

MINUTES OF THE ANNUAL MEETING
BOARD OF TRUSTEES

THE UNIVERSITY OF TENNESSEE

June 22, 2005

The annual meeting of the Board of Trustees of The University of Tennessee was held at 3:00 p.m., Wednesday, June 22, 2005 in Rooms 156-157, Plant Biotech Building, Knoxville.

I. CALL TO ORDER

Mr. Don C. Stansberry, Jr., Vice Chair of the Board, called the meeting to order.

II. ROLL CALL

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

Mrs. Johnnie D. Amonette
Ms. Lauren Brannon
Mrs. Barbara Castleman
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
Mrs. Andrea J. Loughry
Mr. James L. Murphy, III
Dr. John D. Petersen
Dr. Richard G. Rhoda
Commissioner Lana Seivers
Mr. Karl A. Schledwitz
Mr. Don C. Stansberry, Jr.
Mr. William B. Stokely, III
Mr. John C. Thornton
Dr. Susan Vickerstaff
Mrs. Susan R. Williams
Mr. James L. A Bucky@ Wolford

The Secretary announced the presence of a quorum.

III. WELCOME BY SGA PRESIDENT AND FACULTY SENATE PRESIDENT

Faculty Senate President Dr. Candace White welcomed Trustees to the Knoxville campus and on behalf of the faculty stressed the importance of separate and distinct administrations for the Knoxville campus and The University of Tennessee system administration. She thanked Dr. Petersen for his efforts to clarify functions of the University that the faculty feel are critical to the University's success.

Student Government Association President Curtis Sanderfer also welcomed the Board to the campus and thanked them for giving the Student Government Association the opportunity to bring their thoughts and concerns forward. He explained the issues that the Student Government would be addressing during the upcoming academic year.

IV. APPROVAL OF MINUTES OF PRIOR MEETINGS OF THE BOARD AND OF THE EXECUTIVE AND COMPENSATION COMMITTEE

Mrs. Johnnie Amonette moved approval of the minutes of the Board and Executive and Compensation Committee meetings held since March 2005.

Mr. James A. Haslam, II, seconded, and the motion carried unanimously.

V. ADOPTION OF HONORARY RESOLUTIONS

Mr. James A. Haslam, II, presented and moved approval of the Resolution recognizing and thanking Mr. R. Clayton McWhorter for his work on behalf of The University of Tennessee (Exhibit 1). Mr. D. Lynn Johnson seconded, and the motion carried unanimously.

Mrs. Barbara Castleman presented a Resolution recognizing Student Trustee Lauren Brannon from UT Martin and thanked her for her service on the Board (Exhibit 2). Mr. James A. Haslam, II, seconded, and the motion carried unanimously.

Ms. Brannon thanked the Board for allowing her the privilege of serving The University of Tennessee and helping to instill in her a true

love for higher education and its importance to the citizens of Tennessee.

Mr. Jerry L. Jackson presented a Resolution recognizing Dr. Susan Vickerstaff, Faculty Trustee from UT Martin and thanked her for her contributions to the University (Exhibit 3). Mr. James L. Murphy, III, seconded, and the motion carried unanimously.

Dr. Vickerstaff said her original perception was that Trustees are good people who have the best interest of the University as the basis for everything they do as Board members. She said after working with Trustees for a year, her perception was confirmed. Dr. Vickerstaff thanked the Board for the mentoring and guidance they provided her as a new Trustee.

Mr. John C. Thornton presented a resolution recognizing Dr. Fred Obear for his willingness to serve as Interim Chancellor of The University of Tennessee at Chattanooga (Exhibit 4). Mr. James L. "Bucky" Wolford seconded, and the motion carried unanimously.

Dr. Obear thanked the Board for the Resolution and for the honor of serving once again as Chancellor of The University of Tennessee at Chattanooga. He enthusiastically welcomed Chancellor Roger Brown and Dr. Carolyn Thompson as the newly elected leaders of UTC.

Mr. William B. Stokely, III, presented a resolution recognizing Mr. Emerson H. "Eli" Fly for his years of service to The University of Tennessee and especially for his most recent role as Interim Executive Vice President and Chief Financial Officer of the University (Exhibit 5). Mrs. Susan R. Williams seconded, and the motion carried unanimously.

Mr. Fly thanked the Board for its dedication to the University and for allowing to him to once again serve in its administration.

Mr. Stansberry called attention to a Resolution honoring Mr. William Rice for his most recent service as Interim Chancellor of The University of Tennessee Health Science Center (Exhibit 6). Mr. Stansberry said Mr. Rice was unable to attend the meeting, but copies of the Resolution will be forwarded to him.

