

**MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE
THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES
NOVEMBER 9, 2007**

The meeting of the Finance and Administration Committee of the Board of Trustees was held at 8:30 a.m. EDT, Friday, November 9, 2007 in Room 223 of the University Center in Knoxville, Tennessee.

- I. **Call to Order** - Mr. William Carroll, Chair called the meeting to order and noted that it was his first meeting as the Chair of the Finance & Administration Committee.

- II. **Roll Call** – Chairman Carroll 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

William Carroll, Chair
Charles Anderson, Member
Jerry Jackson, Member
Andrea Loughry, Vice-Chair
John Petersen, Member
Robert Talbott, Member
Charles Wharton, Member

Other Trustees Present

Anne Holt Blackburn, Trustee
Barbara Castleman, Trustee
George Cates, Trustee
Spruell Driver, Trustee
Commissioner Ken Givens, Trustee
Jim Hall, Trustee
Rhynette Hurd, Trustee
Brittany McGruder, Student Trustee
Jim Murphy, Trustee
Karl Schledwitz, Trustee
John Schommer, Faculty Trustee
Candace White, Faculty Trustee
James "Bucky" Wolford, Trustee
Anna York, Student Trustee

Also present was Senior Vice President and CFO Gary Rogers, other members of staff, and media representatives. Dr. Russ Deaton from the Tennessee Higher Education Commission was also in attendance.

- III. **Approval of Minutes of Last Meeting**— Mr. Carroll called for consideration of the last meeting's minutes. On a motion made by Mr. Charles Anderson and seconded by Mr. Robert Talbott, the minutes were unanimously approved as distributed with no amendments necessary.
- IV. **Treasurer's Report of Endowment Investment Performance**— Information Item —Mr. Carroll asked Mr. Butch Peccolo, Vice President and Treasurer to give a report of the Endowment Investment Performance.

Mr. Peccolo informed the Committee that there was a report in the back cover of the Board notebook that showed performance numbers. A milestone occurred for the University as of June 30, 2007 when the total funds invested exceeded \$1 billion (growth of \$530,000 over the ten-year period ended June 30, 2007). That total includes separate funds held on behalf of the University. The University benefits from funds held by third parties and administered by outside sources: the Chairs of Excellence (\$119 million) and the University of Chattanooga Foundation, Inc. (\$127 million). Distributions for fiscal year 2007 totaling \$35.6 million benefited a variety of University programs but mostly student scholarships, fellowships and faculty professorships.

Over a ten-year period the market value of the University's endowment pool grew from \$269 million to \$697 million, an increase of almost 160%. New gifts and additions represented \$250 million of the growth with the remainder of \$178 million due to net capital appreciation. Total return for the consolidated investment pool was 19.8% for the fiscal year and achieved the long term goal of 9% for the ten year period then ended. Butch Peccolo advised the Committee that the Investments Advisory Committee reviews the investment funds quarterly. Trustee Wharton asked if the market's volatility had changed UT's asset allocation. Mr. Peccolo stated that there have not been any tactical reallocations to date but that the allocation model would be discussed at the Investment Advisory Committee meeting on November 19, 2007. According to Mr. Peccolo, the 5.0% compound growth over ten years in spending plan distributions has added to the University's departments and college's purchasing power. Comparative investment performance numbers for fiscal year 2007 as reported in the National Association of College and University Business Officer endowment survey should again demonstrate a favorable advantage for UT's endowment investment program once the report becomes available after the first of the year.

There is a positive 1% return for the quarter and the one, three and five year rolling return is favorable through September.

Jerry Jackson thanked Mr. Peccolo and the Investment Advisory Committee for all the hours spent working on behalf of the University.

- V. **Treasurer's Financial Report**—Information Item—Mr. Carroll asked Mr. Peccolo to address the group regarding the University's financial report. Mr. Peccolo told the committee that included in their board materials is the latest draft of The University of Tennessee Financial Statements for 2007. These are draft statements and subject to change prior to the final audited report albeit most likely there will be no material changes. He noted that these draft statements do not include the two foundations that are required to be discreetly presented as part of the University's financial statements. Due to the timing for completing the foundations' audited statements, it was not possible to include them at this time.

