

**MINUTES OF THE COMMITTEE ON  
EFFECTIVENESS & EFFICIENCY FOR THE FUTURE (EEF)  
THE UNIVERSITY OF TENNESSEE  
BOARD OF TRUSTEES  
FEBRUARY 18, 2011**

The Committee on Effectiveness & Efficiency for the Future (EEF) of the Board of Trustees met at 9:00 a.m. EST, Friday, February 18, 2011 in the conference room on the 8<sup>th</sup> floor of Andy Holt Tower on the Knoxville campus.

- I. **Call to Order**—Mr. Douglas Horne, Committee Chair, called the meeting to order.
- II. **Roll Call**—Chair Horne asked Mr. Charles Peccolo, Treasurer, Chief Investment Officer and Interim CFO to call the roll. He did so and advised the Chair that a quorum was present.

**Present**

Douglas A. Horne, Committee Chair  
Joseph A. DiPietro, President  
Charles C. Anderson, Committee Member  
William Carroll, Committee Member  
Charles E. Wharton, Committee Member

**Absent**

D. Crawford Gallimore, Committee Member  
Jim Murphy III, Vice Chair of Board  
Andrea Loughry, Committee Member

Also present was Charles Peccolo, Treasurer, Chief Investment Officer and Interim Chief Financial Officer, Keith Carver, Executive Assistant to the President and other members of staff.

Chair Horne welcomed Dr. Joseph A. DiPietro, President and Dr. Keith Carver, Executive Assistant to the President. He also introduced Ron Loewen, the staff member for the Effectiveness and Efficiency for the Future Committee. He also mentioned that Gina Stafford, Director of Communications, provides assistance as well.

Chair Horne then made the following 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.

Chair Horne reiterated that the Effectiveness and Efficiency Committee’s materials need to get out there for the public to read. It is a concern and request from Trustee Loughry. Mr. Peccolo stated that after the meeting – the materials would be ready to go. Chair Horne encouraged press releases, etc. to keep the public informed of the University’s progress. He stated that it is important to let the public and Legislators know that we are doing our job. He informed the Committee that he was in Wisconsin earlier in the week and the Governor there is talking about splitting the flagship campus of the University of Wisconsin, Madison away from the system.

- III. **Approval of Minutes of Last Meeting**—Chair Horne asked if there were any additions or corrections to the minutes of September 17, 2010. With no corrections or additions noted, on a motion made by Trustee Anderson, and seconded by Trustee Carroll, the minutes were unanimously approved as presented.

Chair Horne went on to say that CHRO Linda Hendricks was out of the office due to a family emergency and would present the performance evaluations initiative at the next meeting. He went on to say there were good results to report and that the EEF Committee wants to see that every department, campus and institute does performance evaluations for every employee. Chair Horne then told the Committee that the on-line learning update will be deferred until next meeting. Dr. DiPietro stated that some information would be presented briefly by Dr. Katie High, Vice President of Academic Affairs and Student Success at this meeting. He explained that this particular subject will require a little more time than allotted today and needed to know from the Committee what types of information that you want focused on and reported back.

Chair Horne then asked President DiPietro if he would like to address the Committee. President DiPietro told the Committee that he was pleased to join the meeting and looks forward to working with them.

He then explained for those that were not aware, this Committee’s charge was to work together with the President and the staff to work on effectiveness (which are the right things to do for the University of Tennessee) and efficiency (us doing things right). The order is

effectiveness first because we want to focus on the right things first and then efficiency to do them right. He then thanked the visitors and welcomed them to the meeting.

- IV. **IT Study - UTC**—(Exhibit 1)—Chair Horne then asked Dr. Richard Brown, Vice Chancellor at UT Chattanooga to present their IT Study. He also informed the Committee that he would also present the Facilities Review Update that the Committee is involved in heavily. Vice Chancellor Brown thanked the Committee for allowing him to present and proceeded to give an overview of the project. He went on to say six months after Phil Oldham, Provost, got there they began to take a look at information technologies (IT) on the UTC campus. There were many complaints about customer service and all of those kinds of issues. IT drives every platform in the institution. Academics, student registration, interaction with financial systems and e-mail all revolve around IT platforms – so it is critical. We decided to put together a consultant study to take a look at improving these services that support the campus. The most critical issue was how we become more efficient and cost effective. When the study was started we did not know just how much UTC was spending on IT. We hired BDMP Consultants. We wanted an independent firm that would be objective because there are a lot of players involved. We wanted a firm that would come in and interview across the campus without any hidden agendas. BDMP has experience with higher education. We looked at peer benchmarking and wanted a core IT strategic planning team and BDMP led and facilitated the project. He went on to explain the campus information technology community. We had central information technology department. There was also distributed IT they provided all the other services from computer laboratories to research IT. There was also the integration with the System Office of Information Technology where all the big systems are operated and based. We had to integrate with those systems.

In Phase I there were over 150 folks from across the campus that participated in interviews, focus groups and work sessions. We collected a lot of information from across the campus and put it into a repository. We also did peer benchmarking and looked at Educause for the state of information technology for a comprehensive four year public university. We benchmarked ourselves against UNC Charlotte which is an aspired peer because it is a metropolitan university that has similar kinds of programs going on there as in Chattanooga. We also looked at the College of Charleston and Tennessee Tech is a good Tennessee Board of Regents peer. These are well sized institutions similar to UTC.

The initial report in September 2010 identified issues and opportunities. What we figured out is our staffing level consists of 70 employees that deal with IT across the University that reports up through UTC's structure. Half of those folks reported to me in Finance and Operations in administrative IT functions and the academic function answering to Provost Oldham. Then there was distributed IT (ITD). There were folks all over the place that did not report to anyone in a centralized manner. We were finally able to aggregate all of the data and present the state of technology staffing on the UTC campus. We looked at a financial model to find out exactly how much we were spending on IT. We used the time period of 2005-2009 annually in terms of expenditures. We found that the student population grew about 22% during those five years and the IT expenditures increased 10%. It is a good thing to control costs but you have to ask if we are delivering quality services as well – that is the benchmark. For FY 2010 UTC is spending a total cost of \$8.2 million on IT services.

Phase II of the project involved establishing a what we called a core team to work with BDMP Consultants. This was a cross-functional team. We selected leaders from across the institution and all functions and committed them to the planning process. They considered issues identified, operational objectives, service improvements, future needs, decision making and most importantly governance. Who actually provides the rules and regulations and how are do we share common rules. This draft plan is now under preliminary review.

The issues found on the people side were:

- Redefine leadership to maximize synergy among the campus technology community. Essentially what we decided to do was to eliminate distributed ITD and have one IT Division and one leader to manage this process. In order to do that, the Provost and I had to come out and say we support this. On most campuses you will find the academic and administrative that never seem to meet and that is not efficient at all.
- Training and development was needed for all technology staff. People weren't trained and that is why there was a customer service problem.
- More effectiveness regarding the help desk support. This is the area where students and others get help with their problems. We had to find a way to do that more efficiently.

On the process side, we looked at aligning all the IT budgets to IT priorities. We have set those priorities in place and have begun to put budgets together to align strategically to them. We have developed an IT service catalog so people will know what is offered, access and how

to quickly gain access to the right people. We are putting together a visible governance structure as we combine all these services that reports back to myself and the Provost on what the problems are. We looked at how we communicate to make people aware of the IT structure.

The other piece is technology. We had to review asset management to best monitor infrastructure, improve all the processes for change and for the financing of the infrastructure changes. We then had to look at the sustainability for systems. We are now cataloging all of our systems, putting together costs and adding budgets for the costs of these systems.

Contents of the Master Plan include:

- The core principles are tied into the University of Chattanooga's Strategic Priorities
- The IT Mission and Guiding Principles
- Implementation and Communication of the Plan
- Strategic Themes and Initiatives
  - Core elements include IT Governance, Service Delivery, Awareness
- Sustaining the Plan
- The "New Normal"
  - Interestingly, most initiatives did not require any money. When we started everyone was convinced it would cost a great deal of money. We found that we are spending on average compared to our peers. It is the way that money is being distributed.
  - Multiple initiatives identify potential cost savings through consolidation and processes and improvement. We are now looking at consolidation of a number of things. In the computer labs there will be one manager instead of six. It is a centralized function where we can save significant dollars to put back into the infrastructure.
  - Plan created a sustainable model for IT that emphasized adaptive and flexible planning.
  - Plan established a framework for evaluating IT at a strategic level.

Hopefully, we can come together now, look at the goals and the actual costs to get it done. What we walked away from this project with is that we must have new IT leadership at the University. Currently, we do not have anyone in place that can lead this new model. We are now in the process of hiring a new Chief Information Officer of Technology that will bring academic and administrative computing

together. UTC is in the process of establishing an effective IT Governance model. There is now a comprehensive model for every key leader of particular functions. We are putting in place an IT Service Catalog. We are defining roles and responsibilities across UTC. The roles of System IT and UTC IT are being clarified. We are tracking now and can tell you when you called and how long it took for someone to get back with you. At the end of that contact you can rate our service on-line. We are providing an annual report. We have great feedback from users now that lets you know whether you did a good job or not. The stimulus funds were excellent and we used many of those dollars to upgrade technology on the UTC campus. We have also developed a comprehensive five-year planning strategy that includes; Financial (tech refresh – we are budgeting now for every four years having top technology at every desktop), Governance (alignment with UTC strategic priorities) and Customer Service (creating a university-wide Help Desk). All in all the study worked so well that we have been invited to the National Association of College and University Business Officers (NACUBO) to present how UTC transformed IT that is distributed all across the campus without spending a lot of money to get it done.