Mr. James L. Murphy, III moved approval of the Resolution. Dr. Susan Vickerstaff seconded, and the motion carried unanimously.

VI. REPORT OF THE AUDIT COMMITTEE

Mr. Stansberry called on Mr. Waymon Hickman for the report of the Audit Committee.

Mr. Hickman called attention to the Report of the Audit Committee and the minutes of the most recent Audit Committee meeting (Exhibit 7). He said prior to the last meeting, Mark Paganelli and he met with Mark Hayes, Director of State Audit and went over their findings. Mr. Hayes complimented the Audit Committee and the Board of Trustees in the development of the Audit Charter and asked to use it as a model for other state agencies.

VII. REPORT OF THE PRESIDENT

Dr. Petersen said that during the first year of his presidency he has had to curb some of his natural impatience and realize not everything can be done as quickly as he would like. He said that although there are areas in which he would like to be a little further along, he is pleased with the progress made during the year and is confident the University is on the right track. Dr. Petersen thanked the Board for giving Carol and him the opportunity to come to The University of Tennessee, for the welcome they've received and for the confidence placed in him. He said there have been some daunting days, but there has also been a feeling of great satisfaction at the end of the day. Dr. Petersen said he is grateful for the opportunity afforded him and more than ever convinced the University is on the road to great success. The decisions that have been made during the first year are targeted toward the long-term success of the institution and the unique opportunities that lie ahead.

Dr. Petersen said among his most critical tasks has been assembling the leadership to build the strongest UT system possible. He said he saw the most critical need as enhancing the academic leadership team to help move the University system to a position of greater national prominence in research and scholarship. Dr. Petersen said he is excited about the appointments to date and believes their impact is already being felt. The appointment of Dr. Jack Britt as Executive Vice President put a substantive academic leader and strategic planner in the number two position of the UT system.

Dr. Petersen said the appointment of Dr. David Millhorn will come before the Board for approval later in the meeting. Dr. Millhorn is an internationally renowned biomedical researcher and is in the category of world class talent that will be the point of difference in achieving the University's goals in research in the future both nationally and internationally. The position is absolutely critical as the research scholarship enterprise of the University is built. The President, Executive Vice President and Vice President for Research are the trio that will drive the academic vision for the next decade. Dr. Petersen thanked Dr. Fred Tompkins for his service as Interim Vice President for Research.

Dr. Petersen said Mr. Hank Dye recently joined the University as the new Vice President of Public and Governmental Relations and is a veteran communications professional. He said Vice President Dye has assisted in developing a communications direction both internally and externally. The communication directive was quickly identified as key in building a stronger constituency both internally and externally.

Dr. Petersen said two new chancellors are in place. The appointment of Bill Owen as the Chancellor of the Health Science Center has already made an impact on the University's operations in health care throughout the state. Dr. Petersen said there is a real excitement in the Memphis community and on the campus. He said having in Dr. Owen a Memphian with a Harvard experience, a Duke experience and Baxter International Industrial experience brings all the tools and passion necessary for the position of Chancellor of the Health Science Center.

Dr. Petersen said Dr. Roger Brown is a recent addition as Chancellor of The University of Tennessee at Chattanooga. He is a strong academic leader and his experience at UNC Charlotte is an excellent model of how to build a metropolitan, urban university and bring it to prominence in a system where the flagship institution is also a strong research university.

Dr. Petersen said the two new highly qualified new chancellors join the chancellors who are in place – Loren Crabtree in Knoxville and Nick Dunagan in Martin, proven academic leaders on their campuses and very well respected by faculty, staff and students on those campuses.

Three critical positions of the system administration remain to be filled.

The search is nearing completion for the Vice President for Development. Dr. Joe Johnson has been chairing the search which has an impressive pool of candidates. Dr. Petersen said Jack Williams has agreed to stay and assist in fundraising and work with the new vice president into the system.

The search for the Chief Financial Officer is coming to a close. Dr. Petersen said he is certain there will be an excellent pool of candidates from which to select a financial leader who will work very closely with Executive Vice President Jack Britt on the University's strategic initiatives. Optimizing the University's current funding, being creative in the management of budgets and investments and helping to find new funding sources will be important to the future success of The University of Tennessee.

