

**MINUTES OF THE COMMITTEE ON
EFFECTIVENESS & EFFICIENCY FOR THE FUTURE (EEF)
THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES
JANUARY 5, 2009**

The Committee on Effectiveness & Efficiency for the Future (EEF) of the Board of Trustees met at 1:00 p.m. CST, Monday, January 5, 2009 in Gooch 206 on the UT Martin campus. Additionally, video locations were available at UT Chattanooga, UT Health Science Center and UT Knoxville; also, the meeting was webcast live.

- I. **Call to Order**—Mr. Douglas Horne, Committee Chair, called the meeting to order and made the following introductory remarks:
 1. While the public is invited and welcome at all Board meetings, our meetings are “in the public” but not “public meetings.”
 2. The Chair will recognize to speak only members of the Committee, other Trustees, and members of the senior staff.
 3. The Committee has a set agenda and prepared materials for that agenda. No “new business” has been brought to the Chair’s attention prior to the meeting; so it is assumed there is none.
 4. Lastly, the name of the Trustee making any motion and the second will be announced to help in the preparation of minutes.
- II. **Roll Call**—Chair Horne asked Dr. Gary Rogers, Senior Vice President and CFO to call the roll. He did so and advised the Chair that a quorum was present.

Present

Douglas Horne, Committee Chair
William Carroll, Committee Member
Crawford Gallimore, Committee Member
Andrea Loughry, Committee Member
Jim Murphy, Vice Chair of Board
John Petersen, President
Charles Wharton, Committee Member

Absent

Charles Anderson, Committee Member

Other Trustees Present

Anne Holt Blackburn – attended the UT Martin location
George Cates – attended the UT Health Science Center location
Jim Hall – attended the UT Chattanooga location

John Schommer – attended the UT Martin location

Also present was Senior Vice President and CFO Gary Rogers, and other members of staff.

- III. **Approval of Minutes**—Chair Horne called for consideration of the minutes of the December 3, 2008 meeting and any corrections or additions to the minutes. Vice Chair Murphy noted that on page 4 “Trustee Crawford” should read “Trustee Gallimore.” On a motion made by Vice Chair Murphy, seconded by Trustee Loughry, the minutes, with the noted correction, were unanimously approved.

Chair Horne then recognized the Chancellor of UT Martin, Dr. Tom Rakes and UT Martin’s efforts to become more effective and efficient during this critical economic time for Tennessee.

Dr. Rakes welcomed the Trustees, along with President Petersen and staff. He described UT Martin’s efforts to plan for reduced funding and noted that not everyone is happy with some of the changes but that such changes were needed. He reported that campus meetings are held bi-weekly to review issues. He also commented that in his 36 years in academic work he has never seen a Board take such an active role. He thanked the Committee and Trustees for their dedicated interest in the UT Martin campus.

Chair Horne then asked Vice Chair Murphy if he would like to address the Committee. Vice Chair Murphy stated two types of issues that the Committee has to consider:

1. Long-term effectiveness and efficiency items, and
2. More pressing issues such as the current budget crisis

He noted that the Committee work in the short term needs to make sense in the long term and concurred with Chancellor Rakes that hard choices are required. One critical issue will be review of the budget in February and then finalization of the budget at the June meeting.

- IV. **Discussion of FY 2010 Appropriation Cuts and Budget Measures**—Chair Horne asked President Petersen to discuss the FY 2010 appropriation cuts. President Petersen stated that he would review short-term issues as Vice Chair Murphy described before the efficiency matters were discussed. He explained that his discussion items about the immediate budget considerations have efficiency issues associated with them as well related actions required of Vice Presidents and Chancellors regarding budget submissions.

The preliminary FY 2010 appropriation cut for higher education in the Governor's budget is \$181,663,400; some \$66,493,600 amounts to the University of Tennessee System's share (equal to 13.2% of the FY 2009 base budget). Dr. Petersen pointed out that the University has also been asked to plan, but not implement, an additional 5% cut; that equates to \$25,163,400. He explained that the Tennessee Higher Education Commission proportioned the UT cut 70% to formula units and 30% to non-formula units—looking at tuition as a source of revenue; however, they didn't look at other sources that non-formula units enjoy. The University has reapportioned the cut to a 60%-40% split to better represent available revenues of formula and non-formula units. Those appropriations reductions were then adjusted for system charges.

The campuses and institutes reviewed budgets with the goal of protecting their core missions. For the undergraduate campuses it is the instructional component and campuses favored the instruction component substantially.