Trustee Wharton asked what the timeframe was for hiring the Chief Information Officer (CIO). He then asked if Banner had been rolled out. Vice Chancellor Brown replied yes, UTC rolled out Banner and are operating on it now. It is working very well. We hope to have the new CIO by July 1, 2011. We are not using a consultant this time in order to save money but are having an internal search for the position. CHRO Hendricks is going to work with the campus on a national search to find a new CIO. We are writing the job description now. Chair Horne commented that it will be good for Vice Chancellor Brown. He stated that he personally feels that the University uses outside consultants too often – it is very expensive. He confirmed that CHRO Hendricks would be helping him and he replied yes. Trustee Carroll asked if any of the 70 people in that department were qualified to be the CIO. Vice Chancellor Brown acknowledged that there may be some internal candidates that rise up to that level. From the feedback that we are getting right now by trying to combine academic and administrative – people have a certain amount of expertise but not the broad expertise that we are looking for. Trustee Wharton asked who the CIO position would report to. Vice Chancellor Brown stated that IT will stay with his operations and will report to him. There will be a dotted line to Provost Oldham. The Provost and I jointly sponsored this project. Leadership has to come from the top when you are dealing with improving efficiencies for the entire campus.

Chair Horne asked if he and the Chief Information Office for the System, Scott Studham work well together. Vice Chancellor Brown replied that they work well. President DiPietro interjected that they have capacity to cross the System. At the Ag Campus, we had difficulty with SharePoint and it was hard for my staff to manage because there was a SharePoint problem every three or four days. CIO Studham's folks were able to come in and help them with that and asked Vice Chancellor if that was the model he was working with. Vice Chancellor Brown said absolutely and the System is managing SharePoint for UTC. The campuses have to align with that integration so that we can all have cost savings.

President DiPietro asked if they were using an active directory to maintain security on the system and Vice Chancellor Brown said yes. He then asked what scares you most regarding security. Vice Chancellor Brown said the personal computer at the desktop that is not secure has access to multiple systems of information and can corrupt an entire system. We have implemented safeguards on every piece of equipment that is linked to the system, and without security review, system access is not provided.

Trustee Wharton asked if there were any systems that employees have implemented on their own without review. Vice Chancellor Brown explained that they are just now getting to that. There are many of them out there and they are dangerous. We have a culture now that people will honestly tell if they are asked. President DiPietro noted that with active directory you can limit what folks load on their machines. The clearance for someone to put in a CD or DVD in their machine and load new software is limited if the machine is indeed subject to an active directory. You get some feedback from faculty because they want to be able to control what is on this machine that belongs to the University. Vice Chancellor Brown indicated that reminding folks that the machines belong to the University was a tough conversation and that we are responsible for the security. While it may irritate you some – it is my responsibility to make sure the systems are clean. President DiPietro if you have a security breach that disturbs your system there would not be a lot of work that would get done without computers. Security is very important. Trustee Wharton made sure that the system can cope with power loss and Vice Chancellor Brown said yes. It is a good system and I am impressed with what UTC is doing. We are on the leading edge of security in order to keep the system up and running.

Chair Horne asked if CIO Studham was doing O.K. with the System IT and President DiPietro indicated that there have been a few hiccups

with Banner but they are under control. There are always issues when you undertake a project like this.

Trustee Wharton mentioned that two and three years ago there were a lot of complaints from faculty and staff about e-mail. Has that been situation been rectified. President DiPietro commented that it is his impression that it is running well and people are onboard and think so too. The move to Outlook helped. President DiPietro went on to say that there were challenges with the Banner implementation at UTK but CIO Studham has grabbed a hold of it and has all the resources heading in that direction. He then asked if anyone else wanted to talk about the e-mail system. He said that he has never had a problem because he uses a Mac. Trustee Horne asked who CIO Studham reports to and President DiPietro replaced Executive Vice President, David Millhorn.

- V. **Facilities Review Update**—(Exhibit 2)—Mr. Peccolo began by saying at the last meeting we went over the internal audit regarding the facilities operation. Two ad-hoc committees were established. The Committee for Construction and Process and Vice Chancellor Brown is the Chair. The other is a Committee for Internal Reporting and they are working on user friendly reports. George Criss heads up Facilities Planning and Vice Chancellor Brown has made strides in his Committee work on the overall construction. Chair Horne added that this is an area that the new Governor and Legislature will be interested in and be a part of this process. Hopefully, they will do a better job in helping the University to get these facilities on track quicker and be more cost effective. Chair Horne then asked Vice Chancellor Brown to update the Committee.

Vice Chancellor Brown gave an update about the Process Review Committee. CFO Peccolo put together this Committee and represents leadership from all campuses that deal with facilities and capital projects. Mark Paganelli, former Executive Director from Internal Audit is also on the Committee. The Committee's charge is to look at processes, staffing, and organizational structure and make recommendations to President DiPietro, CFO Peccolo relative to how this particular process can be improved. Over the years, there have been complaints about this area and how the process works. I began my review by taking a look at every report that had been done over the last ten years (consultants, etc.). I developed a questionnaire from all of those instruments and began to talk to the leadership on every campus. I met with every Chancellor, Chief Business Officer and the lead facilities people from each campus and asked for the real issues. I allowed them to vent and talk about this particular issue. Good feedback has been received from these talks. The Committee hopes



to give President DiPietro up to ten recommendations within the next 45 days during their next meeting. Surveys are starting to come in and that data will be aggregated. It will be shared with the Committee and begin to talk about the findings and the issues. He reported that there are some central themes that have began to emerge from that study. He broadly shared with the Committee some of the issues that have been received. Many agree that Facilities Planning is a System function. They liked the idea of one entity managing some of the broader governmental pieces of this process.

There are recommendations that local leadership on the campuses are involved and have ownership of the capital process across the University. The other piece is the organization of the current staffing levels need reviewed.

Another issue that comes up is trust and communication and it emanates from every campus. They talk about trust and communication in terms of how these projects are managed. There is a concern of accountability. Most campuses have a sense that while they have the responsibility – the accountability is somewhere else and the two do not meet. There ends up being change orders that they don't understand and they cannot budget for them and issues such as that. These are some of the issues that we will begin to deal with regarding transparency. Many feel that there should be quarterly financial reports to the campuses. They would like an update on their capital projects to go through the campuses' Chancellor and the Chief Business Officer in order for all to understand the status and progression.

Another issue that has been communicated is the \$100,000 threshold for capital projects that the State Building Commission uses before they get involved in the process. Unanimously the campuses have said that threshold needs to be changed to \$300,000 - \$500,000. Local campuses can manage projects at that level which will alleviate 30% of workload off the system capital projects team as well. This is a huge concern and how to get it done will require the President and the Board of Trustees to make it happen. It is a Nashville issue that requires conversation. There have been preliminary conversations with Secretary of State Tre Hargett and he is open to talk about it. Having conversations with the correct people in Nashville is a way to move this issue forward.

There were also concerns about who owns, houses, and updates campus master plans. Many feel that the local campus should own their master plan and it should be updated annually. An aggregated report on the master plans should be presented to the Board of

Trustees so that they are aware of where each campus stands relative to it rather than having a broad five-year report. The Board needs to be well aware of the status of capital projects.

These are the general themes that I will take back to the Committee to discuss these particular issues. Trustee Horne confirmed with Vice Chancellor Brown that he and his Committee would have recommendations to President DiPietro in 45 days.

Mr. Peccolo began by saying that he and George Criss, Director of Facilities Planning works with the UT Knoxville campus primarily as well as the other campuses. When there is a meeting regarding campuses, minutes are generated and sent back to the campus folks that attended the meeting and the chief business officer. That way they will have an opportunity to see exactly what goes on in the bi-weekly meetings. We are now supplying the chief business officers with correspondence regarding change orders. There is reporting that is available out on the ERP? system. Admittedly it is not terribly user friendly but all of the information is there. We will be looking at how to reconfigure the system to make it user friendly that supplies good reporting. We will arrange for quarterly updates as suggested by the campuses and reported by Vice Chancellor Brown. We have someone in the Controller's office that can help the chief business officers run reports. It is a snapshot of a certain time and does not incorporate pending change orders. We are addressing the communication concern. The SBC threshold is a Nashville issue and we will work with the SBC staff. We are trying to get an idea of how many items are \$100,000 or \$300,000 and is it 30% savings of time that frees facilities planning staff up to work on projects. Trustee Wharton asked who is on the State Building Commission. Mr. Peccolo replied that it is primarily the state's constitutional officers and the leadership of the House and the Senate. President DiPietro added that the ceiling is so low that we can't do much and that is the inefficiency of the system. He went on to say when folks have had the money together to do a building and haven't been able to disclose it in the right timeframe and then it falls into the next fiscal year. He went on to say that he understands there is a strong sentiment among the administration that the threshold needs to be changed. Chair Horne interjected that we need to ask Governor Haslam to help and President DiPietro informed that he has been briefed on this issue and that he is sympathetic.