Dr. Petersen said he expects the search for the Vice President for Agriculture to be accelerated in the coming weeks but in the meantime is confident that Buddy Mitchell will keep the Institute of Agriculture moving forward in an excellent way. He said there is no more visible part of a university system than the Institute of Agriculture. The University of Tennessee Institute of Agriculture appears in all 95 counties throughout the state and impacts the teaching, outreach and research mission that is very important to UT and to the people of the state.

Dr. Petersen said he is confident that with the new appointments and the other excellent system officers of the University, the team in place will be able to lead The University of Tennessee into the future. The group will assemble in September for a strategic planning retreat that will provide an opportunity to set directions for the future. Dr. Petersen said one of the issues that will be addressed is the scorecard. The metrics being developed will be fewer in number and easier to understand. The measurements will include tangible demonstrations of cost savings and fiscal management.

Dr. Petersen said in looking at Governor Bredesen's budget priorities, there are three clear categories at the forefront – research, including its impact on economic development; student access and increasing the number of students educated at colleges and universities in the State of Tennessee; and student success or improved graduation rates. The distinctiveness of the campuses and the budget planning process is another issue that has been addressed over the past year

and will continue in the future. The five campuses in the UT system are all distinctive and all bring different strengths and goals to the system. Dr. Petersen said the campuses need to have flexibility in setting fee structures. One size does not fit all. He said an effort is being made to work with the campuses to differentiate programs and to build budgets accordingly. Dr. Petersen said the question facing the administration is how to balance the funding equation. Obviously the struggle to maintain quality at a time of flat state appropriations and inflationary impact has created concern among the University's constituencies. The challenge is to balance the funding equation to provide quality programs at an affordable cost for the students. The bottom line is that the total cost for an in-state undergraduate student living on campus in Knoxville including tuition, housing, room and board and all other fees will increase just 7.7% in the budget proposal that will be considered later in the meeting. The 13 percent increase that is referenced is the increase in tuition alone and not the increase in the overall student cost. Almost half the increase is covered by the 3% increase in the lottery scholarships. Next year the UT administration will work harder at intersecting with the government leaders and will work on the appropriation/tuition combination to address academic needs rather than wait until only tuition is available to mount the necessary initiatives.

Dr. Petersen said one of his biggest surprises as a president who has come from five different systems is the cost spread that is seen in four-year institutions across the state of Tennessee. The most expensive four-year institution in terms of tuition is The University of Tennessee, Knoxville, but the entire spread of all the four-year institutions in the UT system and the Board of Regents system is less than \$900 a year. Dr. Petersen said he feels there should be a wider differential based on the cost of delivering the kinds of programs that are being delivered at research institutions versus institutions that focus primarily on teaching and outreach. In the short term, given the needs and available resources, and despite making cost cuts throughout the programs, there is no choice this year but to seek tuition and fee increases in order to maintain the quality of education that UT students deserve and demand. He said UT is attracting more students and a higher level of students as demonstrated by the increase in the average grade point and the average ACT scores of incoming freshmen. Keeping the brightest and best students at home will greatly benefit the state's economy in the long run, but with that success comes the added pressure to provide a top quality academic experience. UT has a critical education job to do. Encouragement has

come from legislative leadership, and an effort will be made to engage lawmakers to help them understand the need and value of supporting higher education. The information must be provided in a way that they can understand and support. Dr. Petersen said the UT administration will begin working with UT's friends in the legislature to talk about state support for higher education. He said UT administrators want to have an honest give and take with legislators to reach a consensus on critical issues involving state appropriations and their effect on the need for tuition increases. Such a partnership can serve everyone well. The administration recognizes it cannot look only to the legislature and the student population. UT will do its part to cut costs in addition to obtaining the resources necessary to provide a quality education. However, in an operation that is 77 percent people, significant budget cuts are difficult. UT administrative costs are down over the past ten, years and cost per student is flat for that time frame. In Knoxville Chancellor Crabtree has eliminated two colleges and eight departments and turned the cost cuts into more than \$20 million of funding for academics. In June the Knoxville campus announced an administrative reorganization to cut \$250,000 in costs creating funds for top priorities. Dr. Petersen also noted that the procurement card purchasing system is projected to produce \$7 million in savings annually.

