

**MINUTES OF THE COMMITTEE ON
EFFECTIVENESS & EFFICIENCY FOR THE FUTURE (EEF)
THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES
MAY 19, 2010**

The Committee on Effectiveness & Efficiency for the Future (EEF) of the Board of Trustees met at 9:30 a.m. EDT, Wednesday, May 19, 2010 in Room 156/157 of the Plant Biotech Building on the Agriculture Campus.

- I. **Call to Order**—Mr. Douglas Horne, Committee Chair, called the meeting to order.

He commented that as he prepared for the meeting that the word productivity came to mind. The committee has always focused on savings and costs and as Chair of the committee he believes that productivity needs to be considered as well. There needs to be more productivity, execution and achievement at the University and more discussion will take place on this topic.

Chair Horne, publicly thanked Administrative Coordinator, Tammie Cole and Senior VP and CFO, Gary Rogers for their hard work in regards to the EEF Committee. He also noted that Gary Rogers is retiring and Charles “Butch” Peccolo is now the staff liaison for the committee. Mr. Peccolo has been at the University for a long time and all his efforts are appreciated as well.

- II. **Roll Call**—Chair Horne asked Mr. Charles Peccolo, Treasurer and Chief Investment Officer/Acting CFO to call the roll. He did so and advised the Chair that a quorum was present.

Present

Douglas Horne, Committee Chair
Jim Murphy, Vice Chair of Board
William Carroll, Committee Member
Crawford Gallimore, Committee Member
Andrea Loughry, Committee Member
Jan Simek, Acting President
Charles Wharton, Committee Member

Absent

Charles Anderson, Committee Member

Also present was Charles Peccolo, Treasurer and Chief Investment Officer/Acting Chief Financial Offer, and other members of staff.

Chair Horne made the following remarks:

1. While the public is invited and welcome at all Board meetings, our meetings are “in the public” but not “public meetings.”
2. The Chair will recognize to speak only members of the Committee, other Trustees, and members of the senior staff.
3. The Committee has a set agenda and prepared materials for that agenda. No “new business” has been brought to the Chair’s attention prior to the meeting; so it is assumed there is none.
4. Lastly, the name of the Trustee making any motion and the second will be announced to help in the preparation of minutes.

III. **Approval of Minutes of Last Meeting**—Chair Horne asked if there were any additions or corrections to the minutes of December 7, 2009. With no corrections or additions noted, on a motion made by Trustee Gallimore, and seconded by Trustee Loughry, the minutes were unanimously approved as presented.

IV. **Update on State Revenues and Appropriations**—Chair Horne went on to thank Vice Chair Murphy and Trustee Loughry for their efforts in starting the committee. The one thing known when the committee was formed that it would require working with and having cooperation from the staff. He then complimented Dr. Simek for working with this committee and stated that it has been a combined effort.

He asked President Simek to present an update. Dr. Simek began by saying for the first time since in quite some time we received good news regarding the state budget. In April, the actual state revenues exceeded budgeted revenues by \$51 million. This is the first real significant upturn in revenues in a very, very long time and it comes on the heel of the 9% underestimate in the month of March. Typically in the past, the months of March and April are periods where revenues actually dip. This is good news indeed but whether or not is sustained is something that needs to be watched. It is another good sign that the economy is recovering and the state is reflecting that in it revenue prospects. All of this with the caveat that the baseline for this measurement over expectations has been steadily decreasing as the state has been reducing its budgeted funds. This is not a recovery back to the levels that we had back before the economic downturn but it is the first sign in a long time that things are going pretty well. It reduces the yearly shortfall to \$201 million and as the Legislature goes

through its budget process we trust that the University will share in that reduction. We are now looking at the reductions that THEC has given us and it has been an ongoing process for some time. The campuses are continuing to look at how they accommodate the reductions.

As you all know, we continue to face challenges. The anticipated Fiscal Year 2012 appropriations are still about \$112 million below where we were in Fiscal Year 2008. There are stimulus funds that are backing up and making good the University budget to the 2008 level but in 2012 those stimulus funds will be gone. That is a little over a year from now and we are planning to manage that greatly reduced state appropriation at the time it becomes apparent. The actual appropriation in Fiscal Year 2012 will be a little under \$400 million but if we adjust that for inflation since 2006 it only slightly exceeds \$200 million. This is part of a long-term trend of reduced state appropriations so I believe this Committee's actions need to be continued into the foreseeable future. There is no real end in sight to the loss of state appropriations problem. The stimulus money runs out in a year and through this budget cycle of Board meetings you will be hear the plans for each campus to manage this. As you know, this has been a prospect that has been planned for over time.

Overall, the state budget is still an item of debate in Nashville. We feel fairly good about how it has progressed but until it is completely negotiated issues such as bonuses are in some versions and not in others. We will just have to see how that process plays out. There is zero dollars recommended in the Governor's Budget for capital outlay and in alternate budgets as well. This has been an ongoing issue and it becomes more so going forward. As you can see on our campuses the University has a lot of projects in process. Some of them are quite significant but these are all projects initiated some years ago. When they run to completion the three year lack in capital monies will cause a pause in that process. Given the state of our physical facilities this is still a serious issue for the University of Tennessee and all its campuses. There are \$21.3 million dollars requested in the Governor's Budget for capital maintenance and this is critical to the University. We have identified the most important projects and the Governor has recommended funding for those maintenance projects. Once again, we will have to see how it plays out.