UTK reduced instruction costs by reducing temporary and visiting positions and increasing the student faculty ratios in classes taught by tenure-track faculty. At this point, some shifting and consolidating has occurred but not any elimination of academic programming. Academic Officers are working on a procedures template regarding process and considerations for recommendation of any future program cuts to present to the Board. Chair Horne asked Chancellor Rakes what portion of UTM's instructional budget represented of the total budget; Dr. Rakes indicated 72%.

Trustee Wharton asked what kind of difference in the faculty/student ratios will occur in the classroom. Chancellor Rakes estimated that UTM's ratio would be increasing roughly 5% and that UTM's current student/faculty ratio is 18 or 19. Trustee Gallimore asked President Petersen how high the ratio can be raised before deterioration in instructional quality occurs; Dr. Petersen stated that this issue is being viewed as short-term and when positions are built back, faculty/student ratios can be reduced. In the meantime, the number of courses as well as the number of students faculty will have to teach will increase.

Trustee Loughry questioned Dr. Petersen as to whether or not the decision makers think that decisions they are making now are only going to be a FY 09-10 situation. Dr. Petersen replied no, he believes that the decision makers realize that this will continue multi-year. He stated that when economic conditions improve, strengthening academic programs will be a high priority. He noted that many administrative operations that are being cut will not be restored;

however, not many more operations can be cut or it will be difficult for the University to function as an organization. Trustee Loughry stated that from a Board's standpoint current decisions need to be wise decisions 5-10-15 years out. She noted that from a Nashville perspective the prospect of receiving more state appropriations in the future is not realistic and the University must become much more self-sufficient.

Chair Horne commented that UNC's state appropriations are roughly 22% and UVA's appropriations are around 9%. He added that we must increase our private giving instead of raising tuition. Trustee Wharton stated that we should not count on our private giving to make a substantial difference in the short term. Chair Horne reiterated what Trustee Loughry said previously about needing to work on being more self sufficient 5-10-15 years out.

Chair Horne told Dr. Petersen that the Committee has heard about cutting the System and the campuses' staffs and stated that the Committee is cognizant of the System. He also noted that UT Martin does not have a redundancy in staff and Chancellor Rakes mentioned that they had talked about that before. Chair Horne then asked UTHSC Chancellor Wall about the redundancy there and he said it depends on the college and that they were looking at reducing approximately 150 positions.

Vice Chair Murphy concurred with Dr. Petersen that too often when budgets are cut without considering the kind of activity, the ability to be efficient can be lost. Some things are already being done centrally such as purchasing and payroll; also by restructuring Information Technologies, the System has identified potential savings. Consideration is also being given to outsourcing the student e-mail system which may generate a savings. Some universities do that but no one is outsourcing faculty and staff e-mail because of security issues. Dr. Petersen added that if everything is taken out of administration chaos may result but at the same time everything cannot be put into administration.

Vice Chair Murphy noted that opportunities exist to really examine campus and System administrative levels and costs to determine whether the overall University is organized in the most efficient and effective way; further savings may be achieved by consolidation within the system or between the system and the campuses. He also noted that to the extent flexibility exists to move things down to the campuses this budget process is the time to focus and do that. Chair Horne voiced that a great deal of suggestions were coming in regarding cutting the administration. Vice Chair Murphy stated that every time an

educational budget cut occurs the first place people want to cut is administration. The reality is that you cannot cut enough out of administration to solve the problem in this environment. Trustee Loughry expanded on Vice Chair Murphy's comment and noted that the last five years show an increase in the number of staff and operating budgets on the organizational chart; that calls for an examination. She noted that nationally the UT system is fairly small. Vice Chair Murphy agreed.

Trustee Carroll asked Dr. Petersen how much of the \$5 million reduction in the System budget is unfilled positions. Dr. Rogers commented that it is close to \$1 million. Trustee Carroll then asked how much of the \$66 million is unfunded positions. Dr. Rogers replied that amount was not readily available but that he did know that those unfunded positions have been reduced over the past six months or so by about \$6 million. Dr. Petersen reiterated that the money for those unfilled positions amounts to a budget cut because the money was previously spent on other things besides faculty. Chair Horne mentioned discussions about the President's office being moved down the street, so to speak, from the Andy Holt Tower so that UTK campus operation can be distinct from the President's office.

