MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE
THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES
OCTOBER 27, 2011

The meeting of the Finance and Administration Committee of the Board of Trustees was held at 3:15 P.M. EDT, Thursday, October 27, 2011 in the Hollingsworth Auditorium on the UT Institute of Agriculture Campus In Knoxville.

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.
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 Mr. Charles Peccolo, Treasurer and Chief Investment Officer/Acting Chief Financial Officer to call the roll. He did so and advised the Chair that a quorum was present.

Present

Robert Talbott, Chair
Charles Anderson, Member
Joseph DiPietro, Non-Voting Member
Brian Ferguson, Member
John Foy, Member
Don Stansberry, Vice Chair of the Board
Betty Ann Tanner, Member

Also present were other Trustees, Mr. Charles Peccolo, members of staff, and media representatives.

Chair Talbott welcomed Brian Ferguson and Betty Ann Tanner to the Finance and Administration Committee as new members.

III. **Approval of Minutes of Last Meeting** (Exhibit 1) — Action Item — Chair Talbott called for consideration of the last meeting's minutes. Vice Chair Stansberry moved approval of the minutes of last meeting as amended; seconded by Trustee Foy and approved unanimously.

IV. **Treasurer's Report on Endowment Investment Performance** — Information Item (Exhibit 2) — Chair Talbott asked Mr. Peccolo to present the Treasurer's Report on Endowment Investment Performance. Mr. Peccolo began by drawing the Committee's attention to the slide presentation. He commented that approximately one year ago it was decided to hire a director of investments and it would be someone that spends every waking moment dealing with that topic. We were fortunate in the search process, and the Investment Advisory Committee interviewed and spent time with three different candidates. Mr. Mecherle was the one selected. Rip is a nickname that he goes by but his proper name is Raymond. He is a graduate from the University of Virginia with a Bachelor's Degree and received his graduate degree at Cornell University. He has thirteen years of investment experience including portfolio construction and management. He has been at the University for approximately nine weeks, and I have asked him to present the investment report for the fiscal year ended June 30, 2011.

Mr. Mecherle, Executive Director of Investments thanked the Committee for allowing him to be there and hoped that they found the presentation and market discussion as interesting as he does day in and day out, particularly given how the markets have been a great deal of "fun" lately with all the volatility. He then gave a quick snapshot of the management and oversight and the groups that are involved with the management of the invested funds at the University of Tennessee. There is roughly $670 million plus as of June 30, 2011. There are three groups that have some input with regard to the management and oversight of these funds. First, the investment group is an eight-member team (including him) that is involved with managing the Consolidated Investment Pool, Life Income Trusts and Separate Endowments. Predominately its focus is on the research and portfolio management of the CIP assets and back office functions such as cash flow and wire transfers. It also handles internal and external reporting requirements such as State Audit, meetings such as this, etc.

The external group is Fund Evaluation Group (FEG) which helps a great deal with the investment evaluation process and portfolio construction. FEG is a consultant based out of Cincinnati, which has $33 billion in client assets under advisement. They work with a number of university endowments, and their key duties are, sourcing, vetting, and monitoring managers, asset class research and portfolio analysis and benchmarking. They have a research team of approximately twenty-two and are a huge part of the investment process in regards to the Pool and Life Income Trusts.

Lastly, the Investment Advisory Committee(ten member committee), although it is certainly not the least in importance, is invaluable in providing insight and wisdom on issues such as asset allocation, investment trends, market analysis, monitoring investment performance and evaluating the consultant on an on-going basis.

These three groups work across the various platforms to manage these assets, especially with the Pool and also to a lesser degree, the Income Life Trusts and other endowments.

Executive Director Mecherle asked the Committee to focus on the right hand side of the slide that showed the total funds invested for the University of Tennessee. At the far right it showed roughly $888 million in total assets that services the academic mission of the University, as well as other focus points of focus. The Pool constitutes approximately $620 million of the total $888 million. Separate endowments are approximately $11 million and the Life Income Trusts are $42 million. These three categories were mentioned earlier and are managed internally. The Chairs of Excellence is $113 million, and the University of Chattanooga Foundation is $103 million. As of fiscal year 2011, $888 million is the total sum of funds invested for the University of Tennessee of which the bottom three categories we have a great deal to do with on a day-to-day basis internally.

He then showed a slide that had the primary means of support that the endowments back. He made the point that 90% of the income and earnings generated by the endowments go directly toward the academic mission of the University. Thirty-seven percent goes to scholarships, 40% to instruction/academic support, and then add 12% for research, and that is roughly 90% of the Fund. Three percent is reinvested, and the remaining 8% goes to institutional support and public service.

He then presented a slide that showed the cumulative support over eleven years that the Pool generated. The annual contributions alone might seem small and not nearly as significant as they truly are if you look at the cumulative total over those years, which was approximately $350 million. Compared to the $1.3 billion annual operating budget for the University, the annual contributions are not a massive amount but certainly significant in covering costs and helping the University functions day in and day out. That is driven by just the Investment Pool and not the other endowments. Later, we will look at the individual distributions on an annual basis from the earnings and capital gains and then some expenses that are covered through the various distributions in the growth of the Pool on an annual basis.

Executive Director Mecherle then showed the current asset allocation for the Pool as of June 30, 2011. It is comprised of two broad categories, traditional assets and alternate assets. Today, Common Stock/Domestic Equity is 15.1% and International Equity (also Common Stock) is 19.3%. Then there is debt or Global Fixed Income at 9.1%. In 1983 the Pool was reconstructed to broaden the Asset Allocation into what would be considered a more institutional profile, which includes the following alternative categories. Private Equity/Venture Capital constitutes approximately 18%, and Alternatives (hedge funds and funds of funds) are 20.5%. Next, Real Assets, which make up a mix of assets like royalty in natural gas partnerships or timber properties, comprised 18.5%. The Pool itself looks like what you would expect an endowment or any other large institutional investment pool to look like. It is a mix of traditional asset classes and then those other three categories that are almost solely the purview of institutional players.

He then presented the Pool's year-by-year performance. Over the last two fiscal years there was a positive number of 13.3% and a positive 20.6%. The last two down years reflect the recession and credit crisis. In fiscal year 2009 – the performance was a negative 24%. Virtually every endowment across the country is still dealing with the effects of that, but the performance has recovered considerably over the last two fiscal periods. (This is a good snapshot of what you would expect a diversified portfolio to be overtime.) The far left shows the remaining effects of a credit cycle that was much more normal than the one we just recently had, as well as the recession that came out of the 2001/2002 period. The ten-year compounded annual return is 4.94%. Since 1983 the compounded annual return is 10.4%. The four flat/negative years affected the ten-year period shown.