What is the system role in UT's external and internal partnerships? Dr. Petersen said the ability of each of UT's campuses and institutions to be successful will depend on two major issues. First is the creation of a strategic budgeting framework that supports difficult decisions that are necessary to focus on excellence. The second is the ability as a system to built partnerships between various segments of the institution as well as with external constituencies such as the Oak Ridge National Lab, St. Jude's Children's Hospital, Vanderbilt and its medical center, Memphis Bioworks Foundation and others. Oak Ridge National Lab is a unique partnership and clearly affords an opportunity for UT to have the only-one-in-the-world status in several research areas. The technology being generated at ORNL every day will be among the key determining factors in the world's future economy. Dr. Petersen said the University clearly needs to maximize this opportunity. UT is committed to working this year to better communicate its involvement and to become more visible in the UT-Battelle partnership. He said UT's new Vice President for Research already has a strong working relationship with Oak Ridge and will enhance the efforts. Partnerships and strategic initiatives are what

drives the University's ability to maximize resources.

Proposals to the Governor will seek funds for top faculty in conjunction with ORNL in the four areas of joint expertise – biology, computational science, neutron science and nanomaterials. ORNL has committed \$10 million in continued funding if matched by the State. The Governor placed the first \$2.5 million in the budget this year. In addition, the Governor has placed \$25 million in his budget request for the electrical and computer engineering building to match a \$12.5 million private donation for the building and another \$5 million for programs. Dr. Petersen said buildings for three of the four joint institutes for Oak Ridge were funded by the State of Tennessee as part of the UT-Battelle contract. He said a request has been made that the fourth building for the Joint Institute of Advanced Materials be funded by the federal government. The total cost of the building and major equipment is approximately \$45 million. The Governor has actually agreed to cost share \$15 million of the project if the building is funded by the Congressional delegation.

Dr. Petersen said in the area of private giving, the University continues to raise money through annual giving and finish the feasibility study for the upcoming major gifts campaign. Important initiatives like the capital funding campaign for the Baker Center are underway. The goal for the Baker Center is to raise \$12 million in funding for the building by the middle of November in order to enable the building project to begin. Trustee Jim Haslam has been very helpful in this, and significant progress has been made since Senator Baker returned from Japan.

In the area of communications, Dr. Petersen said in the past year he has heard numerous comments about programs of the University that have not been well publicized. The University of Tennessee has a great story to tell. In the past, the University has been reactive in its communication philosophy, and it must become proactive. A consistent message must be developed. The University must become determined to spread the news about its positives. Key audiences – legislators, students, parents, donors, faculty, staff, media – must understand the value The University of Tennessee brings all Tennesseans and the importance of investing in its success. There is much work to be done, but better communications is a key priority.

Dr. Petersen said his first year was a year of building a team and establishing a framework for strategic growth of the components of the

UT system. As is the case of any endeavor, the proof will be in the implementation of this vision. The primary challenge will be to assemble the personnel necessary to build quality, world-class programs and to find the financial resources to fund the strategic mission. Dr. Petersen said in conjunction with the Vice Chair of the Board, five primary goals were established for him for next year. The first is to complete the search process for the management team. The second is to solidify a strategic budgeting process. The third is to build a stronger relationship with UT's major funders -- the Governor and the Legislature of the State of Tennessee. Dr. Petersen said the fourth goal is the completion of the scorecard and appropriate benchmarks through which the administration can be judged. The fifth and final goal is the reworking of the case statements for the major gift campaign. Dr. Petersen said he has additional goals for The University of Tennessee in general for next year. He said he would like to see the development of strategic academic plans on all of the University's campuses. He would like to develop strong evaluation reward structures through the University to encourage quality performance. Dr. Petersen said he was encouraged this year that the University was able to get budget language for salary increases for faculty members to include 1 ½ percent of the 3 percent pool for across the board increases with the remaining 1 ½ percent to be used as a pool for distribution on the basis of quality and excellence in performance. When an organization has that flexibility and has evaluations to back up the distribution of performance increases, the excellence necessary to move the institution forward is encouraged.

Dr. Petersen said the University administration needs to look and work with the state and help to identify a sustained source of funding for capital projects. Such funding is going to be very important to all of higher education -- The University of Tennessee and the Board of Regents.

Dr. Petersen said a strong proactive and consistent communications programs should be developed for The University of Tennessee both externally and internally. Hank Dye has had a major impact on the communications effort since he assumed his new role as Vice President for Public and Governmental Relations.

Dr. Petersen said he would like to readjust the overall University of Tennessee administrative structure to be consistent with its goals and strategies. Those issues that are appropriate for the system must be

addressed centrally while at the same time ensuring that appropriate resources and autonomy are given to the campuses so each can function in a way that will strengthen their strategic growth and strategic success. Dr. Petersen said The University of Tennessee is poised to be a fast rising star in public higher education over the next decade. Board leadership, state leadership, national leadership, community leadership, external partners and the opportunity to hire excellent faculty should position the University for that kind of success. He said his primary job is to assemble the staff and to formulate the plan that will lead the way.

