

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE

THE UNIVERSITY OF TENNESSEE BOARD OF TRUSTEES

**June 23, 2005
Knoxville, Tennessee**

The meeting of the Finance and Administration Committee of the Board of Trustees was held at 10:30 a.m. EST, Thursday, June 23, 2005, in The University of Tennessee Plant Sciences Biotechnology Building, Room 160, in Knoxville, Tennessee.

I. CALL TO ORDER

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

II. ROLL CALL

Ms. Sylvia Davis, Vice President for Administration and Finance, recorded the following members as present:

Mr. Stokely, Chair
Mrs. Amonette
Mr. Haslam
Mr. Jackson
Mr. Johnson
Dr. Petersen
Mr. Stansberry
Mr. Wolford

III. APPROVAL OF MINUTES OF PRIOR MEETINGS

Mr. Stokely asked for the approval of the minutes for March 2, 2005 and May 26, 2005. Mr. Haslam moved approval. Mr. Johnson seconded, and the motion carried unanimously.

IV. REPORT OF EMPLOYEE RELATIONS ADVISORY COUNCIL

Ms. Bright introduced attending members of the Employee Relations Advisory Council attending from the Knoxville area: Ms. Gloria Tipton, University Administration and Support Services representative; Ms. Amy Paganelli, Knoxville-area Exempt Staff Council representative, Mr. Kenny Wolfenbarger, Knoxville University Operations representative, and Ms. Mary Evans, Knoxville Academic and Student Affairs representative. The council holds meetings twice a year to bring employee matters to the

attention of the President and other members of the senior staff. Current topics include employee progression through career paths, university policy encouraging 32 hours of training for all employees, equitable distribution of salaries funds, rising group insurance premiums, and wellness programs.

Mr. Stokely asked Ms. Bright to convey to all council members the Board's appreciation for their efforts.

V. REPORT OF CAPITAL PROJECTS SUBCOMMITTEE

Mr. Stokely stated the subcommittee last met on May 26 where Mr. Hank Dye gave a report on elements to include in a communications plan to increase awareness of higher education's facilities needs.

Mr. Stokely stated that Ms. Davis has talked with Tennessee Board of Regents' (TBR) Chancellor Charles Manning, and Mr. David Gregory, TBR Vice Chancellor for Administration, about their Board's interest in working with UT on this initiative. They are interested and a meeting will be scheduled in the near future.

VI. TREASURER'S REPORT ON INVESTMENT PERFORMANCE

Mr. Butch Peccolo presented the Treasurer's Report on Investment Performance to the committee. The quarter ending March 31 was down 0.6%. While negative, the return was favorable compared to a constructed index for the pool, which was down 1.4%. The year-to-date return was up 8.6% through the end of May and the return for June is also up. Mr. Peccolo said if the current trend holds, the fiscal year return will be at or slightly over the long-term target of 9.0%.

Mr. Peccolo provided an update on the asset allocation plan discussed with the Board members at their last meeting. One of the plan's initiatives was the transition from active to passive management of the pool's large cap investments. During the past quarter, the university terminated its two active large cap managers while recognizing that both had performed well over the years. Mr. Johnson inquired of the status of a letter from one of the two firms questioning the university's decision. Mr. Peccolo indicated the committee was reviewing the proposed strategy.

Mr. Jackson asked how much of the endowment pool is used on an ongoing annual operating basis. Distributions are 5% of a three-year moving averages to support endowed programs such as scholarships. An average of 32 basis points is allocated for fees which includes custody,

managers, and active management fees. Distribution of 50 basis points, approximately \$2.5 million, funds direct administrative costs. Mr. Jackson noted that doubling endowments will not alleviate the need to increase tuition to support operating cost. Mr. Haslam agreed saying those who give money typically designate funds to a specific purpose.

Mr. Stansberry asked if there was a significant savings in the cost of active management versus passive management. Mr. Peccolo said yes, estimating the net would be between 45-48 basis points.

Mr. Stokely complimented Mr. Peccolo and his staff on keeping the committees informed.

