

MINUTES OF THE FALL MEETING

BOARD OF TRUSTEES

THE UNIVERSITY OF TENNESSEE

October 10, 2003

The fall meeting of the Board of Trustees of The University of Tennessee was held at 10:00 a.m., Friday, October 10, 2003, in the Board Room, Andy Holt Tower, Knoxville.

**I. CALL TO ORDER AND INVOCATION**

Mr. R. Clayton McWhorter, Vice Chair of the Board, called the meeting to order, and Rabbi Beth Schwartz, Temple Beth El in Knoxville, gave the invocation.

**II. ROLL CALL**

The Secretary called the roll, and the following members were present:

Governor Phil Bredesen  
Mrs. Johnnie D. Amonette  
Mrs. Barbara C. Castleman  
Mr. F. Michael Combs  
Mr. J. Steven Ennis  
Commissioner Ken Givens  
Mr. James A. Haslam, II  
Mr. Waymon L. Hickman  
Dr. Rhynette N. Hurd  
Mr. Jerry L. Jackson  
Mr. D. Lynn Johnson  
Dr. Joseph E. Johnson  
Mrs. Andrea J. Loughry  
Mr. R. Clayton McWhorter  
Mr. James L. Murphy, III  
Mr. John H. Pontius  
Dr. Richard G. Rhoda  
Commissioner Lana C. Seivers  
Mr. Don C. Stansberry, Jr.  
Mr. William B. Stokely, III  
Mr. John C. Thornton  
Ms. Carol L. White  
Mrs. Susan R. Williams

Mr. James L. “Bucky” Wolford

The Secretary announced the presence of a quorum.

- III. WELCOMING REMARKS AND INTRODUCTIONS.** Vice Chair Clayton McWhorter introduced Emeriti Trustee E. S. Bevins. The Vice Chair recognized recently appointed student Trustee Carol White, faculty Trustee Michael Combs, and James L. Murphy, III, Trustee from the fifth congressional district, and presented Trustee lapel pins to each.

The Vice Chair recognized Professor Beauvais Lyons, President of the Knoxville Faculty Senate, Sarah Keeton, President of the Knoxville Student Government Association, and James H. Duke, Jr., President of the National Alumni Association, each of whom made a brief report on activities of their organization.

**IV. APPROVAL OF THE MINUTES OF PRIOR MEETINGS**

Mrs. Johnnie D. Amonette moved approval of the minutes of the June 18, 2003 Executive Committee meeting, the June 19, 2003 annual Board meeting, the August 18, 2003 Executive Committee meeting, the August 21, 2003 Special Board meeting, and the September 17, 2003 Special Board meeting. Mr. James A. Haslam, II seconded, and the motion carried unanimously.

**ADDITION OF ITEM TO AGENDA.** Vice Chair McWhorter said Governor Phil Bredesen requested that an item be added to the meeting agenda. In order to do so, Mr. McWhorter asked for a motion to add the agenda item.

Mr. James A. Haslam, II, moved approval of the motion to add an item to the agenda. Mrs. Susan R. Williams seconded, and the motion carried unanimously.

**SEVERANCE PACKAGE FOR DR. JOHN W. SHUMAKER.** Governor Bredesen said the recommendation of a severance pay package for Dr. Shumaker was based on the belief that he had been completely forthcoming. In light of the comptroller’s final audit report, Governor Bredesen moved that the motion approving a severance offer to Dr. John W. Shumaker be rescinded and that any future negotiations, interactions, or arrangements made be brought back to the Board for review and approval. Mr. Don C. Stansberry, Jr., seconded. The motion carried unanimously.

## V. NEW BUSINESS

### A. REPORT OF THE GOVERNANCE TASK FORCE

Governance Task Force Chair Rhynette Hurd thanked the Governor for the opportunity to serve the University on such an important committee. She said the Task Force is attempting to establish University policies that do not largely depend on the integrity of its leaders. Dr. Hurd said while the University has been fortunate enough to have had quality leaders in the past, recent problems have raised the awareness that oversight may have been too lax. Dr. Hurd said the Governor charged the Task Force with examining ways the gaps might be corrected.

