

**MINUTES OF THE ADVANCEMENT AND PUBLIC AFFAIRS COMMITTEE
BOARD OF TRUSTEES
THE UNIVERSITY OF TENNESSEE
October 21, 2010
Knoxville, Tennessee**

The Advancement and Public Affairs Committee of the Board of Trustees of The University of Tennessee met at 1:15 p.m. on October 21, 2010 in room 223-225 of the University Center on the University of Tennessee, Knoxville campus.

I. CALL TO ORDER

Chair George Cates called the meeting to order.

II. ROLL CALL

The Chair called the roll of committee members. Those present were:

Mr. George Cates, Chair
Mr. Charles Anderson
Ms. Monice Hagler
Mr. James Murphy
Dr. Jan Simek
Mr. Karl Schledwitz
Mr. Charles Wharton

III. APPROVAL OF MINUTES OF LAST MEETING

The Chair referred the committee to the minutes from the June 23, 2010 meeting. The minutes were approved by the Committee.

IV. WELCOME AND OPENING REMARKS BY COMMITTEE CHAIR

Before the committee today is a big agenda with the most important change in a long time which is the interdependent foundation move. This will generate a new business model and could and should deliver \$80 million - \$100 million per year of new money to the university within the next five to ten years.

V. UPDATE ON FEDERAL, STATE, AND MEDIA RELATIONS

Hank Dye, Vice President for Public and Government Relations, started his presentation by giving an overview of what was submitted to the board notebook. There are reports on current activity in both the state and federal government relations offices and a draft communications plan for the introduction of the new President. In the communications plan the two first steps are a press conference introducing the new President and then a campus tour to touch base with faculty, staff and students at all campuses. In the federal report there is an update of the strategic plan and strategy and a general overview of upcoming appropriations. In the state level, positive feedback was received regarding the UT Foundation legislative briefings. The next step will be to draft legislation and secure bill sponsors. The next step is to begin preparation for the Governor's Budget Hearing which will take place in Nashville in mid-November.

VI. APPROVAL OF ANNUAL REPORT TO THE GENERAL ASSEMBLY

It is required by statute to submit an annual report to legislators and others containing certain prescribed information. A copy of the annual report is found in the board notebook. The President's annual report to the general assembly was approved by the Committee.

VII. CAMPAIGN FOR TENNESSEE UPDATE

Scott Rabenold, Interim Vice President for Development and Alumni Affairs presented to the committee the campaign update.

The Campaign for Tennessee, having surpassed its historic milestone in June of \$1 billion, continues to have significant momentum. In August, \$12.7 million in new commitments were received and in September, \$22 million in new commitments were received bringing the total to \$1,083,642,167. He attributes this success to a number of factors but believes the main factor is that alumni and friends value this institution and the work of the academic leadership, deans, chancellors, and the faculty along with the incredible students on campus today. The staff continues to be aggressive. Proposals were presented to donors totaling \$100 million in the last 90 days and he is confident the staff can continue to be very successful in securing private support in the future.

VII. APPROVAL OF REVISIONS TO THE POLICY ON NAMING FACILITIES AND OTHER ASSETS

Mr. Rabenold stated he is asking to make a minor revision to the policy for naming facilities and other assets. The revision being requested is to provide the chancellors with the authority to remove an individual's name from a building or other asset after providing notice to the President of the university and the Board of Trustees at the request of the namesake. Current policy calls for the University President to recommend to the full Board of Trustees approval of the naming of a building or asset. However, in the potential scenario of a donor not wanting the recognition or unable to complete the pledge, this revision would provide an opportunity for that donor to have their name removed from a building or asset. In either scenario, the donor most likely does not desire to have public discussion regarding their request to have their name removed. This process would enable this to happen.

The revision to the policy for Naming Facilities and Other Assets was approved by the Committee.

IX. FOUNDATIONS STUDY COMMITTEE REPORT AND RECOMMENDATIONS

Mr. Cates introduced Charles Wharton, whose Foundations Study Committee made its final recommendations to this committee last month. Mr. Wharton presented the following report.

Mr. Wharton thanked Vice Chair Murphy and others for giving him the opportunity to participate in this process. He thanks his colleagues who also served on this Committee: Doug Horne, Jim Hall, Karl Schledwitz, Don Stansberry, Scott Rabenold and, until recently, Henry Nemcik.