VII. FY 2006 OPERATING BUDGET AND STUDENT FEES & TUITION

Dr. Petersen presented the FY 2006 recommended operating budget and student fee recommendation to the committee.

The proposed FY 2006 Operating Budget totals \$1.3 billion. The budget proposal includes recommended maintenance and tuition fee increases as follows:

STUDENT FEE	In-State	Out-of-State *
Chattanooga - Undergraduate and Graduate	9.3%	9.3%
Knoxville – Undergraduate and Graduate	13.0%	13.0%
Martin – Undergraduate and Graduate	9.7%	9.7%
New College	9.7%	9.7%
College of Law	13.0%	13.0%
Space Institute	13.0%	13.0%
Health Science Center		
College of Medicine		
First-year Students	3.0%	3.0%
Returning Students	0.0%	0.0%
College of Allied Health Sciences	8.0%	8.0%
College of Nursing	3.0%	3.0%
College of Dentistry	15.0%	10.0%
College of Pharmacy	9.0%	3.0%
College of Veterinary Medicine	15.0%	15.0%

* The Health Science Center applies the out-of-state fee increase to the out-of-state portion only of the fee.

In addition to increases in the maintenance fees, we are recommending increases in the following campus specific fees:

CAMPUS	FEE	CURRENT RATE	PROPOSED RATE
Chattanooga	Athletics Fee	\$50/semester	\$100/semester
Knoxville	Facilities Fee	\$25/semester	\$30/semester
	In-State Out-of-State	\$150/semester	\$180/semester
Martin	Travel Study Fee	\$0/semester	\$5/semester
HSC	Student Assistance Program	\$0/year	\$18.50/year

The revenues generated from the recommended student fee and tuition increases assist in funding the state's mandated salary increase, fixed operating cost increases, and limited academic enhancement initiatives.

Dr. Petersen noted that the maintenance fee is a portion of the student's total cost. In addition to maintenance fees, there is also housing, meal plan and other fees include technology fees, and facility fees. Using the Knoxville campus as an example, the actual cost increase approximates 7.7% for the typical undergraduate in-state residential student when all expenses are considered.

The University's three major goals are research, student success and student access. The proposed budget includes new state funding of \$2.5 million in matching funds recommended by the Governor and approved by the General Assembly to attract distinguished scientists to Tennessee. The goal is to increase the match to a total of \$10.0 million from the state to match the \$10.0 committed by ORNL if matching funds are provided. Also funded with state funds this year is the Joint Institute Computational Sciences facility in Oak Ridge.

Dr. Petersen stated that increases in student enrollment means additional faculty are needed to facilitate student success. The recommended student increase provides funding for this purpose. All three undergraduate campuses have established Student Success Centers and are working to enhance services provided to students. National research shows graduation rates are significantly higher where universities provide complementary academic support services.

The College of Pharmacy student fee increase supports an increase in class size needed to provide additional student access to aid in addressing the shortage of pharmacists.

Dr. Petersen provided committee members with examples of effort made by campuses and the system office to reduce costs to keep student fee increases at a minimum. These efforts included UT Martin's agreement with TVA to buy and sell power, issuance of a system-wide procurement

card program for small purchases, and a centralized administrative software support. Mr. Johnson asked if the university had fully implemented SAP. Ms. Davis responded that the finance and human resource systems were implemented but that we continue to add functionality. Dr. Petersen noted that having a system helps to support standardized processes which aids in reducing cost and that efforts were underway to consider a common student information system for the campuses.

Mr. Johnson asked if there were no fee increase would there be things we would not do. Dr. Petersen replied the current fee recommendation allows campuses to continue operations at basically the same level with a few enhancements particularly in adding faculty needed from increased enrollments.

Mr. Stokely noted that UT's fees are generally below our peers, but the parents are still getting a good education for their sons and daughters. Dr. Petersen agreed.

Mr. Haslam wanted to know what percentage of the cost a student paid if they had a lottery scholarship. Dr. Petersen answered a lottery scholarship provides \$3,300 a year compared to \$3,000 last year. Proposed student fees range from \$4,500 - \$4,700.

