

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE

THE UNIVERSITY OF TENNESSEE BOARD OF TRUSTEES

March 2, 2005
Chattanooga, Tennessee

The meeting of the Finance and Administration Committee of the Board of Trustees was held at 10:00 a.m. EST, Wednesday, March 2, 2005, in the University of Tennessee University Center's Chattanooga Room A in Chattanooga, Tennessee.

I. CALL TO ORDER

Mr. Bill Stokely, Chair, called the meeting to order.

II. ROLL CALL

Ms. Sylvia Davis, Vice President for Administration and Finance, called the roll and the following members were present:

Mr. Bill Stokely, Chair
Ms. Johnnie Amonette
Mr. Jim Haslam
Mr. Jerry Jackson
Mr. Lynn Johnson
Dr. John Petersen
Mr. Don Stansberry
Mr. Bucky Wolford

III. WELCOME AND REMARKS

Mr. Stokely welcomed everyone to the UT Chattanooga Campus. He introduced Ms. Jean Dake, Chairperson of the UT Chattanooga Exempt Staff Council. Ms. Dake has been with UT for 29 years. This is her first year on the Employee Relations Advisory Board. Ms. Dake briefed committee members on recent activities of the Employee Relations Advisory Board (ERAB). The committee meets twice a year with the president and his executive staff to ask questions and bring staff issues and suggestions to their attention. The committee last met on February 16 in Nashville and discussed Human Resource's job classification process and received status reports on career ladders, Americans with Disabilities Act funding, sick leave bank eligibility, good health for employees initiatives (Tennessee on the Move), and the Employee Relations plan. ERAB members also attended the Senate Education Committee meeting where they

were recognized by Chairperson, Senator Jamie Hagood. The next ERAB meeting occurs in June.

IV. APPROVAL OF MINUTES OF LAST MEETING

Minutes of the November 9, 2004 Finance and Administration committee meeting were presented and Mr. Stokely asked if there were any additions, corrections, or changes. None were noted. Mr. Haslam moved approval of the minutes. Mr. Johnson seconded, and the motion carried unanimously.

V. APPROVAL OF FY 2005 REVISED BUDGET

Ms. Davis discussed with committee members the recommended changes to the budget approved by the Board of Trustees on June 24, 2004. The FY 2005 revised budget is \$1.3 billion. Educational and General funds total \$965.7 million compared to \$945.1 million approved in the original budget, an increase of \$20.6 million in operating revenues. The major changes are attributable to three factors:

1. Campuses now have actual Fall 2004 enrollments, which are reflected in the tuition revenues. The original budget was based on estimated enrollments.
2. The university's books are now closed for the year ended June 30, 2004 and all units have made appropriate budgetary adjustments.
3. The state department of Finance and Administration has provided final appropriations allocations to the university and adjustments are made to reflect these changes.

The most significant FY 2005 Revised Budget adjustments are in state appropriations, which now includes funding for the October 1, 2004 employee bonus and adjustments for staff benefit rate changes (employee group health insurance and retirement cost). These amounts were not known at the time the original budget was prepared.

The \$182,769 increase in auxiliary revenues was realized at the UT Martin campus. This increase is attributed to higher than budgeted student enrollments and the associated increases in housing, bookstore, and parking services revenues and expenditures.

Mr. Murphy asked Ms. Davis why the budget showed a \$ 7.3 million deficit. Ms. Davis explained the figure wasn't a deficit, but a reduction in the fund balance. The reduction is largely reflective of the year-end close and the associated reallocation of funds to current year expenditures. Ms. Davis noted a reduction in

fund balance is typical in the revised budget process. Ms. Davis indicated she would include fund balance information in future budget documents.

With no further questions, Mr. Stokely asked for a motion to approve the revised budget. Mr. Haslam moved approval, Mr. Johnson seconded, and the motion carried unanimously.

VI. FY 2006 BUDGET UPDATE

Ms. Davis indicated the University of Tennessee fared well in the Governor's FY 2006 budget recommendation. The \$2.5 million in matching funds for national academy-level faculty and capital improvement funds are greatly needed. The governor's recommendation also includes funding for a two percent salary increase: a 1% recurring increase and a 1% non-recurring bonus. Ms. Davis said the allocation of the pools has not been finalized.

Ms. Davis noted that Dr. Petersen is scheduled to appear before the Senate Education Committee on March 10 at 8:30 am for the higher education budget hearing.

VII. UPDATE ON PLANNING FOR A CAPITAL BOND ISSUE

Mr. Stokely stated that the Capital Projects subcommittee met on February 24 in Knoxville. The subcommittee discussed the university's substantial long-term capital and maintenance needs submitted every year that are not funded. The subcommittee is seeking to solve this problem and looking at how a state bond issue benefiting the University of Tennessee system and the Tennessee Board of Regents system could be accomplished. The subcommittee is in the early stages of the review process and has asked the Tennessee Higher Education Commission to bring the two systems together to work on a proposal.