The University's annual financial report consists of a narrative section called "Management's Discussion and Analysis" and three basic financial statements; Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The three basic financial statements present the financial condition and the results of operations for the fiscal year whereas the MD & A section offer comparative comments at a highly aggregated level.

The financial statements are under review by the state auditor and we know of no material problems as of this date. Currently, there are five findings. There are three findings dealing with financial aid issues, another finding regarding failure to record a receivable from the physician/faculty practice plan in Memphis and the last finding deals with disaster recovery issues on the donor data base.

Mr. Peccolo presented slides as a pictorial representation of the financial position and operations for the fiscal year ended June 30, 2007. Total assets for The University of Tennessee as of the fiscal year end totaled \$2.7 billion which when netted against liabilities yields net assets of almost \$2 billion. The composition of assets is depicted in a pie chart (on the right) and shows three major categories; capital assets (\$1.1 billion), investments (\$772 million) and cash/equivalents (\$564 million). The composition of liabilities is also provided with outstanding bonds being the largest category (\$352 million). Details on the net assets are provided along with what comprises the unrestricted net assets. It is important to note that while there is a total of \$246 million in unrestricted net assets, there is only a little over \$8 million that is truly a "reserve" as the other amounts have been designated for various purposes.

Two charts show the revenue and expenditure categories for the fiscal year. The revenues reflect fairly diversified sources while the expenditures show over 70% related to salaries and benefits.

The remaining graphs are comparative with the previous fiscal year:

- a. Assets grew by \$248 million
- b. Liabilities also increased by \$88.2 million
- c. Revenues increased by \$177 million
- d. Expenditures increased by \$76 million resulting almost entirely from salaries, benefits and utilities.

The final audited financial statements will be available sometime in December or immediately after the first of the year. Those statements along with the auditor's opinion letter will be provided to Board members.

- VI. **Discussion of THEC Funding Formula**—Information Item—Chair Carroll asked Dr. Gary Rogers to lead the discussion and present information regarding the THEC Funding Formula. Dr. Rogers told the Committee that Dr. Russ Deaton was in the audience from THEC. Dr. Deaton is closely involved with the funding formula and works with it on a daily basis.

Dr. Rogers shared pertinent information with a PowerPoint presentation. All state higher education entities work to achieve the same goal, to serve Tennesseans. Appropriations are allocated to formula units (UTC, UTK, UTM). UTHSC, Institute of Agriculture, Institute of Public Service and the University of Tennessee Space Institute are all non-formula units. Dr. Rogers discussed the Tennessee Higher Education Commission's responsibilities which includes developing guidelines for the distribution and use of public funds among the state's institutions of higher learning. That process includes taking into account enrollment, and recognizing institutional differences and similarities in: function, services, academic programs, and level of instruction. Trustee Cates commented that the process does not recognize institutional differences in the non-formula group.

In Tennessee, the state provides funding of higher education's needs of approximately 60% and the remaining amount of 40% comes from tuition and other revenue. Tennessee's funding formula model is dynamic and allows for different assumptions. The primary funding formula drivers are:

Enrollment numbers
Enrollment distribution
Peer average faculty salary
Cost sharing policy

Dr. Petersen noted that he would like to see more performance initiatives drive a larger part of the formula. Instruction is a primary driver and it includes providing what students need. The funding formula shows need, but a budget must still be created. Trustee Schledwitz commented that UTHSC is being penalized on how it applies to them. Mr. Schledwitz, noted that ETSU apparently gets

more money per student than UTHSC. It was noted that ongoing discussions are taking place on how to improve the process on funding and resolve the issue regarding UTHSC.

Dr. Petersen told the group that historically there were salary budget dollars provided, but operational dollars were not included. Additional funds are included now but there is a good deal of catch up to do. Non-formula units such as UTHSC incurred significant effects during the state's flat time.

Trustee Cates commented that UTHSC could be a formula unit if you look at University of Alabama School of Medicine, UNC – Chapel Hill School of Medicine, University of South Carolina School of Medicine. Dr. Petersen noted that it is a good time to review the peers list since UTHSC is in the first year of repair.