Chair Horne asked what the percentage was of every dollar that is spent on change orders. Director Criss said it is less than 10% but that some projects may be more than that. Chair Horne said that when contractors work with governmental institutions they tend to trap them with change orders. He then went on to say that 10% is a little high –

you have to be tough with them and manage the project. Director Criss told the Chair that they can research and supply a more accurate number. Chair Horne asked him to please get that number and report it back to the Committee. He then offered the Committee's assistance. Trustee Wharton asked Director Criss if there was a way to get comparative information from other universities on change orders to see where the University of Tennessee ranks with our aspirational peers. Director Criss said that they would make some inquiries to see how readily that data would be to us. Chair Horne noted that three or four years ago, when the economy was good, there was more money coming for capital projects. There are 17 staff members managing over a billion dollars and that is a tough job. Mr. Peccolo stated that we have tried to be proactive. Director Criss has a few part time positions, one full time position with plans to add another full time architectural position to spread across the state to help alleviate some of the load. Chair Horne explained and we are not necessarily trying to add employees but it is the Committee's charge to be effective and efficient. Mr. Peccolo added that it is money worth spending. Chair Horne included that communication among campus users needs to be better and allow them input. Change Orders need to be shared with the Business Officers so that the Chancellors are aware. He then told Mr. Peccolo that communications have improved since he assumed the position of Interim Chief Financial Officer. He added that Facilities Planning needs help structurally in the form of help and it is an issue that we will continuously work on.

- VI. **Revenues and Appropriations**—(Exhibit 3)—Chair Horne asked Mr. Peccolo to present the Revenues and Appropriations. Mr. Peccolo began by noting that newspapers have reported the State's revenue picture and the impact on the University of Tennessee going forward. My office pulled together the implications of the decrease in revenue and where the State actually is in our view. He then introduced Ron Loewen, Budget Director for University Wide Administration to the Committee and explained that he took over staff duties for the Effectiveness and Efficiency for the Future Committee. He then asked Mr. Loewen to explain the University's challenges and opportunities to the Committee.

Mr. Loewen began by taking a look at the state revenue collections. Revenue collections have bottomed out and have started to recover over the past year. He then showed a chart of the State's general fund collections for the last 12 months. On each month, the green bar represents the actual collections for the current month. The red bar represents what had been budgeted for that month and the blue represents that same month 12 months prior. January includes the Christmas sales tax collections. The actual collection (green bar) for

January 2011 is significantly higher than the other two bars. It is above budget and historical levels and has been that way over the last few months. Over the twelve month period shown - totals have exceeded the previous year by 2.7% and exceeded budget by 1.4%. Chair Horne asked for an amount of money. Mr. Loewen answered it is about \$36 million above budget. Mr. Peccolo added that the last he read the State predicts and increase of \$250 million if this trend continues. Mr. Loewen said the State Funding Board met last week and officially increased the projections for this year. As far as general fund revenues go, they are expecting them to come in at \$120-\$160 million above the original projections. The State Funding Board takes a variety of different estimates, including the Fiscal Review Committee and Murray and puts them together to get the consensus. As long as the economic recovery is sustained the revenues will continue to move in the right direction.

Mr. Loewen then explained that over the last two years while the State has dealt with this great recession it has tapped into a great deal of reserves. The State's Rainy Day Fund dropped \$1 billion in two years. The budget for FY 2011 includes \$185 million of that Fund. The Fund does not have enough money to sustain another year of being tapped into. Reserves cannot be used again in FY 2012. Chair Horne asked if the Rainy Day Fund was down to \$500 million or so. Mr. Loewen explained that the \$500 million is allocated in different ways so there is only about half of that that is available for general funds. On this big of a budget, \$250 million is almost statistically zero. There is minimum flexibility on what can be done in the next fiscal year. Another issue that constrains that flexibility is over the last couple of years there have been mandatory cost increases. The K-12 formula that has to be funded at a certain level, health insurance costs for all State employees increased and retirement premiums to keep the Tennessee Consolidate Retirement System solvent has increased. Right now the Fiscal Review Committee staff is estimating the recurring mandatory costs at about \$400 million. These kinds of things eat up the revenue growth and isn't available to fund new or restore expenses that have been incurred in those areas. Trustee Horne asked if the projection for revenue growth is \$250 million for the year. Mr. Loewen replied on the general fund, the State increased their estimated by \$120-\$160 million. The general fund is about 80% of state revenues, it could be that \$250 million would apply to the total – we are discussing the general fund. Trustee Wharton began by saying I don't think the University can take position on this but we can as individuals. The State is losing \$13 million in sales tax annually and that is about 1/3 of the deficit. That would be a homerun if that could be changed. It is not fair to our state merchants because there is a huge incentive to shift sales to internet. Chair Horne said and it is going to get worse – it is a big loophole.

Governor Haslam has already said that he doesn't want to tax Amazon because they are going to put a distribution center here in Tennessee. Legislation is going to have to address it because it is a huge problem. Mr. Loewen continued by saying the result of the declining reserve and growth in mandatory costs is odd despite the fact that we seeing state revenues improve. State agencies right now are preparing scenarios for one, two and three percent cuts and that includes the Tennessee Higher Education Commission. We don't have any information on which might be chosen for fiscal year 2012. Mr. Peccolo interjected that the State's new Commissioner for Finance just issued a statement with constraints for this fiscal year.

Chair Horne mentioned that he had just got back from a big conference in Florida with the UT Foundation and Foundations across the country. We have to make sure it is ready to go. President DiPietro replied that it is ready and is filed in both houses. Chair Horne stated that his point is to fill this gap with money. We have to work hard to raise more money ourselves.

Mr. Loewen then showed another view of where the University is historically of what the great recession has done to the state revenues. The numbers include General Funds and other revenues so it is a little higher number than we were just looking at. From 2005 to 2007 the State experienced an unprecedented rate of growth – it is an unusual steep curve of growth. In 2007 and 2008 it leveled out and then it goes back down. The numbers are basic state collections and do not include the federal funds that the State also rolls in to make up a large portion of the State's budget. We are talking about numbers ranging from \$9.5 to over \$11 billion dollars. There was a very steep drop in fiscal year 2009. In 2010 it continues to drop but not nearly as quickly. The two numbers for 2011 and 2012 are the current estimates that came out last week that are slightly higher than what they originally were. We are definitely going in the right direction. In fiscal year 2011 it looks like we will come close to matching 2006 revenues or go a little over. In 2012 they don't think we will get all the way back to where we were in 2007 and 2008. This is for all state generating revenues and most of it is sales tax but others are included in the numbers.

Mr. Loewen then showed the gap of where it will be in 2012 and where we were in 2008. Even with the improvement, we are still a long ways from where we were two years ago. He then showed a chart that included the \$400 million growth of mandatory costs that squeezes down from other areas including Higher Education. The State needed to bring in revenues around \$11 billion to fund governmental operations at the same top levels as 2008. Trustee Wharton stated that he thought the State revenues were way up over \$11.5 billion. Mr.

Loewen explained that the revenues come in from different types of revenue sources. He then showed the part of it that is generated through State taxes and fees types. About half of the State budget is based on our tax revenues and fees that we pay. The other part is from revenue and cost sharing programs that come in and are not reflected in these numbers. Trustee Wharton asked if the gap between the blue and the green line is a portion of that driven by changes in healthcare loss, Social Security and Medicare. Mr. Loewen replied that some of it is definitely driven by cost increases of health insurance plans that are paid for all State employees. He then said he was not sure of how much it would relate back to any healthcare costs. The K-12 Basic Education Program is part of it. Chair Horne added that K-12 has not been cut over the last few years. Mr. Loewen replied by saying there are some legal requirements there and I do not understand how it all works. Trustee Anderson asked if he could comment on the Rainy Day fund. Was that funding something that was supported when we had great years like 2007 and 2008? Do you know how much was contributed from those years? Mr. Loewen stated that historically the Rainy Day fund has varied from \$200 to \$500 million. In 2007 and 2008 it grew immensely to about \$1.5 billion. Trustee Anderson said it looks like we are not as in bad of shape as I thought we would be in. If you start moving those top years down because you are contributing to the Rainy Day fund and then you look where we are going – the Governor should be able to manage through. Mr. Loewen went on to say that at the end of the fiscal year however the expenses and revenues balance out depends on how much is rolled into the Rainy Day Fund. It works like a water tank – a little bit of surge management. He then showed a chart that shows calculations of what would happen with different growth rates. Revenues do not grow in straight lines. If it grew at 1% average annual rate which is historically well it would be about 2020 before we got to the levels of 2008. If it grew at a 2% rate it would be about 2016 before we have equivalent level of state funding. A 3% rate gets us there quicker in 2015 or maybe 2014. Over a long period of time 2% is about how State revenues have grown if you look over a couple of decades. It will be a little while before the State gets back to where it has as much fiscal capacity and flexibility as it had a few years ago.

