

MINUTES OF THE EXECUTIVE AND COMPENSATION COMMITTEE OF THE  
BOARD OF TRUSTEES OF  
THE UNIVERSITY OF TENNESSEE

June 23, 2010  
Knoxville, Tennessee

A meeting of the Executive and Compensation Committee of the Board of Trustees of The University of Tennessee was held at 9:30 A.M. EST, Wednesday, June 23, 2010 in Room 160 of the Plant Biotech Building on the campus of the Institute of Agriculture in Knoxville.

**I. CALL TO ORDER**

James L. Murphy, III, Chair, called the meeting to order.

**II. ROLL CALL**

Catherine S. Mizell, Secretary, called the roll, and the following members of the Executive and Compensation Committee were present:

George E. Cates  
Spruell Driver, Jr.  
James E. Hall  
Andrea J. Loughry  
James L. Murphy, III  
Jan F. Simek  
Don C. Stansberry, Jr.  
Robert S. Talbott

The Secretary announced that a quorum was present. Other Trustees, members of the administrative staff, and members of the media were also present.

**III. APPROVAL OF MINUTES OF LAST MEETING**

The Chair called for any corrections or additions to the minutes of the May 13, 2010 meeting of the Executive and Compensation Committee. There being none, Trustee Driver moved approval of the minutes. Trustee Loughry seconded the motion, and the motion carried unanimously.

#### **IV. PRESIDENT'S RECOMMENDATION FOR ELECTION AND COMPENSATION OF THE CHANCELLOR OF THE UNIVERSITY OF TENNESSEE HEALTH SCIENCE CENTER**

Chair Murphy asked Dr. Simek to discuss the first item of business, the President's recommendation for election and compensation of the Chancellor of The University of Tennessee Health Science Center. Dr. Simek referred the Committee to the memorandum included in the meeting materials (Exhibit 1) in which he recommends the election of Steven J. Schwab, M.D., as the next Chancellor of The University of Tennessee Health Science Center with a base salary of \$43,750 per month (annualized salary of \$525,000) and a housing allowance of \$1,666.67 per month (annualized allowance of \$20,000).

Dr. Simek reported that there was a long and extensive search conducted by the search committee which was representative of all of the constituents of UTHSC. He stated that the committee recommended two finalists. Dr. Simek stated that he then spoke with constituents and staff, and they were unanimously in favor of Dr. Schwab. He referred to Dr. Schwab's curriculum vitae (Exhibit 1) and noted that he is very qualified and is an active lecturer and researcher.

Dr. Simek stated that the search firm reviewed peer salaries and comparative research to determine the salary level proposed today. He noted that the average salary including bonus for a leader of a similar public medical institution is \$552,900 and for an institution that is part of a comprehensive University, \$620,000. He stated that Dr. Schwab has agreed to accept a salary much below those averages. The only additional request he made was to benefit the Health Science Center by securing a commitment that annual payments to the University under the Lease and Transfer Agreement with University Health System, Inc. (UHS) be designated for use by the Health Science Center for five years. In keeping with the Board's action at the time of the Lease and Transfer Agreement in 1999, specific UTHSC proposals for use of the annual payments from UHS must be submitted to the Board of Trustees for approval. Chair Murphy noted that the proposed use could be presented as part of the UTHSC budget each year. Ms. Loughry asked about the remaining commitment for the Department of Audiology and Speech Pathology. Dr. Simik responded that about two more years remain for the funds to be committed to use for the transfer of the Department of Audiology and Speech Pathology to UTHSC, and after that time the funds would be committed for five years for use by the Health Science Center.

Trustee Stansberry moved approval of the President's recommendation for the election and compensation of Steven J. Schwab, M.D., as the next Chancellor of

The University of Tennessee Health Science Center. Trustee Cates seconded the motion, and it carried unanimously.

Trustee Schledwitz stated that he wanted to note for everyone that there was an excellent search committee in place for this chancellor search, and an excellent search was conducted. He stated that Dr. Simek called each member of the committee when making the final selection. He reported that other finalists, from outside the University, were making more money than the salary proposed, and they were not even currently in chancellor positions. Trustee Schledwitz stated that he feels very good about Dr. Schwab accepting this position and stated that the University is getting an excellent candidate. Dr. Simek stated that we are on the low end of the pay scale for all peers. He added that Dr. Schwab had taken no additional compensation when he agreed to take the interim position.

