

DRAFT

MINUTES OF THE EXECUTIVE AND COMPENSATION COMMITTEE OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF TENNESSEE

January 14, 2009
Knoxville, Tennessee

A meeting of the Executive and Compensation Committee of the Board of Trustees of The University of Tennessee was held at 11:00 A.M. EDT, Wednesday, January 14, 2009 in the Executive Dining Room of the University Center, at The University of Tennessee, Knoxville, Tennessee.

I. CALL TO ORDER

James L. Murphy, Chair, called the meeting to order.

II. ROLL CALL

Catherine Mizell, Secretary, called the roll, and the following members of the Executive and Compensation Committee were present:

George E. Cates
Spruell Driver, Jr.
James E. Hall
Andrea J. Loughry
James L. Murphy
John D. Petersen
Don C. Stansberry, Jr.
Robert S. Talbott

The Secretary announced that a quorum was present. The Chair welcomed the following additional Trustees in attendance at the meeting, Mr. Douglas A. Horne, Mr. Charles E. Wharton, and Mr. Karl A. Schledwitz. Members of the administrative staff and members of the media were also present.

III. APPROVAL OF MINUTES OF LAST MEETING

The Chair called for any corrections or additions to the minutes of the October 23, 2008 meeting of the Executive and Compensation Committee. None being noted, Mr. Stansberry moved approval of the minutes. Mr. Talbott seconded, and the motion carried unanimously.

IV. PRESIDENT'S REPORT

A. Update on Budget Reduction

Dr. Petersen distributed three pages of preliminary budget materials to the Committee—(1) Preliminary Change in Appropriations and System Charge, (2) FY 2009-2010 State Appropriations 5% Reduction Schedule, and (3) Summary

of Reductions and Estimated Revenue for Tuitions/Fee-Generating Units (Exhibit 1). Before discussing the materials, Dr. Petersen provided the Committee with a summary of the process for the preliminary change in appropriations. He discussed assumptions used for the initial framework of the budget cuts and noted how the \$66.5 reduction was proportioned to the campuses and institutes. He stated that the System administration has been working with each campus and institute to prepare preliminary reduction plans. He stated that the cuts have been divided into areas—such as academic, administrative, student services, scholarships, and athletics. He noted that at this point the academic cuts are at or lower than the apportioned amount, the administrative cuts are higher than the apportioned amount, student services are mainly lower, and athletics are either at or higher than the apportioned amount. He stated that cuts that involve operational dollars--supplies, travel, anything other than personnel--are cuts that can be made fairly instantaneously.

He stated that two processes need to be followed--different processes depending upon on whether the cuts involve personnel that are non-tenured or non-tenure track faculty and personnel that are tenured or tenure track faculty. He reported that procedures in the non-tenured and non-tenure track area are in place for reduction in force of those employees. He stated that areas for reduction in force are in the process of being identified by campuses. He noted that before any specifics are discussed, campuses will notify the affected areas. He stated that the areas being identified include vacant positions. He stated that based on the size of the budget cuts, the filled and unfilled positions could be somewhere around 700 positions, but more specific details are not available.

Dr. Petersen reported that Bonnie Yegidis, Vice President for Academic Affairs and Student Success, working with chief academic officers of the campuses and institutions is developing a procedural framework for academic program discontinuance. He stated that the procedures would specifically detail the review if academic program will be terminated. He stated that he would discuss the procedural framework in further detail later in the meeting.

Dr. Petersen noted that by comparison, the cut the University took last year was \$21.2 million. He stated that if the cuts are limited to \$66 million, only certain programs at UTHSC will be proposed for termination. He reported, however, that if the budget cut grows another 5%, which the University has been asked to plan for, there probably will be some academic program discontinuance. The Chair clarified that there still may be personnel reductions in academics. Dr. Petersen stated that there would be a reduction in seats in classrooms and increases in faculty teaching loads. He stated that some positions that would be eliminated may be temporary positions used for instruction. He stated that vacant positions would be eliminated, and if necessary, temporary non-tenure track faculty and

staff and administrative positions would be eliminated. Dr. Petersen stated that he believed these measures would not decimate the quality of education offered to students. He stated that the alternative is to cut programs, but at this point the Chancellors feel they can accommodate and still deliver quality programs at this level of cuts, \$66 million. Mr. Wharton asked if the reduction in course offerings would extend the time it takes for a student to graduate. Dr. Petersen stated that it could potentially, but another of possible proposal may help students get seats in the courses they need.

