

MINUTES OF THE EXECUTIVE AND COMPENSATION COMMITTEE MEETING
BOARD OF TRUSTEES

THE UNIVERSITY OF TENNESSEE

October 19, 2007
Nashville, Tennessee

The Executive and Compensation Committee of the Board of Trustees of The University of Tennessee met at 11:30 a.m., CDT, Friday, October 19, 2007 in the offices of Waller, Lansden, Dortch, and Davis Nashville City Center, Suite 2700, 511 Union Street, Nashville, Tennessee.

I. CALL TO ORDER

Andrea J. Loughry, Chair of the Committee, called the meeting to order.

II. ROLL CALL

Catherine S. Mizell, Secretary, called the roll, and the following members were present:

William Y. Carroll
Spruell Driver, Jr.
Rhynette N. Hurd
Andrea J. Loughry
Don C. Stansberry, Jr.
James L. Wolford

The Secretary announced the presence of a quorum. President Petersen and Trustee James L. Murphy, III, were absent due to traveling with Governor Bredesen on a trade mission to China. The Vice Chair expressed her appreciation to Mr. Driver and Waller, Lansden, Dortch, and Davis for hosting the committee meeting.

Also in attendance were Trustee Charles Wharton, Gary Rogers, Senior Vice President and Chief Financial Officer, David Millhorn, Executive Vice President, Hank Dye, Vice President for Public and Government Relations, and Alvin Payne, Associate Vice President.

III. APPROVAL OF MINUTES OF LAST MEETING

The Chair called for any corrections or additions to the minutes of the September 19, 2007 meeting of the Executive and Compensation Committee. There being none, Mr. Stansberry moved approval of the minutes. Mr. Driver seconded, and the motion carried unanimously.

IV. PRESIDENT'S RECOMMENDATION OF DISCRETIONARY SALARY INCREASES FOR ELECTED UNIVERSITY OFFICERS AND OTHER SENIOR STAFF

The Chair stated that at the last meeting of the Committee, Dr. Petersen presented salary increases for elected University officers and other senior staff and the Committee asked for some additional information. The Committee specifically requested an update of the comparative salary data relied on in 2006 for senior staff salary adjustments. The Chair called on Dr. Millhorn to present the salary recommendations with the detailed comparative salary data (Exhibit 1). He stated that the comparative data sources utilized were the Chronicle of Higher Education, College and University Professional Association for Human Resources, and market/search information from Parker Executive Search. He noted that these sources were the same sources utilized last year. He reported a change from the recommendations presented by Dr. Petersen at the September 19 meeting. The salary recommendation for Henry Nemcik was increased due to market survey information and competitive offers from peer universities. He reported that the University was at a critical point in a new and successful campaign to date and felt it was necessary to respond to these circumstances on this occasion. He stated that the proposed salary for Mr. Nemcik remains within in the range for senior development officers and foundation executives. The Chair stated that she spoke with Dr. Petersen about this recommendation before he left for China. For the benefit of new Committee members, she noted that there was initially some discussion to include Mr. Nemcik in the incentive program for the Development staff. However, it was determined that Mr. Nemcik would not be included in the program due to his control over the campaign. Rather, his compensation would be based on comparative peer compensation for his position. Mr. Stansberry asked Dr. Millhorn to review the specific comparative data used and the process for developing the salary comparison range for Mr. Nemcik's position. The Committee discussed the valuable contribution Mr. Nemcik has made to the University and the resulting increase of interest in his abilities based on his success.

The Committee next discussed the proposed salary adjustment for Chancellor Rakes, specifically the perception of a salary increase so soon after the Chancellor's start date. A Committee member noted that the proposed increase in salary places Dr. Rakes above the agreed base salary of \$215,000 as of July 1 and asked whether the across the board salary increase should have been based on his prior salary rather than his salary as of July 1. Dr. Rogers confirmed that Dr. Rakes was eligible to receive the 3% across the board increase on his July 1 salary of \$215,000. Dr. Millhorn stated that the agreed base salary was based not only on peer salaries for Chancellors of a campus comparable to UTM, but also on Dr. Rakes' excellent performance as UTM

Provost prior to his appointment as Chancellor.

Mr. Wolford moved approval of the President's salary recommendations for discretionary salary increases for elected officers and other senior staff. Dr. Hurd seconded the motion, and it was unanimously approved.