The performance goals of the Pool include three broad categories of measurement and objective that you would see with any endowment. 1) Absolute Return or Portfolio Return versus Inflation, often called intergenerational equity, which is preserving the purchasing powers of the assets in place for future generations. Typically this is measured by inflation but takes in account expenses. 2) Asset Class Returns versus Market Indices is a broad barometer, where the Fund is compared to broad indices that are public and easily measurable. 3) Finally, a peer comparison.

He then showed the Fund's performance versus inflation and spending. The long-term objective is a 9% total return. The average distributions over a ten-year period have been 6%. Inflation as measured by the CIP. is 2.4%, and the Pool generated 4.9% over that period. Since 1983, the Pool has averaged closer to 10.4% and inflation over that same time period, combined with a 6% expense ratio, is about 8.9%. Over the long haul, the Pool is still outperforming but over the recent ten-year period, not surprisingly, it is behind. We would expect over time for that to catch up and hopefully pass the inflation and expense ratios combined together.

The year-by-year cash distributions from the Pool to support the University show the lagging effects of the recession and credit cycle that we have been through recently. In 2001-02, there was not only a recession but there was also a bursting of the tech bubble. There was also a credit cycle that is typical in a recessionary environment. Then in 2008-09 there was a credit crisis (even though he would argue that the credit crisis began in '07), with a lagging affect in 2010-11 on distributions. It is important to note that these distributions are determined using a three-year rolling average of the ending calendar year market value of the Pool. Fiscal year 2011 was determined off 2009, 2008 and 2007 calendar year-ends. There were two very negative periods which helped determine the most recent distributions. This stands in contrast to the performance metrics that were shown earlier, where the last two fiscal-year performance numbers were positive 13.3% and 20.6%. This is not surprising given the fact that there is a six-month lag between fiscal and calendar year-end, and a rolling average is used. The next few periods should see a pick-up again (in the level of annual distributions).

The $32 million in support that the Pool gives to the University may not seem like a massive amount compared to a $1.3 billion operating budget but it roughly covers 10% of tuition and fees. It is by no means immaterial.

Next, he showed relative measurements for the Asset Class and Market Indices. These are very broad indices, and one should not get too hung up on a direct comparison to the Pool. The performance of the composite of the Pool over a five-year period is 3.1%. The benchmark of inflation plus the expense ratio of 5.5% we are trailing, and it is 3.1% versus 7.7%. Global equity for the University includes public and private and returned at 6.1% vs. an index that covers global public equities, at 6.6%. That performance is actually closer than expected given the illiquidity in the marketplace with the credit crisis. It is considered roughly in-line, and again these are not apples to apples but a very good comparison against the rough and broad asset classes that are available to the marketplace. For the University the Global Fixed Income category performed roughly in-line with the Barclays Aggregate, formerly Lehman Brothers, -6.5% vs. 7.1% for the index. The underperformance he attributed to a much broader credit profile for the Pool versus the Barclays Aggregate which is almost entirely investment grade. Over the last several years, investment grade assets that are more duration/interest rate sensitive have outperformed, and credit assets have experience a great deal more volatility. The Pool's assets have been more exposed to credit-sensitive assets than the Barclays Aggregate. If the Index included sub-investment grade assets, it would likely have been even with or perhaps even underperforming the Pool. The Real Assets category for the University constitutes more than just real estate, but there is no ideal index (to compare to). Real Assets for us include energy, natural resources, as well as property and real estate. It is trailing slightly at a roughly flat performance of negative 10 basis points versus +150 (basis points) for the property index. That index is global, whereas a lot of the real asset exposure that the Pool has is domestic.

Diversifying Strategies is largely Hedge Funds and produced 4.6% vs. US T Bills at 3%. You might wonder why we are comparing Hedge Funds and T Bills, and the reason is a lot of the diversifying strategies are held up against the T-Bills or a rate of inflation, because they are basically pursuing an absolute return strategy where they are trying to remain positive, vs. simply outperforming a benchmark. These are broad metrics but they give an idea of how the Pool's broad categories are performing.

He then gave an update as of September 30, 2011. The markets have been highly volatile lately, and the slide shown demonstrates that quite clearly. On the left is an estimated performance of -8.9% down for the three months but that compares to a -13.9% and -18.9% for domestic and global equity indices. Bonds have been positive, and that is not surprising given the fact that quite often in volatile environments like the one we're in now, you see investment grade and interest rate sensitive high quality assets outperforming. Interim CFO Peccolo added that at quarter-end, the S&P was down -13.9% for the quarter but for October it was up almost 12%, a nice recovery. Executive Director Mecherle added that a lot of this is driven by the headlines coming out of Europe and the Middle East. It has been a remarkable period. When you track it on a daily basis, it is quite stressful being sharply up one day and down the next. The volatility has been tremendous. A great deal of that has been the market looking over its shoulder at what various regulatory or government entities are looking to do to eliminate fears and solve problems as best they can. It is something that we are waiting to see play out.

Lastly, he presented the Peer comparison based on June 30, 2010 data, which is the most recent NACUBO study. It is a very good metric in a broad universe against which to compare the endowment. He then presented annual rates of return for one-year, five-year and ten-year numbers for the University of Tennessee. At the one-year mark, the University was well ahead of both the broad average and those that are comparable in size, the $500 million to $1 billion, as well as the greater than $1 billion. The endowment did very well in relation to the Pool. The five and ten-year numbers are trailing. On a positive note, Fund Evaluation Group took over in 2004, so the ten-year performance reflects prior consultant counsel investment advice, and the five-year number still reflects some of that prior consultant's advice as well. Not to lay it all at their (prior consultant's) feet but simply to say the changeover takes time, especially with private investments, to see a full changing of the guard and a full implementation of new approach and research process. That is something that we are seeing filter through the numbers here. Another point is that the larger the endowments, the better the performance, typically. A great deal of that is due to the fact that the larger endowments have had a greater exposure to the alternative asset classes that have outperformed, especially in the last decade and a half. There have been periods of outstanding performance, such as the last couple of years, where that divergence is accentuated even more. Four out of six fiscal years ending 6/30/2010, the University's endowment has outperformed the NACUBO average decisively by approximately 120 basis points on average, and that is not really picked up in the five and ten-year number. That is quite a positive for the University's long-term performance averages. For the last five out of seven fiscal year averages ending 6/30/2010, the endowment was in the top third of the NACUBO universe. What is depicted in the one, five and ten-year periods are certainly not representative of the finer data points of the last several years. Rolling forward, once we get past the last two of the three that had decisively negative performance, we should it (the pool) coming closer in-line with the other numbers shown with the blend of $500 million to $1 billion and greater. It is a good comparison for the University and is a typical mix of traditional and alternative assets. The University should slide into a hybrid of the two categories over time.