Dr. Petersen stated that UT is one of the few institutions in the country that caps tuition at 12 hours. A student may register for as many hours as they wish and only pay for 12. At some point in the semester, the student can drop the courses in which they may be doing poorly and vacate a seat that would have been accessible to another student who needed the class. He stated that a month ago, UTK had 900 seats vacated by students and UTC had 600, and there will probably be more at the end of the semester. Dr. Petersen stated that this is a tremendous inefficiency in terms of the utilization of available class seats. An alternative is to remove the cap and require students to register for the classes they want to take and will pay to take. Uncapping tuition would place a huge burden on the students who are taking substantially more than 12 hours. He stated that the administration is currently working on models to bring to the Board that would rightsize the tuition for those students. Dr. Petersen stated the administration plans to recommend the uncapping and the cost per credit hour at the same time. He explained that the cap is designed to incentivize students the right way when selecting their course load and not to increase tuition.

The Chair stated that for some students it will be a tuition increase and that students taking courses to meet a four year graduation target should not be disincentivized. Dr. Petersen stated that the average student takes 14 credit hours. The Chair stated that the Board should see the administration's recommendations by March to make a determination at the June meeting. Mr. Schledwitz stated that there are many reasons why students drop courses, and there should be a process to allow for the legitimate reasons for students who need to drop a course. Dr. Petersen stated that the administration will be reviewing several different models to provide a process for dropping a course. He added that the motivation for doing this is to avoid vacancies in classes, and this issue is critical now because potential reductions in class offerings.

The Chair commented that we do not need to incentivize students to tie up a seat for a long enough period so that another student cannot use it. He stated that flexibility for students will become somewhat limited, but that is the environment we are facing.

The Chair asked Dr. Petersen to assure the Board that vacant positions have been cut before cutting critical temporary instructors. Mr. Talbott asked for the specific breakdowns by unit--for example, how will approximately \$6 million be cut from administration.

Mrs. Loughry asked Dr. Petersen to explain the current use of vacant positions. Dr. Petersen responded that the vacant positions represent money the department is using for other things. He stated that vacant positions will be eliminated, and if the department needs money for other things, the department will have to justify the need.

Mr. Driver stated that it was his understanding that in the past, money from vacant positions may have been used for merit pay or increases in salary to retain faculty and staff. If that is the case, because increases in salary are recurring dollars, what happens to the salaries if the vacant positions are eliminated? Dr. Petersen responded that salary increases were funded by the state. The state money for salaries must be used for salary. Managers have discretionary opportunities to use other dollars for retention or to hire other employees. The Chair noted that if the department has vacant positions, they get salary funds on a per position basis and they can allocate the increases to existing employees within the department.

The Chair stated that the Board will require a detailed breakdown of proposed cuts on a campus basis and system basis for the February Board meeting. Mr. Driver asked that the administration provide data on the corresponding proposed tuition increases based on the impact of the cuts. Dr. Petersen stated that THEC made some preliminary suggestions for tuition. For the undergraduate institutions, THEC recommended increases of approximately 7% for UTM and UTC and 9% for UTK. Dr. Petersen stated that based on those assumptions, about ½ of the appropriation cuts would be covered by tuition. For example, UTC has a preliminary appropriation cut of approximately \$6 million. A tuition increase of 7% would provide a revenue increase of \$2.5 or 41.4% of the appropriations cut.