Dr. Hurd introduced the members of the Task Force including Ms. Linda Rebrovick of BearingPoint and Mr. Larry Martin of the First Tennessee Bank and thanked them for their input and hard work. She said that through a PowerPoint presentation (Exhibit 1) she would detail the recommendations of the Governance Force. Dr. Hurd encouraged Board members to comment and ask questions at any point in the presentation. She said the general findings of the Governance Task Force are set forth in detail in the Report of the Governance Task Force (Exhibit 2). Dr. Hurd said the Governance Task Force has prepared six recommendations for adoption and implementation by the Board of Trustees. Some of the recommendations will include Bylaw amendments and seek to address immediate concerns.

#### 1. Establish Audit Committee as Standing Board Committee.

Following discussion of Audit Committee responsibilities with regard to the new position of chief internal auditor, Ms. Mizell said the Bylaws amendment (Exhibit 3) includes the following provision concerning appointment of the chief internal auditor:

The Board of Trustees shall appoint the Chief Internal Auditor for the University upon the recommendation of the Audit Committee. In the event of a vacancy, or notice of an impending vacancy in this position, the Chief Financial Officer of the University shall identify and recommend to the Audit Committee a candidate for the vacant position.

Ms. Mizell explained that the Audit Committee will recommend, and the Board will appoint, the Chief Internal Auditor.

Governor Bredesen said board members in general often react to problems by implementing numerous rules and regulations. He said the volunteer leaders who serve on the UT Board cannot afford to take on the chore of micromanaging The University of Tennessee.

**2. Establish the Position of Chief Financial Officer.** Dr. Hurd said the Governance Task Force recommends the establishment of the position of Chief Financial Officer. The Chief Financial Officer will be an elected University officer with extensive financial management and accounting expertise. The treasurer and all vice presidents with responsibilities for financial matters will report to the Chief Financial Officer. Dr. Hurd said the creation of the position requires a Bylaw amendment.

Mr. Haslam said the CFO might also serve as the Executive Vice President or Chief Operating Officer of the University. The individual holding the position of CFO might have joint responsibilities.

Mr. Pontius said the preference of the Governance Task Force is that there be a separate CFO who might be achieved by the new president with the realignment of positions and responsibilities on the organizational chart rather than through the addition of a newly created position that would require the outlay of additional money.

**3. Establish Position of Chief Internal Auditor.** Dr. Hurd said the Chief Internal Auditor will report administratively to the Chief Financial Officer and will report directly to the Audit Committee with respect to audit activities and findings. She said the recommendation requires a Bylaw amendment.

Mr. Thornton said the Internal Auditor should be selected by the Audit Committee not by the Chief Financial Officer. The CFO has direct reporting responsibilities to the President of the University, and the Chief Internal Auditor will have direct reporting responsibility to the Audit Committee. Mr. Thornton said the Audit

Committee should have the authority to hire and fire the individual holding position of Chief Internal Auditor.

Ms. Mizell said Mr. Thornton's concerns might be addressed by adding a sentence that says the Audit Committee shall determine the number of nominees or candidates to be brought forward to it for consideration.

Mr. Pontius said in line with Governor Bredesen's earlier comments, the Audit Committee is not in place to manage. Their job is to make sure there is a system of internal control in the organization that ensures compliance with rules and policies. He said the Audit Committee is not being put in place to manage anything at the University.

**4. Establish Board Process and Governance Committee as Standing Board Committee.** Dr. Hurd described the Board Process and Governance Committee purposes and responsibilities in the PowerPoint presentation (Exhibit 1).

Vice Chair McWhorter asked for clarification on the Committee's role in recommending standing committee membership to the Vice Chair. Mr. Murphy said the Board Process and Governance Committee would recommend to the Vice Chair the membership of all other Board committees. Governor Bredesen questioned the appropriateness of the recommendation. He said committee membership falls under the fundamental prerogatives of the Vice Chair of the Board and does not go through a formal committee structure. Governor Bredesen said during the period of time when he was actively serving in Mr. McWhorter's absence, the ability to appoint committees quickly offered a clear advantage. He said he would question whether usurping the Vice Chair's power in such a manner is advisable.