V. **Treasurer's 2011 Financial Report**—Information Item (Exhibit 3)—Chair Talbott asked Interim CFO Peccolo to present the Treasurer's 2011 Financial Report. Mr. Peccolo explained to the Committee that there are two reports in the Board materials. One is a graphical representation of the University's financial report for the fiscal year ended June 30, 2011 compared to similar graphical representation for June 30, 2010. Also, there is an early draft of the Financial Statements for June 30, 2011. The preliminary Financial Statements include only the University of Tennessee. When the final Statements are completed with the auditors opinion letter they are sent to the Board around December or the first of the year. At that time the Statements will include the University of Tennessee as well as three Foundations (UT Research Foundation, UT Foundation, Inc. and UC Foundation) and will be presented discreetly similar to the format presented last year. He noted that Footnote 22 in the Financial Statements gives a description of what has happened since June 30, 2011. It explains the creation of the agreements between the University and the Foundation as far as the leased employees and the contract payment when the Development and Alumni Affairs functions moved over to the Foundation.

He then updated the Committee about the financial audit with the State's Comptroller's Office. It is currently in the fourth month and those folks are starting to wrap up. To date we know of three or four audit findings depending on how you count them for this year. They are all related to compliance issues. Three of them specifically deal with the direct student loan program which was new this year. The finding had to do with our efforts to not only reconcile the payments but also ending cash balance at UT Knoxville and UT Health Science Center. There are also a couple of compliance issues with equipment purchases on federal grants. None of these are material but when you get over into those particular compliance issues the auditor is required to make note of them and make a finding. We don't anticipate any major findings dealing with the financial position of the University but did want to keep the Board apprised on the financial audit.

He then presented a pie chart representing the total net assets of the University for fiscal years 2010 and 2011. The total assets grew by $335 million during the year. The breakdown is detailed on the composition of the assets. Cash increased by $120 million. The most significant part of that has to do with the one-time non-recurring state appropriations that were received as manage the end of the stimulus money. The Board is familiar with the reference to us managing through the decline and to avoid the cliff effect. That has resulted in some excess cash balances. In addition there is one grant that was received from the state having to do with the Solar Farm and Institute. The other items impacting the growth in assets has to do with about $95 million in investment increases reflecting the improved capital markets that Mr. Mecherle referred to earlier. Finally, capital assets increased by $118 million due primarily to new construction during the year as well as the acquisition of property, library holdings. If you combine all those it represents where the $330 million arrived.

He then showed the composition of the liabilities. One of the biggest items is the deferred revenue increase and most of that is due to the solar grant mentioned earlier that the University received. We received the money on the frontend and are now deploying. That was accounted for as deferred revenue until the services are performed.

The next comparison had to do with revenues that grew over the year. The biggest part of that is the increase in gifts, grants and contracts in the amount of $93 million. UT Knoxville had $20 million and the UT Health Science Center had approximately $18 million. Again, a big piece of that was the solar grant from the state. There was also an increase in the local and state appropriations of $63 million. Approximately $59 million of that was the one-time non-recurring state appropriation and the difference between that and the $63 million had to do with the group health insurance benefits that went up and is funded by the state. The $36 million fee increase is one that the Board approved. Last year the University presented an 8.5% recommendation and upon discussions and vetting the Board agreed to 9%. The $36 million represents the 9% fee increase. Again, improved returns on the investment results rounded out the increase in revenues.

Finally, the expenditure categories; salaries and benefits year over year represents almost 70% of what the University spends. It is the most significant piece because we are a people business. The salaries and benefits increased by $48 million with $11 million in the instruction function as we deployed some of the one-time monies to folks to address high demand classes. There was $6 million in research and another $3 million was from auxiliary operations. Utilities, supplies and other services increased by 10% or $40 million which doesn't represent that utility costs increased that much. This is a catchall from salaries and benefits and is much broader than just utilities and supplies. This was a quick snapshot of how the University's financial statements will reflect this year for June 30, 2011 versus last year, June 30, 2010. Again, we expect to have the final statements by the end of the year and are waiting on the final auditors' opinion letter and once it is received will be published and distributed to the Board.

VI. **Approval of FY 2012-13 Operating Budget Appropriations Request**—Action Item (Exhibit 4)—Chair Talbott asked Interim CFO Peccolo to continue with the next item. Mr. Peccolo explained that three of the budgetary units are funded by a formula driven by different outcome measurements. The rest of the University is what is termed as non-formula. Each year we are allowed to recommend an improvement in the funding for the non-formula units to the Tennessee Higher Education Commission (THEC) who incorporates it into their overall budget request to the Governor and then becomes part of the state's budget. This year, the list included in the Board materials shows the breakdown of the improvement request. It is $34.6 million and about half of that represents one-time expenditures in equipment or program initiation. The balance is a recurring type of expenditure. It may not surprise anyone, but we aren't very hopeful that any of the requests will be part of the Governor's budget because of the state's finances. We do have the opportunity to make a case for those funding improvements to the extent that we can.

The schedule behind the cover memo gives you the amounts and is set up by broad strategic categories; research, economic development, and student access and student success. Behind that information is a narrative that gives a complete description and discussion of what each one of those requests are. As previously mentioned, upon approval by the Board, this request is forwarded to the Tennessee Higher Education Commission (THEC) for inclusion of the Governor's budget.

Chair Talbott stated that it is an action item and called for a motion to present. Vice Chair Stansberry moved approval of the University's state appropriations budget request for non-formula support of operations for the new budget year as presented in the meeting materials; seconded by Trustee Anderson and approved unanimously.

Trustee Wharton asked how realistic it was that the University can get funds to help our extension agents where there is a serious problem. Mr. Peccolo replied that it was a great question. Clearly some of the improvement requests are dealing with the salary deficiencies and related compensation issues. He was not sure how successful the request would be. He then explained that they are speaking with the Tennessee Higher Education Commission about looking at some kind of formula or structure so that the non-formula units can have some kind of deliverables or measurables which would make a strong case for improved funding. The problem is that we do not anticipate any additional funding to higher education and then noted that the President might want to speak to the issue. President DiPietro addressed Trustee Wharton and told him that he knows very well that the issue with Extension is not a good one and we are not proud of it from the standpoint of the salary structure around some of those positions. We interacted with THEC a few times within the last year looking at an approach for non-formula units that at least provides when budgets go down that it would provide some accommodation for the fact that they cannot generate tuition. One of the things we have come up with is to evaluate the UT Health Science Center, the Institute of Agriculture, Space Institute and Institute of Public Service based on performance. When you make these accommodations and when the budget is not as strong then they would not get cut as much - similarly is there a way to accommodate it on the upswing as state budgets grow? We are in those conversations and it is on the agenda. If you look at the budget this year in terms of a stop light - it is yellow this year right now. What happens in Washington in November may have some influence. It is on our radar screen.