VI. ACQUISITION OF KNOXVILLE PLACE APARTMENTS

Dr. Rogers referred the Committee to the materials regarding the administration's proposal to acquire the Knoxville Place Apartments, 1527 White Avenue (Exhibit 2). He stated that the University has completed its due diligence and the state Department of Finance and Administration (F&A) is reviewing appraisals. He stated that the State Building Commission will review the transaction on Monday while awaiting F&A approval of the appraisals. Dr. Rogers explained that the administration is seeking the recommendation of this Committee subject to the approval of the Building Commission. The full Board would be asked to review and approve the acquisition at the November meeting. Mr. Wolford and Mr. Carroll asked Dr. Rogers to discuss the funding for the acquisition and whether the University would assume debt from the Foundation. Dr. Rogers explained that funding would be through the Tennessee State School Bond Authority, approximately \$55 million of tax-free debt, with the debt service will be funded through housing and parking revenues.

Mr. Nemcik discussed the efficiencies gained as a result of this purchase by the University. The Chair noted the need for housing on the Knoxville campus, especially with the need for renovations of existing dorms and the estimated completion time for the new dorm. Mr. Stansberry asked if the University would charge the same rent. Mr. Payne stated that the housing charges are still under review, but the revenue will remain relatively the same, and housing costs will be charged over a nine-month period similar to other campus housing. There may be an opportunity for additional revenue for housing for summer programs.

Mr. Stansberry moved approval of the acquisition of Knoxville Place Apartments. Mr. Carroll seconded the motion. The chair asked for any additional discussion. Ms. Mizell noted that the Knoxville campus is discussing a new name for the apartments and will seek a name change when this proposal is brought before the full Board for approval in November. There was no further discussion, and the motion was unanimously approved.

VII. UPDATE ON FALL MEETING AGENDA

The Chair asked the Committee Chairs if they had any comments or suggestions on the proposed agenda for the upcoming Board and Committee meetings. Dr.

Millhorn noted a change on the Outreach Committee agenda to include a presentation by Dr. Thomas Zacharia.

The Chair stated that former Trustees will be invited to all committee meetings as well as the dinner on Thursday night and the full Board meeting on Friday. She noted the Governor has extended invitations to former Governors under whom Jim Haslam served as a Trustee. She stated that methods for keeping former Trustees engaged with the University will continue to be considered.

The Chair asked Mr. Stansberry to update the Committee on matters discussed at the Governance Committee meeting earlier in the day. He stated that the Governance Committee discussed the format of meetings and the need to allot more time for committee meetings. He noted that discussion at the Board Advance did not produce a consensus to increase the overall meeting time of the Board and committee meetings beyond the typical day and a half. Mr. Stansberry noted that the Governance Committee discussed the approach of holding some committee meetings between regular Board meetings and providing more reporting time for those committees during the full Board meeting. He stated there was also a suggestion for some of the presentations from the Outreach Committee and the Advancement and Public Affairs Committee to be made during the full Board meeting. He reported that the consensus of the Governance Committee was for the Vice Chair to take suggestions and comments into consideration and make any recommendations she deems appropriate with respect to the format of meetings.

The Chair asked for further discussion regarding the upcoming Board meeting. Ms. Mizell discussed efforts to minimize the cost of meetings. Mr. Stansberry expressed great concern about the costs charged by University departments for services provided for Board meetings and asked for an examination of those costs. He specifically discussed parking, transportation and copying costs charged by University departments to the Board of Trustees account. After further discussion, a consensus developed that it would be appropriate for the Finance and Administration Committee to review administrative costs, beyond those related to Board meetings, including review of services, charges, and costs, all with a view toward cost-containment. The Audit Committee should participate in this cost project from a risk management perspective concerning efficiencies of operations and regulatory issues. Upon completion of these reviews, the Board would conduct a comprehensive examination of the findings. The Chair asked, and the Committee concurred, that the Chief Financial Officer be charged with providing the study for the Finance and Administration Committee and that the Executive Director of Audit and Consulting Services be charged with staffing the work of the Audit Committee. The Chair added that if additional funds were needed for this work, the cost should be presented to the Board.

Ms. Mizell then discussed lodging costs for the Trustees. The Committee confirmed that as usual, lodging costs for Trustees who need to travel to Board meetings

should be covered by the University. Mr. Stansberry noted that he had attempted to pay for his lodging personally, but hotels would not accept individual payment for a room pre-designated for a group charge. Ms. Mizell stated that she would confirm with the hotels that arrangements could be made for Trustees to pay for their lodging personally if they wished to do so.

VIII. OTHER BUSINESS

At the request of the Chair, Dr. Millhorn reported to the Committee on the ongoing System-Campus discussions.

IX. ADJOURNMENT

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

Catherine S. Mizell
Vice President, General Counsel and Secretary