

**MINUTES OF THE ADVANCEMENT AND PUBLIC AFFAIRS COMMITTEE
BOARD OF TRUSTEES
THE UNIVERSITY OF TENNESSEE
June 19, 2008
Knoxville, Tennessee**

The Advancement and Public Affairs Committee of the Board of Trustees of The University of Tennessee met at 1:00 p.m. (eastern daylight time) on June 19, 2008 in Room 156-157 of the Plant Biotech Building on the Agricultural Campus of the University of Tennessee, Knoxville, Tennessee.

I. CALL TO ORDER

Chair Spruell Driver called the meeting to order.

II. ROLL CALL

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

Mr. Charles Anderson
Mrs. Barbara Castleman
Mr. Spruell Driver
Mr. James Hall
Ms. Andrea Loughry
Dr. John D. Petersen
Mr. Charles Wharton

III. APPROVAL OF MINUTES

The Chair referred the committee to the minutes from the March 11, 2008 meeting of the committee. A motion to approve the minutes was duly made, seconded and unanimously approved.

IV. REPORT BY VICE PRESIDENT FOR PUBLIC AND GOVERNMENT RELATIONS

Hank Dye, Vice President for Public and Government Relations, suggested that the group review the State Relations and Federal Relations reports that are in the board notebook. He also recommended reviewing the Media Relations report which includes a lot a positive coverage over the past few months. Hank explained to the group that there will be a broader and expanded strategy for federal relations. He then introduced Anthony Haynes, Associate Vice President and Director of State Relations. Anthony discussed the weekly Friday reports that were distributed every Friday during the legislative session. He hoped that they were very helpful in keeping everyone informed on a weekly basis of what was going on with the legislature. Anthony talked about several key points of the legislative session, such as the credit card bill, illegal downloading and the budget. In spite of the bad economy, the legislative session turned out pretty good. There were not any unfunded mandates, such as tuition waivers and tuition discounts. Anthony thanked everyone for their time and opened the floor for questions. Members of the board did not have any questions.

V. REPORT BY CHAIR OF THE NATIONAL ALUMNI ASSOCIATION

Dr. Debbie Ingram presented the report of activities for the National Alumni Association (UTAA) for the last time. Her term is up and the new President, Mr. Ford Little will be sworn in on June 20, 2008. She will now move into the role of Chair of Annual Giving. Dr. Ingram reported that over 90,000 individuals attended UTAA events this past year. The 2007-2008 initiatives for the UTAA were outreach, research and student access. The UTAA launched a new web site (www.alumni.tennessee.edu) which has links to alumni activities/events and provides a link to all other campuses. An alumni directory was also produced. The royalties from the sale of the directory helps provide the current UTAA on-line services accessible from any UT alumni office web site. The directory includes residence address/phone (over 27,000 records updated), business address/phone (over 38,000 records updated), business name/title (over 67,000 records updated) and e-mail address (over 36,000 records updated). Dr. Ingram reported that the visits they made to the rural high schools have been a huge success. University administrators, staff, Trustees and volunteers traveled to these high schools to share the importance of education with the students. During the first three months of 2008, these groups of people visited high schools in Polk County, Coffee County and Grundy County.

VI. REPORT BY CHAIR OF THE DEVELOPMENT COUNCIL

As the new chair of the UT Development Council, Mr. Jim Powell gave a report of the Council's activities. Mr. Powell began by reporting that the Council itself has given over \$86 million in total campaign dollars and over \$137 million total lifetime commitments to the university. The Council has implemented an annual gift of \$1,000 be given by each member to help offset the costs of their meetings. The Council also has a new leadership structure. There is now an Executive Committee that will include the current chair and two co-chairs. The current Executive Committee is made up of Mr. Jim Powell, Dr. Sylvia Moore and Dr. Bob Kaplan. Dr. Moore will be implementing a mentoring program for all new Council members. Members of the Council are serving in all levels of the campaign and are also hosting regional campaign events in their area. A copy of the membership guidelines and examples of members with campaign leadership roles was provided in the Board notebooks. The fall Development Council meeting will include the Development Council Awards Dinner on Friday, September 18 at the Knoxville Convention Center. The awards that will be presented that evening are the Haslam Medal, Philanthropist of the Year, Development Council Service Award and Volunteer of the Year. Mr. Powell ended by thanking the Board of Trustees for their support.

