

**MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE
THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES
OCTOBER 23, 2008**

The meeting of the Finance and Administration Committee of the Board of Trustees was held at 10:30 a.m. EDT, Thursday, October 23, 2008 in Room 104, First Floor of the James A. Haslam II Business Building in Knoxville, Tennessee.

- I. **Call to Order** - Mr. Robert Talbott, Chair, called the meeting to order and made the following introductory remarks:
 1. While the public is invited and welcome at all Board meetings, our meetings are “in the public” but not “public meetings.”
 2. The Chair will recognize to speak only members of the committee, other Trustees, and members of the senior staff.
 3. The Committee has a set agenda and prepared materials for that agenda. No “new business” has been brought to the Chair’s attention prior to the meeting, and so it is assumed there is none.
 4. Lastly, the name of the Trustee making the motion and the second will be announced to help in the preparation of minutes.

- II. **Roll Call** – Chair Talbott asked Dr. Gary Rogers, Senior Vice President and CFO to call the roll. He did so and advised the Chair that a quorum was present.

Present

Robert Talbott, Chair
Charles Anderson, Member
John Foy, Member
John Petersen, Member
Charles Wharton, Member

Absent

William Carroll, Member
Jim Murphy, Vice Chair of the Board

Other Trustees Present

Anne Holt Blackburn, Trustee
George Cates, Trustee
Spruell Driver, Trustee
Tyler S. Forrest, Student Trustee
Crawford Gallimore, Trustee
Jim Hall, Trustee
Doug Horne, Trustee
Andrea Loughry, Trustee
Brittany McGruder, Student Trustee

Verbie Prevost, Faculty Trustee
Richard Rhoda, Trustee
Karl Schledwitz, Trustee
John Schommer, Faculty Trustee
Don Stansberry, Trustee
Betty Ann Tanner, Trustee
Monice Moore Hagler, Trustee

Also present was Senior Vice President and CFO Gary Rogers, other members of staff, and media representatives.

Chair Talbott welcomed new Trustee, John Foy to the Committee and commended William Carroll on his previous role as Chairman of the Finance and Administration Committee.

- III. **Approval of Minutes of Last Meeting**—Approval Item—Chair Talbott called for consideration of the last meeting’s minutes. On a motion made by Trustee Foy and seconded by Trustee Wharton, the minutes were unanimously approved as distributed with no amendments necessary.
- IV. **Report of the Committee on Effectiveness and Efficiency for the FUTURE**—Information Item—Chair Talbott asked Trustee Horne, Chair of the Committee on Effectiveness and Efficiency for the Future to give an update on the Committee’s progress and next steps. Mr. Horne passed out copies of an overview that he prepared and informed the group that the word Effectiveness was used first in naming the Committee due to the commitment of “doing the right things” and Efficiency is “doing things right”. He stated that the Committee will work diligently on all aspects in order to identify areas where efficiencies and cost savings can be maximized. He commented that President Petersen will be intricately involved with the Committee and its work. He advised the Committee that there was no pride of ownership and all involvement is welcome.

He summarized the Trustees’ visit to the University of Maryland to meet and discuss their initiatives. The staff at Maryland was very helpful and supplied invaluable material.

Chair Horne discussed Vice Chair Murphy’s charge to the Committee on Effectiveness and Efficiency for the Future and gave an overview of the project.

He then asked Meredith LeCroy from the Public Relations office to give a demonstration of the Website and its interactive capabilities. She explained that a button had been added to the main University of Tennessee website with the word savings leading to the Committee’s website that includes the purpose, minutes, and other information.

The website is updated with new information and provides a way for employees to offer suggestions to the Committee regarding efficiencies and savings.

Trustee Loughry asked if prompt responses would be sent and questioned whether suggestions would be kept anonymous. Ms. LeCroy advised that an acknowledgement e-mail would go out within 12 hours and that employees can choose to remain anonymous. All suggestions will be included for the Committee's review.

Mr. Horne asked the Committee to review the Draft Indicators and Measures and solicited suggestions from Trustees. Trustee Wharton commented that UT's indicators and measures should be measurements with time not just noted with green or red like the University of Maryland's Dashboard Indicators.

Trustee Talbott asked if the Committee would be looking at structural matters as well. Chair Horne explained that everything would be reviewed and that the administration costs would be tightened up to avoid hurting the academic core. He informed the Finance and Administration Committee that the Committee on Effectiveness and Efficiency for the Future would be meeting every 4-6 weeks and that he would be happy to report back anytime Chair Talbott requests.