The subcommittee's first action is working on a communications plan to inform Tennesseans, the state, and legislators of higher education's needs. The university needs to enlighten citizens that we are the lowest taxed state in the country and that if we want to move improve the state's educational attainment levels, then we need to invest in our future.

VIII. APPROVAL OF FILING OF FLIGHT OPERATIONS ANNUAL REPORT

Ms. Davis presented the first annual report on flight operations and welcomed the committee's input on how to improve the report. Ms. Davis explained the flight operations and associated cost. The flight operation annual report complies with the university's Fiscal Policy 735, University Aircraft, which was approved about a year ago.

Mr. Haslam requested committee members receive additional information on the average hourly cost of chartered flight service. Ms. Davis said she would obtain and provide to committee members.

IX. COMPENSATION PHILOSOPHY

Ms. Davis noted that in June 2002 the Board of Trustees approved the university's Compensation Philosophy policy to comply with language in the FY 2003 appropriations bill. Although the Compensation Philosophy is not a board policy, the updated version was presented to the committee as an informational item given their on-going interest in compensation matters. Ms. Davis described two important changes incorporated in the current policy. The first change removed references to "the ability to pay" based on recommendations contained in the Municipal Technical Advisory Service compensation study commissioned by the university. The study said inclusion of "ability to pay" provided a negative connotation that was not intended. The second adjustment was the recognition of the significant benefits package offered by the university as part of the employee's total compensation. Ms. Davis noted in October 2004 the university provided every employee a Personalized Benefits Statement that showed their total compensation package.

Ms. Davis asked for any comments on the directions we are taking. Mr. Stokely asked that a copy be sent to the Governance Committee.

X. REVIEW OF FINAL AUDITED FINANCIAL STATEMENT

Mr. Peccolo updated the committee on status of the university's audited financial statements for the year ended June 30, 2004. Although the university expects to receive the final audit report next week, we know the report contains five minor findings: three financial aid related findings, an IT security funding on the Banner system, and one sub-contractor compliance issue. None of the findings are repeat findings. Mr. Peccolo commended the staff on their fine work and the absent of any significant issues given the size and complexity of the university system.

Mr. Peccolo noted that the financial statements are in the same format previously presented to the committee but also includes component units as required by GASB 39. UT, the Tennessee Board of Regents, and the state worked together to determine what to report as a component unit. The group decided to include fund raising foundations plus other entities with revenues equal to or greater than five percent of the university's revenues. In accordance with these guidelines, the component entities included in UT's statements are the UC Foundation and the UT Foundation. Because of the reporting change, this year's statements do not contain comparative information. However, comparative information will be provided in future reports.

XI. REVIEW OF INVESTMENT PERFORMANCE

Mr. Peccolo provided the committee with information from the National Association for College and University Business Officers (NACUBO) 2004 Endowment Study. 742 institutions participated in the study. UT's return for the year ended June 30, 2004 was 16.3% compared to the 15.1% for those participating in the study. The average return for the public institutions participating was 15.2%. Institutions with endowment sizes between \$400 - \$500 million had an average return of 16.0%. The return for institutions with endowments exceeding \$500 million was in the 17% range.

Mr. Peccolo shared with committee members historical information on UT's investment earning. The university's one-year rate of return is 12.2%, the three-year rate of return is 6.9%, the five-year rate of return is 3.6%, and the ten-year rate of return is 10.3%. The year-to-date rate of return (July 2004 – January 2005) is 8.0%. The committee discussed the various factors influencing the rate of return with Mr. Peccolo noting that in 2004 a significant portion of domestic equity returns came from lower quality companies, which are not where UT typically invests its funds.

Mr. Peccolo reported that the university has engaged a new consultant group to look at our current allocation models.

XII. CAPITAL ITEMS

A. Approval of Gift of Fountain and Installation at 940 Cherokee

Dr. Britt stated that Dr. Petersen and Mrs. Petersen own a bronze fountain that they wish to install at 940 Cherokee and donate to the university. The Petersen's had owned the fountain when they lived in Connecticut. The Petersen's will pay for all costs associated with the installation from their personal funds.

Dr. Britt noted that even though the gift was paid for by the Petersen's personal funds, the value of the fountain and the total cost of its installation will be counted against the State Building Commission's \$100,000 threshold for capital project improvements.

Dr. Britt indicated the university's current senior-level housing policy did not anticipate gifts by occupants and that under the current policy any improvements, regardless of dollar amount or funding source, required the Board of Trustee's approval. Mr. Stokely noted the Petersen's had graciously worked with the Board of Trustees on this matter and appreciated their understanding of the restrictions.

