

THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE EXECUTIVE AND COMPENSATION COMMITTEE

September 23, 2011
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. EDT, Friday, September 23, 2011, in the 8th floor conference room of Andy Holt Tower in Knoxville, Tennessee.

I. CALL TO ORDER

Don C. Stansberry, 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
Joseph A. DiPietro
Spruell Driver, Jr.
James E. Hall
Don C. Stansberry, Jr.
Robert S. Talbott
Charles E. Wharton

The Secretary announced the presence of a quorum of the Committee. Trustee Douglas A. Horne, members of the administrative staff, and representatives 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 June 22, 2011 meeting of the Executive and Compensation Committee (Exhibit 1). There being none, Trustee Wharton moved approval of the minutes. Trustee Talbott seconded the motion, and the motion carried unanimously.

IV. PRESIDENT'S REMARKS

Chair Stansberry recognized President DiPietro, who provided the following summary of recent activities.

He attended the 125th anniversary gala at UT Chattanooga and the 100th anniversary celebration at the UT Health Science Center. He also participated in a system-to-campus visit to UT Knoxville, which included an opportunity to walk through some of the best and some of the worst buildings on campus and to meet with faculty and the campus leadership team.

New UTIA Chancellor Larry Arrington began work on September 12, and hit the ground running.

Senator Alexander, Governor Haslam, legislators, and some Trustees joined Dr. DiPietro for a visit to the biofuels refinery in Vonore and a switchgrass farm.

Dr. DiPietro has served on the Lottery Stabilization Task Force, addressing the expected \$2 million shortfall if the lottery continues in the current framework. Legislators and higher education administrators have discussed recommendations, including altering GPA and ACT criteria. In response to Trustee Hall's question as to how the State of Georgia remedied a similar situation, Dr. DiPietro said Tennessee is not interested in pursuing the Georgia approach, which involved an across the board reduction of lottery scholarships. Although the lottery does have a reserve, and thus there is no immediate crisis, there is a push to remedy the problem.

The University and UC Foundation have reached agreement on an affiliation agreement that will be presented to the Board of Trustees in October and take effect in January 2012.

The 50-year celebration of African-American achievement is culminating in a number of events on each campus. Trustee Wharton pointed out the importance of Trustees attending as many of these events as possible. Trustee Driver informed the Board of a College of Engineering luncheon later that day to recognize African-American alumni.

The Compensation Advisory Board (CAB) continues its analysis of data in weekly conference calls reviewing recruitment and retention data. CAB will

continue working with chief business officers, HR officers, and chancellors as it finalizes recommendations.

The Campaign for Tennessee is approaching \$1.3 billion and ends December 31. Dr. Keith Carver shared the campaign progress reports as of August 31, 2011. Johnnie Ray will start as Vice President for Development and Alumni Affairs on November 15. Trustee Talbott requested information showing the timeline for actual receipt of gifts. Dr. Carver provided a chart with the requested information.

V. WORKSHOP FOLLOW-UP

A. Strategic Plan - Phase 1 Update (Exhibit 2)

Chair Stansberry recognized President DiPietro, who provided the following update on strategic planning.

The steering committee will hold its first meeting on September 28; Trustee Murphy has agreed to serve as a member, with Chair Stansberry as the alternate. The committee will build on input from the Board, as well as listening sessions on all campuses and institutes. A website will be launched to document progress and key activities, as well as sending out target e-mails regarding accomplishments. Completion is on track for the June 2012 Board meeting. Trustee Driver asked if provisions had been made for a listening session in Middle Tennessee; Dr. Carver responded that a session has been scheduled in Nashville.

Chair Stansberry noted that the Trustees will have access to the data, but it will be the responsibility of individual Trustees to stay current. He asked that everyone become familiar with the plan before it is presented for approval. Dr. Keith Carver pointed out that all updates will be on the strategic planning website, and notices of new information will be sent.

Trustee Wharton requested a printed copy of all materials shared with the Board. Others needing printed copies may notify the Board office. Dr. DiPietro suggested the University's IT staff might be able to assist any Trustee having difficulty accessing data electronically.

B. Cherokee Farm Development

Dr. DiPietro introduces this item by noting that the focus at this point is on developing Cherokee Farm Development Company and gaining approval by the State Building Commission. Dr. DiPietro asked Dr. Stacey Patterson to

provide an update (Exhibit 3).

Dr. Patterson began by outlining the history of efforts to date. Trustee Talbott asked what services the marketing firm will be providing, and Dr. Patterson responded that the firm will provide a complete marketing strategy, addressing why businesses should locate at Cherokee Farm. The marketing firm will also identify target companies for the University to approach. Trustee Cates asked the name of the marketing firm and the amount of the contract. Dr. Patterson responded that the firm is Pintoresco Advisors, LLC, and the contract amount is \$60,000. She explained that the contract can be terminated at any time. Chair Stansberry asked when the Board could expect that five tenants will be identified. Dr. Patterson responded that a structure with which the administration and the Board are comfortable needs to be in place first.