He undertook this project with some skepticism and with a bias against foundations. He knew public funding for the university was declining rapidly. He knew the current foundation and

current development model was insufficient to bridge this gap. The current UT Foundation was established in 2001 and is a dependent foundation. Support comes from the university out of university funds. The Foundation President also serves as the Vice President for Development and Alumni Affairs but effectively, the President of the University of Tennessee can impose his/her will on the foundation.

This committee undertook the effort to understand best practices for foundations. They identified five peer institutions; the University of Florida, the University of North Carolina at Chapel Hill, the University of Virginia, the University of Texas at Austin and Texas A&M University. Trustee Horne, flew the committee to Texas at his own expense and the committee is indebted to him. The committee thanks the colleagues at these institutions for their time, knowledge and the information they shared.

The committee found the following:

- Foundations should not drive the purpose or priorities of the university
- We are late to the party - the current organization is not sufficient to meet current or future needs
- We do not have enough development officers and the funding of new development officers cannot be done via state appropriations. During this campaign, UT has averaged approximately 60 development officers that raise \$3 million each. The national average is about \$2 million each. The peer groups during this same period of time averaged 110 officers.
- With current reductions, the university cannot take increasing amounts of declining funds to further invest in development
- The foundations with highest investment returns had a full-time chief investment officer or an investment firm to oversee the endowment fund
- The number of foundations within any one system should be limited
- The operations of foundations should maximize transparency and internal controls

After this fact finding mission the committee drafted a proposal. It contemplated:

- The foundation should fund the proposed growth of the development program for the benefit of the university
- The increased costs associated with growing the development operation should be funded outside of state funding
- The foundation would transition to an interdependent foundation
- The funding method for the foundation would be selected from the Association of Governing Boards' (AGB) array of suggested options
- Over the next five years, 60 new development officers would be added
- Endowment distributions to the university will be reduced from 5% to 4.5% to offset an increase in the endowment management/administrative fee from 50 basis points to 100 basis points
- A new structure should be developed so that based on a rigorous, need-based review, other affiliated foundations could be established under the foundation's umbrella
- The affiliation agreement between the foundation and the university should be revised to maximize transparency and internal controls
- This new foundation should not drive the purpose, policy or priorities of the university
- A minimum of two university trustees should continue to serve on its board of directors. Consideration should be given to adding one chancellor and one dean, selected by the UT President, as non-voting members

- The foundation should be organized in a manner that allows the UT Foundation Board of Directors to provide fiduciary oversight but also ensures, at the end of the day, the President and the Board of Trustees of the university has ultimate control of the foundation

Over a twenty month time, the Vice President of Development and Alumni Affairs and the committee chair met numerous times with each chancellors, their respective vice chancellors for development and vice chancellors for finance, as well as every dean on each campus that chose to attend the meetings (approximately 90%). Meetings were also held with the Interim President, Senate Faculty Representatives, the Constitutional Officers for the State of Tennessee, the State Auditor, a few legislators, members of the Development Council and the Alumni Association. The draft agreement is now acceptable to both the state and the university. The Attorney General has advised the university with respect to adhering to the spirit and the intent of applicable law. Every chancellor has provided the committee with invaluable feedback and their suggestions have been incorporated.

The Foundations Study Committee, the Interim President, the chancellors of each campus, the Interim Vice President for Development and Alumni Affairs, the past and current chairs of the UT Foundation, the Development Council and the President of the Alumni Association are unanimous in recommending to the State of Tennessee and its legislators, the Board of Trustees, the faculty, students and staff, that we adopt the following:

1. Move to an interdependent foundation with a goal of increasing annual fundraising by at least \$100 million by 2020 while keeping the university's investment in development consistent;
2. Grow the investment into the development program without increasing the university's direct support, which should result in direct support by the university providing less than 45 percent of the total development program budget by 2020;
3. Subject to legislative approval, lease certain UT development and alumni employees to UT Foundation to perform development and alumni services for the university;
4. Revise the university's affiliation agreement with UT Foundation, ensuring transparency and internal controls and providing for but limiting the capability to establish other affiliated fundraising foundations;
5. Authorize funding the operation of UT Foundation by:
 - Contract-for-services payments from the university for development and alumni services performed by UT Foundation, with university funding comprised of existing current fund support and an administrative fee calculated at 1% (100 basis points) of the university's endowment market value annually each June 30;
 - All short-term investment interest income from gifts for 12 months; and
 - A percentage of UT Foundation unrestricted gifts as approved by the University President annually.