Mr. Johnson said given the fact we have adequate cost reductions, that student fee increases are needed to adequately serve the student population. Students expect more and we cannot adequately deliver services to meet their needs without additional revenues.

Mr. Murphy commented that it is natural that people do not want tuition or any other types of increases and inquired about the impact if tuition was not raised. He said it seems like one alternative would be to take fewer student. Dr. Petersen replied that we would be taking fewer students than two years ago and then it would become a death spiral from there. If that happens then the appropriations go away. We are already cutting back due to changes in admission. Mr. Stansberry pointed out that every student is making up the appropriations short coming and every student every year is being asked to make up more and more.

Mr. Murphy asked about the funding for the 3% pay increase provided in the appropriations bill. Ms. Davis said the state only partially funded the mandated state increase and that the Chattanooga, Knoxville, and Martin campuses collectively need an additional \$3.3 million to fully fund the state

salary increase. Mr. Johnson asked where we get the money for other units/institutions. Ms. Davis stated they are fully funded by the state.

Dr. Petersen said the state's salary range generally provided a 3% increase for employees with a minimum increase of \$750. That means that any staff member who is making under \$25,000 would get \$750. The faculty 3% increase was split into two parts: a 1.5% across-the-board increase and a 1.5% merit pool.

Dr. Petersen also presented a request to use a portion of the UT Hospital Proceeds from the hospital transfer/lease agreement in an amount not to exceed \$7.0 million to fund the Bowld Hospital operating deficit. Also requested from the Hospital Proceeds was a temporary use of funds to acquire a new chancellor's residence in Memphis that is more suitable for the university's needs. The campus shall reimburse any distribution made from the account in its entirety from the proceeds from the sale of the old home and/or gift funds as may be required. The Hospital Proceeds account shall be reimbursed no later than June 30, 2006.

Dr. Petersen discussed with committee members the proposed housing budgets for senior administrators contained in the FY 2006 proposed budget.

Mr. Stokely opened the floor for questions and asked for a motion to discuss the budget, operating expenses and tuition. Mr. Haslam moved for discussion and Mr. Stansberry seconded the motion.

Mr. Johnson stated he was concerned with the recommended use of the proposed increase in the Knoxville facilities fee for green projects, specifically the use of \$144,000 for the TVA voluntary windmill project. Mr. Johnson suggests directing these funds to other green initiatives. Dr. Loren Crabtree recalled last year's meeting where the use of funds for green projects was originally discussed due to Knoxville student passage of a referendum supporting a higher fee that focused primarily on green power. Mr. Phil Scheurer mentioned that following the Board of Trustees' meeting Knoxville campus representatives met with the students to explain why the student initiative was not approved last year and invited conversation with the leaders of the environmental groups and the Student Government Association to reach some accord on the issue. Over the course of the year input was received from students, administrators, and members of the faculty for a plan to fund green projects from student fees. The recommended 20% increase in the facilities fee generates approximately \$425,000 and funds a five-year plan development with input from constituency groups. The \$144,000 designated for the purchase of

green power from TVA would be added to the \$18,000 currently allocated for this purpose. The additional funding allows the university to become a green power partner with TVA which has a great amount of significance to the students and members of the faculty who are environmentally conscience.

Mr. Stokely commented he has been deeply involved in the budget process and the president had a great staff involved in the development of the budget. Mr. Stokely said we need to continue work on controlling expenditures and that the establishment of a subcommittee to explore areas where we can be of some assistance may be appropriate. Mr. Stokely went on to say he thinks we need extra funds to expand research initiatives which will set this institute apart.

Mr. Stokely recommended approval of the proposed budget and fees. Mr. Haslam moved approval of the FY 2006 proposed budget and student fee increases. Mr. Johnson seconded the motion which carried unanimously.

VIII. GUIDELINES FOR SUBMISSION OF OPERATING BUDGET TO STATE

Ms. Davis said the Board of Trustees' by-laws, as amended at the March 2, 2005 meeting, required the Finance and Administration Committee to approve and recommend to the full Board the guidelines governing the administration's submission of a proposed annual appropriations request to state agencies and officials. The proposed guidelines authorize the Administration to submit to THEC our budget request in accordance with THEC's instructions. The request shall include requests for both on-going operations and program improvements.