Trustee Loughry questioned whether the money from the endowments is included in the System's operating budget. Dr. Rogers explained that earnings from short-term investments go into the System's budget but endowment earnings do not. The short-term investment earnings will be declining over the next couple of years due to lower interest rates. Trustee Loughry questioned whether or not the University is planning ahead for that reduction. Dr. Rogers stated yes that in the upcoming years an annual decline of \$2-3 million in interest income will have to be factored in as a corresponding reduction in expenditures. Vice Chair Murphy added that the appropriate cuts must be made on a permanent basis. Also, in the long term savings from effectiveness and efficiency efforts must be institutionalized annually, similar to the way the University of Maryland budgets its savings. Trustee Loughry noted that in fairness to the staff and students the University needs to let people know that five years from now this is what can be anticipated as a way of doing business.

Dr. Petersen explained that the 5% reduction scenario attributable to each of the units' appropriations does not show any delineation between formula and non-formula units since tuition does not enter into this phase of the cuts. Trustee Gallimore asked if there was detail information on the 5% reductions. President Petersen answered that campuses and institutes are currently formulating those plans; Dr.

Rogers' confirmed that plans have been requested. Dr. Petersen explained that the Chancellors know where their cuts will be.

Trustee Loughry asked when the stakeholders will be informed. Dr. Petersen said that they will be rolling out these plans this semester, except for the academic programs that must be presented to the Board for approval. Vice Chair Murphy asked President Petersen to provide some level of detail to the Board at the February meeting about the reductions the campuses and institutes are planning, including the program considerations. The Board needs to have more advanced input than just being a rubber stamp and to avoid a situation like last year with the Audiology and Speech Pathology issue. Vice Chair Murphy then told Dr. Petersen that by February the Board needed to see the list of programs subject to review. Dr. Petersen stated that he thought they would have those because campuses will start identifying the programs by the time the template is reviewed. Trustee Loughry emphasized that besides getting the template and list to the Board it needs to get out to all of the stakeholders. All of the stakeholders need to understand why decisions are made and what the process was.

Dr. Petersen gave a brief overview of the State's actual revenue collections versus the targeted. In the first five months of this fiscal year actual is \$372 million below budget. The last 12 months including those 5 months had a shortfall of \$682 million. It is getting worse instead of getting better by the month. It will be a long time before appropriations might get back to FY 2008 levels; thus, cuts and reallocations are necessary if Tennessee is to have a better University in the next 10 years.

Dr. Petersen pointed out State appropriations will be down to \$408.7 million in FY 2010, which is approximately the amount of appropriations received in FY 2002 and FY 2003. Considering inflation factors (CPI and HEPI), available funds are below FY 2000. During recent years, working capital and reserves have been built up and stood at \$41.8 million in 2007. However, that cushion may be reduced in dealing with the cuts. Vice Chair Murphy asked if this was 3% in accordance with the Board's target and Petersen answered yes, saying that the University does not have much of a rainy day fund. Dr. Petersen pointed out that as State appropriations decrease and tuition and fees increase, the campuses and institutes are relying more and more on tuition to cover operating costs. The University must be very cognizant, especially at the undergraduate level, regarding tuition and stay competitive.

The matter of the tuition credit hour cap was then discussed. Dr. Petersen pointed out that the Board of Regents recently voted to

uncap credit hours. Currently, students at UT campuses exhibit the following average credit-hour enrollments: Chattanooga 13.3 credit hours, Knoxville 14 and Martin 13.1. Students pay a fixed amount of tuition for the first 12 hours and no additional charge beyond that. Certain inefficiencies occur when students enroll in more than 12 hours and then drop classes. If tuition were charged by the credit hour, students would experience a cost penalty if they enrolled in more credit hours than they completed. Uncapping or increasing the cap above 12 hours might alter student behavior and allow more efficient management of class sizes and the number of sections offered. Trustee Wharton asked Dr. Petersen what would be done in areas such as Engineering where students cannot graduate in four or five years taking only 13 hours rather than 18 that is the norm. Dr. Petersen replied that the norm is 15 or 16 hours and that in most curriculums a total of 120 hours is needed to graduate. Chair Horne asked if Engineering is 15 hours per semester and Dr. Petersen added that Engineering is a little more. Trustee Wharton then asked if those students would be penalized or if the change would occur based on curriculum. Dr. Petersen stated that one of the things which many institutions have done is charge more tuition for areas such as Engineering since students in such a program recoup their costs of education much quicker because of the job nature.