VIII. RECESS

Mr. Stansberry recessed the meeting until 12:00 noon.

I. CALL TO ORDER

Chair Don Stansberry reconvened the annual meeting of the Board of Trustees at 12:00 noon in the atrium of the Plant Biotech Building.

II. ROLL CALL

Mr. Stansberry waived without objection the calling of the roll and noted that a quorum of the Board was in attendance.

III. INTRODUCTION OF SPECIAL GUESTS

Mr. Stansberry introduced and welcomed to the meeting Emeriti Presidents Edward J. Boling and Joseph E. Johnson.

He also introduced the newly elected Chancellor of the UT Chattanooga campus, Dr. Roger Brown, and invited his comments.

Dr. Brown thanked the Board for their vote of confidence in him. He said he and his wife, Dr. Carolyn Thompson, are looking forward to the opportunity to work with the many constituencies of The University of Tennessee at Chattanooga in an effort to strengthen its already outstanding programs.

IV. REPORT OF THE NATIONAL ALUMNI ASSOCIATION

Mr. Spruell Driver, President of the National Alumni Association, said the past year has been a good one with annual giving receipts totaling

more than \$24 million from over 48,000 contributors. Mr. Driver said he enjoyed serving on the presidential search advisory council and is pleased to work with President Petersen during his inaugural year in office. He said Dr. Petersen has made alumni relations a strong priority during his first year and has addressed over fifty alumni groups across the country. Mr. Driver said the National Alumni Association continues to value the relationship it has with the Board of Trustees and will continue to work with the Board in an effort to make the University among the most outstanding institutions of higher education in the country.

V. REPORT OF UTC CHANCELLOR'S ADVISORY COUNCIL

Mr. James L. "Bucky" Wolford said the Advisory Council met on June 17. Mr. Wolford UTC state funded capital projects as of June 2005 total approximately \$17 million with another \$22 million in self-funded capital projects. He urged the University to contact general contractors involved in the projects in an effort to determine the economic impact the resulting jobs had on the City of Chattanooga and the Chattanooga area in general.

Mr. Wolford said UT Chattanooga's current year enrollment is up by approximately 140 students over the previous year. Of the fall 2004 freshman Lottery Scholarship recipients, 56 percent retained their scholarships. 79 percent of the fall 2004 sophomore Lottery Scholarship recipients retained their scholarships.

VI. REPORT OF KNOXVILLE ATHLETICS BOARD

Mr. James A. Haslam, II, said for the first time in the University's history, UT athletics will be in the Top 10 in the Sports Academy Directors' Cup. He said the Lady Vols were named the 2005 Southeastern Conference women's all-sports winner by the New York Times Regional Newspaper Group for their league titles in cross country, indoor track and field, soccer and volleyball. Lady Vols basketball and volleyball claimed SEC Tournament Championships. Mr. Haslam said the men's athletics department also had a good year. Eight of nine men's athletics teams advanced to their respective NCAA events and seven of nine ranked among the top twenty in the country.

Mr. Haslam said 221 student-athletes achieved a grade point average

of 3.0 or higher during the spring semester. Sixty five student-athletes received degrees at the spring commencement.

Mr. Haslam said the athletics budget for 2006 will be reduced by approximately \$3 million because of the reduced home football schedule. The Athletics Department continues to contribute money for scholarships to the University. Athletics is currently contributing approximately \$2.5 million for academic scholarships and parking garage debt service payments.

A partial move to the McKenzie-Lawson Athletic Center has been completed. Additional offices will move into the building in the late fall and early winter. Mr. Haslam said construction projects, including the Allan Jones Intercollegiate Aquatic Center, the new soccer stadium, the new softball stadium and Phase 1 of the Neyland Stadium renovation, are scheduled to begin in the fall.

VII. RECESS

Mr. Stansberry recessed the Board meeting and announced the meeting would reconvene in Rooms 156-157 of the Plant Biotech Building.

I. CALL TO ORDER

Vice Chair Stansberry reconvened the annual meeting of the Board of Trustees at 12:45 p.m. in Rooms 156-157 of the Plant Biotech Building.

Mr. Stansberry introduced Emeritus Trustees E. S. Bevins and welcomed him to the meeting.

II. Action Items from the Finance and Administration Committee

A. FY 2006 Operating Budget

B. FY 2006 Student Fees and Tuition

Mr. Stansberry called on President John Petersen to present the FY 2006 operating budget and FY 2006 student fees and tuition as a single item.