VII. REPORT BY VICE PRESIDENT FOR DEVELOPMENT AND ALUMNI AFFAIRS

In the role of Vice President for Development and Alumni Affairs and President of the UT Foundation, Inc., one of Henry Nemick's main roles is to create an atmosphere to maximize the potential gifts to the university. He has two compelling issues he would like to put before the Board. When funds become available, Mr. Nemcik will ask the Board's help to be able to deal with one or more of these.

The first item for discussion is foundations and developing a long range plan for current and proposed future foundations. Mr. Nemcik referred to the white paper located under tab 9 in the notebook titled, *UT and Its Foundations*. Looking at the most effective role of our Foundation, this is helpful in providing a briefing to the Trustees to talk about what other universities are doing nationally as it relates to how the foundations are organized. The UT Foundation, Inc. (UTFI) needs to structure itself to make sure to maximize its potential to help the university and that is the purpose of the discussion today.

In order to maximize the potential, the focus needs to be on the operational and organizational structure. Once these are in place, better services can be provided to the organization and help generate more private resources. The generous support of the alumni and non-alumni come from a great undergraduate and graduate experience at the university. Many of the Trustees that have made donations have said the reason you are giving back is because of an experience you have had at the university and because of all the things the university does for the state and the economic development of the State of Tennessee. Development and Alumni Affairs are functional groups and we relish that role but the champions of our campaign success are the friends and alumni throughout the state who make these generous contributions and invest in our university campuses.

The second issue to discuss is operational and staffing. Dr. Petersen asked Henry Nemcik upon his arrival in September 2005 if there were enough staff to effectively conduct a campaign. Mr. Nemcik indicated he would answer that question in 6 months. After 6 months he informed Dr. Petersen that there was not enough staff but that he was not prepared to add staff at that time. The metrics and reports needed to effectively manage the staff were not in place. The first project Mr. Nemcik completed was identification and prospect screening. There is an annual prospect screening (both electronic and manual) with our staff. Electronic screenings on our data base is done annually. There are approximately 46 ½ development staff members and we have approximately 300,000 alumni. One of the goals within development is to broaden our solicitation efforts.

There were no reporting or performance metrics in place in September 2005. It is very difficult to manage without these. The last few years have been spent defining and reporting metrics. The last performance metric (just completed) is a travel report that identifies how often and where development staff travel and where they are traveling has just been completed. Metrics is an important part of our program. We could not move forward to add staff without metrics.

One of the goals is not to do things unilaterally but to reach out to all campuses and help them make decisions about process and policy. Having committees such as development leadership teams, campaign committees, data integrity committees and leadership committees is helpful in communication and donor solicitation coordination. Policies and procedures have been aligned with our mission along with developing gift agreements. The gift annuity program has just been launched through the Foundation and has already received the first gift. Four new publications recognizing donors and their contributions to the university and making great strides in using our data base in more effective ways have been initiated. We are in the process of aligning the annual fund with the university by asking for donations more frequently. All of these operational issues are important and had to be in place before addressing the next item for discussion on structural changes.

Mr. Nemcik will be discussing aligning the foundations and number of foundations with the mission of development and alumni affairs. Also will be talking about some staffing plan changes in order to prepare for the future and look at where we want to be. There will be a new campaign at some point in the future after this one closes. It is important to make sure we are always benchmarking our peer groups to make sure we are aware of trends and best practices.