Dr. Petersen stated that even though no academic program cuts are currently planned, except at the Health Science Center, the position is that the potential additional cut of \$25 million does not have a tuition increase offset. He reported that academic programs comprise 60-70% of our budget. To clarify, the \$66 million cut involves reducing expenses part of the way and includes a level of tuition increases to cover the rest. The cut on the expense side is approximately \$41 million and then there may be an additional cut of \$25 million.

Mr. Cates stated that the UTHSC has been on decreasing rations for many

years, and these impending cuts will make the situation that much worse. He stated that we have seen the ratings of UTHSC drop to the middle of the pack. He stated that eventually the only way out may be better private fund raising.

Mr. Stansberry stated that the Board needs to decide a very fundamental question--what is the right size of the University. Mr. Hall stated that we all realize that these are very difficult economic times, and there will be an economic cost to everybody. He stated that the Board needs detail in these difficult times and needs to know exactly what is being done so intelligent commentary can be provided. Where are these cuts taking us, what is your vision for the University and each campus and unit under the reduced number, both as a result of the economy and possible constant decline in state appropriations?

Mr. Schledwitz discussed whether the proposed tuition cap would be a revenue neutral measure for efficiency rather than a tuition increase. Dr. Petersen stated that additional revenue cannot be anticipated because students can elect not to take the additional courses. He stated that the tuition cap assumes a tuition increase already in place.

Mr. Stansberry stated that he would like to see a plan that assumes what the state will appropriate and would like to see it in time to make an analysis of changes are recommended and also those the administration chose not to make. Mr. Talbott stated that he would like to see the expense of system administration for the last ten years and how much will be cut.

Dr. Petersen stated that the Board will have the details requested at the February Board meeting. A discussion ensued regarding the national trend of state institutions of higher education receiving fewer state appropriations. The Committee discussed long term plans to operate on fewer state dollars.

B. Review of Draft Procedural Framework for Academic Program Discontinuance

Dr. Petersen stated that the procedural framework for Academic Program Discontinuance was designed by the campus academic affairs officers and the System Academic Affairs Office. He reviewed the draft procedural framework included in the meeting materials (Exhibit 2). The procedural framework sets out the minimum procedures to be followed by the campus or institute proposing discontinuance of an academic program. He stated that if a program discontinuance is proposed, all the work will have been done to provide the Board with the information and data it needs to make the decision. Mr. Hall asked whether the proposed procedural framework is replacing a prior procedure. Ms. Mizell stated that the situation varies by campus. The Knoxville

campus, for example, has in place a very elaborate academic program review process; however it is not specifically aimed at terminating a program. The draft procedural framework was provided only for the Committee's information and will be presented for approval at the February Board meeting.

V. REPORT OF FOUNDATIONS STUDY COMMITTEE

The Chair called on Trustee Charles Wharton, Chair of the Foundations Study Committee. Mr. Wharton reported that the committee has been working on determining the best practices for development at the University. He reported that the committee is looking at a number of other universities to assess their programs and successes. He stated that the next step will be to solicit the views of Vice Chancellors and Deans of each campus. He stated that the committee may ultimately end up with a recommendation to the full Board to for an independent foundation, which would be self-funded over time. He noted that getting to a self funded independent foundation would be a very long term process. He stated that the University must improve its private fund raising and to do that, a larger development staff is needed. He stated that an independent foundation would enable the University to increase the staff to the size necessary to significantly increase private donations.

The Chair stated that there is a necessary learning curve for the University and its constituents regarding funding the foundation to make it self sustaining. The Chair discussed issues in the past. Mr. Nemcik stated that funding of the foundation would be thoroughly addressed. Mr. Nemcik stated that UT is one of the few schools in the country that does not run its development efforts from a foundation. Mr. Nemcik stated that the development staff is typically supported from the independent foundation's earnings and not from a portion of the donations. He noted that the first year of independence may involve some other methods. Mr. Nemcik stated that the independent foundation would allow the development office to utilize benefit packages and salary ranges that are more geared toward retention than state benefit packages and salaries. Mr. Wharton stated that currently the development staff is compensated considerably less than peer schools with development efforts run from foundations.