Dr. Patterson then reviewed the concept for creating Cherokee Farm Development Company. She explained that she has studied and visited research parks at Virginia Tech University and University of Illinois, both of which have created management companies similar to the proposed Cherokee Farm Development Company. The model proposed is based on the most successful projects and fine-tuned to best meet the needs of UT. The goal of agreements will not be to co-locate, but rather to provide for meaningful interactions between the University, ORNL, and other tenants from the private sector. This will give University faculty the opportunity to work with industry in solving problems.

Chair Stansberry asked for confirmation that UT will always own the land. Dr. Patterson confirmed and explained that the University will enter a lease agreement with UT Research Foundation, which will own Cherokee Farm Development Company (CFDC). CFDC will joint venture with development companies to sublease to tenants. Trustee Talbott expressed concern about ground leases, but understands the need to give leasing authority to CFDC. He pointed out that subleases should include a non-disturbance clause.

Trustee Cates asked whether the UT Research Foundation (UTRF) receive any income for its role in the structure. Dr. Patterson pointed out that UTRF is simply the mechanism by which to accomplish creation of CFDC. CFDC would charge the University a management fee, but UTRF would not receive any of those funds. Trustee Cates requested that UTRF not be placed in any financial risk in these legal relationships, and Dr. Patterson responded that eliminating risk to UTRF is exactly the purpose for creating CFDC, rather

than UTRF managing the development agreements. Trustee Cates asked if there is any way possible for UTRF, as sole owner of CFDC, to receive a small percent of the revenue. Dr. Patterson stated that would be a decision for the Board of Trustees.

Chair Stansberry also suggested that Trustee membership on the CFDC Board would be important. Trustee Hall inquired about whether Dr. Patterson has studied institutions with similar projects that have not been successful, to ensure the University does not to make the same mistakes. Dr. Patterson responded she has not investigated any universities that have experienced financial loss. Dr. DiPietro stated tying tenants to academic programs is important for success. Chair Stansberry also stated the importance of the University being in control of this entity. Dr. Patterson responded that the agreement between UT and UTRF providing for the creation of CFDC will give the needed control. Chair Stansberry also recommended using an experienced real estate lawyer to assure appropriate agreements from the beginning, as well as assuring the University President's control over the whole project.

Trustee Talbott asked Dr. Patterson to address staffing for CFDC. Dr. Patterson responded that staffing will be by contract with UTRF. Trustee Talbott recommended having an experienced developer on staff and suggested a good developer should be available in these difficult economic times. Dr. Patterson pointed out UTRF's inability to staff CFDC at the appropriate level without financial support from the University.

Dr. DiPietro asked Trustee Talbott to address in more detail the issue with ground leases. Trustee Talbott responded that ground leases can create very difficult situations, if in the absence of corporate credit. He explained, for example, that if UT ground leases to CFDC and CFDC leases to IBM, IBM will need protection in its ground lease so it will not be affected if CFDC defaults on its ground lease to UT. The lender will also need protection in the form of an opportunity to cure in the event of the tenant's default. The University would also need protection against financial risk, which might arise if the building is not completed, and the tenant looks to UT for payment. He also noted that some companies are prohibited by statute from doing business on a ground lease. Trustee Cates concurred in Trustee Talbott's view that ground leases present a financing problem.

Trustee Hall recommended that a team be created, with the development expertise recommended by Trustee Talbott, and that the team present a

proposal on how to accomplish this project for the Board's review. Trustee Hall also recommended Dr. Patterson study universities that have failed at this, to avoid the same mistakes. He also stated we need to be sure governance is set on the front end to avoid problems.

Summarizing the consensus of the Committee's discussion, Chair Stansberry stated that the structure will include CFDC as an arm of UTRF. He stated that he remains concerned about governance but can be persuaded that governance can be adequately accomplished in the agreement between UT and UTRF. He added that CFDC needs to acquire professional development expertise for this important and complicated project, and the Board of Trustees will need to see a funding model. Trustee Talbott added that tenants need to be identified first because developers will not start a building until it is somewhat full.

Trustee Horne asked why UT would not build the buildings, borrowing at low rates and then leasing them. Chair Stansberry stated he is not comfortable with putting UT in the real estate business. Dr. DiPietro added that the University's own extensive capital outlay needs must be the focus of its building projects. Trustee Talbott pointed out that even with full buildings, CFDC's income will be low, and suggested that front-end revenue, such as a project fee, might be needed.

Chair Stansberry recommended Dr. Patterson and UTRF engage the lawyers and others who know what they are doing to get the necessary agreement in order and bring this to the Board of Trustees as an action item. Dr. Patterson stated the agreements are in process. Chair Stansberry also requested that Dr. Patterson work with John Foy directly, and she stated she has sought his counsel. He is reviewing financial data, as well as interacting with the attorney drafting the agreement. Dr. Patterson stated she expected to have the structure of the development agreement for review at the fall meeting.

