

THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE EXECUTIVE AND COMPENSATION COMMITTEE

August 19, 2015
Nashville, Tennessee

The Executive and Compensation Committee of The University of Tennessee Board of Trustees met at 10:00 a.m. CDT on Wednesday, August 19, 2015, in the offices of Bradley Arant Boult Cummings, 1600 Division Street in Nashville, Tennessee.

I. CALL TO ORDER

Chair Jubran called the meeting to order and asked the Secretary to call the roll.

II. ROLL CALL

The Secretary called the roll, and the following members of the Executive and Compensation Committee were present at the meeting location or by telephone:

Charles C. Anderson
Joseph A. DiPietro
Spruell Driver, Jr.
William E. Evans (by telephone)
D. Crawford Gallimore
Vicky B. Gregg (by telephone)
Raja J. Jubran
James L. Murphy, III

The Secretary announced the presence of a quorum. Trustee Charles E. Wharton was also present, along with members of the administrative staff and a student.

The Secretary noted the requirements for meetings conducted with members participating by telephone, including the requirement that all votes be conducted by a roll call. Trustees Evans and Gregg acknowledged that no one else was present at their respective locations.

III. MINUTES OF THE LAST MEETING

Chair Jubran called for any additions or corrections to the minutes of the June 8, 2015 meeting as presented in the meeting materials. Hearing none, a motion to approve the minutes was made and duly seconded and unanimously carried by a roll call vote of the members who were present at the June 8 meeting.

IV. PRESIDENT'S REPORT

Dr. DiPietro called the Committee's attention to two organizational charts, one showing the current reporting structure and another showing the structure toward which he is moving for the future (Exhibit 1). He then informed the Committee of his decision to begin a search for the Executive Vice President and Chief Operating Officer (EVP/COO) position in the near future and to delay the search for a Chief Financial Officer (CFO) until the EVP/COO position is filled. As those two positions are filled, a change in reporting lines for the staff vice president positions will occur. Upon CFO Butch Peccolo's retirement, Controller Ron Maples will be appointed Interim CFO. Dr. DiPietro explained that he decided to search for the EVP/COO and CFO positions sequentially rather than simultaneously to avoid an immediate increase in system administration costs—in other words, a zero sum game for a year or so.

Chair Jubran asked what the cost would be to move ahead with the future organizational structure at this time, and Dr. DiPietro responded with an estimate of \$500,000-\$600,000. Trustee Anderson asked if the number of direct reports to the President would eventually be reduced from 16 to 12. Dr. DiPietro confirmed that the number of his direct reports in the future would be 12, one of whom is his administrative assistant. Trustee Gallimore asked if the search for the EVP (Chief Operating Officer) would be limited to individuals with higher education experience, and Dr. DiPietro responded that higher education experience would not be a requirement and acknowledged Trustee Gallimore's point that some responsibilities of the position are not unique to higher education. Trustee Murphy expressed support for separation of the CFO and Chief Operating Officer functions and for balancing the number of direct reports between the two positions.

Trustee Evans asked if conversion of the Executive Vice President/Vice President for Research, Outreach, and Economic Development position to a Senior Vice President position is intentional. Dr. DiPietro explained that when former Executive Vice President Jack Britt retired, the EVP title was moved to the Vice President for Research, Outreach, and Economic Development, but the chief

operating officer responsibilities were not assumed. Trustee Evans said he only wanted to be sure we are not diminishing the importance of research and economic development.

Trustee Gregg asked how the change in reporting lines has been communicated to those affected. Dr. DiPietro explained that he has kept staff members informed for several months and has provided multiple opportunities for them to express their views or concerns. Trustee Murphy encouraged the President to continue to help staff members understand there is no intent to diminish the importance of their functions.

Chair Jubran closed the discussion by reminding Dr. DiPietro that the Board is asking him to accomplish much over the next few years and urged him to keep open the question of how fast he moves to the future organizational structure. He said the Board would support a restructuring that is not a zero sum game for a year or so.

V. REVIEW OF PERFORMANCE AND RETENTION PLAN DATA FOR 2012-2015

Dr. DiPietro called the Committee's attention to the materials describing a proposed methodology for assessing the Participants' performance under the three-year (2012-2015) Performance and Retention Plan (Exhibits 2, 3, and 4). Trustee Wharton expressed concern that the methodology produces a positive score in instances in which performance at the end of the three-year period was less than the base year. Other members of the Committee agreed that the methodology needs to be revised to address that issue. Chair Jubran expressed his view that over-performance should be rewarded. He also advised that he has asked the Audit and Compliance Department to review the methodology and scores, including the base year data. After further discussion, the consensus was that two issues need to be addressed: (1) revising the methodology to avoid rewarding performance that is less than the base year; and (2) whether the methodology should allow rewarding achievement of more than the goal and, if so, how much. Trustee Gallimore said his company's plan caps payment at 120% of the goal.

Chair Jubran closed the discussion by noting that the Board wants its executives to know it will assess and reward their performance fairly.

VI. PROPOSAL FOR A PERFORMANCE-BASED VARIABLE COMPENSATION PLAN FOR UNIVERSITY OFFICERS, FY 2015-2016

Dr. DiPietro referred the Committee to the latest draft of a proposed Performance-Based Variable Compensation Plan for University Officers (Exhibit 5), under which performance would be assessed and rewarded on an annual basis. He explained that the objective performance goals under the Plan would be tied to both the Budget Advisory Group (BAG) Boundaries and the System Strategic Plan (Exhibit 6). In addition, subjective performance goals would be established for each Participant (Exhibit 7).

Referring to Goal 4 of the BAG Boundaries, Trustee Wharton expressed concern that limiting tuition increases to no more than the previous year's HEPI rate change is too inflexible, especially for a high-cost program like Engineering. He asked whether the option of increasing differential tuition for Engineering and other programs is still available. CFO Peccolo explained that "tuition" in Goal 4 refers only to the in-state maintenance fee, not differential tuition.

Chair Jubran said subjective goals should be something other than expected responsibilities of the position. Trustee Gregg raised the question of whether 360 reviews should be a factor used in evaluating performance. Concern was raised about the public nature of evaluations, but Dr. DiPietro expressed his view that transparency is needed. Trustee Murphy said peer compensation/market data needs to be reviewed by the Committee. Trustee Evans agreed. Chair Jubran reminded the Committee that an adjustment in Dr. DiPietro's compensation needs to be considered in the context of the excellent rating that resulted from the cumulative performance review conducted last year with an external consultant, AGB Senior Fellow Terry MacTaggart.

VII. OTHER BUSINESS

There was no other business to come before the Committee for action.

VIII. ADJOURNMENT

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

Respectfully Submitted,


Catherine S. Mizell, Secretary