

MINUTES OF THE WINTER MEETING
BOARD OF TRUSTEES
THE UNIVERSITY OF TENNESSEE

March 7, 2007

The Annual Meeting of the Board of Trustees of The University of Tennessee was held at 1:00 p.m. CST, Wednesday, March 7, 2007 in the Boling University Center Ballroom on the campus of The University of Tennessee at Martin.

I. CALL TO ORDER AND INVOCATION

Ms. Andrea J. Loughry, Vice Chair of the Board, called the meeting to order. Reverend Morgan Owen, Campus Minister, Baptist Collegiate Ministry, offered the invocation.

II. ROLL CALL

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

Ms. Johnnie Amonette
Ms. Anne Holt Blackburn
Mr. William Y. Carroll
Ms. Barbara Castleman
Mr. Spruell Driver, Jr.
Mr. James Hall
Mr. James Haslam, II
Mr. Jerry L. Jackson
Ms. Andrea J. Loughry
Mr. James L. Murphy, III
Dr. John D. Petersen
Dr. Lawrence M. Pfeffer
Dr. Richard G. Rhoda
Mr. Karl A. Schledwitz
Mr. Don C. Stansberry, Jr.
Mr. William B. Stokely, III
Mr. Joseph M. Sturdivant
Mr. Charles Wharton
Mr. James L. "Bucky" Wolford
Ms. Anna York

The Secretary announced the presence of a quorum. Governor Bredesen, Commissioner Givens, Commissioner Seivers, Dr. Hurd, Mrs. Williams and Professor Kennedy were absent from the meeting.

III. INTRODUCTIONS

The Vice Chair recognized and welcomed Trustee Emerita Nancy Overton in attendance at the meeting.

The Vice Chair also asked the UT Martin administration to once again extend the Board's appreciation to Tom and Pat Wade for hosting a wonderful reception and dinner in their beautiful home the evening before.

IV. APPROVAL OF MINUTES OF PRIOR MEETINGS

Mr. Jim Murphy moved approval of the minutes of the November 3, 2006 meeting of the Board of Trustees as presented at the meeting. Mr. Stansberry seconded the motion, and it was carried unanimously.

V. PRESENTATION OF HONORARY RESOLUTIONS

The Vice Chair recognized Mr. Stansberry to present a Resolution recognizing retiring Dr. Jack Britt for service to the University (Exhibit 1). Mr. Stansberry discussed Dr. Britt's contribution to the University in his role as Executive Vice President and previously as Vice President of Agriculture. Mr. Stansberry specifically noted Dr. Britt's leadership role with the Strategic Plan and the considerable assistance and support he offered to Dr. Petersen as he began his presidency at UT. Mr. Stansberry moved approval of the Resolution, Mr. Jackson, seconded, and the motion carried unanimously.

Addressing the Board, Dr. Britt stated that he truly enjoyed his work at UT and felt that serving UT's many campuses and institutes was an outstanding way for him to complete his career. He expressed his appreciation to the Board for their counsel and encouragement.

The Vice Chair next recognized Mr. Jackson and Ms. Castleman to present a Resolution honoring Chancellor Nick Dunagan upon his retirement (Exhibit 2). Mr. Jackson discussed Dr. Dunagan's 30 years of service to The University of Tennessee at Martin. He noted that as Chancellor, Dr. Dunagan has been a dependable, hard-working and charismatic leader for UT Martin, earning the respect of the campus and the local community with his honesty and dedication. He also expressed appreciation to Cathy Dunagan for her warm and heartfelt support of UT Martin. Ms. Castleman discussed positive personal anecdotes and thoughts about Dr. Dunagan from members of the Martin community. On behalf of the Board, Mr. Jackson and Ms. Castleman thanked Dr. and Ms. Dunagan for their many wonderful years of service to UT.

After reciting the Resolution, Ms. Castleman moved approval of the Resolution, Mr. Jackson seconded, and it carried unanimously.