Most of our peer groups have different structures and different levels of funding levels than we do. We cannot simply ask for money, we have to build the program within the organizational and operational structures in order to be prepared to do our job effectively and efficiently. A good example of this is adding the gift annuity program. We anticipate there will be several million dollars this year in gift annuity money. Without having this gift option, the university would have forgone this opportunity.

We need to visualize the effective role of UT's affiliated foundations in a way that is consistent with other organizations throughout the country. University related foundation organizational structures are as follows:

Active or Passive

- Active: Take a lead in fundraising based on priorities established by the university. Development and Alumni Affairs is actually housed in the foundation itself.
- Passive: The UT Foundation is a passive foundation. Passive foundations limit themselves more to fiduciary roles.

Dependent, Independent, Interdependent

- Dependent Foundations: The UT and UC Foundations fall under this category. We rely on the university for all functional support including space and administration, data base management, accounting/investments and fundraising support. The UT Foundation, Inc. is a dependent foundation.
- Interdependent Foundations: Fund a significant part of their own support including administrative, data base management, accounting, investment support, significant shared fundraising costs and the university funds the majority of fundraising cost and provides space.
- Independent Foundations: All costs for operating fundraising program borne by the foundation. In some cases, foundations contract with universities a negotiated fee for some of the services.

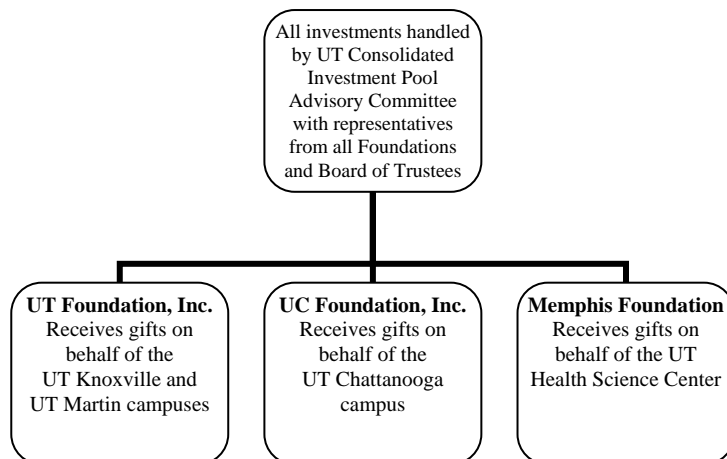
In a foundation life cycle, most foundations begin as passive and dependent and over decades, move to active and independent. A strong relationship between an affiliated foundation and the university is governed by a best practice affiliation agreement. A UT Foundation, Inc. affiliation agreement currently exists (it is not designed from a best practice prospective). The UC Foundation is currently working on a best practice agreement. Association of Governing Boards (AGB) worked two years to develop a best practice agreement. Mr. Nemcik would like to take a look at the best practice agreements as it applies to the university. Best practice agreements allow the university to maximize potential in many ways.

Affiliated foundations have several benefits which are summarized below:

- Foundations may provide a degree of autonomy from public institutions from their governmental unit.
- Foundations may provide flexibility in the expenditure of private funds that might not be appropriate from university funds.
- Foundations may provide flexibility in dealing with real estate gifts, transfers and dispositions.
- At some future time, the Foundation may be able to provide greater confidentiality of donor records.
- Foundations may provide a more focused stewardship program.
- Foundations may provide the ability to structure unique partnerships.
- Foundations may provide increased investment flexibility.
- Foundations can offer gift annuities.
- Offer a way to engage ardent supporters.
- Foundation can contribute to financing cost of development and alumni affairs.
- Most successful development and alumni affairs programs are housed in their foundations.
- Able to act quicker when necessary.

The majority of universities have one foundation. It is not unusual to have a foundation in each college. Some universities that have more than one foundation include North Carolina, University of Texas and Virginia. They provide system wide opportunities for engagement. The structure of the foundation and the affiliation agreement are very important. We are at the point now where it does matter and have had to turn down gifts that could have benefited the university system.

Mr. Nemcik has developed a draft organizational chart.