He then showed the University's piece of the pie of state appropriations. The blue bar is what is called the base recurring appropriations that are in the state budget document. The University will receive that money unless the State explicitly cuts it so we refer to it as base recurring appropriations. In 2008, we had over \$500 million. They cut those each year but during fiscal years 2010 and 2011 those cuts were offset with non-recurring revenues. A good bit of that was federal stimulus money that flowed through the state appropriations as

well as other non-recurring state appropriations that were tied to the stimulus funds. We will not get any more of these funds after this year. He then showed the drop going into 2012. We were expecting it but that does not include any cuts. Nashville is talking about possible 1-3% cuts so the figure will be less than what is shown at this time.

In conclusion, the state reserves are low and mandatory costs have grown. Cuts for fiscal year 2012 are not out of the question although the levels are not as large as we have experienced in years past. The state funding that is available to us may still be weak in the next few years because of the deep ditch that we are climbing out of. It will take the State a little while to get back to the fiscal condition that it was in 2007 and 2008.

President DiPietro reminded the Committee that the decrease of \$10-\$12 million over the timeframe it is about the same amount as the Foundation plan would replace over the next five years. The problem with that is those dollars are far too designated based on where a donor's passion is and their relationship with the University. The funds do not help us dollar for dollar but they help us in planning the institution's strategy. Chair Horne stated this year we raised about \$96 million in private funds and are trying to raise it over the next five or six years. President DiPietro the new foundation's plan is by the fifth year raising \$90-\$100 million more in addition to what we have done in the past so it will double. It will not backfill this money because people give money for what they are passionate about and for designated purposes. Chair Horne asked if that means the University is still in trouble. President DiPietro said we are still in trouble even if we raise the money because we will still be dealing with the downturn. Chair Horne reiterated that private gifts are usually designated for certain purposes. President DiPietro went on to say that the more independent we become of state support by raising money through development, etc. the better off we will be.

Trustee Anderson asked how long it has been since University employees have had a raise. President DiPietro said it would be four years this June. Trustee Anderson then asked him if he was committed to making that a major initiative. President DiPietro replied yes and we presented it at the budget hearing and spoke with Governor Haslam. It is not clear if they will include a raise for State employees but this year. If they do, we want the University employees to be included as well. I also asked in the budget hearing if we have flexibility if they don't do that so our units can determine how they might fund sources to make it happen. The worry I have is that other Universities are going to be in a better situation to recruit our employees. We need to do something even if it is on our own backs

internally. Trustee Anderson stated that he thinks one of the purposes of the EEF Committee is to be able to report back to the Board of Trustees that we are efficient and we have become that over the last couple of years. It is now time to recommit to our employees that we support them. President DiPietro agreed and said there are a couple of things that we are trying to tackle this year – some kind of increase for this year and also a five-year compensation plan. Vice Chancellor Brown chairs the Compensation Advisory Board (CAB) beginning this month. That group is looking at how to put together a five-year plan for compensation across the entire University in order to be more competitive. We need the latitude of the State to do what we can ourselves if they can't help us. The thing that would be really devastating is if they allocate money to all of the agencies but exclude the University. They have done that in some years past. We have made our case that we don't want that to happen. Trustee Wharton remembered when state employees got 2% and University employees got 1%. He went on to say that he wanted to second what Trustee Anderson said and asked if the Governor and Legislators would allow us to do something special for this group of state employees if they aren't doing anything for the rest of the state employees. President DiPietro repeated that it was unclear but that he has argued for it, but it has to play out in the process. Trustee Anderson confirmed that one of the Governor's initiatives is education so if ever there was to be a consideration it is with this new Governor. Chair Horne said one of the reasons that we have performance evaluations on the agenda is because we want to have merit pay increases. The President is committed to a merit pay pool for high performers. President DiPietro went on to say in a perfect world that compensation package would do a number of things. One is a COLA (cost of living allowance) adjustment, a merit piece to it and then there is market strategy for talent and expertise. That is what the Compensation Advisory Board will tackle with CHRO Hendricks' help and her staff in Human Resources. In an ideal world it would be great to have all three components in our portfolio to deal with compensation and retain and reward employees and that is what we are striving for. Mr. Peccolo added that regarding higher education that the Tennessee Board of Regents has made the same plea. President DiPietro confirmed that he and Chancellor John Morgan are locked arm in arm on this issue. Chair Horne noted that Georgia is changing its Hope Scholarship requirements because of lack of money. John Morgan said that maybe the Hope Scholarship should exclude higher income people. President DiPietro interjected that he disagrees with him. Chair Horne then asked if he had seen any evidence of that in Nashville. President DiPietro's understanding is that Governor Haslam is looking at capping the number of hours on the Lottery Scholarship but also adding summer school. He is looking at this option rather than eliminating



folks. It would hurt Knoxville because very talented students attend and they have many other opportunities to go various places on other scholarships. Chair Horne asked if John Morgan meant that and Dr. DiPietro said he meant it as another approach. Such as a veterinarian or a neurosurgeon shouldn't have the same accommodations as the person who is attending college for the first time. Knoxville has the Hope, The Pledge, The Promise and Achieve, and the Dream scholarships. I don't know where they will go on this – our position is to cap the hours and allow summer school. In Knoxville, 97% of students come in with the Hope Scholarship and in Martin and Chattanooga it is in the 80's. Vice Chancellor Brown added that it will help with the Complete College Tennessee Act and generate more money with the new formula.

- VII. **Effectiveness and Efficiency Cost Savings**—(Exhibit 4)—Chair Horne asked Mr. Loewen to continue with the Effectiveness and Efficiency Cost Savings. Mr. Loewen explained that this report is the flip side of the funding. We haven't been sitting still for the last few years. All of the campuses and institutes have a variety of activities and initiatives aimed at cost savings. Chair Horne said this is the kind of information that needs be put out to the press as to what the University is doing. Mr. Loewen then pointed out the summary and explained that there is detailed information for the 117 activities in the handout and this information will also be posted to the Web site after the meeting. Chair Horne asked about a press release and Mr. Loewen replied that there would also be a press release. He then showed the cumulative running total. Every time there is a new activity it is added to the list. Some of these things have been on the list for a while and we keep adding to it. Out of the 117 activities about 2/3 have actually been completed and have started generating savings. Some are one-time savings and some are recurring savings. Trustee Wharton asked what the breakdown is. Mr. Loewen said he would have to go back and do more analysis. He then admitted that the two months I have been on the job – I am not familiar with all of these yet. For the first time, we are now starting to track for each of these initiatives what kind of savings it is. Is the initiative non-recurring, recurring, one-time or is it on the revenue side. Does it enhance revenue one-time or is it non-recurring. We have just started collecting that information and I don't have a way to summarize it for you at this time.

Trustee Wharton asked fellow Trustees if they recollected about two administrations ago that the University Wide Administration would be cut by \$5 million and Chair Horne said it was \$5.3 million. Chair Horne told Mr. Loewen that he needed to check into it because it is a big complaint early on. Mr. Peccolo deferred it to Vice Chancellor Cimino because he was a part of the planning process at that time. Mr.

Peccolo said he recalled it being part of the budget cuts but did not recollect it being dollar for dollar for efficiencies gain and Vice Chancellor Cimino agreed. Trustee Wharton stated that he would argue that point that he recollected there was \$5 million of overhead to be cut for salary reductions. Vice Chancellor Cimino said there was but it does not calculate into an efficiency item on this list. These types of efficiencies listed are like moving from paper pay stubs to an electronic format so we saved X number of thousands of dollars from saving paper. The \$5 million cut in the system wide administration was the elimination of vacant positions. Chair Horne asked if that wouldn't help tell our story better if it were reported. Vice Chancellor Cimino said it could and he pointed out that Knoxville's estimated efficiencies of \$16.6 and \$14 million of that is the elimination of 300 positions that the Knoxville campus took as part of its budget reductions. Knoxville included the elimination of positions in their estimated efficiencies number. President DiPietro interjected that the System's savings are on page ten of the Summary of Measures/Actions. He went on to point out the \$150,000 savings in electronic pay statements, President Staff Salaries and Vehicles savings of \$400,000 and \$1.3 million reduced administrative budgets and passed the savings on to each campus/institute. Trustee Wharton went on to say that the public needs to know how much the cuts have been. Vice Chancellor Cimino mentioned that the FY 2011 information is included but FY 2010 is not.

Trustee Anderson asked if President DiPietro could comment on the Institute of Agriculture assuming that was under your leadership. I don't know what the overall budget was but it looks like \$10.6 million is a lot. President DiPietro explained that the budget was around \$150 million. Trustee Anderson stated that it was very impressive and asked what some of the cuts were. President DiPietro explained that there were a lot of positions that were eliminated as part of the package and tried to become more efficient by sharing and crossing counties for example. There were approximately 59 positions eliminated and Ag was the first unit to go with electronic submission of travel documents and cut out paper and postage. President DiPietro added that also the retirement incentive program. Trustee Wharton stated that a lot of great people were lost with a great deal of knowledge. Chair Horne went on to say we need press releases so we can hold ourselves accountable so when we get other cuts and changes in administration to the public so that they know that we have done our part.

On a side note – Chair Horne asked President DiPietro when the search for the Vice President of Development and Alumni Affairs would be over. President DiPietro said that he hoped that would be accomplished by late summer.

