

THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE EXECUTIVE AND COMPENSATION COMMITTEE

September 9, 2015
Nashville, Tennessee

The Executive and Compensation Committee of The University of Tennessee Board of Trustees met at 10:30 a.m. CDT on Wednesday, September 9, 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:

Charles C. Anderson
Joseph A. DiPietro
Spruell Driver, Jr.
William E. Evans
D. Crawford Gallimore
Vicky B. Gregg
Raja J. Jubran
James L. Murphy, III
Sharon J. Miller Pryse

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

III. MINUTES OF THE LAST MEETING

Chair Jubran called for any additions or corrections to the minutes of the August 19, 2015 meeting as presented in the meeting materials. Hearing none, Trustee Murphy moved approval of the minutes, Trustee Gallimore seconded, and the motion carried unanimously.

IV. PRESIDENT'S REPORT

Dr. DiPietro reported that audit of the performance data under the Performance and Retention Plan over the past three years is in process and corrections to some of the base year data and resulting percentage-based goals have been made. As discussed at the previous meeting, if data at the end of the three-year period is less than the base year, participants will not receive any credit. He said that an updated performance-based variable compensation plan would be presented for approval at the next meeting of the Committee. He also reported that the University continues to review its costs for facilities management compared to external providers. If the state decides to issue a Request for Proposals, the University will have an opportunity to provide input in the process.

V. FY 2015-2016 COMPENSATION FOR UNIVERSITY OFFICERS REPORTING TO THE PRESIDENT

Dr. DiPietro presented his recommendation for base salary increases for the following elected University Officers: Chancellor Angle, Chancellor Arrington, Chancellor Cheek, Chancellor Schwab, Executive Vice President/Vice President for Research and Economic Development Millhorn, General Counsel and Secretary Mizell, and Treasurer and Chief Financial Officer Peccolo. He explained that a 3% salary pool (1.5% across-the board and 1.5% merit) was developed for senior administrators reporting to the President (Exhibit 1), which is consistent with the 3% salary pool for all University units, except UT Martin, which has only a 1.5% pool. Dr. DiPietro said he is recommending a 3% increase to the base salary of each of the elected University Officers (Exhibit 2). The 3% compensation of other senior administrators reporting to the President, which also represents a 3% increase to base salary, was presented for the Committee's information (Exhibit 3). Dr. DiPietro approved these increases, and they were effective July 1, 2015.

In response to Trustee Murphy's question about market gaps, Dr. DiPietro said he has reviewed market data and acknowledged that there are significant gaps in the compensation of some of the University Officers in relation to comparable positions. Committee members urged Dr. DiPietro to continue to make efforts to address those gaps. Dr. DiPietro mentioned that a new annual performance-based variable compensation plan will help to address the gaps.

Upon Chair Jubran's call for a motion, it was moved and seconded that the President's recommendation of FY 2015-2016 compensation for the University Officers reporting to the President be approved for recommendation to the Board of Trustees, effective retroactively to July 1, 2015, and the motion carried.

VI. COMPENSATION FOR PRESIDENT DIPIETRO OVER THE NEW FOUR-YEAR TERM OF HIS EMPLOYMENT AGREEMENT, FY 2015-19

After asking Dr. DiPietro to leave the room, Chair Jubran presented the proposed compensation terms he is recommending for Dr. DiPietro over the new four-year term of his employment agreement, from July 1, 2015 through June 30, 2019 (Exhibit 4). The terms include (1) 5% increase in base salary as of July 1, 2015 and each succeeding year under the agreement as long as Dr. DiPietro's performance is deemed satisfactory by the Board; (2) an increase in the housing allowance from \$20,000 to \$25,000; (3) an increase in the non-accountable expense allowance from \$12,000 to \$21,000; and (4) a new annual performance-based payment of up to 25% of base salary.

Chair Jubran reminded the Committee that during 2014 former Vice Chair Brian Ferguson worked with an external consultant, AGB Senior Fellow Dr. Terry MacTaggart, to conduct a comprehensive review of Dr. DiPietro's performance since assuming the office of President on January 1, 2011. The results of that comprehensive review were exceedingly positive, particularly the assessment of Dr. DiPietro's integrity and credibility. The only suggestion for improvement was to reduce the number of direct reports to the President, and that is being addressed.

Chair Jubran reminded the Committee that despite the overwhelmingly positive review, the matter of Dr. DiPietro's compensation was deferred pending further discussion of the University's business model and identification of issues to be addressed over the next four years. Now that Dr. DiPietro, with the Budget Advisory Group, has developed certain boundaries and associated goals, it is time to address his compensation.

Chair Jubran called the Committee's attention to the compensation analysis provided by the Sibson group (Exhibit 5) and the System HR office (Exhibit 6). He also explained that as a result of publicity about the comprehensive performance review, Dr. DiPietro was heavily recruited by other institutions. In response to former Vice Chair Ferguson's commitment to address Dr. DiPietro's compensation in light of his marketability, he committed to stay with the University and not pursue other opportunities. Discussion ensued about the selection of peers used in the Sibson analysis, and it was explained that the analysis reflects the fact that Dr. DiPietro was being recruited by a Big 10 institution. Discussion ended with Trustees acknowledging that it will be important to explain the recruitment factor to internal and external constituents.

Upon Chair Jubran's call for a motion, it was moved and seconded that the Committee recommend the proposed terms of compensation for President DiPietro over the new four-year term of his employment agreement to the Board of Trustees for approval; and that the Committee further recommend that the Board authorize the Vice Chair to execute an amendment to the employment agreement to incorporate the new terms of compensation. The motion carried.

Dr. DiPietro returned to the room, and Chair Jubran informed him of the Committee's vote to recommend the new terms of compensation. He said the Committee is extremely pleased with Dr. DiPietro's performance and looks forward to working with him to achieve the performance expected over the next four years. Trustee Wharton reiterated the need to explain to constituencies the composition of the peer group used in the compensation analysis. Dr. DiPietro explained that he was being recruited by the University of Illinois, a Big 10 institution. Trustee Evans expressed his support for using aspirational peers.

VII. TENTATIVE SCHEDULE AND AGENDA FOR THE FALL MEETING

The Committee reviewed the tentative schedule and agenda items for the Fall Meeting (Exhibit 7) and had no suggested changes. Dr. DiPietro mentioned that at some point he would likely be asking the Board to consider expanding the regional tuition approach for UTC and UT Martin, noting that Martin especially has capacity to grow both in-state and out-of-state enrollment. Trustee Murphy cautioned that growing out-of-state enrollment needs to be tied to capacity.

VIII. EXECUTIVE AND COMPENSATION COMMITTEE MEETING DATES IN 2016

Proposed dates for Committee meetings in 2016 were presented by the Secretary (Exhibit 8). Because of conflicts with the proposed February dates, the Chair asked the Secretary to poll the members for other dates in February 2016. Members were asked to hold the May 9 and August 30 dates pending confirmation after a February date has been determined.

IX. OTHER BUSINESS

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

X. ADJOURNMENT

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

Respectfully Submitted,

A handwritten signature in blue ink that reads "Catherine S. Mizell". The signature is written in a cursive style with a large initial "C".

Catherine S. Mizell, Secretary