

THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE

June 18, 2014
Knoxville, Tennessee

The Finance and Administration Committee of The University of Tennessee Board of Trustees met at 3:30 p.m. EDT on Wednesday, June 18, 2014, in Hollingsworth Auditorium on the campus of the Institute of Agriculture in Knoxville, Tennessee.

I. CALL TO ORDER

Charles C. Anderson, Chair, called the meeting to order.

II. ROLL CALL

Charles M. Peccolo, Treasurer and Chief Financial Officer, called the roll, and the following members of the Finance and Administration Committee were present:

Charles C. Anderson, Chair
Joseph A. DiPietro
J. Brian Ferguson
John N. Foy
Raja J. Jubran
Sharon J. Miller Pryse
Betty Ann Tanner

Mr. Peccolo announced the presence of a quorum of the Committee. Other Trustees, administrative staff, members of the public, and representatives of the media were also present.

III. CONSENT AGENDA

Chair Anderson directed the Committee's attention to the Consent Agenda and called for requests to remove any items. Hearing none, the Chair called for a motion to approve the Consent Agenda, consisting of the following items:

- A. Minutes of Last Meeting
- B. Ratification of 2013-14 Quasi-Endowments (Exhibit 1)

- C. FY 2015 Distribution of UC Foundation Unrestricted Endowment Funds (Exhibit 2)
- D. Alley Transfers from the City of Knoxville (UTK) (Exhibit 3)
- E. Annual Report of Sale of Gift Property (Exhibit 4)
- F. President Emeritus Agreement with Dr. Joseph E. Johnson (Exhibit 5)

Trustee Pryse moved approval of the Consent Agenda. Trustee Jubran seconded the motion, and it carried unanimously.

IV. TENNESSEE UNIFORM ADMINISTRATIVE PROCEDURES ACT RULES

Chair Anderson asked Treasurer and Chief Financial Officer, Charles Peccolo to present the first item.

A. Towing Fine Increase at UT Knoxville

Mr. Peccolo explained that the proposed increase in the towing fine at UT Knoxville must be promulgated as a Rule under the Tennessee Uniform Administrative Procedures Acts. The proposal would increase the towing fine from \$42 to \$60, which is the cost paid to service providers for towing the vehicle.

Trustee Jubran moved that amended Chapter 1720-04-5 of the Rules of The University of Tennessee (Exhibit 6) be approved to increase the towing fine at UT Knoxville from \$42 to \$60, with a \$5.00 per day storage fee. Trustee Pryse seconded the motion, and it carried unanimously.

B. Use of University Property

Chair Anderson asked Catherine Mizell, General Counsel and Secretary, to present the next two items. Ms. Mizell noted that this Rule on Use of University Property and the Rule on Use of University Property by Non-Affiliated Persons for Free Expression Activities were before the Committee and the Board at the Winter Meeting in February 2014 and approved at that time. As required by the Tennessee Uniform Administrative Procedures Act, the Rules were presented to the Attorney General, who recommended some revisions. The revisions are primarily clarifying in nature and do not change the intent. Therefore, the administration recommends approval of the proposed revisions so the Attorney General's approval can be obtained and the Rules filed with the Secretary of State.

Trustee Pryse moved that the Board of Trustees adopt the proposed Chapter 1720-01-2 of the Rules of The University of Tennessee, titled "Use of University Property," (Exhibit 7) to supersede the current Chapter 1720-01-2, titled "Access to University Property." Trustee Tanner seconded the motion, and it carried unanimously.

C. Use of University Property by Non-Affiliated Persons for Free Expression Activities

Ms. Mizell noted that this item is a more specific rule concerning free expression activities by non-affiliated persons on University property. With one exception, the revisions recommended by the Attorney General are simply for clarification. The substantive revision relates to the original Rule's provision making non-affiliated persons subject to campus policies, which would be controlling in the event of a conflict with the Rule. The intent of the provision was to make it absolutely clear to the non-affiliated person that his or her right to be on University property was solely derivative of the student organization or faculty member who extended the invitation. So if the student organization or faculty member was out of compliance in some way with campus policy, the non-affiliated person would also be considered out of compliance. The Attorney General was concerned that the provision could be confusing and lead to a legal challenge to the Rule. After careful consideration of the Attorney General's position, the General Counsel's office has concluded the provision is not critical to the Rule and concurs in the recommendation that it be deleted.