VIII. **UT Extension Statewide Staffing Changes**—(Exhibit 5)—Chair Horne asked Dr. Tim Cross, Dean of Extension to present. Buddy Mitchell, Interim Chancellor for the Institute of Agriculture introduced Dean Cross to the Committee by saying that he has done a great job of handling the downsizing of Extension. Dean Cross addressed the Committee and thanked them for the opportunity to present what Extension has been doing. He went on to say that we miss our old Chancellor, love our Interim Chancellor and love our President.

He then spoke a little about UT Extension. It is the outreach unit of the Institute of Agriculture. Our vision is that we are out working in the field and we want to be viewed as a top-notch educational resource for the citizens across the State of Tennessee and working on projects such as environmental sustainability and the well-being of our rural and urban communities. We are really emphasizing economic prosperity. Our mission is similar to what it was when it was established in 1910 and that is we work on solving problems and help to improve the quality of life particularly relating to agriculture, natural resources, families, youth and our communities across the state.

He then showed a chart that depicted Extension over the past ten years. The reason it was included was because a few years ago we were sort of like a three legged stool with county, state and federal funds. We have added some legs to our stool and some of the legs were shortened recently. We do now have significant grants and contracts dollars that are brought in annually. We also rely on some user fees. Additionally, we had stimulus funds for three years which were very beneficial. We do not receive any tuition dollars. We are generally one of the non-formula units as referred to across the system.

He was then specific about what Extension has been focused on for the past three years. Focus has been on the reduction from fiscal year 2008 all the way down to our projected budget for fiscal year 2012 of \$55.3 million for a reduction of \$4.4 million. The good news as President DiPietro mentioned was that stimulus funding gave us some time to work on it. It would have really been hard to pull the trigger overnight. The fact that we had some time and knew in advance was extremely helpful. As I talk to my counterparts in other states it is a real advantage that we have among the rest of the states.

First, we made the best possible usage of the stimulus and maintenance of effort funds that we were provided. We then took the opportunity before we started slashing, cutting and changing things - we made sure we had a clear picture of where we want to be over the

next five-ten years so we followed our new strategic plan. We followed that with one of the key things we knew had to take place for an organization that is predominantly salaries and benefits was to reduce staffing. One of the next steps was to develop a staffing plan and we are now in the process of implementing that strategy as well as other strategies associated with our strategic plan. He then stated that he would touch briefly on each one of them.

Leveraging Stimulus Funds – we recognized early on if we were going to make a \$4.4 million reduction we were going to have less people. Along with President DiPietro's support, the Institute was allowed to offer a retirement program that worked very well. It enabled a lot of senior employees to retire but keep them on board until the time of a post-retirement appointment. They scaled back to 50% time and we did provide a four month incentive payment. Most of the folks that took advantage of the program but what we appreciated about the program were the post-retirement appointments. For one thing, Extension tends to be lifestyle and not a career necessarily. It gave the employees opportunity to start to pull back from what they have been doing for many years. These employees live in the communities, interact in the grocery stores, church and so forth. Chair Horne asked for the number of employees that took half time. Dean Cross said almost everyone that took the retirement program took the half time option. We did not mandate it but virtually all of them did take the half time option with the exception of three or so. Chair Horne then asked for the total number and Dean Cross replied 59 agents and area specialists and then we separately negotiated a similar program with ten faculty members. Chair Horne asked if he felt that Extension was getting more work out of half-time. Dean Cross said that is correct. Trustee Wharton asked if the folks would be allowed to work half-time past the first year. Dean Cross said there would be few key people that we keep on half time for transition purposes to allow us to hold a few vacancies open that we really need to fill but do not have the money right now so we have to generate some additional vacancies so can turn our attention to those positions. By in large, we are going to pull the plug on all of those post-retirement appointments by June 30. Of course, we can use the stimulus and MOE money to fund those positions. I thought the stimulus funds were there to provide employment and that is exactly how we made use of the funds. Chair Horne asked for confirmation that after the one year the employees won't be back. Dean Cross explained that there were two rounds of this retirement program. One was in fiscal year 2010 and one was in fiscal year 2011. The employees that took advantage of the program – we offered them another year at half time if they chose. Again, virtually every one of them chose it.

Trustee Anderson asked if there was a way to measure customer satisfaction to see how the community is accepting all of this. Dean Cross said yes it is a device called a phone. I have been getting steady and frequent feedback. He said he would discuss that more into the presentation. President DiPietro commented that the contact information out of the Extension Database depicts how many people you are contacting and serving is one measure. Mr. Mitchell added that it is a highly documented outreach. Dean Cross interjected that we did factor that into the whole process. Chair Horne mentioned that he was in a meeting with Farm Bureau and discussed fund raising. President DiPietro stated that it had been done and specifically they helped with the large animal hospital initiative with a large gift. Mr. Mitchell also stated that they fund Center for Profitable Agriculture. Dean Cross went on to say that Farm Bureau has been helping Extension with this plan as well. On the half time appointments we paid 3.5 of it and said Extension Agents if you want the other 1.5 paid for you need to ask their County to step up or faculty you need to bring in some external support with grants and fees. Again, virtually everyone did that. We actually only paid 3.5 for the half time appointments and we got our money's worth. Most of the counties have not realized that their agent retired. That is a scary thing and now they are figuring it out because the agent is saying I won't be here after June 30. We have maintained a good level of services. We kept our contacts and educational sessions very high during that period.

Once we got the retirement program rolling and vacancies generated that was sort of the easy part. We then turned our attention to developing our strategic plan for the future. If you talk about eliminating people whether it is instructors on campus or extension agents in the field – the real challenge is to make sure that people's expectations do not go down. The question becomes how you can possibly continue to offer what you have been at a reduced level of employees. We began that effort with a strategic plan and we used a very interactive process. We appointed a leadership team that was committed to doing it in a transparent and inclusive process and needed to look at a five-ten year timeframe. We did a number of things to not only engage our employees but more importantly those out in the field to let them know what and why we were doing it and asked for their input and involvement. We implemented on-line surveys for our employees and also the general public. There were 2,000 folks entering data for us in terms of what their priorities and needs were. We had ten area meetings where we brought individuals from every county and state to an area and got them together for discussions about; what is important and not so important and what are the areas we can do without. No one said anything about that but most said we need more. We then followed up when we had draft

plans in place and did focus groups with key leaders from state agencies, such as Farm Bureau and other universities across the State of Tennessee. Discussions were held on this is what we are thinking about doing and what is your feedback. Finally, we posted a Draft Strategic Plan on-line and we allowed the public to comment on it for 30 days. We received another 400 or so comments and we used a postcard system as well for those that do not have Web access. We revised the Strategic Plan, published it and rolled it out at the state-wide Extension Conference in November which was also the culmination of our 100 Centennial Celebration. In that Strategic Plan, one key action was the development of a new staffing plan. All of this is preamble of what you want to hear and that is scaling back 60 FTE

Trustee Wharton asked for the starting rate of pay for an Extension Agent and a ballpark salary of an Extension Agent. Dean Cross answered by saying the starting pay for an Extension Agent with a Bachelor's Degree is \$28,561, with a Master's Degree it is \$31,561 and puts us in a solid last place in the southern region in starting salaries. I think we now have that distinction for the last in the country. As far as the salary goes that seems like it changes every day but we generally rank lowest on overall salaries as well. Trustee Anderson made the comment that is what we are talking about. If you are doing such a good job in being more efficient with less people – shouldn't you also fight to pay the people you have left well. Dean Cross answered absolutely. President DiPietro said the single disappointment over the last five years has been that they could not figure out how to handle this problem. We studied it and we worked on it the best we could but when you have a downturn like we've had on top of it all it is crushing to not be able to figure out a way to fix it. Trustee Wharton then asked if a starting agent is married and has a couple of children that they could qualify for food stamps. Dean Cross said yes with a Bachelor's Degree it is possible if they have two children and a spouse unemployed. It is disheartening for them to have to seek additional benefits. Trustee Wharton then stated that his question is exacerbated by the fact that Extension cannot raise tuition. The truth of the matter is that I have never heard anything in my small community except extremely favorable comments about how much they serve the community and farmers and how much they help them with improving their lives and productivity. We simply have to put a saving ground and help these people out. Mr. Mitchell said Trustee Wharton made the exact right comment. More and more higher education is funded by tuition and their dollars go up. We don't have tuition so our dollars are going down. We have cut these programs three times over the last ten years. It is a critical situation. Programs are being highly marginalized and we can't keep making 4.5 million contacts per year if we downsize our force like this if we don't have tuition to turn to. Frankly, we need a new funding model for Extension and we are

working hard on that. We are not ready to present it yet but you will hear about it. If we don't do that eventually the programs are just going to go away if you project that out over the next 30 years or so and there won't be an Extension Service. President DiPietro said that the last summer he was at the Institute of Agriculture they started a formula approach. We need some sort of formula that we can go to the Tennessee Higher Education Commission with that is a base approach that shows them that even though we are efficient with less employees and should be rewarded for that. It seems with the Complete College Tennessee Act they seem to be more open to that and the people at the Institute were in the midst of digging into that. A task force was put together last year and there should be a report soon. He then went on to say that he spoke to THEC previous before taking the position of President and they were open to it and that is where we are out. Mr. Mitchell explained that they don't have any money to give raises. The most frustrating thing is we lose our best people. Chair Horne said don't forget that a new part of the funding formula is Farm Bureau. Chair Horne asked if they had a good development officer and Mr. Mitchell said you are looking at him and explained that they had a \$55 million goal and passed it. Then we had an \$85 million goal and we are at \$96 million now. Chair Horne asked if they get any of that money. Mr. Mitchell explained that it was designated money for scholarships or a particular program. Chair Horne asked if someone could designate money to Extension and Mr. Mitchell said yes if they want to make a gift for personnel development. Chair Horne said what if someone wants to designate half or quarter time for a development officer for Extension and Mr. Mitchell replied that they would love it. Dean Cross added that last summer we spent some of our stimulus funds and created a term position to raise money. Chair Horne went on to say that he attended a conference in Bonita Springs, Florida and the Chairman of the University of Florida's Foundation stood up and said my brother died last year. My brother had never been married and never had children. He gave his estate to a lot of people but the University of Florida was not included. The Foundation Chairman said you know why they did not get any money because no one asked him. You have to pick someone to do it that doesn't mind getting turned down. Mr. Peccolo stated that in his opinion we have to change what we ask. Historically, we have asked for restricted funds and the State provided it. Now the State isn't providing it. It is a tough sell but change the request from restricted funds to operating funds.

