

MINUTES OF THE EXECUTIVE AND COMPENSATION COMMITTEE MEETING
BOARD OF TRUSTEES

THE UNIVERSITY OF TENNESSEE

February 1, 2007
Knoxville, Tennessee

The Executive and Compensation Committee of the Board of Trustees of The University of Tennessee met at 10:30 a.m., Eastern Standard Time, Thursday February 1, 2007 in the Executive Dining Room of the University Center, Knoxville, Tennessee.

I. CALL TO ORDER

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

II. ROLL CALL

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

Dr. Rhynette N. Hurd
Ms. Andrea J. Loughry
Mr. James L. Murphy, III
Dr. John D. Petersen
Mr. Don C. Stansberry, Jr.
Mr. William B. Stokely, III

The Secretary noted that a quorum was present. The Chair stated that Ms. Williams was unable to attend the meeting due to illness, and Mr. Wolford was attending a funeral. Mr. Wharton, Dr. Rogers, Mr. Dye, Dr. Britt, Ms. Collins, Ms. Hertz and members of the media were also in attendance. Dr. Millhorn attended part of the meeting.

III. APPROVAL OF MINUTES OF LAST MEETING

The Chair called for any corrections or additions to the minutes of the November 2, 2006 meeting of the Executive and Compensation Committee as presented at the meeting. A typographical correction was noted. Mr. Murphy moved approval of the minutes as amended. Mr. Stansberry seconded, and the motion carried unanimously.

IV. OPENING REMARKS BY COMMITTEE CHAIR

The Chair updated the Committee on her visits to each of the campuses. She noted that she visited UTC prior to the Academic Affairs and Student Life Committee meeting held the day before this meeting and that she had visited the Health Science Center and UT Martin earlier. Ms. Loughry discussed the enthusiasm she encountered on each campus from the faculty, staff and students. She discussed

feedback she received praising the President's leadership skills and an overall feeling that the University as a whole was moving in the right direction. Ms. Loughry also noted that the Academic Affairs and Student Life Committee has suggested a program that will give Trustees the opportunity to shadow students for a day. She stated she would be shadowing a group of students on the Knoxville following this meeting. At the Board meeting in March, the committee will inform Trustees how to participate in the student program. In June, the committee will present a program to shadow faculty for a day.

V. PRESIDENT'S REMARKS

The Chair recognized President Petersen to address the Committee. Dr. Petersen updated the Committee on the administration's principal activities since the last Board meeting. Dr. Petersen commented on the Governor's press conference the previous day, in which the Governor announced a recommended budget for the Tennessee Biofuel Initiative. Dr. Petersen stated that he was given the opportunity, at that press conference, to discuss the University's leadership role in the development of biofuels for Tennessee. He discussed the Institute of Agriculture's development of ethanol from switchgrass, a crop that can be grown abundantly in Tennessee. He noted the efficiencies of developing ethanol from switchgrass as opposed to corn. Dr. Petersen discussed the phases of development for switchgrass biofuel including partnering with Tennessee farmers, conversion of switchgrass to fuel, and development of a pilot plant. Dr. Petersen stated that the Governor's recommended budget included \$40 million to build a pilot plant that will operate at a capacity of five million gallons per year. In response to a question from the Committee, Dr. Petersen stated that fully operational plants would produce 100 million gallons per year. He discussed the substantial benefits of implementing the production, conversion, sale and consumption of biofuels all within Tennessee. Dr. Petersen stated that combined with \$11.6 million in existing funding for an ongoing related project at Oak Ridge National Laboratory, the Governor's total proposal, in which UT is involved, represents a little over \$70 million. To put it in perspective, he noted that the Governor of California will recommend approximately \$90 million for four separate areas compared to Tennessee's approximately \$76 million for this one area. He discussed Dr. Millhorn's role in this very exciting opportunity and stated that Dr. Millhorn will further discuss this initiative later in the meeting.

A Trustee asked if there is an operating switchgrass conversion plant anywhere in the world at this time. Dr. Petersen responded that the pilot plant would be the first of its kind. Another Trustee asked what incentives are available to the farmers--for example, will price supports be available for switchgrass. Dr. Petersen stated that the budget includes approximately \$8 million dollars to subsidize the farmers for this pilot program. He further stated that researchers are continuing to look into the politics of the subsidy issue for the long term. The Chair stated that the Trustees would like to receive updates on the political structure for this initiative.

Dr. Petersen next discussed ORNL's competition for a \$125 million Bioenergy Research Center from the U.S. Department of Energy (DOE). He stated that Tennessee's contribution of over \$70 million to this initiative represents to the DOE, Tennessee's firm commitment to this program.

Dr. Petersen stated that the legislative season is beginning. He discussed the University's efforts to achieve legislative support of compensation increases for faculty and staff. He discussed funding for capital projects, including infrastructure for the Cherokee Farms research campus. He stated that UT's team has been to Raleigh to look at the Centennial Campus. He stated that UT continues to pursue distinguished Governor's Chairs of Excellence, and these faculty and their teams will require substantial amount of space for research.