Trustee Pryse moved that the Board of Trustees adopt proposed Chapter 1720-01-12 of the Rules of The University of Tennessee, titled "Use of University Property by Non-Affiliated Persons for Free Expression Activities," (Exhibit 8) to supersede the "Speaker Policy" adopted by the Board of Trustees on June 19, 1969. Trustee Foy seconded the motion, and it carried unanimously.

V. POLICY ON A STUDENT PROGRAMS AND SERVICES FEE

Chair Anderson recognized President DiPietro to present the policy. Dr. DiPietro explained that for the past two years, there has been a great deal of interaction with both chambers of the General Assembly regarding the Sex Week program on the Knoxville campus. The proposed system-wide policy is in response to Senate Joint Resolution 626 concerning an opt-in provision for student activity fees used to fund student organization programming. Dr. DiPietro added that student government leaders at UT Martin, UT

Chattanooga, and UT Knoxville have had an opportunity to express their views on the proposed policy to campus leadership and directly to him.

Trustee Wharton expressed concern that requirements of the possible would be burdensome in terms of paperwork and new systems. Dr. DiPietro said he believes the policy can be implemented without significant administrative burden.

Dr. DiPietro asked Chair Anderson to recognize Robert Fisher, Student Government Association President at UT Chattanooga, to address the Committee on behalf of the SGA Presidents who have interacted with Dr. DiPietro about the policy. Mr. Fisher first expressed appreciation for the opportunity to review the proposed policy, provide feedback, and have dialogue with the President and members of his team. He noted some logistical challenges presented by the opt-in requirement, such as how to identify students who have opted-in and those who have not and how to implement a new system at the beginning of the fall semester. He also expressed concern about the membership on the SPAC Committee, with the majority being non-students. He then thanked Dr. DiPietro for his willingness to engage in dialogue on how to move forward in the wake of a new policy. He said Dr. DiPietro has been invited to speak to all student leadership across the state about the policy and assessing its impact. Dr. DiPietro thanked Mr. Fisher and said that he would be willing to visit the other campuses and speak with student leaders about this policy as it is implemented and work through any issues.

Trustee Pryse expressed her opinion that an opt-out requirement would have been preferable to an opt-in.

Trustee Schledwitz commented that Dr. DiPietro and his staff have done an admirable job of dealing with a bad hand they were dealt, but he would be remiss if he failed to voice his objection to the policy. He said the University is telling the students that they aren't trusted and can no longer have a majority to decide how to spend the student activity fee. He said when funding is conditioned on a behavior, it is the beginning of censorship. He reiterated that Dr. DiPietro and his staff have done the best they could, and students should not perceive the University wants this to be done.

Vice Chair Ferguson asked if there was a way to identify whether a student has opted in. Dr. DiPietro responded that he understands there are mechanisms that can be put in place with identification cards. Vice Chair Ferguson asked if lists would be generated with names. Dr. DiPietro did not believe any lists

would be generated, but the purpose would be to preclude those students that have not opted in from attending an event arranged by a student organization. He then responded to Trustee Schledwitz's comments and said the alternatives to this policy were horrific in comparison. He also noted that there is a distinction between programs and speakers put on by student organizations and academic freedom in our classrooms, which is the tenet of a great university. Trustee Schledwitz expressed his view that students also have the right to invite whomever without the restrictions that are being crafted. He went on to explain that he understands the consequences were worse than this and the staff did the best they could, but he felt compelled to go on record by saying this policy doesn't mean that we are endorsing this in any other way than it is the least objectionable of the options that have been given.

Trustee Jubran agreed with many of the comments and added that he watched this circumstance from beginning to end, and Dr. DiPietro did a marvelous job taking it from a very bad position to where it stands now. Trustee Jubran then moved that the Policy on a Student Programs and Services Fee (Exhibit 9) be adopted as presented in the meeting materials. Trustee Pryse seconded the motion, and it carried unanimously.

VI. REPORT OF STUDENT FEE CHANGES

Chair Anderson asked Mr. Peccolo to report on Student Fee Changes. Mr. Peccolo explained that this information is provided for the Committee's information and requires no action. The compilation of student fee changes proposed for the upcoming year is broken into three categories, by campus, with specific detail in the meeting materials (Exhibit 10). These fee changes are in addition to the proposed tuition increases that will be presented and approved at the full board meeting:

- A. Student Fee Changes Requiring the Board's Approval - various program fees assessed broadly across all students and fees dedicated for specific purposes, such as facilities, athletics, and libraries.
- B. Student Fee Changes Requiring the President's Approval - Lab, special course and application fees, and other fees at each campus.
- C. Student Fee Changes Requiring the Chancellor's Approval - Housing contract or meal plan increases.