- V. **Treasurer's Report on Endowment Investment Performance—**Information Item—Chair Talbott asked Mr. Butch Peccolo, Vice President and Treasurer, to address the group regarding the Endowment Investment Performance. Vice President Peccolo noted the challenges encountered by the capital markets during the past fiscal year and informed the group that the S & P 500 is close to reporting its worst performing decade ever. He indicated that the portfolio has struggled due in part to the value tilt and that total invested funds, previously just over \$1 billion dollars, have dropped to \$939 million—a decrease of \$72 million. The endowment income distribution to support University programs during fiscal 2008 totaled \$38.8 million with the most significant amounts going to scholarships and academic support.

Chair Talbott asked Mr. Peccolo if the University continues to be impacted in these markets when an endowment market value drops below the book or gift value. Mr. Peccolo informed the Committee that the Tennessee legislature had passed the new model uniform act, Uniform Prudent Management of Institutional Funds Act (UPMIFA) and accordingly, annual distributions are not limited as was the case prior. Trustee Wharton asked if the experts could tell us when the market is going to bottom. Vice President Peccolo indicated that an upcoming conference call was scheduled with the plan consultants to discuss that topic and what changes should be considered in portfolio construction due to the current market situation. He explained that the University is a long term investor and as such does not try to time the

market or determine the top or bottom. Trustee Anderson asked where the University stands currently. Mr. Peccolo stated the first quarter estimate to date shows -7.7%, without most of the non-liquid investments results recorded. Trustee Schledwitz asked how the University's income distribution compares to its peers. Mr. Peccolo stated that it compares favorably and the University's distribution model is higher comparatively at 5.0% of a three year moving average market value. He also informed the Committee that the Consolidated Investment Pool estimated performance as of September 20, 2008 is as follows:

1 st Quarter -	-7.7%
1-Year -	-14.5%
3-Year -	4.4%
5-Year -	8.2%

He also stated that the Investment Advisory Committee meets quarterly and is very engaged. Trustee Wharton asked if the University can buy bank CDs to protect their money. Mr. Peccolo said that he and Mr. Talbott had just been talking about that and that yes the University cash management program does purchase CDs. He added that purchasing CDs was limited to Tennessee banks because of the State's public collateral pool which insures public deposits in participating financial institutions beyond the amounts covered by FDIC. Chair Talbott added that it takes away worry.

- VI. **Treasurer's Financial Report**—Information Item—Chair Talbott asked Mr. Peccolo to continue with the Treasurer's Financial Report. Treasurer Peccolo advised the Committee that there was a Draft of the Financial Statements in their notebooks and recognized Ron Maples, Controller, for working with the State Comptroller's office over the last 4 ½ months regarding the audit and financial report. He reported that the audit is proceeding nicely; he is not aware of any issues and does expect a clean opinion. To date, the auditors have noted one finding regarding how the University reports pledges. He then reviewed a summary of the financial statements.

- VII. **Use of Min H. Kao Electrical and Computer Engineering Building Quasi-Endowment for Construction Costs**—Approval Item—Chair Talbott asked Vice President Peccolo to give background on this agenda item. Mr. Peccolo stated that the Donor, Min Kao, gave the University stock to help in paying for construction of an engineering building. The construction is now underway. The University sold the stock and created a quasi-endowment. The Board of Trustees is being asked to approve the distribution of these funds to be used for the construction of the engineering building. On a motion made by Trustee Wharton, seconded by Trustee Anderson, the use of the funds was unanimously approved.

VIII. **Annual Flight Operations Report**—Approval Item—Chair Talbott asked Sylvia Davis, Vice President for Strategic Planning and Operations to give the Annual Flight Operations Report. She noted that Chief Pilot, Steve Rogers had retired. He had been at UT since 1989; this is the department's first retirement since 1987. A new Pilot was hired, Michael Di Iulio; he has advanced avionics experience which has been helpful with the new plane, a 2008 King Air 350. The majority of the trips were made to counties where campuses are located or Nashville. The primary departments using the UT Plane in FY 2008 were the offices of the President, Knoxville Athletics, Vice President for Public and Government Relations, and the Executive Vice President.

Ms. Davis informed the Committee that fuel costs have grown by 25% and that various options to control fuel costs are being explored. Additionally, the department is working on ways to maximize use and reduce costs of operating the plane.

On a motion made by Trustee Wharton, seconded by Trustee Anderson, the report was unanimously approved.