The Chair asked whether funds could be donated directly to the University and then whether they would be transferred to support the foundation. Mr. Nemcik stated that all of the fund raising efforts of the University would be run through the foundation and there would not be a University development staff. He stated that he expected that gifts would continue to be made directly to the University.

Mr. Schledwitz stated that the Committee has also looked at having separate foundations for the campuses. The campus foundations would have their own

boards and rely on the University foundation for back office operations. Mr. Wharton concluded his report and stated that a recommendation from the committee would be made to the Board later in the year.

VI. REPORT OF COMMITTEE ON EFFECTIVENESS AND EFFICIENCY FOR THE FUTURE

The Chair called on Trustee Doug Horne, Chair of the Committee on Effectiveness and Efficiency for the Future. Mr. Horne reported that the Committee has held several meetings and last met on January 5th in Martin, Tennessee. Mr. Horne stated that he planned to discuss the budget cut suggestions proposed to the Committee with Dr. Petersen and Dr. Rogers prior to the February Board meeting. He stated that he believes there needs to be further System administration and campus administration cuts before teaching and research programs are cut. He reported on his recent meetings with the Knoxville campus deans to take note of their concerns and suggestions. Recounting his conversation with the Dean of the College of Business, Mr. Horne noted that in the last four years the number of students majoring in business has increased from 2500 to 5200, and the number of faculty has declined from 120 to 117. He reported that further budget cuts could result in cutting 64 sections of business courses. He stated that this illustrated the necessity to find other areas to cut before cutting teaching and research areas. He reported that Sylvia Davis is working on a report for the Committee of core focuses for the University. Ms. Davis noted that a Strategic Planning report is being prepared for the June Board meeting.

Mr. Horne discussed other suggestions that have come before the Committee such as, eliminating the UT Space Institute, combining the Institute for Public Service with another entity, combining the men's and women's athletic departments, eliminating a sport, and looking into a performance energy program. Mr. Wharton suggested the alternative of seeking assistance from the legislature for the state to issue bonds to convert all state buildings to be more energy efficient, rather than using a performance contract. Dr. Petersen commented that there is some precedent in the state for that approach by the Board of Regent schools. Mr. Horne stated that all of these suggestions should be reviewed so that any cost saving cuts, combinations or initiatives can be taken before cuts are made to teaching and research areas.

A discussion ensued regarding Mr. Horne's discussion of the suggestion to combine Men's and Women's Athletic Departments in Knoxville. Mr. Driver asked about the potential benefits. Mr. Horne stated that if the combination resulted in a cost savings to athletics, potentially more money could be given to the University from athletics.

Mr. Talbott asked if there is any University debt that could be refinanced at today's lower rates. Dr. Rogers responded that the majority of the debt is in general obligation bonds, but that the appropriate state offices are looking at options.

Mr. Horne reminded the Trustees that each Trustee is invited to attend the EEF committee meetings. He stated that the last meeting was viewed by many people across the state by webcast, and the webcast is still available on the committee website. Mr. Dye stated that there were over 1400 viewers, the largest viewership for any UT webcast. Mr. Driver stated that not all the Trustees received the system wide email announcement that the meeting was being webcast.

VII. PLANNING FOR WINTER MEETING OF THE BOARD

The Chair stated that the Committee received the proposed schedule in the meeting materials (Exhibit 3). He asked if there were any comments or suggestions. Mr. Cates stated that there is a request by the largest donor to the Hamilton Eye Institute, other than the Hamilton's themselves, for completion of a matching requirement to their most recent gift to UTHSC. He stated that the donor has given a \$3 million dollar gift with an understanding that it would be matched by the University. Former Chancellor Bill Owen committed to using the first million without a match. Mr. Cates stated that the gift is needed to complete the long vacant floor at the Hamilton Eye Institute; however the match requirement must be met. He requested that the Board give immediate attention to fulfilling the match requirement of the gift. He proposed using proceeds from the UT Hospital transaction to meet the match requirements. He stated that further discussion is necessary, but at this time he is requesting that the item be placed on the Board agenda for the upcoming February meeting. Ms. Loughry requested a full report and as much back ground information as possible regarding the gift and any efforts made for the match requirement of the gift. The Vice Chair stated that the item would be discussed in the Finance and Administration Committee and then a recommendation would be brought to the full Board.