Dr. Johnson suggested that the statement be dropped from the recommendation of responsibilities of the Board Process and Governance Committee. Dr. Hurd said the recommendations for responsibilities of the Committee are concepts and are not instituted by Bylaw amendments. The responsibility as it relates to standing

committee appointments will be dropped from the set of recommendations.

**5. Continue Work of the Governance Task Force.** Dr. Hurd said the Board Process and Governance Committee will pick up on the work of the Governance Task Force. She said the Committee's responsibilities will focus on a number of tasks (Exhibit 1).

Mr. Murphy said the ongoing work of the Board Process and Governance Committee will include determining whether University policies should become Board policies. He said many universities have a number of Board policies while UT has very few. Most of UT's policies are set by the administration. Mr. Murphy said the recommendation would include examining the administrative policies to see if any should become Board policies and determining if additional Board policies are appropriate and necessary.

**6. Restructure Executive Committee as the Executive and Compensation Committee.** Dr. Hurd said the recommendation of the Governance Task Force is that the Executive Committee be restructured as the Executive and Compensation Committee composed of chairs of the other standing committees of the Board with the Vice Chair of the Board serving as an ex officio member. She reviewed its responsibilities as presented in the PowerPoint (Exhibit 1). The proposal for restructuring the Executive and Compensation Committee was presented for discussion and input from Trustees. When finalized, the restructuring will require a Bylaw amendment that will be considered for Board approval at a future meeting.

Mr. McWhorter said the Executive Committee might become quite large if the number of standing committees of the Board is increased significantly. He said the Board should be sensitive to the size and composition of the Executive Committee which might include chairs of key committees rather than chairs of all committees.

Mr. Murphy said the thought behind the proposed composition of the Executive Committee was that the committee chairs would be the individuals who would know the most about their particular area of responsibility. He agreed that if there are a significant number of

committees, all the chairs probably should not serve on the Executive Committee.

Mr. Haslam said if non-committee chairs are eliminated from positions on the Executive Committee, some very qualified individuals might be overlooked. He said to designate the composition of the Executive Committee by the role of the individuals sitting on it should be carefully evaluated.

Mr. Pontius said a key consideration in the restructuring of the Executive Committee was the creation of an compensation committee which does not presently exist. He said the intent of the new Executive and Compensation Committee was to have it focus on matters of urgent need rather than act on the Board's behalf for routine items of business.

Mr. Murphy said the Task Force clearly recognizes there is a need for a committee to act on the Board's behalf in an emergency situation when the full Board cannot be convened. He said they also realize there is a need for a committee to take on the other tasks assigned to the Executive and Compensation Committee.

Dr. Hurd moved adoption of the report of the Governance Task Force subject to some refinements. Mr. James A. Haslam, II, seconded, and the motion carried unanimously.

**7. Approval of Amendments to University Bylaws.** Mr. James A. Haslam, II, moved approval of Bylaws amendments (Exhibit 3) creating an Audit Committee and establishing the positions of Chief Financial Officer and Chief Internal Auditor. Mr. John C. Thornton seconded, and the motion carried unanimously by roll call vote.

**B. RESEARCH CENTERS OF EXCELLENCE PRESENTATION.** Mrs. Andrea J. Loughry, Chair of the Academic Programs and Planning Committee introduced Dr. Gary Saylor, Distinguished Professor of Microbiology and Director of the Center for Environmental Biotechnology at Knoxville. Dr. Saylor explained the work of the Center for Environmental Biotechnology through a

PowerPoint presentation (Exhibit 4). He said Research Centers of Excellence bring together critical masses of researchers including faculty, students and technicians. Dr. Saylor said through the help of RCE funding, the Center for Environmental Biotechnology involves fifty participating faculty and staff from UT, Oak Ridge, UTC, Kennedy Space Center, Eastman Chemical and some smaller Tennessee companies. Dr. Saylor said an additional forty undergraduate students participate in the research centers, which is in line with the expectation that successful research universities integrate the undergraduate education process into the research mission of the university.

Governor Bredesen asked where the Research Centers of Excellence are housed and what the designation truly means. He asked if the great research universities in the United States use Research Centers of Excellence.