IX. **FY 2008-09 Budget Update**—Information Item—Chair Talbott asked Dr. Petersen to update the Committee on the FY 2008-09 Budget. The President noted that the base E & G appropriations were some \$500 million in FY 2008 but were reduced to \$479 million at the beginning of FY 2009 – a reduction of \$21 million. Subsequent to the beginning of Fiscal '09 the State's revenue collections declined; due to the State's revenue shortfall an additional \$17 million has been reverted to the State from the University's budget for Fiscal '09. That brings the total reduction for 2009 to more than \$38 million. Dr. Petersen noted that recoveries of appropriations could take until 2014. These cuts were divided among the units and the system. He stated that this is not the first time that the University has seen these kinds of cuts in appropriations. There have been two times within the last decade. Chair Talbott commented that there could be \$60 million in cuts through 2010.

X. **FY 2009-10 Operating Budget Appropriations Request**—Approval Item— Chair Talbott asked Dr. Rogers to address the coming year's request. Dr. Rogers explained that the UT FY 2010 State Appropriations Improvement Requests relate to the non-formula units (those units that do not have tuition as a large part of their funding). He explained that it was unlikely that these requests would be granted, given the State's financial forecast, but that it was still important to keep the requests in front of the State. Dr. Richard Rhoda from the Tennessee Higher Education Commission also stated how important it was to keep these requests in front of the State for consideration. A motion to approve was made by Trustee Foy, seconded by Trustee Wharton and carried unanimously.

- XI. **FY 2009-10 Capital Outlay and Capital Maintenance Projects—** Approval Item—Chair Talbott asked Dr. Rogers, to present the capital projects. He noted that the Capital Outlay area was mentioned earlier by President Petersen. The Veterinary Medicine Hospital is the top priority on the University's list. Trustee Wharton stated that the University needs to work as hard as they can to make sure the Veterinary Medicine Hospital renovations are completed. The second priority is for the UT Health Science Center to renovate Crowe-Nash and Mooney. Noting that funding from the State in FY 2010 is unlikely, Dr. Rogers asked the Committee for their approval to submit the Capital Outlay Priorities to the State. Trustee Anderson made the motion and Trustee Foy seconded. The motion was unanimously approved.

Dr. Rogers advised the Committee that the lack of funds from the State adds to the challenge of getting maintenance projects approved. He told the Committee that the Capital Maintenance Priorities list was also being submitted to them for consideration. Trustee Wharton made the motion to approve the list and Trustee Anderson seconded. The motion was unanimously approved.

- XII. **FY 2009-10 Revenue/Institutionally Funded Projects—** Approval Item—Chair Talbott asked Dr. Rogers to continue and present the FY 2009-10 Revenue/Institutionally Funded Projects Summary. He noted that these projects would be paid for by gifts, fees and Athletic Operations. The identified projects total \$175,045,000.

Dr. Rogers explained that the Residence Hall on the UTK campus will be paid for by revenue received from student residents. The SimCenter Expansion includes the acquisition of a building included in the Real Property Transactions. The UTHSC Clinical Building will be self funded, as well as the Research Building, from revenue generating activities housed within the buildings. Even though no State funds are requested for these items, legislative approval of the projects is required. University Administration seeks approval of the Committee for these projects prior to submitting them to the Tennessee Higher Education Commission to begin the approval process. On a motion made by Trustee Anderson and seconded by Trustee Foy, the FY 2009-10 Revenue/Institutionally Funded Projects were approved.

- XIII. **Real Property Transactions—**Approval Items—Chair Talbott asked Dr. Rogers to present the Real Property Transactions. Dr. Rogers explained that multiple transactions were included under this item and each had to be voted on separately.

A. Grant of Easement to Knoxville Utilities Board – UT, Knoxville and Knoxville Utilities Board propose a permanent easement (Fire Pump Electric Primary) located on the southeastern corner of the Laurel Apartment property. The proposed easement is 40' +/- in length and 15' +/- (7.5' each side of the utility first installed) in width.

No fees are involved. Trustee Wharton made the motion to approve and Trustee Anderson seconded and the motion was unanimously approved.

- B. Sale of Real Property at UT Martin – the University seeks approval to sell a parcel in Martin, TN containing approximately 74.0+/- acres. The most recent appraisal was for \$1.5 million. The property would be sold at or above the appraised value and would require Board and State Building Commission approval. The University proposes to use the proceeds from the sale to acquire a 53+/- acre parcel located at 634 Old Fulton Road. This subsequent acquisition is within the UT Martin Campus Master Plan and would be used for agricultural purposes. On a motion to approve by Trustee Wharton, and seconded by Trustee Anderson, approval was unanimous.