VII. UTHSC REGIONAL TUITION RATE PROGRAM FOR THE COLLEGE OF PHARMACY IN MEMPHIS

Chair Anderson asked Tony Ferrara, Vice Chancellor for Finance and Administration at the UT Health Science Center, to present this item. Mr. Ferrara said the proposal for a regional tuition rate program is in response to enrollment challenges in the College of Pharmacy. Before 2006, UTHSC had the only Pharmacy school in the state, but now it must compete with five other schools. The 75% discount on the out-of-state tuition would apply to residents of Arkansas and Mississippi.

Student Trustee Bonnie Lynch asked Mr. Ferrara if the expected increase in applications (25) would necessarily mean an increase of acceptances. Mr. Ferrara said there is no guarantee, but the Dean believes some students have chosen to go to the private schools because of the lower cost.

Trustee Schledwitz asked if this program would expand beyond the College of Pharmacy. Mr. Ferrara responded that it could but noted that in the other colleges, particularly nursing and allied health, we still have the advantage of the academic common market, which allows students to qualify for in-state tuition if their state does not provide a particular program. Mississippi and Arkansas, for example, do not have the doctor of nursing and allied health, so students from those states automatically qualify for in-state tuition. Trustee Jubran asked why the 50 mile radius of Memphis? Mr. Ferrara replied that the locations of the applications were studied, and it seemed like the logical number.

Trustee Foy moved that the Health Science Center be authorized to implement a three-year program for the College of Pharmacy in Memphis to provide a 75% discount of the out-of-state tuition charge for students residing in Mississippi or Arkansas within a 50-mile radius of Memphis, effective Fall 2014 (Exhibit 11). The motion was duly seconded, and it carried unanimously.

VIII. EXTENSION OF UTC REGIONAL TUITION RATE PROGRAM FOR UNDERGRADUATES, FY 2014-15

Chair Anderson asked the UTC Chancellor Steve Angle to present the next two agenda items. Dr. Angle first noted that a three-year review of these programs, as suggested by UTHSC, is a good idea. For UTC's regional tuition rate program for undergraduates, 2007 was used as the base year, and projected enrollment was 50 students. The enrollment is currently in the range of 140-

160 students. UTC is attracting students who otherwise would not have enrolled.

Trustee Foy moved that the UTC regional tuition rate program for undergraduate students residing in seven contiguous counties in Georgia and Alabama be extended for FY 2014-15 (Exhibit 12). Trustee Pryse seconded the motion, and it carried unanimously.

IX. EXTENSION OF UTC REGIONAL TUITION RATE PROGRAM FOR GRADUATE STUDENTS, FY 2014-15

Dr. Angle noted there was a base headcount of 23 in 2009 and 33 in 2014. He showed a fluctuating trend and stated that the trend is occurring in all of the graduate programs, and all are working to improve. Some of the declines in Education are related to changes in Georgia where getting a master's degree does not lead to getting a higher salary, and thus there are fewer students in that area. We are looking at program profiles and offerings and anticipate this number increasing. The tuition discount is very important in recruiting students in those nearby counties.

Trustee Foy moved that the UTC regional tuition rate program for graduate students residing in seven contiguous counties in Georgia and Alabama be extended for FY 2014-15 (Exhibit 13). Trustee Pryse seconded the motion, and it carried unanimously.

X. DISCLOSURE OF ADDITIONAL REVENUE/INSTITUTIONALLY FUNDED CAPITAL PROJECTS FOR FY 2014-15

Chair Anderson recognized Mr. Peccolo to address the item. Mr. Peccolo explained that in years past this item has been on the consent agenda, but because it totals \$373,460,000 this year, we have it as a separate item for the Committee to recommend and the Board to ratify the action. The Knoxville housing project was resized and re-scoped after it was submitted in October. The \$65 million project and the \$127 million campus housing redevelopment project were cancelled, and two new projects totaling \$325 million replaced them. Mr. Peccolo pointed out that just because these projects are in the appropriations bill and are institutionally funded does not mean the projects have to be completed.

He went on to explain that the last two items on the list are placeholders. Since the fall meeting the System Administration has considered an administration building on the Cherokee Farm campus--perhaps building an office space large

enough for expansion space and in the interim using it for incubator space for new technologies as a way to help finance the new structure. The parking garage would be necessary if the office space was built. This potential project had to be submitted in order to not miss a budget cycle.

Trustee Wharton asked why \$3 million would be spent to overhaul a boathouse and why it has priority over other needed projects. Mr. Peccolo said it is related to women's athletics and the rowing team. He explained that these projects are institutionally funded, so there is not priority ranking. What gets submitted to the Tennessee Higher Education Commission and to the Governor is generally accepted because they are based on the campus's ability to pay for them, and we do not have to rank the project against another endeavor.