The committee will review the programmatic funding requests at their Fall meeting and make a recommendation to the full Board for consideration. Any changes approved to the original THEC submittal shall be conveyed to THEC as an amended funding request. The University is authorized to make technical adjustments as needed. The Finance Committee will receive a status report of the funding request at the Winter Meeting. Mr. Haslam moved approval of the guidelines and Mr. Stokely seconded. The motion carried unanimously.

IX. REVISION OF POLICY ON HOUSING FOR SENIOR ADMINISTRATORS

Ms. Davis presented to committee members changes to the Board of Trustees' Housing for Senior Administrators policy for consideration. The changes are offered in response to the committee's request at its March 2,

2005 meeting that the Administration require the current policy to ensure efficient operations while maintaining effective controls. The proposed changes authorize the Chief Financial Officer to approve cumulative budget adjustments not to exceed \$15,000, excluding emergency expenditures and mandated salary adjustments. The Audit Committee shall receive a report of any mid-year adjustments. The Chief Financial Officer shall notify the Vice Chair of the Board of any emergency expenditure. Approved expenditures for furniture and fixtures will be reported to the audit committee on a quarterly basis.

The revised policy recommends the creation of an administrative Advisory Committee, chaired by the Chief Financial Officer with membership consisting of the General Counsel and the Vice President of Development, to review proposed gifts prior to acceptance. The Chief Financial Officer shall consult with the Vice Chair before accepting gifts that potentially affects property value or are considered controversial or sensitive in nature.

Mr. Stokely stated the proposed changes are important as they provide a small degree of latitude from a previously strict policy but still incorporates the Board oversight intended in the originally policy. Mr. Haslam moved approval and Mr. Johnson seconded, and the motion carried unanimously.

X. PRESIDENT EMERITUS AGREEMENTS

Ms. Davis stated that state statute provides for the continued employment of president emeriti upon annual approval by the Board of Trustees. Continuation of the current contracts with Dr. Edward Boling and Dr. Joseph Johnson under the same terms and conditions were presented for the committee's consideration. Mr. Jackson moved approval of the proposed contracts and Mr. Johnson seconded, and the motion carried unanimously.

XI. RATIFICATION OF QUASI-ENDOWMENTS

Mr. Peccolo stated that in 1995, the Board of Trustees approved the establishment of quasi-endowments by the Administration prior to official governing board action, provided the Board of Trustees receives an annual report of the names and amounts of such quasi-endowments during the previous fiscal year and ratifies the action.

Ten quasi-endowments totaling approximately \$2.5 million dollars were established this fiscal year. Ms. Amonette moved approval and Mr. Jackson seconded, and the motion carried unanimously.

XII. FY 2006 UC FOUNDATION BUDGET

Ms. Davis stated that the FY 2006 UC Foundation budget is developed with input from the Chancellor and the Provost from the UT Chattanooga campus.

The proposed 2006 distribution is approximately \$1.9 million dollars, an increase of a \$7,000 over the current year. The funds support academic programs, professorships, faculty development initiatives, and student scholarships and internships.

Mr. Haslam moved approval and Mr. Jackson seconded, and the motion carried unanimously.

XIII. CAPITAL ITEMS

Mr. Phil Scheurer presented the following items for the Committee's consideration:

- A. Consideration on an easement to Knox County for a Greenway Trail (UT Knoxville) was deferred.
- B. Long-term Lease to City of Knoxville for Development of Lower Second Creek Greenway (UT Knoxville). Mr. Scheurer said the university administration proposes to enter into a long-term land lease with the City of Knoxville. The city is proposing to spend approximately \$2.6 million to develop this 7.5 acre area into the Lower Second Creek Greenway. After the site has been developed, the University will retain approximately two hundred (200) parking spaces in the area for University use. Completion is anticipated by August 2006.
- C. Acceptance of Gift Property for Construction of the Joint Institute of Biological Sciences Building (UT Knoxville). The University administration recommends approval for the acceptance of approximately .48 acres of property at the Oak Ridge National Lab (ORNL) from the Department of Energy. The property will be the site of the proposed Joint Institute of Biological Sciences building containing approximately 34,000 square feet. The Joint Institute of Biological Sciences is a collaborative research and educational venture between ORNL and the University of Tennessee, Knoxville.
- D. Acceptance of Gift Property for Construction of the Joint Institute of Neutron Sciences Building (UT Knoxville). The University