Dr. Petersen then discussed the potential of increasing enrollments. He stated that the Knoxville campus is working on a plan that will be presented to the Board for review and approval. He discussed the increased funding that would be necessary to raise enrollment on the Knoxville campus.

Dr. Petersen next commented on the positive reception of the branding campaign and recent improvement of internal and external communications. Mr. Hank Dye discussed a new hire that will join his team in March and focus on internal communications. Ms. Loughry noted that internal communications was identified in the past as an area that the University needed to improve. She stated that she was pleased to hear of the progress being made and asked Mr. Dye to continue to update the Trustees on the improvements in internal communications.

Dr. Petersen concluded his remarks by discussing the progress of two major buildings in Memphis, a regional bio-containment laboratory and a pharmacy building, which will be located on land adjacent to the Health Science Center that has been transferred to the University from the Bioworks Foundation, which is developing a research park. He noted that these Health Science Center buildings will be the first in the research park and may help the Bioworks Foundation attract additional partners.

VI. CHANGES IN TITLE AND COMPENSATION FOR UNIVERSITY OFFICERS

Dr. Petersen presented the first item of business, changes in title and compensation for University officers (Exhibit 1). He discussed his immediate staff reports and noted that, in accordance with the Bylaws, all of the financial personnel on the senior staff report directly to the Chief Financial Officer, Dr. Gary Rogers. He stated that certain of the other senior staff, such as the Chancellors, the Vice President of Agriculture, Athletics Directors in Knoxville, the Vice President for Academic Affairs and the Vice President for Research and Economic Development interact regularly with the Executive Vice President. He proposed that the position of Chief Financial

Officer be elevated in the organizational structure to be parallel with the Executive Vice President and that his title be changed to Senior Vice President.

Dr. Petersen stated that the title change would reflect the organizational structure and additional management and oversight responsibilities assumed by the position of Chief Financial Officer. Dr. Petersen stated that he was also recommending a salary increase for Dr. Rogers of \$10,000 bringing his annual salary to \$250,000.

He next discussed his recommendation for appointment to the position of Executive Vice President upon the retirement of Dr. Jack Britt at the end of March. He expressed his appreciation to Dr. Britt for his invaluable assistance, service and devotion to the University. He recommended that Dr. David Millhorn be elected Executive Vice President upon Dr. Britt's retirement. He stated that Dr. Millhorn's keen intellect, visionary outlook, and outstanding professional performance have made him instrumental in leading a number of UT's strategic initiatives, hiring new Governor's Chairs of Excellence, and exceeding UT's goals for research funding. Dr. Petersen discussed the importance of filling the position of Executive Vice President with someone very well connected to the state and very familiar with the University's constituents and strategic initiatives. He stated that Dr. Millhorn would continue for an interim period in his present position of Vice President for Research and Economic Development, but a national search for that position would be initiated as soon as possible. He noted that Dr. Millhorn's annual salary and other compensation would remain the same.

Mr. Murphy asked whether the title change for Dr. Rogers included expanded responsibilities for the position warranting the salary increase. Dr. Petersen noted that in June and November when he discussed proposed compensation increases for the senior staff with the Board, he noted that Dr. Rogers' compensation would be revisited at a later time to take into account his expanding role. In response to a follow-up question from the Committee, he noted that the proposed salary increase for Dr. Rogers was within the market value ranges presented for his position at the Committee's November meeting. He stated that Dr. Rogers would now fall within the higher end of the range for a chief financial officer, reflecting his elevation to Senior Vice President as well as Chief Financial Officer.

Mr. Stokely moved that the Executive and Compensation Committee recommend to the Board of Trustees that Dr. David Millhorn be elected Executive Vice President, effective April 1, 2007, at his current annual salary of \$280,504. Mr. Stansberry seconded the motion, and it carried unanimously.

Ms. Hurd moved that the Executive and Compensation Committee recommend to the Board of Trustees that Dr. Gary Rogers' title be changed to Senior Vice President and Chief Financial Officer and that his annual salary be increased to \$250,000, effective March 1, 2007. Mr. Stokely seconded the motion, and it carried unanimously.

VII. PLANNING FOR WINTER FULL BOARD MEETING, MARCH 6-7, 2007

The Chair stated that the next item of business was to discuss the proposed agenda for the next meeting of the Board (Exhibit 2). She stated that in keeping with the previous item just discussed by the Committee, she asked that an organizational chart be provided at the March meeting. Ms. Mizell stated that the Governance Committee at its meeting next week will be reviewing the organizational chart. She stated that the chart would be discussed at the full Board as a report from the Governance Committee.

The Chair asked Ms. Mizell to review the proposed agenda. Ms. Mizell discussed the proposed agenda and responded to questions from the Committee. She noted that the NCAA compliance discussion listed under the full Board agenda would need to be moved to the June meeting. Chair Loughry suggested moving the presentation on the Tennessee Biofuel Initiative to the full Board agenda rather than the Outreach Committee.