VII. **Approval of FY 2012-13 Capital Outlay and Capital Maintenance Projects**— Action Item (Exhibit 5 and 6)—Chair Talbott introduced the next item, approval of FY 2012-13 Capital Outlay and Capital Maintenance and asked Interim Chief Financial Officer to present. Mr. Peccolo told the Committee that there were two schedules in the materials. He then went over the Capital Outlay and stated that they have received input from the campuses as to their needs and priorities. We have merged them into one list with the concurrence of all the campuses as to what our listing and priorities are. Typically the way this works is we have a deadline in September to send preliminary figures to the Tennessee Higher Education Commission (THEC). We then present to the Board a detailed schedule to consider and approve and then we formalize the list that had already been submitted to THEC. The difference this year is that THEC has asked the University and the Board of Regents to make a fresh assessment of capital outlay and capital maintenance requests. They want us to assess these requests in light of the outcomes feature of the Complete College Tennessee Act. Hopefully, the higher ranked outlay and maintenance projects that would directly affect the outcomes based variables of the Complete College Tennessee Act. The deadline is December 9, 2011 to accomplish this. We have assessed these projects and have identified how they impact the Complete College Tennessee Act. The attached schedules are our priorities and you will notice it is heavily frontend loaded. There is ongoing discussion among THEC and the two education systems' administration about the dire need for capital funding for higher education. We don't know how it will turn out but we presume because THEC has delayed our submission to December 9 that there is an active discussion going out about some improvement dollars for higher education. We ask that this listing be approved by this Board realizing that as we continue the discussions with THEC and the administration that some of this maybe reordered or changed a bit depending on how the program finally gets established and evaluated. If the Board considers approving this, we will come back to the Executive and Compensation Committee once the final submission is ready to be sent to THEC the first of December for their approval of any modifications to these lists.

Chair Talbott called for any questions or comments and there were none. Trustee Anderson moved approval of the Capital Outlay and Capital

Maintenance Funding Requests for FY 2012-13 and subsequent years as presented in the meeting materials with authorization for the Executive and Compensation Committee to approve any modifications prior to final submission to the Tennessee Higher Education Committee; seconded by Trustee Foy and was approved unanimously.

VIII. **Approval of FY 2012-13 Revenue/Institutionally Funded Projects** – Action Item (Exhibit 7) – Chair Talbott announced the next item as the approval of FY 2012-13 Revenue/Institutionally Funded Projects and explained that they were basically self-funded projects and asked Interim CFO Peccolo to present. Mr. Peccolo began by saying the projects listed are the ones that the University will self fund either through existing reserves, available funds or through bonding with the Tennessee State Bonding Authority. The process is that we have projects that we have to disclose during the budget cycle and then are able to carry them out at our own discretion subsequent to the passage of the appropriations bill. The second item on the list, Housing Fire Alarm and Sprinklers for UT Chattanooga, will require immediate action to go ahead and submit an emergency request to the Tennessee Higher Education Commission to allow us to proceed prior to waiting through a budget cycle. We are still working with the campus in making the case. Other than that item, this is the list for approximately $95 million that we will finance internally and will not seek state support. Vice Chair Stansberry asked what became of the recreation fields at the old driving range and are they funded somewhere else. Mr. Peccolo asked Chancellor Cheek to address the question. Chancellor Cheek explained that the recreation fields are paid by student fees and demolition is almost finished. Part of the facility is already underway but it won't be finished until August 2012. The project was approved in a previous year. Chair Talbott then asked Chancellor Cheek if by next fall people will be playing on those fields, hopefully. Chancellor Cheek said we hope so.

Trustee Hall commented that he was concerned to find that we have housing facilities on the UT Chattanooga campus without fire alarms and sprinklers and wondered if that is the case at any other campus. Mr. Peccolo said that he might have to yield to the Chancellors at the other campuses but I feel certain that there probably are some. Many of our housing units are from the late 1960's and early 1970's but cannot speak to that directly. Trustee Hall asked if some kind of assessment on this issue because that is a situation that needs attention, if that is the case. Those locations need to have some priority in terms of these improvements. Mr. Peccolo agreed and asked George Criss, Director of Facilities Planning if he was aware of any other campuses that do not have fire alarms and sprinklers in their housing units. Mr. Criss advised

Trustee Hall that all the residence halls have fire alarm systems but not all have sprinkler systems.

Trustee Tanner asked if the dorms were inspected annually by the Fire Department and is that not something that is necessary for insurance purposes. Director Criss said the residence halls are inspected internally. Mr. Peccolo stated that a comprehensive list will be compiled to address some of these questions and be shared with the Trustees.

Chair Talbott asked if there were any other questions and there was not and noted that it was an action item. Trustee Foy moved approval of the Revenue/Institutionally Funded Projects for FY 2012-13 as presented in the meeting materials with authorization to enter into contracts for design and construction, within available funds, for these projects and, with the approval of the President, for other revenue/institutionally funded projects identified during the fiscal year; seconded by Trustee Tanner.

IX. **Real Property Transactions** – Action/Consent Item (Exhibits 8-12) – Chair Talbott advised the Committee that there were five separate transactions that had to be approved separately. Mr. Peccolo began by saying there were five items for consideration.