C. Capital Outlay

Dr. DiPietro stated meetings with THEC and the Governor's office have gone well and that there is interest in a major bond issue. Next steps are to determine a dollar amount and a method of allocating funds among the institutions in the UT and TBR systems.

Trustee Horne pointed out that long-term interest rates are very low and present an excellent opportunity for this initiative. Trustee Talbott echoed Trustee Horne's comment and expressed urgency in accomplishing the bond

issue by summer 2012. Trustee Wharton asked Dr. DiPietro to focus on the capital outlay lists being completely prepared when the process is ready. Dr. DiPietro responded that the chancellors are working with the chief business officers to refine their priorities.

Trustee Hall asked that capital outlay and capital maintenance needs by campus be presented at the next Board meeting. Mr. Peccolo confirmed that capital outlay and capital maintenance requests for FY 2012-2013 is a scheduled agenda item for the Fall Meeting. Trustee Talbott asked Dr. DiPietro to make this his number one priority.

VI. PLANNING FOR FALL MEETING OF THE BOARD

Secretary Mizell presented the tentative schedule of events for the Fall Meeting (Exhibit 4). She pointed out that UT Knoxville is hosting the Fall Meeting, and UT Knoxville programs and activities will be highlighted on both days, including a tour of Oak Ridge National Laboratory (ORNL) on the first day. Following the ORNL tour, Chancellor Cheek has arranged for some of the students in the new Center for Interdisciplinary Research and Graduate Education (CIRE) to join the Trustees for lunch. Immediately following lunch, a presentation on CIRE will be made at the Research, Outreach, and Economic Development Committee. Chancellor Cheek will host a reception and dinner at the newly renovated Ayres Hall on Thursday evening. On Friday, Haslam Scholars and members of the Haslam family will join the Trustees for lunch.

Trustee Hall noted that a Health Affairs Advisory Board meeting has been scheduled for Wednesday, October 26, at 10:00 a.m. in 8th floor conference room of Andy Holt Tower in Knoxville. Dr. DiPietro stated that consideration is being given to reestablishing a Health Affairs Committee of the Board. Trustee Cates pointed out that he agrees in principle but is concerned that the Sunshine Law makes it impractical because compensation and practice plan negotiations are sensitive and cannot be disclosed. Dr. DiPietro stated that the Trusteeship Committee will consider this matter in December.

Secretary Mizell then presented the tentative list of agenda items, noting that Cherokee Farm is tentatively on the agenda of the Research, Outreach, and Economic Development Committee. Chair Stansberry then reminded the Committee that by restructuring the Committee to consist of the chairs of the Board's other standing committees, the intent was to empower the committee chairs to ensure that Trustees, rather than staff, are driving the Board agenda. He encouraged the committee chairs to take an active role setting the agenda for

their committees.

VII. GRANT OF TENURE TO THREE UT KNOXVILLE FACULTY UNDER EXPEDITED PROCEDURES

Dr. DiPietro presented the following Knoxville faculty for grant of tenure under expedited procedures (Exhibit 5): Dr. Theresa Lee, Professor of Psychology and Dean of the College of Arts and Sciences; Dr. Kurt Sickafus, Professor and Head, Department of Materials Science and Engineering; and Dr. Dawnie Steadman, Professor of Anthropology and Director of the Forensic Anthropology Center. Dr. DiPietro explained that although the review process was accelerated, all normal steps were completed. He stated that he fully concurs in Chancellor Cheek's recommendation of tenure for these outstanding faculty members.

Dr. DiPietro moved that tenure in their faculty appointments be granted to Professor Theresa Lee, Professor Kurt Sickafus, and Professor Dawnie Steadman. Trustee Drive seconded the motion, and it carried unanimously.

VIII. GOVERNING BOARD CERTIFICATION FOR OHIO VALLEY CONFERENCE (UT MARTIN)

The Chair asked Secretary Mizell to present the Governing Board Certification Form for the Ohio Valley Conference (Exhibit 6). She stated the Ohio Valley Conference, of which UT Martin is a part, requires that the Board of Trustees provide certain certifications regarding the administration of the athletics program and that the certifications are consistent with current practice.

Trustee Wharton moved approval of the Governing Board Certification Form for the Ohio Valley Conference. Trustee Hall seconded the motion, and it carried unanimously.

IX. SETTING COMMITTEE MEETING DATES FOR 2012

Ms. Mizell proposed dates for Executive and Compensation Committee meetings five to six weeks before the regular Board meetings in February, June, and November, 2012 (Exhibit 7).

The committee members discussed alternate options for the January date, and January 27 was chosen. Trustee Wharton moved approval of January 27, May 15, and October 2, for Executive and Compensation Committee meetings in 2012. Trustee Driver seconded the motion, and it carried unanimously.


X. OTHER BUSINESS

The Chair called for any other business to come before the Committee. There was none.

XI. ADJOURNMENT

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

Respectfully Submitted,


Catherine S. Mizell
General Counsel and Secretary