Dean Cross went on and showed the new Staffing Plan. He pointed out that the Plan calls for somewhere between 1-4 agents in each county. The numbers vary based on the needs of the county, tax base, population, number of farms and youth. In developing this

Staffing Plan we did not use a statistical model but used a demographic model. We engaged our people and used the results of the strategic planning process to come up with the staff in each county. As you might guess, there was a total of 60 positions eliminated; 42 Extension Agents, six Area Specialists and the net reductions by region of the state are shown in the left hand corner of the staffing plan map. I haven't heard yet from a County that lost an agent that said that was a great move on your part. When I say agent that is a position because we did the retirement program we didn't have to do a Reduction in Force. Unfortunately, all the retirements incurred in the right places. There were places like Decatur County, Tennessee where the agents and the secretary took the retirement program. The entire office retired so obviously we then had a situation where we had to get agents back into that county. We identified 19 individuals across the State that had to be told we can't afford to keep you in the position that you are in now and we need to move you to another county but we want to keep you in Extension. We have 30 new positions open that you can apply for and there will be an internal search to give you preference throughout the process. We hope to fill those transfers in March for the 19 individuals and then those positions that are not filled will be filled externally. Trustee Wharton stated that there are big costs from relocating both psychological and monetarily. Do we have those people relocated and Dean Cross said yes we do. We will negotiate with them for moving expenses as long as it meets the IRS Guidelines from residence to residence. These individuals are able to work either in the county next door or some will have the opportunity to work in the county where they live. We don't expect too many to physically move across the State but some will. Chief Business Officer, Tim Fawver will negotiate with those individuals and we will provide reasonable moving expenses. We can't do anything like the private sector in terms of a relocation package (sell a home and buy a home and all of those things) but will give them every bit of support that we can. Obviously, we are giving them preference in the internal transfers. If you have been asked to move you get first shot at the vacancies. We are still an organization that receives county money and with county agriculture committees in every county - we don't just walk in there and say this is your agent and best wishes for the future. Those folks have an interest in who is employed like we do so we have to work with the counties to make sure we make good placements. I have every confidence that we will be able to do it. If there is someone who wants to transfer that has not been asked to do so and they are in a county where another agent has been asked to - we will work with them. We will transfer the one that wants to move and will allow the one that was asked to move to remain in that county. It is a complex chess game in terms of folks moving around but the guidelines and logistics are in place to support it. It should be taken care of in the



month of March and positions are being applied for at this time. Trustee Wharton noted that we have the lowest paid people in the nation and moving is expensive. We are putting the burdens on the backs of our people. Dean Cross said I agree and if we had eliminated 30 more vacancies we might not have had to ask anyone to move but as it was there was Decatur County with no one there. If you look at the map, we have a small numbers problem. How do you cut 15% in a three person office when one person knows Agriculture, one knows Family and Consumer Sciences and the other knows 4-H. Other than scaling back each appointment, you are looking at losing at least one position. That makes it very difficult as well.

Dean Cross went on to say that the folks he has talked to have expressed resigned acceptance. They are not happy or pleased and they understand the need and process. By large, we are moving ahead. There are a few hot spots where a few folks are very unsatisfied because their agent was affected and they don't like it. It is similar to a teacher being displaced in a school system but are making progress there. We have emphasized communication and have made sure that every individual that had to move was told by their direct supervisor on the same morning. Then we communicated the plan immediately to the entire organization. We then were lucky enough to be able to work with the media to get information out statewide. In addition we contacted some key individuals in this room, all elected officials at the state and federal level and all the partner organizations that we work with. We tried very hard to be open and transparent about what we were doing and how we were doing it and why. The feedback that I have gotten has all been we are disappointed and we wish that you would reconsider but we understand. My response in each case has been we are not going to renegotiate on 60 FTE. If we renegotiate one we have to on all of them and we are not going to redo this process. Again, I think it has been well accepted. In terms of results, this saves Extension about \$3 million in salaries and benefits. Our county directors have been much more supportive this time than in the past and I think it has been due to them being directly involved. They knew and understood the process and it wasn't a computer model run in Knoxville and informed of the results. They were part of the conversation. The officials that I have spoken with know all too well why we had to make the reductions. They just assumed their agent wouldn't be affected but have been very supportive. They said they understood but just wanted to be able to communicate to their constituents. Most were comments about what the agents meant to the communities. We are working on those 30 vacancies and hope to have them filled no later than July 1. Now, the real challenge is figuring out how to do educational programs with 60 fewer teachers. That is part of the implementation step. I should have used better

words than keys to success such as keys to accomplishment. The need for reduction was mandatory so that part has been successful. We got the support of the Administration and the Board of Trustees for the Retirement Program. Stimulus funds may all the difference in the world. We have a very committed Leadership Team both on campus and across the state. We really emphasized honest messages when we started talking about the need to restaff and the scope for budget reductions two years ago. CBO Fawver reminds me that we still have a lot of our budget remaining; we still have good people and have the opportunity to deliver good programs. We are a very traditional organization and I have used this quote from Jim Collins "Enduring great organizations are characterized by a fundamental duality. On the one hand, they have set of timeless core values and core reason for being that remain constant over long periods of time. On the other hand, they have a relentless drive for change and progress..." You can be traditional and rooted in the past and yet that still requires you to make changes to make a good growing dynamic organization. Our people look at it and still say we need another agent so it only goes so far. I think it helps us to remember we are a strong historic organization that serves communities but we are changing as we need to.

Mr. Mitchell commented that this was a very difficult task. Each of these constituent groups is passionate whether it is beef cattle or beekeepers. They do not want their positions cut. One of our sister Land Grant Institutions didn't do it right and they had to redo the process. They started the reallocations of their employees before they got input. The producers started throwing rocks at the administration and asked what they were doing to them. I did not get one call and I know these people across the state. Dean Cross did a superb job. He sat down face to face and got input early on. You can sell a tough deal and it took countless hours. Chair Horne commented to remember the people you are serving are successful – ask them for some help. President DiPietro noted that there are a team of development officers in the Institute of Agriculture and they do work for Extension as well.

Trustee Wharton asked President DiPietro if it would be fair to say that these are the most underpaid employees in the University across the state. President DiPietro replied that probably but there could be other pockets. Vice Chancellor Cimino argued that in addition to this area would be the facilities services folks across the campuses. They are some of the lowest paid employees. Chair Horne asked what the starting and average pay for a facilities services employee would be. Vice Chancellor Cimino said there are some at \$8.50 per hour which is the starting wage.

IX. **UTK Academic Effectiveness and Efficiency Task Force Implementation**—(Exhibit 6)—Chair Horne then asked Susan Martin, Provost of UTK Campus to present. Provost Martin began by saying she would like to report to the Committee the results of the UTK Academic Effectiveness and Efficiency Task Force. Chancellor Cheek charged her with Chairing the Committee in the summer of 2009. In the summer of 2009 we reviewed a great deal of data and our charge was survey our academic policies and procedures, all of our processes and our resource allocation to make sure that we were moving students to graduation in an effective and efficient manner. This report is not about spending money and we will not show you a bottom line of what we saved. The benchmark is “are we getting students through and are we getting them graduated in a reasonable amount of time.” That is what this effectiveness and efficiency is about. We just completed a Strategic Plan, Vol Vision with our Top 25 metrics and the three benchmarks for our undergraduate student population go to the quality of the student population, first to second retention and then graduation in six years. As you know, we fall behind on the two latter benchmarks. The sole motivation of the UTK Academic Effectiveness and Efficiency Task Force is to move numbers forward in an expeditious fashion. When we first started working on these issues for 2005 and 2008 our first to second retention rate was about 77%. This year we brought it up to 86% and since you lose the most students between the first to second year than you do the rest of their degree program – we feel that we are moving in the right direction to make a real impression on our 6 year graduation rate. Trustee Wharton pointed out that Freshman Chemistry gets a lot of students. Do you think that reordering the priority classes would improve? Provost Martin said that is exactly the kind of thing we are talking about. You are in tune with our kind of thinking. We are looking with data driven information where the student demand is and how well positioned we are with student demand. It is a very important component. President DiPietro mentioned the Banner program and we are up to our elbows in implementing. A lot of what we do in the future depends on the successful implementation of Banner and our ability to extract data from it. We are looking at bottlenecks and all of those kinds of issues. Trustee Wharton asked if the Faculty has been advised that student retention and success is very much a part of what we are trying to do. Provost Martin said it seems that we speak of little less but Toby Boulet could offer anything corrective of that. This message has been transmitted very clearly to the faculty. Hand in hand with that because we have such excellent students now we are also talking about making the experience more rigorous and more satisfying for the high quality of students that we have. It is not about pushing students through

Math and Chemistry – it is really about creating a level of challenge that will keep them here, especially those top-level students.