At the end of the day, we have a unanimous agreement from all stakeholders. Therefore Mr. Wharton recommends that this be passed because this is the most important financial decision the board can make for the university this year.

Dr. Simek reiterated this has been a long process and it was essential to get universal and unanimous approval from all those involved. There are two pieces of legislation that will need to be carried to the legislature this coming session. He is confident the university will have strong support. In a lot of ways, this is a design to get the foundation moving forward very quickly and essentially without an influx of funds from E&G. We could not have gotten to this point without Mr. Wharton's relentless focus, insistence and concentration. His leadership has been invaluable.

Dr. Cheek greatly appreciates what Charles Wharton and the committee has done and especially appreciated the visits and discussions with all the chancellors. Issues have been identified and addressed. Dr. Cheek also wants to thank Scott Rabenold for getting this in a final form in a timely manner by working with the chancellors, the President and the committee. It is certainly time to move this forward.

Doug Horne acknowledged it is obvious by looking at the proposed organizational chart that the Vice President for Development and Alumni Affairs will have to work closely with the Foundation Board, the Foundation Chair, and the UT President. In regard to voting on the UT President tomorrow, he strongly feels it is important to have a good team (which includes the UT President, Vice President for Development and Alumni Affairs, and Foundation Chair). They will all have to work closely together. It is obvious state funding will continue to be cut so a lot of money has to be raised and he is happy to serve on the Foundation Board.

Dr. Rakes noted this was a real challenge a couple of years ago when this all started. He appreciates all the discussions not only with the chancellors and staff but with donors as well. He also noted that this will give the university the mechanism to do what needs to be done. This will dramatically impact staff by putting performance on the line and if it is not delivered, someone is looking at it. He thanks all those involved in making this happen.

During further discussions, the question was asked how many development officers will there be and will the foundation have the right platform to manage that growth. Mr. Rabenold responded that the goal is to hire 12 new directors per year over five years for a total of 60. Mr. Wharton added that most of these development officers will be imbedded with the campuses so it is not a growth for system but more additional resources on the ground working with chancellors and deans.

Mr. Talbott asked if the university will continue to pay what it is paying now then 100 basis points will be added on top of that. Per Mr. Rabenold, the foundation will continue to receive the dollars it is currently receiving from the university and the 50 basis points. What is being requested today is to continue to receive the same with an additional 50 basis points for a total of 100 basis points which will go up as the endowment rises. Mr. Cates said that the addition of these 12 officers per year will ultimately, in 10 years, lead the university to \$80 - \$100 million more dollars per year. It is only possibly through that internal funding leading to that compounding effect.

Dr. Brown wanted to tell Mr. Wharton and the board that those in Chattanooga appreciate what the Foundations Study Committee has done. The UC Foundation is an existing private foundation in support of UTC, and is headed by trustees including Jim Hall and John Foy. The fact that Mr. Wharton, Henry Nemcik and now Scott Rabenold have come to Chattanooga to negotiate this agreement is truly a remarkable display of negotiating skill, toughness and persistence and Dr. Brown believes the entire university will be better off for it.

On behalf of the Health Science Center, Mr. Cates remarked that this will be a major breakthrough in fundraising potential for the Health Science Center. The absence of this structure has been a huge impediment for fundraising and this removes it entirely. He sees an explosion in giving at the Health Science Center.

Dr. Simek said he would be remiss if he did not note that Scott Rabenold has been a wonderful soldier over the last few months but Henry Nemcik worked very hard with Charles Wharton over the last couple of years and did some of the basic work that was involved. Henry is owed a great deal of gratitude.

Mr. Cates called the committee's attention to the materials behind Tab #11 and asked Mr. Rabenold to read the motion. Mr. Rabenold read the following:

“Move approval of the following based on the report and recommendations of the Foundations Study Committee:

- 1. Transition to an interdependent foundation with a goal of increasing annual fundraising by at least \$100 million by 2020 while keeping the university's investment in development consistent;*
- 2. Grow the investment into the development program without increasing the university's direct support, which should result in direct support by the university providing less than 45 percent of the total development program budget by 2020;*
- 3. Subject to legislative approval, lease certain UT development and alumni employees to UT Foundation, Inc. to perform development and alumni services for the university.*
- 4. Revise the university's affiliation agreement with UT Foundation, Inc., ensuring transparency and internal controls and providing for but limiting the capability to establish other affiliated fundraising foundations;*
- 5. Authorize funding the operation of the UT Foundation, Inc. by means of the following:*
 - a. Contract-for-services payments from the university for development and alumni services performed by UT Foundation, Inc., with university funding comprised of existing current fund support and an administrative fee calculated at 1% (100 basis points) of the university's endowment market value annually each June 30;*
 - b. All short-term investment interest income from gifts for twelve months; and*
 - c. A percentage of UT Foundation, Inc. restricted gifts, as approved by the University President annually.”*