A. Tee Martin Drive Right-of Way Closure–UT Knoxville–Mr. Peccolo stated that this item requests to close the right-of-way at Tee Martin Drive which is right off Phillip Fulmer Way around by the south end of the stadium. It is necessary for campus events, future development and controlling pedestrian traffic and safety. Vice Chair Stansberry asked if the road was being closed and Mr. Peccolo answered the right-of-way. Vice Chair Stansberry and Trustee Wharton asked what the difference was. Mr. Peccolo answered that it will still be available to use for special situation traffic and asked Director of Real Estate Management, Robbi Stivers to address the question. Director Stivers said that technically the right-of-way will be closed by the City of Knoxville and the University will own the right-of-way going forward. It is planned for it to be opened as it always has been going forward unless the Campus chooses to close it. Trustee Talbott asked if it would be like a private driveway. Director Stivers replied that is correct. Trustee Wharton asked if there are plans to permanently close it because traffic would be a real problem if it were permanently closed. Director Stivers said at this time there are no plans. Vice Chair Stansberry commented that the answer was a little vague and asked again if it would be closed. Vice Chancellor for UTK, Chris Cimino interjected that there are no plans to close it. Vice Chair Stansberry suggested that was an awkward presentation and should have been presented that the campus is receiving a gift from the City of Knoxville for this right-of-way and manage it as an asset and asked Vice Chancellor Cimino if that is what they are doing and he said that is exactly what the campus is doing. Mr. Peccolo gave his apologies. Trustee Murphy stated that technically it is not a gift. The right-of-way is the right of the City to use the road. The University already owns the reversionary interest and when they close the right-of-way what they are doing is they are giving up the rights to the public to use it as a public street and when you do that it reverts automatically back to the owner which is the University. Basically what they are doing is they are abandoning the public right-of-way. Vice Chair Stansberry then asked if we had to allow the City of Knoxville to do that. Trustee Murphy said that technically an adjacent owner can have a claim if they don't agree to the abandonment. The City of Knoxville would probably not abandon it if the University did not agree to it.

Vice Chair Stansberry moved approval of the right-of-way closure of Tee Martin Drive on the campus of the University of Tennessee, Knoxville in Knox County; seconded by Trustee Anderson and approved unanimously.

B. Greenway Trail Easement on Sutherland Avenue–UT Knoxville–Interim CFO Peccolo explained that this item was a conveyance for the Greenway Trail Easement on Sutherland Avenue on the east boundary of the playfields and is a benefit to the University for the Recreational Area. The Greenway will connect the residential, commercial, retail, and park areas along a very scenic corridor to the Foothills of the Great Smoky Mountains. No further consideration is requested due to the mutual benefit to the University and the City of Knoxville. Chair Talbott asked if this Greenway was part of the Bike Pass and Mr. Peccolo replied yes. Trustee Foy moved approval of the conveyance of a Greenway Trail Easement on Sutherland Avenue to the City of Knoxville; seconded by Trustee Tanner and approved unanimously.

C. Metron Building Easement–UT Knoxville–Interim CFO Peccolo explained UT Knoxville and the Knoxville Utilities Board (KUB) propose expanding the existing permanent easement to install and maintain a high pressured gas line and regulator. KUB seeks authorization to enter upon, replace, install and maintain the gas line. The easement is irregular in shape and length, 25 feet+/- in width and contains approximately 47,745+/- square feet, or 1.09+/- acres. Because the utility improvements benefit the University of Tennessee, Knoxville, there is not further consideration requested. Vice Chair Stansberry moved approval of the conveyance of the permanent utility easement to Knoxville Utilities Board; seconded by Trustee Anderson and approved unanimously.

D. Third Creek Easement–UT Knoxville–Mr. Peccolo presented the next item that is with the Knoxville Utilities Board (KUB) and is to install, replace, and maintain a sanitary sewer line and install/expand an 8" high pressure gas line along Third Creek. Again, the utility improvements benefit the Knoxville campus and no further consideration is requested. Trustee Foy asked if the University has the right to have KUB move the easements being granted at a later date if the campus has a need for expansion. Director Stivers replied that currently there is provision for relocation and would have to go back to KUB and negotiate if there is a need. It would be at the University's request and cost. Chair Talbott noted that Trustee Foy's point was a good one. Perhaps in the future with these easements a provision could be added to give the University some leeway. Trustee Foy commented that he knew the Chattanooga Utilities do that. Granted it is at our cost but it does take some of the negotiations out of it. Trustee Foy moved approval of the permanent and temporary construction easement to Knoxville Utilities Board but recommends in the future that it be negotiated so it maximizes the University's flexibility. Chair Talbott agreed and asked that it be included in the future. The motion was seconded by Trustee Tanner and approved unanimously.

E. West Tennessee Solar Farm Easement–UWA–Mr. Peccolo presented the proposed permanent easement by the Millington Telephone Company for lines from Albright Road through the West Tennessee Solar Farm property. The lines will provide connection to the Signal Energy site and eventually to the Visitor and Information Center. He commented that there was a schematic presented earlier by Dr. Millhorn in the Research Committee. The proposed easement is approximately 10 feet in width and irregular in length. The total easement area contains approximately 22,216 square feet, or 0.51+/- acres. Again, the easement is for the benefit of the University and its education center so no further consideration is requested. Trustee Foy moved approval of the conveyance of the permanent telecommunication easement to Millington Telephone Company in Haywood County with the same recommendation as stated before; seconded by Vice Chair Stansberry and approved unanimously.

X. **Approval of FY 2011 Annual Flight Operations Report**—Action/Consent Item (Exhibit 13)—Chair Talbott asked Interim CFO Peccolo to report on the FY 2011 Flight Operations Report. Mr. Peccolo began by noting that in accordance the University's fiscal policy a Flight Operations Report for the University's aircraft is presented to the Board on an annual basis. The Report is included n the materials. It gives a five-year summary of the costs of flight operations. Briefly, in 2011 the UT plane was flown approximately 300 hours and 70% of the flight legs were between UT campuses and/or Nashville. During the year, the airplane carried more passengers on about 8 hours less flight time. It was much more efficient and attempted to have more capacity for the utilization of the plane. In addition to the University's Flight Operations, chartered flights were also used during fiscal year 2011. The cost of the chartered flights totaled $832,505 and the primary user was Athletics during recruiting season. He then presented the Report for approval. Trustee Anderson moved approval of the FY 2011 Annual Flight Operations Report as presented in the meeting materials; seconded by Trustee Tanner and approved unanimously.

XI. **Academic and Clinical Affiliations for Cancer-Related Patient Care, Research, and Education**—UTHSC—Action Item (Exhibit 14) —Chair Talbott then asked Dr. Steve Schwab, Chancellor of the UT Health Science Center to present agenda item XI. Chancellor Schwab stated that it was a pleasure to present again to the Finance and Administration Committee a clinical venture proposed by the University's Health Science Center. Last year, we reported that the UT Health Science Center was pursuing an aggressive policy of practice alignment with our core partner teaching hospitals. This change in alignment is driven by National Health Care Policy. The Policy rewards turnkey graded clinical care and penalizes piece mill traditionally delivered clinical care. We outlined to this Committee that we spent four years in the substantial growth of our faculty practices to the point that we now have major market share in all six core hospitals. We have made ourselves essential to our hospital partners. As a result, we have been able to craft joint venture agreements that we believe are not only good for clinical practice, patient care and research, but also very profitable for the Health Science Center. The formation of the Le Bonheur Pediatric Specialists Group has grown dramatically and is now over 120 children's physicians. Le Bonheur has entered the national rankings in children's hospitals and is ranked in the top 50 in four areas. Most noted, in the area of children's cardiovascular care, children's neuroscience and children's nephrology. We believe to date, that we will make Le Bonheur a top 25 hospital next year and that these same areas of excellence will move into the top 25.