Dr. Dunagan recognized members of UT Martin's senior staff in attendance at the meeting and stated that UT Martin will continue to thrive and flourish because of these and other members of the devoted and hard-working UT Martin family. He stated that he and Cathy will always be willing and ready volunteers anytime they can assist UT Martin to continue to succeed. He expressed his sincere appreciation to the Board for the opportunity to serve UT Martin as Chancellor.

VI. PRESIDENT'S REPORT

Dr. Petersen first expressed his appreciation to Dr. Britt and Dr. Dunagan for their outstanding service to the University. He noted that Dr. Britt helped implement significant institutional changes and strategic partnerships for the University, as well as shepherding development of the University's Strategic Plan.

Dr. Petersen then expressed his deep gratitude to Dr. Dunagan for delaying his planned retirement. Two years ago, Dr. Dunagan was considering retirement, but held off to provide stability in organizational leadership for a new President who was already looking to hire five vice presidents and two chancellors. Dr. Petersen expressed his appreciation to Dr. Dunagan for his long service and dedication to UT Martin.

Dr. Petersen next announced that Dr. Levy, Vice President for Academic Affairs and Student Success, will retire at the end of the year. He expressed his gratitude to Dr. Levy for over 30 years of service and commitment to the University. He discussed Dr. Levy's academic contributions to the University and added that he has provided invaluable counsel to his colleagues.

Dr. Petersen began his report by discussing organizational changes. He stated that the administration has been examining the system's integration with the campuses. Some functions handled centrally have been identified for distribution to the campuses. He discussed the division of Institutional Research, Human Resources and Information Technology services between the system and campuses. For example, IT security and framework resources will remain with the system, but implementation and day-to-day operation will be handled by the campuses. He stated that IT resources have already been shifted from the system to the campuses to accomplish this change. He stated that the administration would continue to examine support functions as they relate to the role of the system and the campuses, and further organizational changes may occur.

Dr. Petersen next discussed three transformational opportunities on the horizon for UT. He discussed the new Cherokee Campus located across the river from the Knoxville campus where the UT Dairy Farm is currently operated. He explained that the Dairy Farm will be relocated to Blount County, and approximately 200 acres above the flood

line will be available for development of research facilities. He stated that the new facilities would generate systemwide capabilities to support research growth over the next decades. He stated that phase one of the development will have three buildings, a Joint Institute for Applied Materials, a privately funded research facility, and a self-funded research building, approved a number of years ago but never built.

Discussing the second transformational opportunity, Dr. Petersen stated that because of UT's joint appointment of faculty with ORNL, UT is afforded the opportunity to compete for hundreds of millions of dollars in federal grants. He discussed two major proposals currently before the National Science Foundation. He said that being awarded just one of these federal grants would make UT the top computational school in the world.

Dr. Petersen explained that the third transformation opportunity, the Tennessee Biofuels Initiative, could position the state as a leader in the nation's efforts to reduce dependence on oil. Dr. Petersen reviewed a slide presentation on the initiative (Exhibit 3). He said the initiative would be key to the state's future in terms of building economic capacity, increasing education and providing healthcare. He reviewed the process and efficiency of converting switchgrass to ethanol. He discussed the cultivation of switchgrass in the state and said that the initiative would bring much-needed financial resources to the rural areas of the state. He discussed the construction of a 5 million gallon ethanol pilot facility in East Tennessee. He stated that the pilot plant will allow scientists to examine and adjust the industrial processes before building larger 25 million gallon facilities across the state. He discussed the estimated fuel production from the pilot facility and from future implementation of other facilities across the state.

Dr. Petersen next discussed efforts to raise the pay of UT employees. He stated that Governor Bredesen has proposed a \$48.3 million increase in funding for higher education across the state, with \$18.4 million designated for UT, mostly from a proposed cigarette tax increase. He stated that the \$18.4 million is equivalent to tuition increases of 5.6 percent for UT Knoxville, 4.5 percent UTC and 4.7 percent UT Martin. He reported that a 1 percent recurring salary increase and a 2 percent one-time bonus were recommended in Governor Bredesen's budget recommendation.