Trustee Cates went on record that UTHSC disagrees with their Peer list. Trustee Wolford also stated that UTC is in disagreement with their Peer list, as well. Trustee Jackson questioned whether or not the budget has been looked at to address relief for make up-tuition since more money has been put into the non-formula units by the state within the last 11 years. Per Dr. Petersen, we receive 91% of Peers' proposals from THEC appropriations and hopefully we can move this closer to 100%. The request was made by several Trustees that an updated Peer list be sent to Board members.

- VII. **Extension of UTC Differential Tuition Rate for Contiguous Out-of-State Counties for a Second Year**—Consent Item—Mr. Bill Carroll asked Dr. Gary Rogers to address item VII. He confirmed that at the June Board of Trustees meeting a plan was approved to allow UTC students from one Alabama county and six Georgia counties to pay a rate slightly above in-state tuition rates. Per UTC administration, forty students have been brought in by the rate change. Dr. Roger Brown, Chancellor at UTC would like for the Board to extend the differential tuition rate for one more year to try and increase enrollment even further. UTC would like for the Board to consider this extension at this time of year so that more recruiting time will be available for the fall 2008 class. Trustee Murphy asked Dr. Brown if UTC is serving these out-of-state students with current resources or are new resources being used. According to Dr. Brown, no budget support has been added and hopefully with the spring semester they will break even. Trustee Murphy asked if this was a successful model would contiguous out-of-state counties in Arkansas and Mississippi for UTHSC be considered. Dr. Petersen said that he would be in favor of looking at another model based on individual circumstances.

Motion was made by Trustee Jerry Jackson to extend the tuition rate for contiguous out-of-state counties for UTC, it was seconded by Trustee Charles Wharton and approved by the committee.

VIII. **FY 2008-09 Operating Budget Appropriations Request**—Consent Item—Mr. William Carroll, Chair asked Dr. Gary Rogers to present item VIII to the Committee. Dr. Rogers noted that each fall requests are made to the Tennessee Higher Education Commission and then in turn forwarded to the Governor regarding appropriation requests. Due to timing issues these requests have already been sent to THEC. The Agricultural Extension Service has requested monies for starting salaries, compression and equity issues. Trustee Schledwitz applauded the fact that the Agricultural Extension Service would be allowed funding to catch up due to prior nonformula shortfalls. Vice-Chair, Andrea Loughry was pleased that the UWA improvements included funds for science and technology. She voiced that she greatly appreciated finance presentations being targeted to the University's mission. Trustee Jackson stated that he was glad to see that money had been requested for the Institute for Public Service's Law Enforcement Innovation Center. Trustee Wolford noted that the University could lead the entire US in this initiative. On motion made by Jerry Jackson and seconded by Robert Talbott the request was approved.

IX. **FY 2008-09 Capital Outlay and Capital Maintenance Requests**—Consent Item—Chair Carroll called upon Dr. Gary Rogers to inform the Committee what was requested for Capital Outlay and Capital Maintenance. Two requests are for the renovation of the Nash and Crowe Building at UTHSC for a total of \$48.1 million. The requests submitted are taken from the priorities submitted by the campuses. The University is asking for \$484.9 million for construction over the next five years and \$183.9 million in Capital Maintenance projects.

Trustee Karl Schledwitz inquired as to how many beds Melrose and Strong hold. His concern was that dorms pay for themselves and if these buildings are being used for other purposes that additional costs will be borne. Denise Barlow, Vice-Chancellor of Finance & Administration for UTK informed the group that Melrose Hall and Strong Hall will be used to house academic departments and functions currently located under the stadium; they will also be used for classroom space.

Charles Wharton asked if the University abides by earthquake codes that have been recently adopted by Memphis. The question was in regards specifically to the University Pharmacy and the Regional Biocontainment Laboratory. George Criss, Director, Facilities Management informed the Committee that the State has adopted an earthquake code and the University follows all state codes.

Trustee Hall asked if the State had discussed what their position will be on green buildings. Report was requested for the next meeting. Trustee Wharton made a motion to approve the 2008-2009 Capital Outlay Priorities and Jerry Jackson made the second. The Committee approved the request.