Dr. Saylor said generally speaking the centers do not live within a department and in fact, the Center for Environmental Biotechnology is a cross disciplinary center with twelve departments and four colleges interacting. There is one major research laboratory facility involved. Research Centers of Excellence are a vehicle for interdisciplinary research and are widely used by the most prestigious research universities throughout the country.

- C. RECOMMENDATIONS OF THE PRESIDENTIAL SEARCH COMMITTEE.** Mrs. Loughry said the Presidential Search Committee met earlier in the day. She said at the Board meeting on September 17, 2003, the Presidential Search Committee was charged with the responsibility of establishing a Search Advisory Council composed of individuals from various constituencies (Exhibit 5). Mrs. Loughry noted the selection of faculty representatives is not complete. She said the Search Committee recommended that a representative of the University's non-exempt staff be added to the Search Advisory Council. The non-exempt staff has been asked to make a nomination for the non-exempt representative, which will be announced along with the faculty representatives.



Mr. Lynn Johnson moved approval of the recommendation to add a non-exempt staff member to the Search Advisory Council. Mr. James L. Murphy, III seconded, and the motion carried unanimously.

Mrs. Loughry said the Presidential Search Committee recommends that a search firm be employed to assist the Search Committee on a limited basis. However, the Board of Trustees is charged with selecting a president and will maintain control over the decision-making process.

Mr. James L. "Bucky" Wolford made the motion to employ a search firm to assist in the search process on a limited basis. Mr. Waymon L. Hickman seconded, and the motion carried unanimously.

Mrs. Loughry said the Presidential Search Committee recommends that the UT administration engage a public relations consultant to assist the administration, the Search Committee and the Advisory Council in efforts to distribute positive news along with updates on the presidential search to stakeholders across the state.

Dr. Johnson agreed that a public relations firm could be helpful to the University in its efforts to disseminate positive messages to various constituencies including potential presidential candidates. Dr. Johnson said funding for the public relations firm will not come from the presidential search budget.

Mr. James A. Haslam, II, moved approval of the recommendation to employ a public relations firm. Mr. Don C. Stansberry, Jr., seconded, and the motion carried unanimously.

Mrs. Loughry said Dr. Margaret Perry, Chancellor Emeritus of The University of Tennessee at Martin, has been employed as to serve as Executive Director of the presidential search which helps in maintaining an autonomy in terms of the search process. She said Dr. Perry has an understanding of the academic culture and appreciation of all the University's various stakeholders. Mrs. Loughry said the salary proposal for Dr. Perry will be presented for consideration as part of the Finance Committee's report.

**D. REPORT OF THE PRESIDENT.** Dr. Johnson thanked Trustees for their service on the UT Board. He said Trustees are dedicated individuals who do their jobs well. Dr. Johnson encouraged Trustees to continue to move forward with the work of the University in spite of recent criticism. He challenged them to perform their jobs even better in the future.

Dr. Johnson said because of recent problems, administrators at The University of Tennessee have learned some difficult lessons. He said his primary objective with faculty, staff and administration is to ensure a culture of fairness and honesty, along with a sense of expenditure expectations and patterns that reflect the citizens of the State.

Dr. Johnson said his most important assignment as interim President is to get the focus back on the faculty members and students. Publicity about The University of Tennessee should reflect the positive efforts of faculty, students and staff. He said he does not intend to reorganize and restructure during his interim presidency except in those areas where it is essential. He said his greatest concern with the internal organization is the reestablishment of lines of communication within the administration.

Dr. Johnson said the Annual Report of the President was distributed prior to the meeting (Exhibit 6 ). He recommended approval of the Report.

Mrs. Johnnie Amonette moved approval of the President's Annual Report. Mr. D. Lynn Johnson seconded, and the motion carried unanimously.

**E. ADOPTION OF RESOLUTIONS OF RECOGNITION.** Mr. Waymon L. Hickman moved adoption of the Resolution (Exhibit 7 ) recognizing Mr. B. C. "Scooter" Clippard, Jr. for his service as a Trustee from the fifth congressional district. Mr. James A. Haslam, II, seconded, and the motion carried unanimously. Mr. Clippard thanked the Board for the Resolution and for the opportunity to be of service to the University and the State of Tennessee.