Dr. Petersen discussed the possibility of raising the recurring pay increase beyond 1 percent. He began by analyzing the effective cost to students of a 6 percent fee increase, considering a \$200 increase in the lottery scholarship. He also discussed instances of faculty members being lured by other schools because of higher pay. He stated that UTHSC is using \$2 million that could be put into buildings or other initiatives to give their employees a one-time bonus to stop faculty from being recruited away. Dr. Petersen stated that he is committed to making the case for a 5 percent increase in the salary pool for all UT employees, including equity and merit increases. He stated that

he believes rewarding faculty based on merit allows UT to keep its best professors. Dr. Petersen reviewed potential tuition increase scenarios for each campus to provide for an additional recurring 4 percent raise for employees and 4 percent operational inflation increases based on different levels of state funding.

Dr. Petersen stated that the administration will continue to work with the legislature to accomplish what UT needs to recruit and retain quality employees and keep fees affordable.

Dr. Petersen asked for comments or questions from the Trustees. Mr. Stansberry commented that this ought to be the year that UT stops the erosion of faculty because of salary and money. He added that it looks like relatively few dollars will do it, be it state appropriations or tuition. He stated that he would really urge that UT focus on how salary increases will be implemented. Mr. Sturdivant asked how the highest potential fee increase example would compare to peer school tuitions. Dr. Petersen stated that UT has fewer dollars from state appropriations and fee behind students' education compared to peer institutions. He added, however, that the lottery scholarships provide a huge discount for students. He stated that it is UT's intent to maximize appropriations, maximize grants and contracts, and maximize private funding so fees can be minimized. Dr. Pfeffer asked about plans to improve the facilities on the campuses. Dr. Petersen responded that facility improvements are a priority in UT's capital projects.

The Vice Chair asked the President to discuss the senior staff organization changes recommended to and approved by the Executive and Compensation Committee at their February meeting. The President stated that all of the financial personnel on the senior staff report directly to the Chief Financial Officer. He stated that certain other senior staff interact regularly with the Executive Vice President. He stated that he proposed the position of Senior Vice President and Chief Financial Officer to parallel the position of the Executive Vice President and reflect the managerial functions of the Chief Financial Officer. He added that a \$10,000 salary increase was proposed for the Senior Vice President and Chief Financial Officer. Dr. Millhorn would transition to Executive Vice President at his current salary level.

VII. ACTION ITEMS FROM THE FINANCE AND ADMINISTRATION COMMITTEE

The Vice Chair noted that the work of the Board is primarily done in committees. She stated that standing committees of the Board met prior to this meeting, and the committee chairs would now be recognized to discuss action items from the committee meetings. The Vice Chair recognized Mr. Bill Stokely, Chair of the Finance and Administration Committee, to present his report to the Board.

Mr. Stokely stated that the Committee met yesterday to discuss the items on its agenda. He stated that an additional capital project item was added to the consent agenda at the meeting. He stated that the committee was asked to consider and approve the addition of a biofuels facility to the capital projects. He discussed the proposal and stated that the committee recommended approval of the project. The project will be included in the Consent agenda at the end of the meeting.

A. Approval of Revised Budget for FY 2006-07

Mr. Stokely discussed the Revised Budget for FY 2006-07 (Exhibit 4). He referred the Board to the report and commented that out of the 1.5 billion total budget, there was only a 1.5% percent revision in the revenues. He stated that the Committee received a very thorough report regarding the updated revenue and expenditure projections for the remainder of the fiscal year. Mr. Stokely moved approval of the revised budget for FY 2006-07. Mr. Haslam seconded the motion, and it carried unanimously.

B. Approval of Policy on Student Fee Approvals

Mr. Stokely discussed the proposed Policy on Student Fee Approvals (Exhibit 5). He stated that this Policy was recommended after an internal audit review. He stated that it was drafted by a statewide task force and reviewed by the Committee at its November meeting. He stated that the policy recommended for approval at this meeting includes revisions from the earlier draft to clarify student involvement in recommending student fee changes and to incorporate guidelines governing the student fee refund process. Mr. Stokely moved approval of the Policy on Student Fee Approvals. Mr. Stansberry seconded the motion, and it carried unanimously.