Trustee Hall stated that he wanted to comment that this is an outstanding selection, and UTHSC will have strong leadership. He noted Dr. Schwab's exceptional work with the Audit Committee with respect to UTMG. He stated that he was pleased that Dr. Schwab is willing to accept the salary proposed because it is certainly below the market for an individual in this position. Trustee Wharton stated that this model of being on the low end of the pay scale will not serve the University well for the long-term.

#### **V. APPROVAL OF A RESOLUTION FOR ELECTION AND COMPENSATION OF UNIVERSITY OFFICERS**

Chair Murphy stated that Article IV of the Bylaws provides that the elected officers of the University are the President, Chancellors, General Counsel and Secretary, Treasurer and Chief Investment Officer, and certain Vice Presidents. The Bylaws provide that these officers shall be elected by the Board initially and are subject to re-election annually by the Board. He called on Dr. Simek to discuss the proposed Resolution (Exhibit 2).

Dr. Simek stated that there is no change in any of the compensation from last year (Exhibit 3). He recommended re-election of the named University Officers at their current compensation levels. He noted that the election of Henry Nemcik as Vice President for Development is effective for a period ending no later than the date he enters terminal annual leave status or, if he does not enter terminal annual leave status, for a period ending no later than on September 13, 2010, the date of his previously announced resignation. He noted that the Resolution also designates Charles M. Peccolo, Jr., as Acting Chief Financial Officer prior to the effective date of Gary W. Rogers' retirement in August 2010 and Interim Chief Financial Officer thereafter; and provides for additional compensation for Mr. Peccolo for serving as Acting/Interim Chief Financial Officer.

Chair Murphy also noted that assuming the Board approves the title change for the leader of the Institute of Agriculture from Vice President to Chancellor, this Resolution will reflect that change. He also noted that Dr. Schwab is included in this Resolution as Chancellor of the Health Science Center. Trustee Stansberry asked if the Board will receive an overview of all the recent system administration changes--for example, whether the CFO position the same job that was recently held by Dr. Rogers. Dr. Simek stated that while Mr. Peccolo is holding the CFO position along with the Treasurer position, a determination will be made as to whether reorganization may be necessary. Dr. Simek stated that most of the system administration changes are an outgrowth of last year's workshop, and he hopes to have accomplished all of the initiatives and be in a position to provide an overview at the October meeting.

Trustee Stansberry moved approval of the Resolution on election and compensation of University officers as presented in the meeting materials. Mr. Talbott seconded the motion, and the motion carried unanimously. Trustee Hagler questioned the disparity between the General Counsel's salary and others on the President's staff. Discussion ensued about the widespread problem of under market salaries throughout the University, ending with a general consensus that the current fiscal circumstances make impractical any action to address the problem at this time.

Dr. Simek reported that the University has just instituted a compensation board whose task it will be to monitor salaries. Chair Murphy stated that on a going forward basis, it will be something the Board will want to review for the senior staff. Trustees Stansberry stated that the peer comparison that was provided for the last review was very helpful and should be updated and provided again. Trustee Cates stated that the study should also reflect not only the cost of living but also the tuition level for the peers. Chair Murphy stated that a comparison with comparable tuition level peers would be very helpful and may actually illustrate that the University's salaries are on the higher end in that regard.