Trustee Blackburn asked what discussion has occurred about how the University can educate its constituents, people beyond the University community, about why all of the cuts, changes and tuition increases are necessary and why the University has to consider all these actions. She noted that it is human nature not to worry about an issue until it is on your doorstep and then in a lot of cases it is too late to do anything about it or to even provide input that may be valuable to people in terms of making these decisions. She asked if any discussion has occurred about having stakeholders that are beyond the University community understand the challenges and the proposed solutions. Dr. Petersen said that at least four sessions are scheduled with newspapers around the State in February. Trustee Blackburn asked if the University can generate its own message and get it out. Dr. Petersen stated that is one of the things that the public relations group has been involved in is besides the e-mail newsletters. Much of that information goes out to alumni groups, other constituency groups within the state and as many other people as can be identified to keep them informed of issues. Trustee Blackburn said that she thinks it is critical that everyone understands the challenges because it is going to hurt more before it feels better. Dr. Petersen agreed and told her that if she had any suggestions in terms of vehicles, groups or mechanisms that can be helpful to please let him know. Trustee Blackburn stated

that having people understand what is going on upfront makes it easier as these things come to a decision point.

Trustee Schommer suggested that a study of tuition was needed to make sure that tuition is affordable in Tennessee. Dr. Petersen agreed that tuition must be affordable and that Tennessee is a state that has a lower affordability level because of the nature of the people's economic base here. That is changing as the State works to bring more technological businesses into the State and increase the income level. Trustee Cates added that an interesting statistic is that Tennessee's gross domestic product is 7% above the average of its peers, but Tennessee's state support of higher funding per capita is 37% less than contiguous state peers.

Trustee Hall asked Dr. Petersen if cuts are being designed on an individual basis or projected out over a five year period. Dr. Petersen replied that the cuts are not projected over five years because it is hard to project and that is a lot of fear being created for people within an organization. Trustee Hall asked if long range goals and objectives are set at each campus and if a five year decline in appropriations is expected, what is the program to address that? Dr. Petersen said that would be in the strategic plans that will be presented in February.

- V. **Review of Website Comments**—Chair Horne asked Dr. Rogers to present the review of website comments. First, Dr. Rogers addressed Trustee Schommer's question about the tuition and revenue, noting that Knoxville is below peer average so that provides some room for additional revenue while still maintaining comparability to those peers. That makes differential tuition an option. Chair Horne asked who was working on the differential tuition because it was one of the cost savings comments. Dr. Petersen stated that it was a suggestion by the Tennessee Higher Education Commission as well and it would be considered in the budget to be presented in June.

Dr. Rogers continued with a summary of comments that have been received to date. The detailed comments were provided to the Committee and it was noted that the 372 comments included 510 individual suggestions. Trustee Wharton asked who responds to comments such as UTSI consolidation. Dr. Rogers explained that an acknowledgement and generic response go out when it comes in through UTalk. Dr. Petersen stated that an answer is not given as to whether or not a particular action will be taken but the acknowledgement is sent that the comment has been received. Trustee Blackburn asked if the suggestions come in anonymously. Dr. Rogers explained that they can be anonymous or they can sign their name. Trustee Blackburn asked what the ID column on the report was

for and Dr. Rogers replied that it is only a comment tracking number. He added that the pie chart shows the content distribution of these comments and that a high number suggest reduction in administration. A lot of comments address utility and energy conservation as well as program consolidation and automation/outsource.

- VI. **Initial Actions Underway Related to Comments**— Dr. Rogers explained that the comments have been grouped into a dozen major areas; personnel from academic affairs, the President's Office, public relations and finance and budget have been working on the suggestions. Items have been identified as either short- or long-term and noted as to whether or not they have been started. Chair Horne asked if the Tennessee Valley Authority had been contacted in an effort to negotiate more favorable utility arrangements. Dr. Rogers noted that UTM has an interruptible power source that has had mixed results based on understandings or misunderstandings with the Tennessee Valley Authority. Chair Horne noted that TVA has serious problems too.

Other potential exists for more automation of contracting and purchasing. A great deal of consideration is being given to program consolidation, whether academic or administrative programs. A more robust online education program may be beneficial if a workable business model can be developed that goes across all of the University. The Martin campus has done a good job with its online degree program. A couple of items on academic planning opportunities require coordination of the academic calendars and looking at the general education requirements. All of these areas of work are underway at the moment.