The Report was issued in spring, 2010 and began immediately implementing recommendations. The Task Force made eight recommendations. Number one – we realized that we were sending the wrong message at Freshman Orientation. We get the students and their parents for two days on campus which is a huge amount of time. That time is very precious so what were we doing with it. We weren't using it well so we implemented several measures to make sure we are doing the right things. First of all, the consistency of message – what is our message to the students coming in at the door. It is about on-time graduation. We have iterated that message consistently now through Freshman Orientation, Welcome Week and through the first semester. You may have heard that we actually gave the entire Freshman Class little graduation tassels with the date of 2014 on them to ensure they got the message. We have also reallocated time during Freshman Orientation. Students would come in and spend a lot of time doing things that they could do more efficiently before they came to campus. It actually took several hours off the first day. We said that doesn't make any sense on Day One we are now sitting them down and teaching them everything they need to know to be academic planners. We give them homework so they can go ahead and work on planning their schedule. Then they come back on Day Two where they meet individually with advisors to plan their fall schedule. There are several reforms that happened with students leaving campus much more confident about their ability to use our systems and to plan their schedules not only for the first semester but on through their graduation.

Recommendation #2 is to implement a tracking system to monitor students' progress through tracking courses the first two years and on into their major. This is something that President DiPietro is familiar with this from the University of Florida and we are implementing what we call UTrack. This tracking system aims to help us allocate our courses and instruction more efficiently. It allows us to get data out of the system which is a critical factor. It also allows us to monitor student progress through their first two years and into their major. We are currently working with all of our departments and faculty to identify key tracking courses. If you are chemistry major you have to be in certain math courses and certain chemistry classes. If you are in pre-law you have to be in other certain courses, nutrition, etc. These are tracking courses. If the student is not registering for these courses in a regular way – the system notifies and the student will be called in and advised about whether you need to reassess your plan or whether it was because you didn't register for the correct course. The student is

then put back on their track advised to move into another track. Again, the implementation of this really depends upon the successful implementation of Banner. We used tuition dollars from summer school to support this. We are working very purposely toward the implementation.

Recommendation #3 is to use summer school strategically to promote on-time graduation. We realized we were not using summer school strategically to promote our goals of progress and on-time graduation. Our summer school enrollments were well below those of our Peers and we just weren't approaching it strategically. The Task Force has ordered a more detailed report about how to reform summer school and this is being implemented for summer 2011. Chancellor Cheek has challenged us to get a thousand more students enrolled into summer school this summer which is about a 50% increase. We are focusing on creating incentives for the departments and faculty to serve three groups. The first group is rising sophomores and juniors to keep them on track so if they didn't get that last course or didn't pass it they could attend in the summer, take that course and they are back on track. That is the continuing students. The number two group is what we are calling the jump start students. These are entering Freshman that want to take advantage of the opportunity to come the second summer session and get use to the life at UTK, get a few courses under their belts and have that jump start. We have targeted that population. The third population is our Bridge Program which we have now started with Pellissippi State. There is a program that will be implemented this summer that will serve students on our waitlist and will be offered to go dually to UTK and Pellissippi State. If they do everything we ask them to do they will be fully enrolled at UTK after the summer and two semesters at Pellissippi State. They are dually enrolled so they can live on campus to help them feel like they are a part of our campus as they work towards fulfilling coursework at Pellissippi. We feel that we have summer school on track but there is a ways to go. By the way, it is self funded so with any luck we will not only pay for it but be able to return some incentives to the departments. President DiPietro asked about a certain selection of students attending the second session of summer school and if the number of hours they are allowed to take will be limited. Provost Martin replied that they will take two courses. In summer school the limit is you can only take six hours. Trustee Wharton said there are students that are totally capable of doing summer school and taking more than six hours. Provost Martin replied that they can do six hours per session and including mini-term they can do more. Typically, that is twelve hours in a summer since the courses are accelerated and last longer in the day is the rationale. You can do the same amount of hours during the semester but is a compressed timeframe.

We also support changing the current legislation governing the Hope Scholarship to provide up to ten semesters and including summer school as an eligible semester.

Recommendation # 4 is to restrict the number of courses a student may drop as an undergraduate. Provost Martin commented that she hated that Trustee Loughry is not in attendance because she is very interested in this topic. We now have a policy that has passed every level of approval except for the Faculty Senate to restrict students to four drops during their undergraduate career. We have the most permissive drop policy that you can have and that is to say there is no limit. When we looked at the data we saw 4,000 drops a semester after the drop and add period. That means in a hundred person class by the end of the semester there might be 60 people left in that hundred person classroom and that is a waste of capacity. The students that we have spoken with about this new policy seem to be onboard. We think this will make students more careful planners and take their coursework more seriously. This recommendation is expected to be implemented next fall.

Recommendation #5 is to allocate or reallocate resources to alleviate the situations of greatest stress in areas of high demand and where bottlenecks are impeding student success. We have allocated the line share of that extra ½ percent of tuition that we were able to get through the Board's good works towards instructional faculty. We allocated three tenure tack lines in areas of highest demand. We allocated a number of lecturer lines and graduate teaching assistants to help with our biology program. We hope that these allocations will help us in areas where we really have a large demand.

Recommendation # 6 is to look at changing UTK's timetable. We are actually implementing a new room scheduling system that will allow us to extract their data regarding class scheduling and usage. We are halfway to implementation and again some of this depends on Banner. We have implemented new timetable rules to enforce full day scheduling and to allow more flexibility in our schedule throughout the week. We want to make sure that we are using our facilities and our full day scheduling more efficiently. Once we get the new software, we will be able to learn a lot more about our scheduling and usage and it is in the process stage.

Recommendation #7 - is to improve the effectiveness of advising. We have had complaints that our advising is not adequate and that the students do not receive enough advising services. We agreed with that and understood that that is a resource issue as much as anything else. We have allocated 40 advising positions to Arts and Sciences

and in addition we have allocated money from that extra tuition to advisors in other colleges in the areas of greatest needs. We believe that we will see a difference here and we already have seen a difference in Arts and Sciences advising. We are very grateful to be able to do that in addition to going to a professional model in Arts and Sciences advising. The faculty that is advising in the advising office has been able to go back to teaching with a heavier load which is better for the students. They are getting more institute advising more faculty resources.

Finally, recommendation # 8 had to do with looking at our mission structure and seeing if it actually created an incentive for students to take a maximum amount of hours and graduate in 4-6 years. Students pay for 12 hours and they can take up to 18-21. We requested that Chancellor Cheek appoint a task force to consider a more efficient tuition structure. He has done so and will be reporting to you on that this summer.

In conclusion, I think we have a great start in becoming a more effective and efficient Institution. Our strategic planning process is going to move up further in the near future. Chair Horne thanked Provost Martin, Vice Chancellor Cimino and Chancellor Cheek for a thorough and good report.

- X. **On-line Learning Update**—(Exhibit 7)—Chair Horne informed the Committee that they would touch briefly on On-line Learning. President began by discussing an article out of the Trusteeship Magazine. He stated that it is the best synopsis that he has read over the last year or so about education on-line. The authors of the article have experience in this area basically asked the following questions; why are you on-line, how do you support faculty members and students in the on-line program and how do you assess quality of the program. These should be key issues that we ask ourselves when we look at on-line. I think there is a notion that there is a profit margin for on-line and that is not always true, per this article. If we are going to get into on-line activities we need to do full cost accounting and figure out if it will at least breakeven and do you want to get into it if it breaks even or if you only want to work on those that are profitable. There are two reasons to do on-line. One is to make some money but there are also some efficiencies from the standpoint of students. The other thing is that young people come to us differently that some of us and they have an expectation to do things on-line. They want to be able to take a course at 2:00 a.m. in the morning and it is not always the distance person that is place bound that wants to take an on-line course. There are residential students on campus that want to take an on-line course as well. We need a common set of assessment metrics for on-line

courses so that you can assure yourself of that degree that Martin, Knoxville or Chattanooga produces is equivalent to the traditional degree experience in a typical classroom. If you are going to produce a quality program, and that's the only way you want to do it in my opinion, is that the graduates are in one program or another. Whether they are in an on-line program or they take traditional classes on campus the two should be equivalent. Employers should not be able to notice the difference.