VIII. REPORT ON TENNESSEE BIOFUEL INITIATIVE

The Chair recognized Dr. Millhorn and asked him to provide an overview of the Tennessee Biofuel Initiative. Dr. Millhorn circulated two PowerPoint presentations in printed form to the Committee (Exhibit 3).

Dr. Millhorn updated the Committee on another exciting research initiative before discussing the biofuel initiative. He stated that on the following day, the University will submit a proposal to the National Science Foundation, the largest proposal ever submitted by UT, over \$200 million, for a supercomputer. The Joint Institute for Computation Science at Oakridge will be the headquarters for this initiative.

Dr. Millhorn then reviewed the presentation materials on the Tennessee Biofuel Initiative with the Committee. He stated that the initiative is coming forward at a crucial time, with federal government having made reduction in dependence on oil imports a priority. He noted that the vast majority of biofuel is currently produced from corn. He explained the potential increased capacity of producing cellulosic ethanol from switchgrass rather than producing ethanol from corn. He reported on the ability of Tennessee to produce abundant quantities of switchgrass, noting the potential for Tennessee to produce enough switchgrass by 2025 to produce almost 2 billion gallons of ethanol annually. This would replace 2/3 of the annual gasoline consumption in Tennessee. Dr. Millhorn also discussed the possibility of exporting ethanol to other states. A discussion ensued regarding intellectual property rights. Dr. Millhorn then detailed the process for converting switchgrass to ethanol.

In discussing the proposed pilot plant with the Committee, Dr. Millhorn reviewed the

plan for local cooperation and incentives. He noted that the pilot plant could operate with 8,000 acres of switchgrass, which could be easily supplied from a few surrounding counties without reducing other crop or livestock production. The Committee discussed the importance of this initiative reaping economic benefits for Tennessee farmers. The Committee then discussed potential economic benefits of “grassoline” for UT and Tennessee. After further discussion, Dr. Millhorn concluded his presentation. The Chair stated that the Board applauds these efforts and will excitedly watch the development of the Tennessee Biofuel Initiative.

IX. LEGISLATIVE UPDATE

The Chair recognized Mr. Hank Dye to provide a legislative update to the Committee. Mr. Dye discussed recent state Senate re-appointments, and the newly elected Tennessee Lieutenant Governor, Ron Ramsey. He stated that prior to serving as Lt. Governor, Mr. Ramsey has been a friend to the University and he feels positive about the relationship going forward. He updated the Committee on recent meetings with state legislators. He discussed future meetings, noting that his team will have a more proactive approach this year. He stated that on February 10, UT Knoxville will host the Legislative Alumni Council, which is comprised of approximately 120 alumni from across the state. Lt. Governor Ramsey will speak at the event and campus communications staff will also attend. On March 21, UT will host “UT Day on the Hill” in Nashville. He encouraged any Committee members who may be in Nashville at that time to attend. After further discussion, Mr. Dye concluded his report.

X. REPORT ON ACADEMIC AFFAIRS AND STUDENT LIFE COMMITTEE MEETING

Ms. Hurd stated that the Academic Affairs and Student Life Committee met in Chattanooga the previous day. She reviewed the agenda items covered by the committee. She stated that the Committee met at the SimCenter, a superb example of UTC’s accomplishments in teaching, research and economic development. She stated that the Committee had the opportunity to tour the Chattanooga campus and meet with UTC students and faculty. She stated that the Committee was able to see, first hand, the capital needs of the campus and the capacity issues for the campus. She discussed the reports presented to the Committee by the Vice Chancellors concerning capacity. She stated that the Committee also discussed the issue of diversity in the wake of dismissal of the *Geier* litigation. She reported that the Committee received a brief summary of the progress being made on the Governor’s Academy for math and science. She offered to provide a summary of this initiative by email to the Board. After further discussion, Ms. Hurd concluded her report.

XI. REPORT ON JOINT THEC/STATE BOARD OF EDUCATION MEETING

The Chair recognized Mr. Murphy to report on the joint meeting of THEC and the

State Board of Education. Mr. Murphy reviewed the highlights of the meeting, noting the discussions regarding retention of lottery scholarships, subsidization of athletics, GAP funding, and K-12 college preparatory initiatives. In response to a question, Dr. Rogers stated that a committee was being formed to review the lottery scholarships, to study receipt and retention of the scholarships, and to make recommendations.

XII. NEXT MEETING DATE

The Committee discussed possibly meeting on May 7th or May 14th in Knoxville to coincide with a groundbreaking ceremony to be scheduled in Knoxville. It was determined that once the date of the ceremony was set, the Committee members would determine their availability to meet on that date.

XIII. OTHER BUSINESS

The Chair asked if there was any other business to come before the Committee. There was none.

XIV. ADJOURNMENT

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

Catherine S. Mizell
Vice President, General Counsel and Secretary