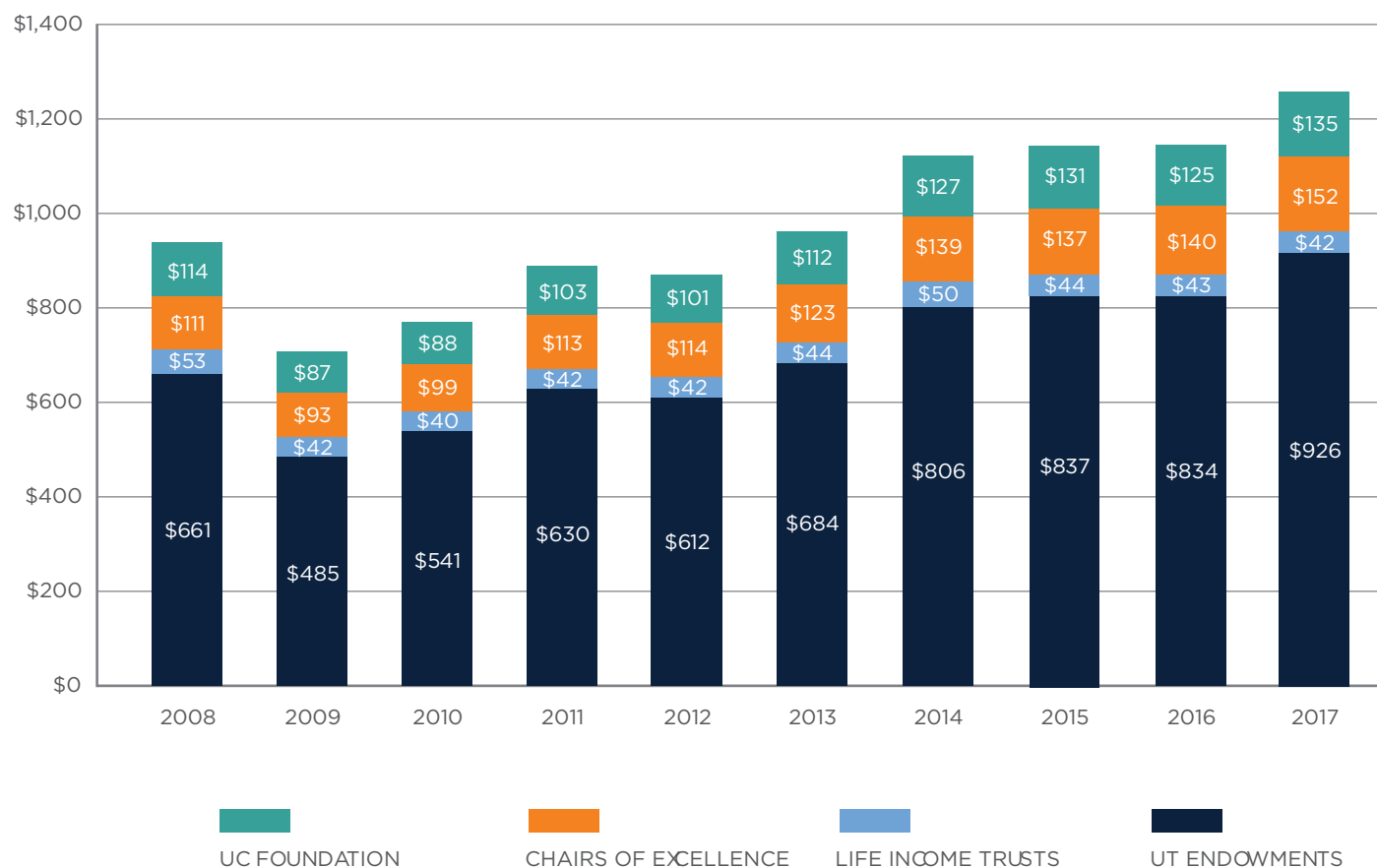
The University's capital base includes five separate investment vehicles. At June 30, endowments accounted for \$926 million, with \$911 million in the Consolidated Investment Pool and \$15 million in separate endowments. Chairs of Excellence were \$152 million, and the University of Chattanooga Foundation was \$135

million. Finally, Life Income Trusts stood at \$42 million. The accompanying chart displays these categories at each fiscal year-end for the past ten years.

The Consolidated Investment Pool (the Pool) is the largest component of invested funds and was established in 1954 to allow for the diversification and efficient investment of any endowment, regardless of size. With the dual mandate of generating long-term total returns above the spending rate while simultaneously managing downside risk, it maintains a globally diversified portfolio. For the fiscal period ending June 30, one, five, and ten-year total returns were +9.9%, +7.4%, and +3.1%, respectively. The Pool distributed \$39 million in fiscal 2017, an increase of approximately \$3 million from the prior year.

Other distributions included those made by The Tennessee Chairs of Excellence and the University of Chattanooga Foundation of \$4 million and \$8 million, respectively. Both of these categories are managed outside the Pool. The Chairs of Excellence are administered by the treasurer of the state of Tennessee for the benefit of all UT campuses. The University of Chattanooga Foundation is managed by its foundation board and supports programs at UT Chattanooga only.

TOTAL FUNDS (1=\$1,000)





Fall 2017 Enrollment Compared to Fall 2016

	UNDERGRADUATES			GRADUATE ENROLLMENT <i>(includes academic and professional graduate programs)</i>			TOTAL		
	2016	2017	% change	2016	2017	% change	2016	2017	% change
UT Knoxville	22,139	22,317	0.8%	5,913	6,004	1.5%	28,052	28,321	1.0%
UT Chattanooga	10,170	10,176	0.1%	1,363	1,411	3.5%	11,533	11,587	0.5%
UT Martin	6,279	6,330	0.8%	426	442	3.8%	6,705	6,772	1.0%
UT Health Science Center	287	339	18.1%	2,810	2,860	1.8%	3,097	3,199	3.3%
UT Total	38,875	39,162	0.7%	10,512	10,717	2.0%	49,387	49,879	1.0%

	NEW FRESHMEN			NEW TRANSFERS			NEW GRADUATE STUDENTS		
	2016	2017	% change	2016	2017	% change	2016	2017	% change
UT Knoxville	4,851	4,895	0.9%	1,367	1,368	0.1%	1,837	1,912	4.1%
UT Chattanooga	2,080	2,147	3.2%	815	945	16.0%	431	490	13.7%
UT Martin	946	1,052	11.2%	470	530	12.8%	123	129	4.9%
UT Health Science Center	—	—	—	184	187	1.6%	760	784	3.2%
UT Total	7,877	8,094	2.8%	2,836	3,030	6.8%	3,151	3,315	5.2%







UT THE UNIVERSITY OF TENNESSEE

The University of Tennessee is an EEO/AA/Title VI/Title IX/Section 504/ADA/ADEA Institution.