Mr. Nemcik encourages that we have one more affiliated foundation in Memphis. The community in Memphis is committed to its philanthropic leadership and its community spirit. It is very hard for a community to make gifts and have the foundation leadership and

gifts maintained in a foundation in Knoxville. He is recommending that we have a Memphis foundation and we solicit money locally but manage the money centrally. Mr. Nemcik believes this would be most beneficial for the university and the community in the coming years and especially as we prepare for the next campaign.

Mr. Cates stated he had talked with about 100 people including all the major foundations in Memphis and to the best of his knowledge every major potential giver is positive about this proposal and has been met with nothing other than excitement. He thinks this will be a major breakthrough for giving opportunities in Memphis.

The question was asked if the money that is being raised now is coming in to the Foundation. Mr. Nemcik stated that about $\frac{3}{4}$ of money is coming in through the university with the other $\frac{1}{4}$ coming in through the Foundation. The current gift agreements give the donors a choice of if their gift goes through the university or the Foundation.

Mr. Murphy asked if Mr. Nemcik's proposal would change the fundraising operations for the various campuses and basically take the existing development and alumni staff who are university employees and move them over to the Foundation or loan them. Mr. Murphy asked how Mr. Nemcik is proposing to change the way things are being done now. Mr. Nemcik proposes that the Trustees, Foundation and University leadership work as a team to define that issue. We need to make incremental steps and look five to ten years out, look to define what structure makes sense for us. He is not proposing to become total independent foundations at this time.

Ms. Andrea Loughry proposes that a special committee be appointed to look at this proposal that would include the Vice Chair, Trustees, staff, and representatives from affiliated foundations. Mr. John Morgan, Comptroller for the State of Tennessee has agreed to offer staff to help look at the AGB best practices. This special committee will come back to the Board committee with recommendations. She proposes to wait until the new Trustees are appointed before forming the group. Ms. Loughry's recommendation was approved.

Mr. Nemcik presented a staffing plan for development and alumni affairs. He suggested that as funds are available, he is looking to increase staffing to close out the current campaign and in preparation for the next campaign.

It takes about 18 months for a new development staff member to become productive. It takes time to get familiar with the institution, donors, understand programs, etc. In this current campaign, we are working with a little over 10,000 (top 10%) prospects ages 55 and over. There are 200 prospects per each development officer. At this time, we have approximately 46.5 development officers. Because of growth at all campuses, we anticipate the size of major gift prospects to grow to over 23,000 (top 10%) ages 50 and over. With 200 prospects per development officer, we would need a total of 118 development officers.

Dollars raised per development officer per year in the Campaign for Tennessee is indicated in the chart below:

| | |
|----------------|-------------|
| Agriculture | \$3,731,243 |
| HSC-Memphis | \$3,021,429 |
| UT Chattanooga | \$2,162,027 |
| UT Knoxville | \$3,899,957 |
| UT Martin | \$2,950,919 |
| System Average | \$3,140,195 |

Using the average dollars raised per development officer across the system and assuming a new development officer will not be fully productive until the second year of employment, the projected yearly incremental return on the investment is personnel costs would be:

| | |
|---------|--------------|
| FY 2010 | \$12,560,785 |
| FY 2011 | \$15,700,981 |
| FY 2012 | \$20,411,272 |
| FY 2013 | \$21,981,373 |
| FY 2014 | \$15,700,981 |

The returns do not come back to the development office.

Another survey on the type of return you get with your budget shows that with our budget size of \$10 million and with 130 full time employees, comparative schools are raising \$100 million. However, with our budget of \$10 million and 130 full time employees we are raising \$209 million. This survey does not include alumni staff. We are one of the few universities in the U.S. that is totally supported by the general education budget rather than alternative funding sources. It is important that as we go into the future we look at where we want to be and how we are going to get there. Staffing is an important part of that. We need to look at least five years down the road.