## **VI. APPROVAL OF A COMPENSATION PACKAGE FOR THE NEXT PRESIDENT**

Chair Murphy discussed the next item of business, the approval of a compensation package for the next President. He stated that the Presidential Search Process and Timeline calls for the Board of Trustees to approve a compensation package for the next President at this meeting. He stated that after the Committee approved the selection of Witt/Kieffer to assist with the search, he asked search consultants Dennis Barden and John Thornburgh to provide data on the compensation of heads of comparable higher education systems and heads of institutions comparable to UT Knoxville. On the basis of that data, he asked the consultants to recommend a compensation package for the next President. Chair Murphy stated that a memorandum containing the

consultants' recommendation and a chart of data from comparable systems and institutions is included in the meeting materials (Exhibit 3). He stated that the consultants recommended a base salary in the range of \$420,000 to \$450,000, a housing allowance of \$20,000 and a non-accountable expense allowance in the range of \$12,000 to \$16,000. In addition he stated that they recommended allowing the Vice Chair, in his discretion, to negotiate a performance bonus and/or retention bonus and also a reasonable relocation allowance. In response to a question from the Committee, Chair Murphy clarified that the non-accountable expense allowance is compensation to the employee, it effectively allows the employee to be reimbursed for expenses that cannot be reimbursed under University policy. Ms. Mizell added that if the amount of the non-accountable expense allowance were included in the base salary, the University would have to pay benefits and raises on that amount.

Trustee Talbott asked whether a different compensation could be approved if necessary at the completion of the search. Chair Murphy responded that it was possible, but this range would deter someone with higher salary requirements from throwing his or her hat into the ring, and if we were willing to pay more, we would want to start with that higher range to attract other candidates. He added that the search consultants are comfortable that many qualified candidates will apply with this range. Trustee Schledwitz expressed concern that the range may exclude a star candidate from the start and discussed disclosing the range later in the process. Trustee Stansberry stated that if the salary is not set and disclosed at the outset, the University could exclude interested candidates, make a selection and then require extra funds to afford the final candidate, a situation he believes the University should avoid. He noted that candidates for public office know in advance what the salary is before they seek the office. He added that there is a great deal of satisfaction and reward in being President of this University that is not reflected in monetary payment. Trustee Loughry stated that if a star candidate is chosen, once that individual becomes President and is a proven performer, the salary can be increased on the basis of performance.

Trustee Talbott stated that in his opinion, the range seems on the low side to get the right candidate for the University. Trustee Cates asked whether it was possible to set the salary range after the initial applicant pool is identified. He noted that the economy is down, job mobility is down, and there will be a lot of interest in this position. Chair Murphy stated that there will not be another Board meeting between now and the time the final candidate is selected in October. He added that the Board will not know the applicant pool or even the final applicants until just before the October meeting. Trustee Cates commented on the pace of the decision. Chair Murphy stated that a decision will not be made in October if the candidate pool is weak. He stated that a salary range is needed at the outset to set expectations so the pool of applicants is not composed primarily of those with salary requirements far out of the range. Trustee Hall stated that the

University is a public institution, a search consultant has been paid to recommend a range, and Tennessee is a very low tax state with a low cost of living. Therefore, in his view the University should begin looking in the range recommended by the consultants. Trustee Anderson commented that in his experience with executive searches, there is a substantive breakpoint for candidates when searching at the \$500,000 level versus \$450,000. Trustee Wharton noted that there is latitude in the range because of the performance/retention bonus. Trustee Schledwitz suggested publishing the previous President's salary and stating the salary will be comparable. Trustee Stansberry stated that he feels the range has to be stated upfront to set expectations. He added that he agrees with Trustee Loughry that a star candidate can be compensated through the performance bonus based on performance.

Chair Murphy moved approval of a compensation package for the next President consisting of:

base salary in the range of \$420,000--\$450,000;  
housing allowance of \$20,000; and  
non-accountable expense allowance in the range of \$12,000--\$16,000.

and further moved authorization for the Vice Chair, in his discretion, to negotiate a performance bonus and/or a retention bonus; and further move authorization for the Vice Chair, in his discretion, to negotiate a reasonable relocation allowance. Trustee Talbott asked that Chair Murphy go back to the search consultants and advise that there was some serious concern expressed about the range, and they need to be absolutely sure of their recommendation. Mr. Talbott seconded the motion, and the motion carried unanimously.

## **VII. OTHER BUSINESS**

The Chair noted that currently there are no bids on the residence at 940 Cherokee Boulevard. The Chair called for any other business to come before the Committee. There was none.

## VIII. ADJOURNMENT

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

Respectfully submitted,

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Catherine S. Mizell  
General Counsel and Secretary

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