Trustee Loughry asked if the academic planning opportunities are broad enough to include comments of the Trustees about trying to coordinate with the Tennessee Board of Regents' program offerings. The offerings need to be reviewed on a statewide level to make sure that programs are being efficient. Dr. Rogers replied that the issue appears to fit into both categories considering coordination of programs and determining the general education courses to accept as transfers. Trustee Loughry added that duplication is not affordable and to avoid that duplication and be efficient requires considering how many places are providing the same program or course of study. She also noted that stakeholders in Tennessee are defining the amount of money available to offer higher education and that means both UT and TBR schools. Accordingly, coordination between the two systems is necessary. Dr. Petersen noted that articulation between community colleges and UT is one area of success in dealing with duplication. He also noted UT had not cut money out of the budget for distance

education, since that is a way to deliver education to non-traditional students. Martin has a model for the undergraduate level courses and Knoxville focuses more on the graduate level.

Trustee Blackburn asked when the information that is being discussed now can be moved from this Committee to the standing committees of the Board. Dr. Rogers said that the proposed cuts and preliminary budgets would be presented at the February Board Meeting. After that, the Governor will have completed his budget for submission to the General Assembly. The current Board discussions are therefore preliminary since the State's budget will not be finalized until May or June but the discussion needs to be ongoing. Trustee Blackburn concurred that the discussion will make people more aware of what to expect and that makes it easier to handle.

Trustee Loughry addressed the actual appropriations versus the earlier amounts budgeted. She noted reductions of \$21 million and \$17 million in FY 09 and the projection of an additional \$66 million in FY 10. She asked if those had been covered with one time monies. Dr. Rogers advised that a portion of the \$17 million had been handled through one-time funds but that the \$21 million had been handled through permanent reductions. The \$17 million was a reversion of current year funds rather than a permanent reduction; however, it will become part of the \$66 million base reduction in FY 2010. Trustee Loughry asked for information that showed how far along we are in the \$66 million reductions. Dr. Petersen said that we are far along and Dr. Rogers noted that campus preliminary plans would be reviewed at the February Board meeting. He also noted the next \$25 million will be the most difficult part of the cuts to handle if they indeed become required. The instructions from the State are to identify that \$25 million and hold on to it; it may or may not be cut. Dr. Petersen stated that the \$66 million must be taken out of the budget as of July 1, 2009 (that is made up of the \$17 million, plus another \$49 million). The planning is for July but many of the actions may be taken sooner so that a reserve may be built by July 1.

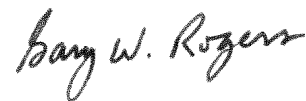
Dr. Rogers summarized five separate portions of the potential cuts:

1. \$21 million cut – done at the beginning of fiscal 2009.
2. \$17 million reversion – handled within the year, partly with permanent cuts and partly with one-time money
3. \$66 million cut for fiscal 2010 -- the cuts being discussed today (made up of \$17 million plus \$49 million).
4. The potential for an additional reversion in fiscal 2009 if the State's revenues continue to decline -- even though the State is trying not to do that (by using its rainy day fund).

5. \$25 million which the University has been asked to plan for as a precaution in FY 2010.

In terms of permanent cuts it is \$21 million plus \$66 million and then potentially \$25 million which amounts to over \$100 million.

- VII. **Revisions and Update of Indicators and Measures**—Dr. Rogers reviewed the suggestions and recommendations for refining the indicators and their descriptions. The original indicators and any recommendation for revision were presented in the report. Trustee Wharton asked who makes these recommendations. Dr. Rogers replied that it was the group that Chris Cimino is chairing to look for clarity of definition and the available information to determine whether those measures can be monitored. Trustee Wharton stated that we should not lose sight of the detailed data at the per student and faculty level so that campus information can be compared to peer groups. Trustee Schommer asked if this was the result of any change in the scorecard and Dr. Rogers replied that it is resulting from a better coordination with the scorecards not necessarily changes to those but refinement here so that the two sets of definitions dovetail better. Trustee Loughry suggested that such information be placed on a dashboard report at some point so that anyone can see that at any time.
- VIII. **Data for Review**—The funding data, including trends on appropriations and tuition, along with projections of State revenues and University operating expenses was reviewed previously during the discussion of planned cuts and budget adjustments.
- IX. **Schedule Next Meeting**—Committee Chair Horne led the discussion of possible meeting date options. The Committee agreed that they would attempt to meet again in March in Knoxville and include the new Chancellor, Jimmy Cheek.
- X. **Other Business**—Committee Chair Horne asked if anyone had any other business to discuss; none was noted.
- XI. **Adjournment**—Committee Chair Horne adjourned the meeting at 3:10 p.m. CST.



Gary W. Rogers, Senior Vice
President and Chief Financial
Officer