VIII. ANNUAL REPORT OF THE UT FOUNDATION

As required under Article II (A)(2) and (A)(3) of the Memorandum of Agreement between the University of Tennessee and the University of Tennessee Foundation, Inc., the activity of the Foundation during fiscal year 2008 was reported by Mr. Charles Peccolo.

The most significant real estate activity for the 2008 fiscal year for the Foundation was the sale of Knoxville Place to the UT Knoxville campus on January 30, 2008. The Foundation was also gifted two lots in a subdivision and is seeking a buyer and the proceeds will fund two endowments. The UT Martin rodeo team continues to use the land in Weakley and

Obion counties that were gifted to the Foundation in December 2005. The Foundation is currently receiving gift funds to pay the note attached to the land. The Foundation continues to lease land adjacent to the UT Martin campus for cattle research. The Foundation received gift funding to pay the quarterly lease.

Endowments, restricted gifts, pledges and deferred gifts reported are as follows. The Foundation received over \$4 million in endowment contributions through April 2008 with the total endowment balance at the end of April 2008 being a little over \$12 million. The Foundation received a little more than \$7 million in non-endowed restricted gifts through April 2008. The total outstanding balance for these gifts at the end of April 2008 is a little more than \$26.8 million. The Foundation has pledges outstanding of approximately \$61.3 million as of the end of April 2008. The Foundation has total bequests and insurance policies outstanding of approximately \$109.6 million as of the end of April 2008.

Other items of importance are that the Foundation has received no gifts that would place a financial liability on the university and the Foundation launched a gift annuity program in May 2008. Sent out the first mailing in May and have to date three signed gift annuity agreements totaling about \$175,000.

Foundation investments are invested alongside the university's endowments as part of the University of Tennessee Consolidated Investment Pool. This allows for closer supervision of investments and makes available to all eligible endowments and quasi-endowments, regardless of size, the advantages of participation in a diversified portfolio of carefully selected investments.

As Mr. Peccolo reported, the first quarter of 2008 was difficult due to global equity markets experienced negative returns. Some were double digit negative returns which resulted in pulling down rolling one-year returns into negative territory. The UT Consolidated Investment Pool return reflected the difficult markets and posted a -5.5% return for the quarter ended March 31, 2008. One, three and five year returns were -0.9%, 10.0% and 13.4% respectively. However, improved markets in April provided some hope with the pool gaining back 1.5% for the month (without income).

Mr. Peccolo also reported the fiscal year 2009 budget for the UT Foundation, Inc. Foundation Board met last week on June 11 and covered this information and approved this budget. Wanted to reiterate that the Memorandum of Agreement is checked item by item each year to make sure the Foundation is in compliance with the agreement. An important note from the June 11 UT Foundation Board meeting is that the Board approved an amendment to their Bylaws to incorporate the wishes of the Board of Trustees to have two Trustees serve as members of the Foundation Board. The Foundation is poised and ready for the two new members when those representatives are appointed.

IX. ANNUAL REPORT OF THE UC FOUNDATION

Pursuant to UT Board policy and in anticipation of a new Memorandum of Agreement between the University of Tennessee and the University of Chattanooga Foundation, the activity for the Foundation during fiscal year 2008 was reported by Mr. Bob Lyon. This is the first report of which will be an annual report given to the Board. Significant change has been made in recent years in the UC Foundation especially with the leadership of Dr. Roger Brown, Chancellor and Jerry Adams, Chair of the UC Foundation.

There is continued discussion of the possibility of the UC Foundation investing with the UT Consolidated Investment Pool. Vicky Gregg, CEO of Blue Cross Blue Shield chaired the Governance Committee of the UC Foundation and also in March of 2007 she presented a complete change of the bylaws of the UC Foundation. The Governance Committee is working now on the affiliation agreement document for the UC Foundation.

The UC Foundation over time since its inception has grown to \$124 million. When you look at total endowment at UTC you need to add approximately another \$40 million to that. Those are dollars that have been given to UTC but were given through the UT Foundation. So, total endowment for UTC is closer to \$165 million.