Lastly, there are three key things in this article that you need to focus on regarding on-line. You need to realize that there is always a broad array of possibilities for on-line course offerings. You don't need to get so carried away with potential offerings that it gets lost from the original intent. Some universities have said at one point or another, one is my Alma Mater, put everything on-line. It failed miserably. You have to be strategic and realize there is a significant commitment of institutional resources that needs to be placed in an on-line approach if that is the direction you go to make it work. Typically what I have seen work in this area is a hybrid approach. There needs to be a centralized source of funds within a campus or across the system that provides monies to get these things off the ground with some sort of mechanisms on those courses that become accepted, widely enrolled and better yet has some profit margin to return part of that investment to the centralized source to start the next one. Right now what you will find on most of our campuses is that people would like to get into the on-line business but won't because of the frontend costs. Remember that on-line courses should cost less than the traditional approach to education. Students have an expectation if I am teaching parasitology class on-line and they expect it at 2:00 a.m. if they ask a question about a pig, cat, dog, horse or cow that I am going to answer it in a certain time limit. Students want that instant feedback. You have to figure out how to get the program off the ground if we are going to expand it. We are not exactly behind in this situation. If you go to the Web site there are a number of courses we are offering currently. You need to determine and validate that commitment at the Institution level if that is where we want to go. He then turned the program over to Interim Vice President of Academic Affairs and Student Success, Katie High.

Dr. High began by acknowledging that most of the Trustees were not on the Board back in 1999 but that is when the University of Tennessee first started getting serious about on-line education. There were some System funds that were reallocated to the UT Martin campus and there was a decision made at that time that UT Martin was going to be the on-line entity for the University of Tennessee. They set up an administrative structure with a Director, Marketing, a



Help Desk, Student Support, Library Services and their own Registrar. They did faculty training and invested in software and hardware and they had professional development. They tried to encourage people to get into the on-line business. In order to do that they charged \$56 per credit hour so they could continue to have resources to provide the services. They invited all the campuses to participate in their on-line program. About the same time the technology got easier to use and as President DiPietro said entrepreneurial spirit took over. A lot of the departments on various campuses decided they could put their classes up on-line without having to go through UT Martin. So what we have right now is a hybrid system. Chattanooga and UT Space Institute use UT On-line through UT Martin. UT Knoxville and UT Health Science Center do not go through UT Martin. Even at UT Martin some of their programs go through UT Martin On-line and some of them are on their own. I asked the campuses to give me information about the status and what we have right now is we have 34 academic programs from the University that are completely on-line. Most of those are graduate programs. The faculty has found it easier to translate the curriculum to on-line when they are graduate programs. In addition to those full programs, we also offer 730 individual courses and those are scattered across the University. In the academic programs there are 1,804 students enrolled and mostly graduate students. I think Banner will help when it is up and rolling because some of the courses are blended. We can't tell from our student information system but roughly there are 2,500 students who are taking an on-line course. The 730 courses are offered but they are not all offered at the same time. We have the 1,800 students that are in the full programs and another 2,500 students that are taking some kind of on-line course at any particular time. That is where we are at this time. We would love to hear from you what you think might be reasonable for us to pursue.

President DiPietro explained that Chair Horne brought this to our attention and what we need from the EEF Committee is what would you like us to do regarding next steps on the on-line education. Chair Horne stated that the Board may need to discuss it but there are all kinds of options that we have discussed. We discussed having a separate division entity or maybe partner with some other institution or do it on our own. I don't know that the EEF Committee on its own should say. On-line Education should probably be on the full Board agenda but we can come up with a recommendation. President DiPietro suggested putting it on the Academic Affairs agenda. Trustee Anderson commented that he thought it was originally discussed in this Committee because on the surface you think Wow this could really make us efficient. As you have pointed out, we need to be careful because it could be more costly. From the Board's standpoint we just need to look at on-line education overall. If this is a no brainer and we

want to go on-line and make a lot of money but you have made the point that it could actually cost more so then we need to refer it back to the Board and ask if they want to make this type of commitment. Chair Horne then suggested that this topic be added to the Workshop agenda in August. There are a lot of ramifications but personally I am aggressive about this myself. I am just one Board member.

President DiPietro noted that he wants the System's Strategic Plan to be the primary focus of the Workshop but we can remain flexible. I think we will be engaging the Board all along in the process. Trustee Anderson then added that it might be appropriate to have a sub-committee for this purpose to work out the issues. The sub-committee could bring it back to the EEF Committee and say it is feasible or not.

Trustee Wharton stated that two things come to mind. One is that UT Martin has led the way in on-line education and we ought to hear from them about their experience. How much does it cost and how much does it generate. They have a pretty good universe that might give us a reliable answer. The second question he posed to President DiPietro as to whether there is a possibility of a partnership with the Tennessee Board of Regents regarding on-line education. There may be things they already have on-line that we could license from them or things that we have that they could share. If the wheel has been invented somewhere else and we can get it. Chair Horne added that the University of Indiana went in with Western Governors University. Trustee Wharton commented that Western Governors University seems to have a successful program. Dr. High noted that she did have some follow-up with the Western Governors University after the June Board Meeting. It was not the University of Indiana that partnered with them it was the State of Indiana and was done by Executive Order with the Governor. The University of Indiana is not a part of it. Western Governors University is interested in having any kind of future conversations with the University of Tennessee if that is what the Board decides. She reiterated that it was the State and not the University of Indiana as she thought also. Chair Horne asked Dr. High her opinion of what the University should do regarding this issue. Dr. High said whatever we do we need to be very cautious and make sure that we have the input and support of the faculty. The University of Illinois' administration did something outside the faculty. They hired additional faculty to teach those courses and that is part of the reason that it failed. Our faculty is very creative and understands that the times are changing. Whatever we do we need to very carefully involve them and their expertise. President DiPietro agreed and said that part of the problem you are faced with regarding on-line course work is impediment and faculty resistance. You have to work with the faculty from the start with a strategy that they are comfortable with. Trustee

Carroll asked who has been the most successful. President DiPietro said Western Governors has been terribly successful as have some larger schools but I think their models are different than what we want to do. In due respect to Western Governors while they have lots of people enrolled on the frontend they have what is there but who is on the backside of that coursework and what kind of teachers are teaching it. It might not be a professor like Toby Boulet. We are looking at quality in whatever we deliver. Trustee Wharton said they had surveyed the employers of their graduates and the satisfaction rate was high or higher than traditional education classes. That is a measure of how well they are doing. Chair Horne asked Trustee Boulet what he thought. Trustee Boulet said you first have to get around the infrastructure set up. Even if you had a wonderful market and a high demand an issue would be to get faculty who can do this well. Just because you are good in the traditional classroom teaching does not mean it would come across well in an on-line format. Some of my colleagues have tried it and don't like it. We don't have many faculty members in place, I don't think, that are experts in teaching on-line. President DiPietro added that you have to put infrastructure in place for merit you have to help them get there. You can't call up an assistant and say put it on-line. It is just not that simple. It is not just transforming materials that were given in a classroom. Trustee Boulet said it is talking to a camera instead of a class. President DiPietro noted Trustee Wharton's request asking how cost effective it is in our current structure and could we do some modifications and if there are partnership opportunities with the Tennessee Board of Regents or other institutions. I think this should be discussed with the Chancellors and various campuses to get a perspective from them as well. Then we can report back at the next EEF Committee meeting. President DiPietro asked for any other action items and Chair Horne said you might want to get aggressive and check with for profit on-line public/private partnership. He then agreed with the President and told them to bring it back to the EEF Committee. Trustee Wharton asked Dr. High what the perceived value of a Bachelor's Degree is from the University of Phoenix. Dr. High stated that it probably depends on who you ask. I think a lot of people who are in public or private higher education look a little bit of scants at places like the University of Phoenix because of the way the courses are delivered. The materials are developed by one person and then there are a variety of people asked to deliver that material. There is varying levels of skill in delivering that material. Employers may be happy with it but it will probably depend on what the program is. Chair Horne interjected that Congress is scrutinizing these for profit places because they put students through and then they can't get jobs. The quality is just not there. One of the other things that they are looking at very carefully is how aggressively they are recruiting students to go to these on-line

universities. The students have financial aid to go to school but they are dropping out of school and defaulting on their student loans. President DiPietro stated that the key is equivalency and that happens at the faculty level and the Academic Affairs Office. If we decide to partner up with a proprietary school and you allow a student to take a course like physics on-line or traditionally here on the Knoxville campus, that those two courses are equivalent. I took physics for my veterinarian career but it might not be demonstrated that I would need it but it was a requirement. It is all kinds of stuff like that so you take it and move on to the next level. The faculty needs to help us understand how fluent these programs are along with the academic offices. What I think happens is you cheapen down a degree and that is something none of us wants. While some employers might be happy with a veterinarian that took physics on-line and got by there might be an aspect of it that we don't hear about. It is important that the academic affairs' staff have comfort with what we are delivering and accepting for credit. Chair Horne thanked President DiPietro and Dr. High for the Report and stated that we will keep working on it. President DiPietro asked Chair Horne if he wanted CIO Scott Studham to give an update on IT at the next Committee meeting and he said yes. Chair Horne acknowledged that the Committee has done good work over the last 2-3 years and we need to keep pressing the folks in Nashville to help.

- XI. **Other Business**—Committee Chair Horne asked if anyone had any other business to discuss; none was noted.
- XII. **Adjournment**—Committee Chair Horne adjourned the meeting



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Charles M. Peccolo  
Treasurer, Chief Investment  
Officer and Interim Chief  
Financial Officer