administration recommends approval for the acceptance of approximately .83 acres of property at the Oak Ridge National Laboratory from the Department of Energy. The property will be the site of the proposed Joint Institute of Neutron Sciences building containing approximately 35,500 square feet.

- E. Acceptance of Gift Property from the Electric Power Board of Chattanooga (UTC). The University administration recommends approval for the acceptance of approximately .14+/- acres, and associated easements, from the Electric Power board of Chattanooga (EPB). The EPB has abandoned the property, which was formerly used as the site for an electrical power substation and power lines. The University will use this property, and adjacent University property, for the development of fraternity and sorority housing.

- F. Development of a New Memphis Mental Health Institute. In a cooperative venture, The University of Tennessee, Tennessee Department of Mental Health and Developmental Disabilities (TDMHDD) and Methodist Healthcare are proposing to construct a new Memphis Mental Health Institute (MMHI). In summary, the University Administration recommends the following approvals associated with the proposed Memphis Mental Health Institute.
 - 1. Approval to acquire approximately 26,500 square feet of the Bowld Hospital site at or below the appraised value from Shelby County.
 - 2. Approval to enter into a Development Agreement with Methodist Healthcare to construct a new MMHI.
 - 3. Approval to finance the property acquisition, demolition, design and construction costs associated with the proposed MMHI through the Tennessee State Bond Authority. The debt will be financed through lease payments from TDMHDD to the University.
 - 4. Approval to convey the property and improvements associated with the MMHI to TDMHDD at such time as the debt is deceased and the lease is terminated.

- G. Third Amendment to Tennessee State School Bond Authority. Mr. Scheurer and Mr. Peccolo discuss the proposed third amendment to the Tennessee State School Bond Authority Financing Agreement

required in connection with the development of the new Memphis Mental Health Institute.

H. Easements and Right-of Way to City of Memphis. The University administration recommends approval of the following conveyances on Monroe Avenue:

- Three (3) drainage easements containing a total of 2,487 +/- square feet
- One (1) sewer easement containing a total of 1,628 +/- square feet
- A fee simple right-of way containing a total of 4,069 +/- square feet

The conveyances are to the City of Memphis and are associated with site improvements for construction of the Basic Clinical Sciences Research Building. This project will provide approximately 100,000 square feet of new space for basic and clinical research initiatives at the Health Science Center.

I. Sale and Purchase of Chancellor's Residence. The University administration requests approval to sell the Health Science Center chancellor's residence located at 549 South Goodwyn Street in Memphis at or above its appraised value and subject to all required state approvals. The governing state law and regulations state that the University has to obtain two appraisals and must submit to the State Department of Finance and Administration. After reviewing the appraisals, F&A established \$1.0 million as the appraised value. The administration requests authorization to acquire a new Chancellor's residence in Memphis by purchase or a lease-purchase arrangement, subject to terms and conditions and all required state approvals. A new residence, located at 36 Morningside, has already been identified.

J. Sale of Gift Property at or Above the Appraised Value. Mr. Scheurer described property donated to the University over the past few months along with the intended use of the proceeds. The University administration requests approval to sell these gift properties at or above the appraised value.

K. Annual Report of Sales of Gift Property. Mr. Scheurer presented an annual report of the sales of real property acquired by gift in accordance with the Board's bylaws.

Mr. Stokely asked for these items to be consented on the calendar. Mr. Johnson moved approval and Mr. Jackson seconded, and the motion carried unanimously.

XIV. ADJOURNMENT

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

Respectfully submitted,

Sylvia Shannon Davis

Sylvia Shannon Davis
Vice President for Administration and Finance