Mr. Talbott moved approval of the tentative schedule and agenda items for the February 26-27, 2009 winter meeting of the Board of Trustees. Mr. Stansberry seconded, and the motion carried unanimously. Mr. Stansberry moved that additions, deletions and edits to the tentative schedule and agenda items be allowed as deemed necessary by the administration prior to the meeting. Mr. Driver seconded, and the motion was unanimously carried.

VIII. RECOMMENDATION TO GRANT TENURE TO CHANCELLOR-ELECT JIMMY CHEEK IN HIS FACULTY APPOINTMENT AT UT KNOXVILLE

The Chair recognized Dr. Petersen, who stated that he is seeking approval from the Committee to grant tenure to Dr. Jimmy Cheek at UT Knoxville (Exhibit 4). Dr. Petersen stated that the Board Policy on Academic Freedom, Responsibility, and Tenure provides for expedited consideration and grant of tenure in exceptional circumstances, such as when an individual with outstanding credentials is recruited from another institution where he or she holds tenure. The policy calls for completion of all the steps in the normal review process—review by tenured professors in the base department followed by formal recommendations by the department head, dean, chief academic officer, Chancellor, and President—but allows those steps to be accomplished on an accelerated schedule. He stated that when those steps have been completed, the policy allows for the President's recommendation to be acted on by the Executive and Compensation Committee rather than the full Board. He reported that Dr. Cheek will join the University of Tennessee as Chancellor of the Knoxville campus on February 1, 2009. He stated that because Dr. Cheek's employment begins prior to the next Board meeting, it is necessary for the Executive and Compensation Committee to act on his tenure recommendation and faculty appointment at this time. Dr. Petersen discussed Dr. Cheek's credentials for appointment as a full professor with tenure within the Department of Educational Leadership and Policy Studies in the College of Education, Health and Human Sciences. He called the Committee's attention to Dr. Cheek's curriculum vitae, as well as the letters of recommendation and review from UTK academic leaders included in the meeting materials.

Dr. Petersen stated that Dr. Cheek's credentials for appointment as a full professor with tenure within the Department of Educational Leadership and Policy Studies in the College of Education, Health and Human Sciences have been reviewed by faculty review committees at the department, college and university levels. He has received very strong reviews by each of these groups with unanimous recommendations that he be granted tenure upon appointment. The Dean of the College, the Provost of UTK and the Interim Chancellor all concur with this recommendation.

Mr. Stansberry moved approval to grant tenure to Chancellor-elect Jimmy Cheek in his faculty appointment at UT Knoxville. Mr. Talbott seconded the motion, and the motion carried unanimously.

IX. OTHER BUSINESS

The Chair called for any other business to come before the Committee. He then asked for any further discussion or comments. Ms. Loughry stated that Tennessee was one of eleven states awarded a grant on making opportunity affordable by the Lumina Foundation for Education to help graduate more students by making college more efficient and cost effective. She stated that Tennessee will receive a one-year grant of \$150,000 through the foundation's *Making Opportunity Affordable* (MOA) initiative to develop innovative strategies in key policy areas to promote sustainable improvements in productivity. Tennessee will be eligible to compete next year for a \$2 million Opportunity Grant to implement plans over four years. She stated that she would like the Board to be kept informed of UT's participation in this grant.

X. ADJOURNMENT

There being no further business to come before the Executive and Compensation Committee, the meeting was adjourned.

Respectfully submitted,

Catherine S. Mizell
Vice President, General Counsel and
Secretary