Before action on the motion, Jim Hall asked Mr. Rabenold to elaborate on the status of the UC Foundation. Mr. Rabenold reported that the UT Foundation is in discussions with the UC Foundation to become a partnering organization. The goal of the UT Foundation, and if there is a foundation in Memphis, is for the UT Foundation to provide back office support to all foundations ranging from gift receipting, data base management, accounting, human resources, etc. All of these are functions that do not need to be duplicated on each campus. There have been some great visits and phone calls. The goal is to come to the June Board meeting having the UC Foundation documents completed, and at the same time the affiliation agreement and all the legislation passed along with everything else being done. Then the UC Foundation and the UT Foundation would walk hand in hand into a new era on July 1. Mr. Hall would like to stress that the UC Foundation members need to know how this action impacts their relationship with the university. Mr. Rabenold agreed.

After being duly seconded, the motion set out above was then approved by the Committee.

X. APPROVAL OF AFFILIATION AND SERVICES AGREEMENT WITH UT FOUNDATION, INC.

Mr. Cates said that in taking the next step from the Foundations Study Committee's recommended action, this committee is asking the Board of Trustees to authorize the University President to execute the Affiliation and Services Agreement with the UT Foundation that is Attachment II in the Foundations Study Committee Report.

The Affiliation and Services Agreement has been a team effort that has involved State Audit, State Controller's office, Catherine Mizell, Butch Peccolo, each of the chancellors, and the foundation's legal counsel. This document has been in numerous revisions and Mr. Rabenold reported there is unanimous approval. It is anticipated that this document will go through some minor revisions over the next six to eight months. That is the reason for the requested motion to give the University President authority to executive the document.

Mr. Rabenold presented an overview. The Agreement:

- Designates the UT Foundation as the primary recipient of all gifts for the benefit of UT's students and faculty.
- Calls for the UT Foundation to provide the development and alumni services to the university. As compensation for these services, the university will provide the foundation with direct support (equal to the current investment in the development and alumni affairs program across the UT system), an endowment assessment, and in-kind support (page 15-17). The projected budget is also available (on page 26-27)
- Provides for the UT Foundation to lease certain development and alumni affairs employees from the university, subject to enactment of enabling legislation (pages 11-12) through an Employee Services Agreement, which would be presented to the board or the Executive and Compensation Committee for approval prior to execution
- Provides that the Vice President for Development and Alumni Affairs will serve as the President and CEO of the UT Foundation reporting to the University President and the Board of Trustees (pages 5-6).
- The agreement also calls for the campus vice chancellors for development and alumni affairs to jointly report to their chancellors and the Foundation President (page 3 and Appendix C).

Mr. Cates called the Committee's attention to the materials behind Tab #11 and the light blue sheet of paper. He asked Scott Rabenold to read the motion. Mr. Rabenold read the following:

"Move approval of the Affiliation and Services Agreement with UT Foundation, Inc. as presented in the meeting materials and that;

- 1. the President be authorized to execute the Affiliation and Services Agreement with UT Foundation, Inc. after enactment of required enabling legislation and after all required or appropriate state government reviews and approvals;*
- 2. the President, after consulting with the Chief Financial Officer and the General Counsel, be authorized to approve any revisions to the Affiliation and Services Agreement necessary to satisfy state government reviews and approvals; and*
- 3. the administration be authorized to negotiate an Employee Services Agreement with UT Foundation, Inc. for the lease of certain development and alumni employees and that the President be authorized to execute the Employee Services Agreement after enactment of required enabling legislation, after approval by the Board of Trustees or the Executive and Compensation Committee, and after all required or appropriate state government reviews and approvals."*

After being duly seconded, the motion as set out above was approved by the Committee.

XI. OTHER BUSINESS

None stated.

XII. ADJOURNMENT

With no other business stated, the meeting was adjourned.

Scott Rabenold
Interim Vice President for Development
and Alumni Affairs