**F. REPORT OF THE ACADEMIC PROGRAMS AND PLANNING COMMITTEE**

**1. Information Items**

- a. Plans for New Center of Excellence at UT Martin.**  
Dr. Robert Levy reported on plans for a new Center of Excellence for Experiential Studies which will be presented in a full proposal for Board approval at a future meeting (Exhibit 8).
- b. Plans for Reactivation of B.S.N. Program, UT Health Science Center.** Dr. Levy reported on the reactivation of the previously suspended Bachelor of Science in Nursing program at the UT Health Science Center (Exhibit 9).

**2. Action Items**

- a. Approval of a Program of Study Leading to the Degree of Master of Science in Occupational Therapy at the UT Health Science Center.** Dr. Joseph E. Johnson moved approval of the M.S. in Occupational Therapy at the UT Health Science Center (Exhibit 10). Mrs. Johnnie D. Amonette seconded, and the motion carried unanimously.
- b. Approval of Program of Study Leading to Ph.D. in Computational Engineering, UT Chattanooga.** Mr. John C. Thornton moved approval of the Ph.D. in Computational Engineering, UT Chattanooga (Exhibit 11). Mr. D. Lynn Johnson seconded, and the motion carried unanimously.

**G. REPORT OF THE FINANCE AND ADMINISTRATION COMMITTEE**

## 1. Information Items

- a. **Investment Report.** Treasurer Charles M. Peccolo provided the 2003 Investment Report in a PowerPoint presentation (Exhibit 12). He called attention to the graph in the report pertaining to the total funds invested to benefit the University and explained the funds represented by each layer of the graph. Mr. Peccolo said the University's Consolidated Investment Pool benefits scholarships and academic programs at the University. Over the ten-year period ended June 30, 2003, the Pool ended the period with \$386 million market value which is up over the ten year period from just under \$140 million. Mr. Peccolo said the asset allocation for an institution defines what the return will be. He said the UT portfolio is well diversified.

Mr. Peccolo said at the June Board meeting the Finance Committee discussed the University's spending plan and how it is articulated as five percent of the three-year moving market value, and the decision that UT would hold with the spending plan even though a number of the university's endowment were underwater. He said the University will limit its distributions from underwater endowments to the current yield. Other University sources will be used to cover deficits that occur as a result of the policy.

- b. **Financial Report.** Mr. Peccolo said the University Bylaws require that the Treasurer present a schedule of expenditures and revenues and the financial condition of the University. He said the audit is not complete. Mr. Peccolo said when the audit is completed, time will be devoted to reviewing the financial statements with the Board.
- c. **Update on Fee Study.** Vice President Sylvia Davis said in March the Board discussed the possibility of

looking at different fee structures and setting some differential fees. She said as a result a comprehensive study of the fee structure was undertaken and a Tuition & Fee Study Committee was formed. She presented information gathered by the Committee to date (Exhibit 13). Ms. Davis said the study may or may not result in recommendations to change the fee structure of The University of Tennessee. She said if the decision is made to revamp fees, a new fee concept would not go into effect before the fall of 2005 which would provide adequate time to disseminate the information to high school administrators and students.

- d. **Update on FY 2005 Appropriation Request.** Ms. Davis said the University staff met with the staff of the Tennessee Higher Education Commission to present the University's requests for appropriations. She said the University's number one priority is the restoration of basic funding including operations and salary funding. Ms. Davis said the University is working to build confidence with the State in order to receive salary money to be used in a flexible manner rather than in across-the-board pools. She said the operating budget contains inflationary expense. The Tennessee Higher Education Commission has been asked to look at the distribution of funds in order to best serve the needs of the University.

Dr. Johnson said The University of Tennessee has the majority of its units either with no enrollment of traditional students or fixed enrollment of students. UT's enrollment in veterinary medicine, medicine, pharmacy, dentistry, and law are fixed and do not increase. He said since the '80's the Knoxville campus has had a student enrollment of approximately 26,000 students has been at that level since the mid 80's. Two of the University's campuses are making an active effort to grow

numerically. Dr. Johnson said when enrollment growth occurs and dollars are limited, the entities with fixed enrollment or no students at all will continue to suffer if efforts are not made to ensure their adequate funding since funding is based on student enrollment figures.