Trustee Pryse asked what it was going to take for Engineering to get their building. Mr. Peccolo responded, saying it is not on this list, but it is the number two (behind the Lab Science Building) Knoxville priority for capital outlay that we ask the State of Tennessee to fund. If the campus was able to raise the \$100 million in capital dollars it could be put on this list and would be started right away. When the state goes to fund the capital outlay it becomes a priority ranking between The University of Tennessee and the Tennessee Board of Regents. UT had the number one ranking project from THEC this year but due to the size of the project, the State was only able to fund two smaller projects for Tennessee Board of Regents. It will be several more years before engineering makes it to the top of the list of the recommended projects.

Trustee Murphy asked where institutional funding would come from for a System Administration building. Dr. DiPietro replied that the approach would be an arrangement under which we would be the developer of a building at Cherokee Farm with enough tenants to offset the costs. There are so many priorities around capital needs that this cannot be ahead of the academic, research or outreach missions. A study was done after speaking to people in the community, and if we can do it in a way that doesn't put it as a priority over the three missions, it would be prudent. Again, we will come back to the Board if it can be put together. We thought it was a good idea to get it disclosed and approved.

Mr. Peccolo then asked UT Knoxville Vice Chancellor for Student Life Vincent Carilli to present to the Committee the complete housing plan for the Knoxville campus. Vice Chancellor Carilli noted that UT Knoxville is at a disadvantage in curb appeal with other top schools and cannot fully support the living/learning experiences. The current housing accommodates 3,700 students, and over time we will create a phasing plan into a more residential

style community with more green space. Trustee Wharton asked if there will still be room for 3,700 by going from high-rise to low-rise in this proposal. Vice Chancellor Carilli answered there will be around an equal number of spaces, and there is some room to grow the population if needed. He added that Gibbs Hall facility was demolished over the summer; it had 230 beds and the facility going up in its place will have 630 beds and the extra 400 goes into the calculation of the 3,700 number.

Vice Chancellor Carilli stated the entire project, from the phasing perspective, would wrap up in about 2019-2020. He noted that they are trying to balance the ability to develop facilities that are attractive to students and the cost of the method of construction. Fred Brown Hall is the first new residence hall on the UTK campus in 43 years.

Trustee Murphy asked what the difference in cost would be if 50-year buildings were constructed instead of 25-year, and the answer was 60% for a total of \$400 million versus \$234 million. Current cost is \$85,000 per bed and the cost would increase to \$125,000 per bed. Trustee Murphy asked what the change in rental cost was for this plan and the answer was 5% and the other would be around 15%.

Trustee Wilson asked what the differences are in the 25 versus 50 year buildings. Trustee Jubran responded that even in a concrete and structural steel building, you would have to upgrade mechanical systems, etc. It is not a fair thing to say what you are building for 25 years cannot be adapted and last another 50 years. Dr. Cheek addressed the Committee and noted that the Gibbs Hall replacement and the Fred Brown building are built in the more traditional style with a lot of concrete. In the west campus redevelopment, on the other hand, we are doing what Oklahoma, Alabama, NC State and UNC are doing and that is constructing buildings without all the concrete that the traditional building has. It has a brick exterior but has an interior more like a house made of wood and there is much more flexibility. Strong Hall was taken down because the ceilings were 8 feet high, walls couldn't be moved and there was no flexibility for upgrading. There are two structural pieces that have been kept for historic purposes. In 25 years we may have to renovate these buildings. We plan to keep them longer than that but on the cost structure it is the lower cost and is what most universities are going with at this point in time.

Trustee Jubran moved that the Board of Trustees ratify the expanded list of Revenue/Institutionally Funded Capital Projects for FY 2014-15 with authorization to enter into contracts for design and construction of these projects, subject to future Board review and approval of the UT System

Administration Building and Parking Garage projects if and when construction of those projects is determined to be feasible (Exhibit 14). Trustee Pryse seconded the motion, and it carried unanimously.

XI. PERFORMANCE TREASURER'S REPORT ON ENDOWMENT INVESTMENT

Mr. Peccolo asked Executive Director of Investments, Rip Mecherle to present the Treasurer's Report on Endowment Investment Performance (Exhibit 15) and the change in the next item regarding Endowment Spending Plan going forward.