Mr. Wolford expressed concern about the reasonableness of the Petersen's paying for the installation. The payment matter was reviewed and approved by the Governance Committee. The committee did, however, agree the current policy may be too restrictive and suggested that staff revisit the policy to ensure it provides for efficient operations while still maintaining effective controls.

Mr. Stokely asked for a motion to approve. Mr. Haslam moved approval, Mr. Jackson seconded, and the motion carried unanimously. Dr. Petersen was thanked for the donation. Dr. Petersen expressed his appreciation for the committee's action.

Mr. Stokely recommended the following items be placed on the consent agenda of the Board of Trustees meeting, if recommended by the committee:

B. Ratification of Acceptance of Gift of Real Property from UnumProvident (UTC)

Mr. Scheurer indicated this item was reappearing for the committee's consideration after learning of a gift condition that was not known at the time the matter was presented to the Board of Trustees for consideration in March 2004. The gift of land is subject to UnumProvident Corporation retaining certain rights to use the facility for a ten-year term, with an optional five-year term extension. The university seeks ratification of acceptance of the gift of real property from UnumProvident, requesting approval for the execution of acceptable agreements for the gift and for its joint use and further requests approval to seek the appropriate state government approvals. Mr. Haslam moved approval, Mr. Johnson seconded, and the motion carried unanimously.

C. Approval to Grant Easement to the Duck River Electric Membership Corporation (UTIA)

Mr. Scheurer explained a request from the Duck River Utility District for a perpetual easement over certain Middle Tennessee Experiment Station property in Maury County to manage an electric transmission and/or distribution line in the Brown Road area. The requested easement over the property is approximately 40 feet in width and approximately 475 feet in length. The total easement area will contain approximately 19,000 square feet or .43 acres. Mr. Johnson moved approval, Mr. Haslam seconded, and the motion carried unanimously.

D. Approval to Grant an Easement to the Glen Hills Utility District of Greene County, Tennessee (UTIA)

Mr. Scheurer described a request from the Glen Hills Utility District of Greene County, for a perpetual easement over certain Tobacco Experiment Station property in Greene County. The requested easement is approximately 25 feet in width, running adjacent to the public roadway for approximately 4,534 feet in

length. The total easement area will contain approximately 113,350 square feet, or 2.60 acres. The easement allows the utility district to install, repair, and maintain a water line. Mr. Haslam moved approval, Mr. Johnson seconded, and the motion carried unanimously.

E. Approval to Sell Gift Property at or above the Appraised Value

Mr. Scheurer advised the committee that the university has acquired three properties and seeks approval to sell each of the properties at or above the appraised value. In each case, the proceeds from the sale of property will be applied in accordance with the wishes of the donor. Mr. Johnson moved approval, Mr. Haslam seconded, and the motion carried unanimously.

F. Approval of Acquisition of Real Property by Gift from Memphis Bioworks Foundation for Site of Regional Biocontainment Laboratory (UTHSC)

Mr. Scheurer requested the committee's approval to accept approximately one (1) acre of real property located at 889 Monroe Avenue in Memphis from the Memphis Bioworks Foundation (formerly Memphis Biotech Foundation). The site is the proposed location of the Regional Biocontainment Laboratory Facility, a \$21 million dollar building project. Mr. Johnson moved approval, Mr. Haslam seconded, and the motion carried unanimously.

XIII. OTHER BUSINESS

Mr. Stokely shared with other committee members a desire of the finance committee to learn more about the budget process prior to its submission for the Board's review. There is a need for the committee to have a better understanding of the process used to build the budget recommendation.

Mr. Stokely recommended holding a budget workshop prior to the June Board of Trustees meeting to provide the committee information on the budget preparation process. This review will increase the trustees' knowledge of how the budget is developed, help explain to others how priorities are established, and how student fee recommendations are derived. Other board members are invited to participate. Ms. Davis will schedule the budget workshop. Mr. Stokely suggested the workshop be videotaped, as the session would be helpful to future trustees.

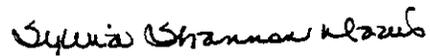
Mr. Johnson noted that discussions were already going on around the state concerning next year's student fee recommendations, although the trustees have yet to discuss the budget. Mr. Johnson expressed a need for a coordinated release of information to make sure the information received publicly was not misinterpreted.

Mr. Stokely also advised committee members that the Chief Financial Officer search committee plans to recommend a list of candidates to Dr. Petersen at the end of March for his consideration.

XIV. ADJOURNMENT

With no further business to come before the Committee, the meeting adjourned.

Respectfully submitted,



Sylvia Shannon Davis
Vice President for Administration and Finance