Dr. Petersen said the recommended student fee increases for FY 2006 are included in the Budget Document Student Fee

Excerpt (Exhibit 8). The recommended in-state and out-of-state graduate and undergraduate fee increases for Chattanooga are 9.3 percent; the increases for Knoxville are 13 percent; for Martin, 9.7 percent; 9.7 percent for the New College at Martin; 13 percent for the College of Law and the Space Institute at Tullahoma; and 15 percent for the College of Veterinary Medicine. He said the fee increases for the Health Science Center students vary from college to college but represent a 7.4 percent overall blended rate of fees.

Dr. Petersen said the budget being proposed for The University of Tennessee is \$1.4 billion (Exhibit 9). The budget is made up of \$1.255 billion in education and general funds. Auxiliaries, which are self-supporting enterprises, comprise the other \$136.9 million. The education and general budgets are divided 50 percent from state appropriations, 33 percent from fees and the remainder from grants and contracts; sales and services; investment income and other sources. Dr. Petersen said the salary plan for UT employees was laid out by the legislature. Staff members will receive a 3 percent increase (or \$750 whichever is greater) with 2 percent of the funds coming from the state and the remaining 1 percent from internal University sources. The 3 percent increase did not apply to faculty members who received a 1.5 percent increase across the Board and a pool of 1.5 percent that was awarded based upon performance. Dr. Petersen said a total of \$13.3 million for the salary increases came from the State and the remaining \$8.6 million came from internal University sources.

Dr. Petersen referred to the use of the proceeds from the UT Memorial Hospital lease transfer funds. He said the UT administration is proposing that a maximum of \$7 million be used to settle the operating deficit at the Bowld Hospital.

Dr. Petersen said also included in the budget proposal are the funds necessary for renovation, major maintenance, grounds projects, public areas, and furnishing/fixtures purchases for university-furnished houses for senior-level administrators.

Mr. Stansberry called on Mr. William B. Stokely, III for the following motion:

Mr. Chairman, with respect to the FY 2006 operating budget and FY 2006 student fees and tuition, I move:

1. That the FY Proposed Budget be approved with the understanding that should the General Assembly or the Department of Finance and Administration alter the FY 2006 appropriations or should changes in estimated resources require, the budgets shall be modified accordingly so expenditures will not exceed available resources.
2. That the proposed fee and tuition schedules be adopted for 2005-2006.
3. That an allocation not to exceed \$7.0 million from the Hospital Proceeds account be made available to settle the operating deficit of the Bowld Hospital subject to the condition that any future collection of accounts receivable or other related resources associated with the Bowld Hospital operation be first used to reimburse the Hospital Proceeds account to the extent of the amount provided for this purpose.
4. That the proposed budgets for the President's and Chancellors' residences be adopted as presented.
5. That the Board of Trustees authorize the administration to allocate salary increase funds in accordance with the FY 2006 Appropriations Act language; that a copy of the plan filed with the appropriate legislative bodies shall be provided to the Executive and Compensation Committee and the Finance and Administration Committee; and furthermore, that any additional general salary increases that exceed the July 2005 Salary Plan may only be granted upon approval by the Board of Trustees in accordance with language contained in the FY 2006 Appropriations Act.
6. That a remaining balance of Net Assets to be considered as a reserve for contingencies to be used for:
 - a. Employing additional staff where enrollments and

reorganization requirements warrant,

- b. Modifying departmental operating budgets where changing conditions during the year require funding adjustments,
- c. Funding to make salary adjustments for personnel as may be necessary during the year in keeping with state and university salary guidelines, and
- d. Improving physical facilities for academic and research departments as opportunities arise.

Mr. Stansberry said President Petersen presented a complete report on the FY 2006 operating budget and the student fees and tuition schedule in his President's report in the beginning session of the Board meeting on Wednesday afternoon. He invited questions and comments. Following discussion, Mr. Stansberry called for a second to Mr. Stokely's motion to approve the budget and student fee schedules.

Mr. D. Lynn Johnson seconded, and the motion carried unanimously.