The Board also approved at that time, a creation of a UT/Erlanger Medical Practice Group that is based at the Chattanooga campus at the Erlanger Medical Center. Later in this meeting, Dr. Ken Brown, Executive Vice Chancellor, UTHSC, will give you the update that was requested on the formation and finances of that practice group.

He then presented a proposed new venture to the Methodist Hospital System to form an integrated clinical care practice. The UT-Methodist Integrated Cancer Services exists by combining all physician and technical assets to deliver an integrated Cancer Service Line in the entire Methodist Hospital System. Not just Methodist University and Methodist Le Bonheur but in the entire Methodist System. This will consolidate research and education across both the UT Health Science Center and the Methodist System with regards to cancer. This consolidation will allow substantial improvement in cancer care and in the cost of-cancer care. This consolidation streamlines both patient based cancer research and patient based education. Cancer Services will become a single system for cancer clinical care, cancer research and cancer education across the Health Science Center and the Methodist System. The medical oncology of this venture will be provided by the West Clinic and that he would speak more about their relationship with the Health Science Center later on in his presentation. All surgical services will be provided by the UT Health Science Center through its adult practice arm, the UT Medial Group. That includes abdominal, surgical oncology, and neuro oncology. All surgical specialties will come from our practice group. Technical services will be from the Methodist Healthcare Corporation and that includes all technical services that the physicians previously owned or operated. All imaging, all chemotherapy and radiation therapy will be provided by Methodist.

The West Clinic brings to this equation a group of twenty medical oncologists based in Memphis, Tennessee. They form what is called a Physician Services Agreement (PSA) with the Methodist Hospital System to provide medical oncology services throughout the Methodist Hospital System. West Clinic then sells all imaging and chemotherapy facilities that they currently own or operate to Methodist so that Methodist becomes the sole operator of all technical facilities. The West Clinic will then enter into an affiliation agreement with the UT Health Science Center to provide education for students, residents and fellows and then go forward as a UT Health Science Center affiliated faculty practice plan rebranded and renamed like their affiliation with the University of Tennessee. The Health Science Center for its part forms an affiliation agreement with West Clinic to become our official oncology practice arm. Then we give the majority of them faculty appointments. However, since many of them already have part-time faculty appointments and this would move many of them into full-time faculty positions. We will amend our affiliation agreement with Methodist Healthcare in regard to Cancer Services to reflect the terms of the cancer agreement. Then, through the UT Medical Group provide all of the surgical oncology services for this arm. He then noted that it is substantial surgery services. The University then provides all the education and research for Cancer Services throughout the entire Methodist Hospital System.

Methodist Healthcare's part in this agreement purchases all chemotherapy, imaging and other facilities from the West Clinic. Methodist then seeks contracts with insurance companies for integrated full term services. This means anything related to cancer care would be integrated through a single one-time contract that involves all physician, ancillary, technical and all surgical services in a bundle package. Methodist then provides all of the technical services. The University of Tennessee gets physicians' fees that will be in our judgment, substantial. We receive a fixed mission support payment of $5 million dollars per year. Should we meet all of our objectives this could be substantially greater. For the terms of the agreement it is fixed with the minimum that the UT Health Science Center will receive at $5 million payment from Methodist, in an academic support payment per year, every year for the terms of the agreement. We believe this could be much larger if we run this organization wisely and believe this number has the potential to double.

We seek approval to form this new entity. In the forming of this new entity, we seek approval to amend the Methodist affiliation agreement in regard to cancer so among other things we can accept the $5 million minimum payment per year. We would then form a new affiliation agreement with West Clinic to provide education and research to medical oncology as an affiliated and UT branded faculty practice group. The detailed information is in the Board materials.

We anticipate out of the $5 million, approximately $500,000 will be spent on faculty payments to the West Clinic given the Dean of the College of Medicine a net of $4.5 million per year. In addition to a significant growth in our surgical subspecialty services which is our most profitable business in services. He stated that he, Dr. Brown and Mr. Ferrara would be happy to answer any questions. Chair Talbott asked if the University was assuming any liability. Chancellor Schwab answered it is not. Chair Talbott then asked if the $4.5 million should be net to the University. Chancellor Schwab replied that a net of $4.5 million is anticipated but have proven a remarkable ability to spend money as we make it. The Dean of the College of Medicine is at the Methodist Hospital Board Meeting today completing these details. UT Health Science Center is a growth organization for research and education, so yes the Dean will net $4.5 million per year but I suspect he has already spent it.

Trustee Ferguson followed up on Chair Talbott's question and asked does the letterhead on the paychecks or do any assets or debts change ownership. Chancellor Schwab replied that no assets accrue to the University or the UT

Medical Group. Yes, all of the West Clinic's assets and debt are transferred to the Methodist Hospital System. The University of Tennessee has no debts or charges that are accrued to us. Trustee Ferguson then asked if the letterhead on people's paychecks - are they working for the same people or different people. Chancellor Schwab replied that the physicians in the West Clinic that move from part-time to full-time faculty status will get a paycheck from the University of Tennessee for their services. Total payments to the group is about $500,000 because they are forming a PSA opposed to being absorbed by Methodist – the checks will still say West Clinic was his understanding because they are performing physician services organization and they are not becoming integrated as Methodist employees.