VIII. ACTION ITEMS FROM THE GOVERNANCE COMMITTEE

The Vice Chair recognized Mr. Stansberry to present the action items from the Governance Committee

A. Approval of Bylaw Amendment

Mr. Stansberry stated that the Governance Committee met in Nashville in February. He stated that the first action item corresponds to the senior staff organizational changes the President discussed earlier. He stated that the Executive and Compensation Committee approved the new title and compensation for the Chief Financial Officer, and the Governance Committee recommends that the Bylaws be amended to reflect the change in title from Chief Financial Officer to Senior Vice President and Chief

Financial Officer (Exhibit 6). Mr. Stansberry moved approval of the Bylaw Amendment, Mr. Murphy seconded the motion and it carried unanimously by record vote.

B. Approval of Revised Policy on Presidential Performance Reviews

The Vice Chair stated that in its overall review of the leadership of the University, the Board would conduct, a Board assessment, Trustee self-assessments, and the President's performance assessment. She stated that the next item that Mr. Stansberry will discuss is the Policy on Presidential Performance Reviews.

Mr. Stansberry stated that the Vice Chair will conduct the annual review of the President's performance, and her recommendations will be presented to the Board for review and approval. He stated that the proposed revisions call for the participation of two standing committee chairs in the annual review process (Exhibit 7). The designated chairs along with the Vice Chair, will interview members of the President's staff, solicit views of the President's performance from faculty, student, staff and alumni leadership. They will be present as observers when the Vice Chair interviews the President. He stated that the assessment report will continue to be prepared by the Vice Chair, but the designated committee chairs may submit separate written assessments of the President's performance to the Executive and Compensation Committee if they wish to do so. He stated that the Executive and Compensation Committee will designate the Committee Chairs to participate in the Presidential Performance Review. Mr. Stansberry moved approval of the revisions to the Policy on Presidential Performance Reviews, Mr. Haslam seconded the motion and it was carried unanimously.

IX. ACTION ITEMS FROM THE EXECUTIVE AND COMPENSATION COMMITTEE

The Vice Chair temporarily relinquished the chair of the meeting to Trustee Don Stansberry, Chair of the Governance Committee. Mr. Stansberry recognized Ms. Loughry, Chair of the Executive and Compensation Committee, who reported on the meeting of the Executive and Compensation Committee.

A. Election of the Executive Vice President

Ms. Loughry stated that this item has been referred to earlier in the meeting by Dr. Petersen. She stated that the Executive and Compensation recommends the approval of the election of Dr. David Millhorn as Executive Vice President effective April 1, 2007 (Exhibit 8). Ms. Loughry moved approval of the election, Mr. Murphy seconded the motion and it was carried unanimously.

B. Change in Title and Compensation of Chief Financial Officer

Ms. Loughry stated that the second action item is a change in title and compensation for the Chief Financial Officer, Dr. Gary Rogers, discussed earlier by Dr. Petersen. She stated that the Executive and Compensation Committee recommends the approval of the change in title to Senior Vice President and Chief Financial Officer and the compensation increase of \$10,000 (Exhibit 9). Ms. Loughry moved approval of the title change and compensation increase, Mr. Jackson seconded the motion and it was carried unanimously.

Ms. Loughry reported that the Executive and Compensation Committee has designated the Audit Committee Chair, Jim Murphy and the Governance Committee Chair, Don Stansberry to work with the Vice Chair on the President's annual performance review.

Mr. Stansberry relinquished chair of the meeting to the Vice Chair, Ms. Loughry. The Vice Chair called on Mr. Murphy to report to the Board on the meeting of the Audit Committee.

X. REPORT OF THE AUDIT COMMITTEE

Mr. Murphy stated that the Audit Committee met in Nashville in December. He stated that the minutes from the meeting are included in the Board notebook (Exhibit 10). He stated that this was an orientation meeting for several who just joined the Audit Committee. He stated that members of the State Audit staff attended and advised the Committee of their roles and activities involving the University. The Committee reviewed the various state statutes applicable to the Audit Committee. He stated that the state legislature requires that all universities have audit committees and our Audit Committee complies with the state requirements. He stated that the Committee reviewed the Audit Committee charter that was just recently approved at the November Board meeting. He stated that the committee reviewed and approved the 2007 Audit Plan presented by Mark Paganelli. He stated that the annual audit schedule is included in the minutes in the notebook. He reported that the Committee heard a very interesting presentation from Robert Ridenour, Director of Security of UT Information Systems. He stated that the presentation was very informative and thought provoking. He stated that the Committee also reviewed discretionary spending, travel and housing reports for the President and Chancellors.