III. VICE CHAIR'S ANNUAL PERFORMANCE REVIEW OF THE PRESIDENT AND RECOMMENDED GOALS FOR NEXT YEAR

Mr. Stansberry said his initial report was forwarded to all Trustees in advance of the meeting (Exhibit 10). He said the report speaks for itself but added that it was a pleasure to do a performance review of Dr. Petersen. Mr. Stansberry said Dr. Petersen provided him with a self analysis of his goals for the year and his actions to implement those goals. The Vice Chair said he found the goals and subsequent implementation to be consistent with the desires of the Board of Trustees. He said the Board did not offer the President specific goals, only very general ones. Mr. Stansberry said that in interviewing the senior staff and others at the University, he found unanimous concurrence that the review was accurate and met the expectations of the President during his first year. The goals for the University and Dr. Petersen are set out in the Annual Performance Review. Mr. Stansberry said he and Dr. Petersen have met and agreed on the stated goals.

Mr. James A. Haslam, III, moved approval of the Performance Review and Recommended Goals. Mr. D. Lynn Johnson seconded, and the motion carried unanimously.

Mr. Stansberry said the Performance Review will be forwarded to the Executive and Compensation Committee in September to be used in the consideration of the President's compensation.

IV. ACTIONS ITEMS FROM THE EXECUTIVE AND COMPENSATION COMMITTEE

A. President's Recommendation for Appointment and Compensation of Vice President for Research.

Dr. Petersen said Executive Vice President Jack Britt chaired a search committee to identify candidates for the position of Vice President for Research. The committee included system-wide faculty, administrators, a UT Trustee and a representative from the Oak Ridge National Laboratory. He said the search committee invited seven individuals from an original field of 58 applicants to off-campus screening sessions. Four finalists were recommended for consideration by the President (Exhibit 11). Dr. Petersen recommended with the unanimous consent of the search committee and the senior staff the election of Dr. David Millhorn as Vice President for Research effective August 1, 2005 with an annual base salary of \$275,000, an annual expense account of \$7,000, the use of a university vehicle and moving expenses not to exceed \$15,000.

Mr. D. Lynn Johnson moved approval of Dr. Petersen's recommendation. Mr. James A. Haslam, II, seconded, and the motion carried unanimously.

B. Election and Compensation of University Officers. Mr. William B. Stokely, III, made the following motion:

Mr. Chairman, I move the following persons be reelected as officers of The University of Tennessee, effective July 1, 2005, with the compensation approved by the Executive and Compensation Committee:

John D. Petersen, President
Jack H. Britt, Executive Vice President

Roger G. Brown, Chancellor of The University of Tennessee
at Chattanooga

Loren W. Crabtree, Chancellor of The University of
Tennessee, Knoxville

David N. Dunagan, Chancellor of The University of
Tennessee at Martin

Catherine S. Mizell, Vice President, General Counsel and
Secretary

William F. Owen, Jr., Chancellor of The University of
Tennessee Health Science Center and Vice President for
Health Affairs

Charles M. Peccolo, Jr., Vice President and Treasurer

Jack E. Williams, Vice President for Development and
Alumni Affairs

Mr. James A. Haslam, II, seconded and the motion carried
unanimously.

Mr. Stokely added:

Mr. Chairman, I further move that the compensation of the
President be reviewed by the Executive and Compensation
Committee at its next meeting, taking into consideration the
annual performance review approved by the Board on June 23,
2005, and that the Executive and Compensation Committee be
authorized to approve a maximum increase of three percent
(3%) in the President's base salary, with any increase being
retroactive to July 1, 2005.

Mr. D. Lynn Johnson seconded, and the motion carried
unanimously.

- V. REPORT OF THE AD HOC COMMITTEE ON THE UT
FOUNDATION.** Mr. James L. Murphy, III, said the
Governance Committee and the Ad Hoc Committee on the UT
Foundation met in joint session. He said the Ad Hoc
Committee was appointed by Vice Chair Stansberry and met
and reviewed the role of the Foundation and recommended
that the Memorandum of Understanding between the UT
Foundation and the Board of Trustees be modified. A draft of
the revised Memorandum of Understanding (Exhibit 12) was

forwarded to all Trustees. He recommended that the revised Memorandum of Understanding be forwarded to the Foundation for its review and comments. After receiving input from the Foundation Directors, the Memorandum of Understanding will be brought back to the Governance Committee and the Board of Trustees for final action at the October 27-28, 2005 Board of Trustees meeting.

VI. ACTION ITEMS FROM THE ACADEMIC AFFAIRS AND STUDENT LIFE COMMITTEE

A. Promulgation of Rules under the Tennessee Administrative Procedures Act.

1. Housing Rules at UT Martin.

Mrs. Andrea J. Loughry moved approval of the revision of the housing regulations and redefinition of visiting hours on the UT Martin campus (Exhibit 13). Mr. Jerry L. Jackson seconded, and the motion carried unanimously by roll call vote.