President DiPietro commented that he recalled at the Board Workshop that Trustee Foy voiced his concern about branding and the ability to use your brand. That is exactly what Chancellor Schwab is doing here by saying we are affiliating our name, with our doctors and your place and taking care of people. There is value in that and is asking for a return on the value of that UT physician taking care of patients and curing their oncologic problems. That is the model in place because we don't have a hospital that we operate ourselves. Chancellor Schwab said that is correct. President DiPietro added that other places have done that such as Washington University. Dr. Schwab noted that as the President pointed out that we are not reinventing the wheel. The fact that we have large market share in terms of taking care of a large number of patients in these systems and the fact that national healthcare policy has changed and now facilitates integrated bundle care if you are a business person and penalizing piece mill care; by forming these groups that can deliver the complete cancer care bundle and you can contract with this entity for complete services - one contract - one service. If you are an insurance provider, it would clearly be an advantage. Not only by the insurance industry but also by the federal government to form these types of accountable care organizations. Suddenly there is an entity that can be held accountable for the care of these patients in the terms of their cost and outcomes. The net result for us is that we will deliver better care while the larger patient population for research will get more physicians fees because our surgeons will do more cases. We will need a lot more surgeons and the West Clinic becomes our practice arm as a result of our willingness to sponsor this and we receive a minimum of $5 million per year. Chair Talbott commented that he thought it was remarkable what has been done but his worry is that there is a "gotcha" somewhere on these documents that are being signed. He cautioned everyone that the University does not take on liability that is in the agreements that we haven't read. Chancellor Schwab replied that he thought that was an appropriate cautionary admonishment but General Counsel, Catherine Mizell, has been through these documents many times. The University is very careful with liability and we do not believe that we are accepting any new liability with this agreement. General Counsel Mizell interjected that the documents have not been drafted yet. Chancellor Schwab explained that he only meant to say the General Counsel has reviewed the letters of intent and that UTHSC is seeking permission to go forward to work with the General Counsel, the President, and the Chief Financial Officer to execute these documents in the near future. Chair Talbott confirmed that General Counsel Mizell will have oversight on any documents signed that we do not have liabilities that could get us. Trustee Horne asked if the University did get in a hospital arrangement at some point could we cancel these agreements with a year's notice. Chancellor Schwab explained that it was a five-year deal and the infrastructure to get into the cancer care business is hundreds of millions of dollars. Should we want to transfer our cancer book of business some place other than the Methodist System; there would have to be a way to make more money, a huge investment to get the infrastructure here. It would require three radiation therapy vaults, huge number of operating rooms, gamma cameras, hundreds of millions of dollars in resources that the Methodist System now has. If we were to switch it, someone would have to have the infrastructure. Trustee Horne confirmed that it was a five-year commitment and Chancellor Schwab said that is correct. Trustee Hall complimented Chancellor Schwab for his initiative and for our new Trustees noted that this proposal came out of a situation that developed with the UT Medical Group that was a great concern to the Legislature and General Assembly. A significant amount of money that was not being paid to the State of Tennessee so the Audit Committee undertook a review of the relationship and brought in an outstanding group, ECG Management Consultant. The information is in the materials. These practice plans that are being initiated were the strong recommendation of this outside consultant group as a result of the fact that we do not have hospitals that are branded with the University. This is the direction that other major universities have taken that are in similar circumstances. Chancellor Schwab noted that Trustee Hall's comments were well said. Most major academic medical centers of our stature own their own hospital. There are notable ones that are in the same boat as we are but Washington University in the most prominent. It is a top-5 university and located in St. Louis and is affiliated with Barnes-Jewish System. Their agreements look a lot like these agreements I believe, obviously I am not privy to their agreements. Wake Forest University and the Baptist Hospital have similar agreements in Winston-Salem, North Carolina. We believe this is the absolute best that we can do without owning our own healthcare system.

Chair Talbott informed the Committee that it was an action item and called for any questions, there were none. Trustee Anderson moved approval that the administration be authorized to execute an Addendum to the Master Affiliation Agreement between the University and Methodist Healthcare-Memphis Hospitals and an Affiliation Agreement between the University and The West Clinic, PC, under which The West Clinic, PC will serve as a faculty practice plan for oncology, after review and approval by the Chief Financial Officer and the General Counsel and after all required or appropriate state government reviews and approvals; seconded by Trustee Tanner and the motion was approved unanimously.

XII. **Update on UT-Erlanger Faculty Practice Plan**—Information Item (Exhibit 15)—Chair Talbott asked Chancellor Schwab to present the UT-Erlanger Faculty Practice Plan. Chancellor Schwab asked Dr. Ken Brown, Executive Vice Chancellor to update the Committee. Vice Chancellor Brown addressed the Committee and the Board reviewed and approved some time ago. The documents have been filed in the UT/Erlanger Practice Plan. As Dr. Schwab said part of the strategy in forming these practice plans is to give the University control over the academic clinical missions in the hospital that technically we do not own. The purpose of establishing practice group in Chattanooga is to strengthen the educational mission. We have approximately 165 residents in Chattanooga that play a significant role in the Erlanger Hospital. In order to strengthen the clinical and educational mission and to grow our research mission there that we don't have, the formation of this joint practice plan was the way to go.

The Affiliation Agreement was formed between the UTHSC College of Medicine in Chattanooga and the Erlanger Hospital System. It will stand up as a (501(c) 3) which will be a part of Erlanger. He then spoke to the question that Chair Talbott had earlier about whether or not the University has any liability. Vice Chancellor Brown explained that there is no liability on this practice plan. It is fully funded by Erlanger Hospital and will not be a subsidiary. It will be open to public meetings and open records. It will be physician led and professionally managed. One of the major concerns and Trustee Hall can speak to this is that in Chattanooga the hospital physicians wanted to be in the fabric of the leadership of the practice plan. They made a tremendous amount of noise about it in Chattanooga as this plan was put together. We have actually been working on this for two years. The Board of Directors includes:

- Erlanger CEO and CFO
- UT Dean of College of Medicine in Chattanooga and Assistant Dean of Clinical Affairs
- 5 Physician Directors - Elected by the physicians employed by or contracted to the corporation

- Executive Director – search is underway

Currently, a search for the Executive Director is underway with a search firm. As we get closer to identifying candidates we will ultimately vet that Director with membership of the Trustee Committee, Erlanger Board of Trustees, leadership of the College of Medicine and the Erlanger Hospital System.

UEMG will stand up in a similar fashion to the pediatric practice and UT Medical Group. It will be the organization through which all full-time university faculty practice. Their paycheck will be from the University of Tennessee.

He walked through the funds flow between Erlanger and UEMG (the Practice Plan) very carefully so that Committee members could understand what exactly it is the Erlanger Hospital will be paying the practice plan for. He explained that there will be a Practice Plan incentive. The University will have an opportunity based on the financial performance of the Practice Plan to actually be incentivized by the Hospital. The Practice Plan is primarily comprised of primary care physicians (internal medicine, obstetrics and pediatrics). Based on the financial performance of the Practice Plan they can actually be incentivized by the Hospital. The University and the Practice Plan will also have an opportunity to earn an incentive if they meet predetermined teaching and clinical goals. These will be determined in conjunction with the Hospital, Executive Director and the leadership of the Hospital. If in fact those metrics are met, the Hospital will incentivize the Practice Plan.