As an update on UTC Place (student housing), we are expected to have 100% occupancy for fall 2008. Revenue and cash flow are doing well. Revenue projections have now begun to show an increase over time.

The UC Foundation had not received any gifts that would place a financial liability on the university.

X. NAMING OF TENNIS STADIUM AT UT KNOXVILLE

On behalf of the University of Tennessee, Knoxville athletic department, Dr. Petersen asked the Board's approval for the existing tennis stadium located on the UTK campus to be named in honor of the leadership and support of Dr. Bob Barksdale. Dr. Barksdale has funded a trust that will fund programs in agriculture as well as tennis programs. Dr. Barksdale is a 1949 graduate of the University of Tennessee, Knoxville and 1952 graduate of the University of Tennessee College of Dentistry. Dr. Barksdale has been a long-time supporter of the University of Tennessee. It was noted by Mr. Nemicik that he and Dr. Petersen did review and this proposed naming does meet the requirements of the Naming Policy adopted by the Board of Trustees. A motion to approve the recommendation to present to the full Board was duly made by Mr. Wharton, seconded by Mr. Anderson and unanimously approved.

XI. NAMING OF STUDENT-ATHLETE SUCCESS CENTER AT UTC

On behalf of the faculty, staff, students and alumni of the University of Tennessee at Chattanooga, Dr. Petersen asked the Board's approval of the naming of the Brenda Lawson Student-Athlete Success Center on the UTC campus. Ms. Lawson is a long-time friend and supporter to the University of Tennessee and especially the Chattanooga campus. Without her support, this project would not be possible. It was noted by Mr. Nemicik that he and Dr. Petersen did review and this proposed naming does meet the requirements of the Naming Policy adopted by the Board of Trustees. A motion to approve the recommendation to present to the full Board was duly made by Mr. Wharton, seconded by Mr. Anderson and unanimously approved.

XII. NAMING OF NEW VILLAGE APARTMENTS AT UTC

On behalf of the faculty, staff, students and alumni of the University of Tennessee at Chattanooga, Dr. Petersen asked the Board’s approval to name the designated part of the New Village Apartments in honor of Dr. Frederick W. Obear, Chancellor Emeritus as the Obear Apartments. Dr. Obear first came to UTC in 1981 and retired in 1997. In 2004, Dr. Obear stepped forward as interim chancellor. Since 2005, Chancellor Obear has continued to work in development and external relations for the campus. The campus continues to benefit from the leadership of Chancellor Obear in many ways. It was noted by Mr. Nemcik that he and Dr. Petersen did review and this proposed naming does meet the requirements of the Naming Policy adopted by the Board of Trustees. A motion to approve the recommendation to present to the full Board was duly made by Mr. Wharton, seconded by Mr. Anderson and unanimously approved.

XIV. ANNUAL REPORT OF NAMING OF INTERIOR/GROUNDS SPACES

In compliance with the Naming Policy, Dr. Petersen reported to the Board of Trustees the naming of interior/grounds spaces named on the campuses/unit. The following are the namings reported:

UT Chattanooga Challenger Center: Zach Wamp Classroom of Technology;
Clarence and Bobbye Harris Foundation Classroom of Science;
and Bernard Benson Classroom of Exploration
Athletics: Chattem Basketball Practice Facility and Wolford Family
Strength and Conditioning Facility

UT Knoxville College of Law: Judge L. Kirby Matherne Classroom

UTK Athletics Neyland-Thompson Sports Ctr: Dr. Bob Rubright Team Physicians Suite
Pratt Pavilion: Frankie Wade Balcony and John Ward Film Room
Thompson-Boling Arena: Robbie Nutt Lady Vols Locker Room

XV. OTHER BUSINESS

None stated.

XVI. ADJOURNMENT

With no other business to discuss, the meeting was adjourned.

Respectfully Submitted,

Henry Nemcik
Vice President for Development and Alumni Affairs