- C. Acquisition of Real Property in Chattanooga, TN – the University seeks approval to acquire up to one-half acre located at 301 Martin Luther King Boulevard in Chattanooga. The property is improved with a building that contains approximately 20,000 square feet and approximately 40 parking spaces. The University will pay fair market value or less as determined by an independent third party appraisal. The University will provide \$1 million of the required funding for the acquisition. The balance is to be provided by the University of Chattanooga Foundation, The Lyndhurst Foundation, and the Benwood Foundation. The cost of build-out of the 10,000 square feet on the first floor that is unfinished is to be paid by the three Foundations named above at a cost of \$500,000. Dr. Roger Brown, Chancellor of UTC, explained to the Committee that the purpose of the building is for the expansion of the SimCenter to scale to a larger capacity for a center for engineers. The section of the building that is to be built out will house software application engineers. A motion with the contingency that the University of Chattanooga Foundation, The Lyndhurst Foundation, and the Benwood Foundation fund the project was made by Trustee Foy and seconded by Trustee Wharton. The motion based on the contingency was approved unanimously.

- XIV. **Promulgation of Rules under the Tennessee Uniform Administrative Procedures Act on Charges for Producing Copies of Public Records**—Approval Item—Chair Talbott asked General Counsel and Secretary of the Board, Catherine Mizell, to present the Rule. She explained that during the recent legislative session, the General Assembly amended the Tennessee Public Records Act to create the Office of Open Records Counsel (OORC). Anne Butterworth, Attorney from the State Comptroller's was appointed as the director of the office. OORC is required to establish a schedule of reasonable charges that a records custodian may use as a guideline to charge a citizen requesting copies of public records. The reasonable charges schedule was issued on October 1, 2008 with an effective

date of October 31. The University's proposed Rules on Charges for Producing Copies of Public Records are promulgated under the Tennessee Uniform Administrative Procedures Act, which requires approval of the Rules by this Committee to be put on the full Board agenda. The Schedule of Reasonable Charges for Copies of Public Records is to be used as a guideline to determine the amount a requesting party will be charged for producing copies. The Office of Open Records Counsel has established a suggested copying charge of \$.15 per copy with the option of charging labor. The labor would be the hourly rate of the employee, not including benefits. Trustee Wharton asked if UT could charge \$.20. Secretary Mizell suggested that the University stay within the established guidelines. On a motion made by Trustee Anderson, and seconded by Trustee Wharton, the motion to adopt the Rule was unanimously approved.

- XV. **Establishment of an Identity Theft Prevention Program**—Approval Item—Chair Talbott asked Vice President Peccolo to discuss the Identity Theft Prevention item. He told the group that federal regulations promulgated under the Fair and Accurate Credit Transactions Act of 2003 (which amended the Fair Credit Reporting Act) would become effective on November 1, 2008. These regulations require certain financial institutions and creditors to establish an identify theft program. The University learned recently that it falls within the statutory definition of a “creditor” and therefore is required to establish a program. The proposed Identity Theft Prevention Program delegates this responsibility to the Senior Vice President and Chief Financial Officer or designee. The federal regulations require that the initial plan for identity theft prevention be approved by the institution’s governing board. The University gathered input from representatives of all campuses in preparing the proposed documents. The document is presented as Exhibit A behind the Resolution. The Resolution and the Identify Theft Prevention Program are being presented to the Committee for approval in order to put the item on the full Board’s agenda on October 24, 2008. On a motion made by Trustee Foy, and seconded by Trustee Anderson, the Resolution and Program were unanimously approved.
- XVI. **Other Business**—Chair Talbott stated that no other new business had been brought before the Committee. Chair Talbott asked Chancellor Jan Simek to inform them about lunch plans and to explain what Ready for the World Café was. Dr. Simek explained that the Ready for the World Café is located on the third floor of the University Center and was formerly known as the Hermitage Room. The Café is run by students from the Hospitality & Retail Consumer Program and they serve international cuisine. Catherine Mizell suggested the Trustees meet in the Atrium where students were ready to escort them to the University Center. Dr. Simek stated that upon their return the Trustees would meet in Room 202 of the James A. Haslam II Business Building.

XVII. **Adjournment**

There was no other business and Chair Talbott adjourned the meeting.

Gary W. Rogers,
Senior Vice President and
Chief Financial Officer