Mr. Mecherle noted that the short story was all the trends over the last several quarters including this one remain intact. The Pool has had a good fiscal year to date as well as one year. Bear in mind the numbers don't take into account the last quarter's private portfolio which constitutes approximately 20% of the total portfolio. Those numbers are always delayed and will show up in the next two quarters. Trustee Wharton said that he had read an article that over discreet periods of time if you had all your eggs in an Index Fund of the S & P you would beat 96% of all mutual and hedge funds with a minimum amount of risk and cost. Has the University thought about doing this? Mr. Mecherle replied that there are a number of Index products in the portfolio but don't want to put all our eggs in any single basket that can go down 50% as it did during the credit crisis. The Pool needs to stay more diversified and that is why there are so many other categories.

XII. ENDOWMENT SPENDING PLAN

Mr. Mecherle said at the beginning of his report (Exhibit 16) that the distribution rate is not being lowered; just simply changing how the distribution formula is calculated. It begins in 2011, so it anchors this change in the spending formula to three positive annualized returns and favorable pool valuables post credit crisis. The reason for using smoothing formulas is because it decreases the volatility distribution. We do not want the cash flow stream for scholarship distributions or research funding from the various endowments to be as volatile as the markets can. These smoothing formulas also help tie distributions to performance so there is not a complete decoupling there either.

Mr. Mecherle then presented the 7-Year Moving Average Transition. It starts with 2011+2012+2013 and gradually adds one more year after three positive years. The effect will be muted in the changes of distributions from their

various endowments given only one more year being added. In fact, it will lessen the impact should 2014 be a negative year. There will be three years to add to that as well instead of cutting 2011 going forward. The entire plan will go into effect for FY 2019.

Trustee Pryse stated that the 7-year moving average certainly smoothes it out but warned that the full impact of a \$100 million gift will not be seen for seven more years into what you are going to be able to spend because it is a moving average. Your portfolio goes from \$100 million to \$200 million and the \$200 million that comes in 2016 or 2020 – you will not have the full impact for seven years.

XIII. EUGENIA WILLIAMS PROPERTY UPDATE

Mr. Peccolo advised the Committee that President DiPietro had charged nine individuals with taking a look at the Eugenia Williams property that was transferred to the University by a bequest. The University had considered a wide variety of uses in the past for University and Development use and even leasing the property. While considering various items we ran into constraints from the bequest, donor's intended use of the property and financial. The University does not have the resources to put into the property to transform it into something that can be used.

Mr. Peccolo then went over the recommendation that was submitted to the President (Exhibit 17). President DiPietro agrees with the recommendation and thinks the RFP should be sent out after being presented to the Board as an informational item. He went on to say that you have to think in hundreds of years with a University and the future of twenty seven acres that is proximal to this campus. It was once considered for a President or Chancellor's house but the University is not in the housing business any more as a result of this Board's deliberations, and he agrees with the approach. We are trying to retain the property and get it restored and thought it was a long term win for the institution.

XIV. WEST TENNESSEE 4-H CENTER UPDATE

Mr. Peccolo advised the Committee that Dr. Larry Arrington, Chancellor, UT Institute of Agriculture, would give an update on the 4-H Center. Chancellor Arrington noted that the Board had previously been apprised on the process up to this point in selecting a site for the new 4-H Center in West Tennessee. The site selected has a lot of improvements on it and infrastructure. We continue to work with the owners regarding the possible purchase of the

property. They have been patient because they would like to see it in the hands of UT and 4-H. Some portion of the property will be a gift, but a \$15 million purchase has to be made as well. The State Building Commission has given us a green light to proceed with a State approved appraisal. The purpose of the appraisal is to protect UT and the seller from a value perspective. President DiPietro has agreed to continue with the purchase and keep it on the capital priority list. Under these conditions the owners have agreed to continue working with us and we are continuing to raise private funds for the project. The private funds will go toward additional improvements that would be made to this property in order for it to fully function as a 4-H Camp and Conference Center. Once purchased and developed the business plan shows this facility will be totally supported from fees and will not require any additional resources. This is the case with all 4-H camps in Tennessee. The citizens of West Tennessee continue to support the project. Trustee Gallimore asked if Chancellor Arrington knew the limitation of the seller's patience. Chancellor Arrington anticipated 15-18 months.

XV. HR AND COMPENSATION ADVISORY BOARD REPORT

This agenda item was deferred to the Fall 2014 Finance and Administration Committee's agenda due to lack of time.

XVI. OTHER BUSINESS

There was no further business to come before the Committee.

XVII. ADJOURNMENT

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

Respectfully Submitted,



Charles M. Peccolo
Treasurer and Chief Financial Officer