2. Library Fines at UT Knoxville.

Mrs. Loughry moved approval of the restructuring of the library fines at UT Knoxville to facilitate the return of borrowed books (Exhibit 14). Mrs. Susan Williams seconded, and the motion carried unanimously by roll call vote.

3. Parking Fines at UT Knoxville

Mrs. Loughry moved approval of the increase in parking citation rates on the Knoxville campus (Exhibit 15). Mr. Karl A. Schledwitz seconded, and the motion carried by roll call vote with two nays.

VII. CONSENT ITEMS

Mr. Stansberry said each item on the consent agenda was reviewed fully by the appropriate committee. All items were recommended by

the committees for approval as consent items. Mr. Stansberry said two items on the consent agenda have been withdrawn. The first is the appointment of new Trustees to standing Board committees. Since no new Trustees have been appointed, the item has been removed from the agenda until such time as new Trustees are appointed. A second consent item, the approval of an easement for a greenway trail, has also been withdrawn.

Ms. Mizell said a third item, approval of the Third Amendment to Tennessee State School Bond Authority Financing Agreement (Exhibit 16), was briefly discussed earlier in the Finance and Administration Committee meeting. The document that was mailed to Trustees with the other Board meeting materials was subsequently amended by bond counsel. She said each Trustee has a new document on the meeting table. Ms. Mizell said the item should not be treated as a consent item because the Board needs to approve the Agreement as substantially complete, and a couple of blanks remain on the Agreement. There is a blank for the date of the Tennessee State School Bond Authority approval and a second blank for the project number. Since the Tennessee School Bond Authority has not yet approved the project, those items have not been completed on the form. Ms. Mizell said the Board is being asked to approve the Agreement as substantially complete and authorize the President to execute the Agreement for the Board when it has been completed.

Mr. Waymon Hickman moved approval of the Third Amendment to Tennessee State School Bond Authority Finance Agreement. Mrs. Andrea J. Loughry seconded, and the motion carried unanimously.

Mr. Stansberry asked for requests to remove additional items from the consent agenda. No additional requests were made.

- A. Approval of Guidelines for Submission of Operating Budget to the State (Exhibit 17).**
- B. Revision of Policy on Housing of Senior Administrators (Exhibit 18.)**
- C. Approval of President Emeritus Agreements (Exhibit 19).**
- D. Ratification of Quasi-Endowments (Exhibit 20).**

- E. Approval of FY 2006 UC Foundation Budget (Exhibit 21).**
- G. Acceptance of Gift Property for Construction of the Joint Institute for Biological Sciences Building (UT Knoxville) (Exhibit 22).**
- H. Acceptance of Gift Property for Construction of the Joint Institute for Neutron Sciences Building (UT Knoxville) (Exhibit 23).**
- I. Acceptance of Gift Property from Electric Power Board of Chattanooga (UTC) (Exhibit 24).**
- J. Approval of Development of a New Memphis Mental Health Institute (UTCHS) (Exhibit 25).**
- M. Approval of Easements and Right-of-Way to City of Memphis (UTCHS) (Exhibit 26).**
- N. Sale and Purchase of Chancellor's Residence (UTHSC) (Exhibit 27).**
- O. Sale of Gift Property at or above the Appraised Value (Exhibit 28).**
- P. Annual Report of Sales of Gift Property (Exhibit 29).**
- Q. Tenure Recommendations (Exhibit 30).**
- R. Approval of Master of Dental Hygiene at UTHSC (Exhibit 31).**
- S. Approval of B.S. in Business Administration with Major in Finance at UT Martin (Exhibit 32).**
- T. Approval of Comprehensive Listing of Academic Programs (Exhibit 33).**
- U. Authorization to Confer Degrees (Exhibit 34).**
- W. Adoption of Department of Energy Security Resolution (Exhibit 35).**

X. Setting of 2006 Meeting Dates (Exhibit 36).

Mr. James L. Murphy, III, moved approval of the consent agenda. Mr. D. Lynn Johnson seconded, and the motion carried unanimously.

VII. OTHER BUSINESS

Mr. Stansberry said the Executive and Compensation Committee will meet on September 9, 2005 at a time and place to be determined. The Board's fall meeting will be held on October 27-28 in Knoxville. Mr. Stansberry said there will likely be a legislative reception in conjunction with the fall Board meeting.

IX. ADJOURNMENT

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

Catherine S. Mizell
Vice President, General Counsel and Secretary