Erlanger Hospital as it does now agrees to pay for all of UEMG supervision. This is simply a pass through mechanism – GME comes through the Federal Government and passes through. Erlanger Hospital will continue to subsidize that cost. The base mission support is the critical piece to this. At this time, the College of Medicine receives no base mission support. It is much like the $5 million that Chancellor Schwab discussed that we receive from The West Clinic. It is much like the payment that UT Medical Group currently makes to the College of Medicine we found ourselves challenged with a number of years ago. The Dean of the College of Medicine literally does not have control over any discretionary resource to recruit, manage the research enterprise or invest in the clinical teaching. This is an integral part and one of the reasons we wanted to start the Practice Plan was to find how the Dean could control resources.

Erlanger Hospital will continue to reimburse the University for all reasonable and customary resident costs. Erlanger pays into the Tennessee Claims

Commission a cost for resident malpractice coverage. Residents are not covered via some third party malpractice.

He then presented the crux of his presentation. He showed the funding formula for 2011 at Erlanger. They spent about $24.8 million and the money was broken down as follows:

- Resident Compensation and Malpractice - $12.3 Million
- GME Program Administration - $2.1 Million
- Faculty/Program Support - $5.3 Million
- Leased Faculty (PSA) - $5.1 Million

They are paying the leased faculty Physician Services Agreement that Chancellor Schwab spoke of earlier. They are paying that in two different strategies but the Erlanger Hospital was in control of it. Literally, the Dean in Chattanooga has to go back to the Erlanger Hospital for everything that needs to be spent. He has to ask their permission or ask for incremental resources. Without putting the Erlanger Hospital in the situation of asking them to come up with $7.3 million in new money – we restructure the financing scheme and have now gone away from the Physician Services Agreement. The fact that the Practice Plan will be this entity that exists as part of Erlanger Hospital – we have now created a support payment that the Hospital pays directly to the Dean of the College of Medicine. The $7.3 million, while it is not new expenditures by the Hospital it is being spent in a different way. The Dean of the Practice Plan will have the latitude to spend that money as he sees fit to recruit additions for the Practice Plan and the College of Medicine. Again, in support of the clinical mission of Erlanger Hospital System. We see this as a major step for us. The Practice Plan will be comprised of all University faculty initially. The plan is to start to bring in practice groups and get them converted over to University faculty. It is our hope and expectation that the Practice Plan at Erlanger/Chattanooga will grow over the next three to five years. Trustee Hall commented that the same outside consultant did a study for the medical unit at Chattanooga and made the same recommendation. Again, that is what is being followed and he thanked Trustee Foy who spent a great deal of time also working through this with the Board of Trustees at Erlanger Hospital. He said that he believed it would raise the profile of our medical unit at Chattanooga that we have quite an investment in and should be a win/win for both the Erlanger System as well as the presence of the UT Medical Center in Chattanooga. Most importantly, there won't be any question that the UT colors in regard to this will be orange and Vice President Dye will be able to make sure all of the letterhead is UT orange without any controversy. Vice Chancellor stated that to that point, we are in the process of developing a real marketing strategy where the Hospital will be cobranded with the University of Tennessee logo. He then spoke to the discussion that he and Trustee Foy had some time ago – we are talking to the Erlanger Board of Trustees about consideration of inviting a member of the University of Tennessee Board of Trustees to sit on their Board. That request had been raised with them and they are receptive the idea.

Vice Chair Stansberry asked if there was any problem in using the UT brand in a medical facility in Chattanooga with our relationship with the medical center here in Knoxville. Has anyone check the legalities of that. General Counsel Mizell commented not specifically but we will. Vice Chair Stansberry cautioned that it should be treated carefully.

XIII. **Report of the Committee on Effectiveness and Efficiency for the Future**— Information Item (Exhibit 16)—Chair Talbott asked Trustee Horne to present the Report of the Committee on Effectiveness and Efficiency for the Future. He began by saying Ron Loewen, the staff representative for the Committee on Effectiveness and Efficiency for the Future handed out summary cards that the Trustees asked for. The next meeting will be in Nashville and will hopefully have legislators attend as well as the principle folks there to note the savings and efficiencies that have been realized. He then thanked the President, Chancellors and Institute Directors for the good work with the Committee. We work together and stay in touch with all of them on this work and will continue to do so.

There have been savings of over $52 million through August 2011. We will continue to pursue any ideas that come in from faculty, staff, students and the public. He then expressed that the Committee's work should be continued as a joint effort between the Board of Trustees and the administration. Chair Talbott then thanked him for his service on this committee.

Trustee Wharton asked about the table that listed project activities and the estimated efficiencies and suggested another metric to be added to the right of estimated efficiencies. He wasn't sure if his proposed metric would work for the administration or the Institute of Public Service. Perhaps there could be a percentage of revenue added per each estimate of efficiency per campus. He explained that the way he looked at it Chattanooga and Martin are basically about the same size but Martin has approximately $500,000 more a year and the reasons behind that would be helpful and where there may be other significant differences. He would like to see how much has been saved and what the potential might be. He followed up by saying that was his suggestion so that there is a scorecard and can show per campus. He explained that he did not know what the metric would be for administration, Institute of Public Service and the Institute of Agriculture. President DiPietro stated that if a percentage is used it should be a percentage of expenditures as opposed to revenue because revenues can fluctuate depending on what is happening, depending on which piece of revenue that is selected – if you took total revenue you could have a major grant come in that could give you a lot of flux. He then expressed that it would be a good thing for the Effectiveness and Efficiency Committee to study and figure out what metric would be best to use as a comparison from one campus or institute to the other. Chair Talbott asked what are the incentives for each campus regarding these efficiencies and are they given money back. President DiPietro explained that this Committee came out of the economic downturn in state support and appropriations. For a near term approach it was a goal of can you save money in order to save programs and people. It was out of necessity that we initiated this for the entire enterprise. In the future we need to make sure that we are studying if we are as effective and efficient as we can be even when times get better, it needs to continue. Initially, it was in reaction to a downturn in budget of $112 million over the last three fiscal years that prompted this to be started three years ago. That was the major impetus and it is not unusual for universities to figure out how we keep doing what we have been doing with fewer resources so you have to become more effective and efficient.

XIV. **Other Business**—Chair Talbott asked for any new business and there was none.

XV. **Adjournment**—Chair Talbott adjourned the meeting was adjourned at 4:50 p.m. Eastern.

Charles M. Peccolo
Treasurer, Chief Investment Officer and
Interim Chief Financial Officer