- X. **FY 2008-09 Revenue/Institutionally Funded Projects**—Consent Item—Mr. Carroll, Chair called on Dr. Gary Rogers to cover Item X, FY 2008-09 Revenue/Institutionally Funded projects. The identified projects total over \$153 million. University administration seeks approval of these projects prior to submitting them to the Tennessee Higher Education Commission to begin the legislative approval process. The State does not provide money for these projects, but their approval is required for projects of \$100,000 or more. The projects are either self funded, or revenue generated with funds borrowed from the Tennessee State School Bond Authority. UTK Athletics has \$88 million in revenue funded projects for various facilities.

Trustee Schledwitz asked if the intramural locations had been determined; it was noted that they have not been. Additionally, he asked who will determine the locations and Dr. Petersen replied that the campus leadership and the University administration will jointly determine the intramural locations. Charles Wharton made a motion to approve, second was made by Robert Talbott, motion was approved as presented.

- XI. **Policy on Related Foundations**—Consent Item—Mr. Carroll, Chair acknowledged that Dr. Gary Rogers would be presenting item XI for Catherine Mizell. The State's Sunset Review of the Board of Trustees by the State's Audit Department raised issues regarding the Board's interactions with the various Foundations. The University has three separate foundations; University of Chattanooga Foundation, Inc., UT Foundation, Inc. and the UT Research Foundation. The State noted that the foundations had different purposes and that the Board interacts differently with each foundation. Each foundation's budget was presented at the last Board of Trustees meeting and the Audit Committee reviews all three foundations' financial statements. The goal is to ensure that the Board of Trustees is fully informed on each foundation.

Trustee Horne asked if there was a policy in writing stating that Board of Trustee members be appointed to each Foundation Board. Catherine Mizell stated that Dr. Petersen was on each Board and that he was a Trustee, as well. Vice-Chair, Andrea Loughry made a motion that the policy on foundations provide for appropriate Board of Trustee representation and involvement on each Foundation Board. Jerry Jackson seconded the motion. The policy, as amended, was approved by the Committee.

- XII. **Revisions to Operating Budget for President's Residence**—Consent Item—Chair Carroll asked Dr. Rogers to present the revisions regarding the operating budget for the President's residence. Dr. Rogers reported that there was a budget revision between two categories, personnel and maintenance and repairs. There was a

slight increase of \$900. On a motion made by Robert Talbott and seconded by Charles Wharton, the operating budget revisions for the president's residence were approved.

- XIII. **Filing of Annual Flight Operations Report**—Consent Item—Chair Carroll asked Sylvia Davis, Vice President of Strategic Planning and Operations to give the Annual Flight Operations Report. Ms. Davis advised the Committee that the filing of the Annual Flight Operations Report is in accordance with Fiscal Policy 735, University Aircraft. The plane is a 1978 Beechcraft KingAir 200 that has nearly 13,000 total airframe hours. Of the 391 legs flown during fiscal year 2007, 81.3% were in Tennessee and the remaining flights were predominantly in the southeast. Out of 318 in-state legs flown, ninety-four percent of the flights were between Knoxville and Nashville and other UT entities. The total cost of operations was \$645,635. The highest expenditures were in pilot salaries and benefits (total of \$302,252) and fuel costs (\$154,996). Trustee Cates commented that the operating costs were commendable. Trustee Horne asked if there was a record of who rides on the plane. He also inquired as to whether or not it was time to look at purchasing a second plane. Dr. Rogers explained that the practice is that top administrators do not travel on the same plane. Drs. Petersen, Millhorn and Rogers make sure they are not all on the same flight. Robert Talbott made a motion to approve, second was made by Charles Wharton; motion was approved as presented.
- XIV. **Other Business**—Mr. Carroll called for any other business to be brought before the committee. Trustee Karl Schledwitz raised a question about the University's wage and compensation plan. Faculty Trustee Candace White noted that the Faculty Senate Wage Study Task Force published a report in November 2005 covering the time period of 1975-2005. Trustee Hall noted the need for the University's compensation level to be adequate in filling positions. Inquiry was made as to whether peer information is available regarding hourly staff and if it could be made available to the Board. Dr. Rogers indicated that the information would be prepared for the Board.
- XV. **Adjournment**—With no further business brought before the committee, Mr. Carroll adjourned the meeting.



William Y. Carroll, Chair
Finance & Administration Committee
Assistant Secretary