XI. CONSENT ITEMS

The Vice Chair noted that each item on the consent agenda was reviewed fully by the appropriate committee. All items were recommended by the committees for approval as consent items. She noted some changes to the consent agenda. She stated that item, Approval of Retirement Incentive Program for Extension Employees in Federal Retirement Programs, was withdrawn at the Finance and Administration Committee

meeting. She stated that two items were added. The first was the approval of the addition of a capital project, the pilot biofuel refinery, discussed by Mr. Stokely earlier in the meeting and reviewed and approved by the Finance and Administration Committee. The second addition was an honorary degree at UTC. She noted that a memorandum regarding the honorary degree is on the table in front of each member of the Board, and the item was discussed and approved by the Academic Affairs and Student Life Committee.

Vice Chair Loughry then asked for any requests to remove items from the consent agenda. There being no requests, the following items were submitted for approval by unanimous consent:

- A. Approval of Naming of the Baseball Field at UT Knoxville (Exhibit 11)**
- B. Approval of Use of C.M. Gooch Quasi-Endowment Funds for Scholarships at UT Martin (Exhibit 12)**
- C. Approval of Designation of University Depository—Community South Bank in Parsons, Tennessee (Exhibit 13)**
- D. Approval of FY 2007-2008 Institutionally Funded/Revenue Projects (Exhibit 14)**
- E. Approval of Real Property/Capital Projects (Exhibit 15), including the pilot biofuel refinery**
- F. Approval of President's Recommendation for Granting Tenure to Dr. Petr Plechac (Exhibit 16)**
- G. Approval of Awarding an Honorary Degree to Senator Howard Baker from the Health Science Center (Exhibit 17)**
- H. Approval of Creation of New Academic Departments at UTC (Exhibit 18)**
- I. Approval of Awarding an Honorary Degree to Ruth Holmberg from UTC (Exhibit 19)**

Mr. Haslam moved approval of the consent agenda. The motion was duly seconded by Mr. Jackson and carried unanimously.

XII. OTHER BUSINESS

The Vice Chair expressed her appreciation to UT Martin for hosting the Board meeting.

The Vice Chair reminded the Board of the upcoming “UT Day on the Hill” on March 21 in Nashville. She noted that the next meeting of the Board will be June 20-21, 2007 in Knoxville. She stated that the Executive and Compensation Committee will meet on May 14 in Knoxville and following the meeting there will be a groundbreaking ceremony for the Min Kao Electrical Engineering and Computer Science Building.

Ms. Mizell acknowledged the people behind the scenes who helped prepare for the meeting and events. She expressed her gratitude to UT Martin for all of the preparation they did to ensure that the meeting would be special and go as smoothly as possible. She thanked Daniel Becker and Jeff Loveday from the Knoxville IT Engineering Services Group for making the trip to Martin to assist with webcasting the meeting. She thanked some of the many members of the UT Martin family who provided their assistance—Ray Coleman, security; Bruce Harrison, Rick Gonzales, Bob Mosely, Mike Abney and John Abel, Information Technology; and Shelby Webb, Virginia Grimes, Charley Deal, Keith Carver, and Steve Vantrease for taking time out of their schedules to assist with transportation needs. She thanked Judy Sandefer from the Chancellor’s office for all of her assistance. Ms. Mizell then recognized Chancellor Dunagan to express special appreciation to Edie Gibson, his executive assistant, for leading and coordinating the UT Martin team to prepare for this visit by the Board. He commented that her hard work and attention to detail are a great asset to UT Martin.

XIII. ADJOURNMENT

With no further business to come before the Board, the meeting was adjourned.

Respectfully Submitted,

Catherine S. Mizell
Vice President, General Counsel and Secretary