Ms. Davis said the University's second priority is placing funds into the Research Centers of Excellence, the third is the funding of capital projects, and the fourth is homeland security. She said THEC will meet in November to make their recommendations, and the Governor's budget will be released in January.

## **2. Action Items**

- a. Approval of the Budget for Presidential Search.**  
Mrs. Andrea J. Loughry moved approval of the budget for the Presidential Search (Exhibit 14). Mr. James A. Haslam, II, seconded, and the motion carried unanimously.
- b. Approval of the FY 2004-05 Capital Outlay and Maintenance Budget.** Dr. Joseph E. Johnson moved to approve the proposed FY 2004-05 and subsequent year funding request for capital outlay and maintenance projects and the proposed priority rankings in accordance with Tennessee Higher Education Commission guidelines (Exhibit 15). Mr. John S. Thornton seconded, and the motion carried unanimously.
- c. Approval of the 2004-05 Revenue/Institutionally Funded Projects.** Mr. James A. Haslam, II, moved approval of the proposed revenue funded projects for FY 2004-05 for inclusion in the FY 2004-05 State of Tennessee Budget Document (Exhibit 16). Mr. D. Lynn Johnson seconded, and the motion carried unanimously.

- d. **Approval of the Sale of Gift Property.** Mr. James A. Haslam, II, moved approval of the sale of gift property at or above the appraised value (Exhibit 17). Mr. D. Lynn Johnson seconded, and the motion carried unanimously.
- e. **Filing of Liaison Committee Minutes.** Mr. James A. Haslam, II, moved acceptance of minutes filed for the UT Bowld Hospital Liaison Committee meeting held May 19, 2003 (Exhibit 18). Mr. J. Steven Ennis seconded, and the motion carried unanimously.

## H. REPORT OF THE EXECUTIVE COMMITTEE

- 1. **Appointments to Standing Committees, Councils, and the Knoxville Athletics Board.** Mrs. Johnnie Amonette moved approval of the appointments to the Board's Standing Committees and Councils and to the Knoxville Athletics Board (Exhibit 19). Mr. D. Lynn Johnson seconded, and the motion carried unanimously.

Mr. McWhorter said in June the Board authorized the Vice Chair to appoint an ad hoc committee for athletics. Since that time, changes have occurred including some new committee structure. Mr. McWhorter recommended that the appointment of the ad hoc committee be temporarily deferred and that the senior Trustee serving on the Athletic Board provide updates on athletics.

In response Mr. Haslam reported that the Executive Committee of the Athletics Board recently met with Joan Cronan and Mike Hamilton in attendance. He said Athletics budgets are in balance. Mr. Hamilton hopes to improve the competitive position of men's athletics in the coming year. The competitive position of the women's athletics department continues to improve. Mr. Haslam said financially they are strong, and a fundraising program is in place to raise money for a basketball practice arena.

## **I. LIAISON COMMITTEE REPORTS**

- 1. UT Chattanooga.** Mr. John Thornton said networking of the Chattanooga campus is moving along at a steady pace. Building projects of \$175 million are underway on the Chattanooga campus. Mr. Thornton said African-American enrollment on the Chattanooga campus is up 18.8 percent. Thirty percent of the freshman class are minorities. Fifty percent of dorm students are African-American. Mr. Thornton said the African-American students are among the best students and are, in fact, better than the student body as a whole.
  
- 2. UT Martin.** Mr. Jerry Jackson distributed UT Martin Fall 2003 Highlights (Exhibit 20). He said the Martin campus has received \$3.5 million from new grants which is a special source of pride for the campus. Mr. Jackson said Chancellor Dunagan just returned from the Far East. He asked Dr. Dunagan for a brief report.

Dr. Dunagan said four agreements were finalized that will bring students and teachers from China and Korea to UT Martin to train. He said while in Seoul, Korea, he attended an alumni chapter meeting with 40 Korean graduates of UT Martin.

## **VI. OTHER BUSINESS**

The Vice Chair asked for other business to come before the Board. No other business was presented.

## **VII. ADJOURNMENT**

There being no further business to come before the Board, the meeting was adjourned.

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Catherine S. Mizell



Secretary

Vice President, General Counsel and