The University still faces challenging times and it is the compelling reason to continue the work of this Committee. There is light at the end of the tunnel for us at the state level. The University of Tennessee will still face serious changes in how it implements those serious changes in how it funds and operates. It will be a different University in Fiscal Year 2012 when the stimulus funds run out. The great aspect of

this is how hard folks have worked from the Board down to the unit leaders on all of the campuses to understand the implications and to implement the changes needed to take advantage of a situation of reorganization and position themselves in as positive a manner as they can moving forward.

Vice Chair Murphy stated that President Simek was asked by the Board to have each campus give more detail on their plans for dealing with the loss of stimulus money next budget cycle. Each campus is handling it in different ways. It is important to start early so that all have an understanding of the impact. The University is not going to be able to continue to operate in the same way we have been and per President Simek there is a plan in place. Some don't pay attention to plans until they understand the impact makes on them. One of the critical things we are going to have to do with this Committee is to dig deeper. A good job has been done but we are going to have to look at ways to be more cost efficient and think outside the box.

Trustee Loughry added a historical footnote that the Committee was established to look at the effectiveness and efficiency of the enterprise not just because of the budget crisis that we were in. The crisis just happened to hit quickly after the Committee was formed. A sustainability factor was built in from the very beginning.

Chair Horne said actually behind one of the materials' tabs it shows the reductions per campus as Vice Chair Murphy was saying. Recurring appropriation cuts for the campuses is as follows:

UT Chattanooga - \$13.2 million
UT Knoxville - \$55.6 million
UT Martin - \$9.9 million
UT Health Science Center - \$19.6 million
UT Space Institute - \$1.1 million
UT Institute of Agriculture - \$8.6 million
Other - \$4.3 million

These are the reductions that Vice Chair Murphy is referring to. There are plans in place to meet these reductions but that is over \$100 million dollars worth of reductions.

Trustee Wharton commented that one of the issues of concern about how we are going about this process is that we have not yet benchmarked against the best from the University. He pointed out that most of the Committee had made a trip to the University of Maryland and he was unable to make the trip. It occurs to me that we can identify an opportunity better by comparing ourselves to a matrix to the best run universities within our own system. We do not have or have

not seen that data and I have been asking for that for about two years now. I would really like to see that and understand how the University compares to southern universities, how we benchmark and how we find opportunities that might otherwise be overlooked.

Trustee Gallimore asked how this capital maintenance budget compares to the ones in past years. Acting CFO Peccolo replied that the capital outlay has been zero and the capital maintenance is in alignment with what we have gotten in the past. Trustee Wharton asked if there was a total amount for all the University's deferred maintenance needs for everything. Vice Chair Murphy noted that there is a report and he has seen it and Chair Horne stated that it is over \$500 million.

Chair Horne addressed Trustee Wharton regarding the benchmarks that are brought up at each meeting. He stated that as you know the Committee has a number of benchmarks like faculty ratios, costs per student, etc. You and I need to work on exactly what needs to be focused on and then we can get the comparisons from other peer universities. Frankly, I know the faculty ratios are going to go up and one of the initiatives that we have been discussing with Bonnie Yegidis, Dr. Cheek and Dr. Rakes and others is distance learning. There will be a report on that issue at the June Board Meeting. With the faculty student ratio going up we are looking at additional on-line learning. California is pushing hard not just for graduate programs but for bachelors' and associates' programs to counter the losses for the university. I would like to work with you on the exact ratio that you would like to work on. Dr. Simek advised the group that in their materials there was a lot of that data included. Trustee Wharton said that instead of getting Chancellors help on some of the measurements it makes more sense to get faculty input. We should ask the institutions that doing are a good job what they are measuring. All are being asked to give continuous services with less and less needs and good measurements are needed. Chair Horne agreed and said there are a lot of ratios out there and his question is which ones need to be focused on. Trustee Loughry asked whether there was a group working on that and President Simek replied yes. He then added that there needs to be more clarification on what is being discussed. The new state legislation actually focuses in the realignment of the formulas for funding that we will be discussed later. It does highlight certain things that like it or not by legislative action will have to be focused on. One of the ideas was to have a conversation at the August retreat about these measures so that we don't get redundant about it. What is it that we have to do? What is it that we want to do among ourselves to be more informed as to the actual progress of the aspects of those institutions that we want to focus on? The Higher

Education Reform Act actually focuses on some things such as graduation rates, number of graduates and formulaic issues that I would recommend become part of our benchmark measures simply because those are the targets that we are going to have to accomplish for the state. Vice Chair Murphy stated that perhaps we do the strategic plan process in what things we are looking at and benchmarking. Some need to be focused on efficiency. We need to think about which of these things are driven by state compliance issues and which help measure efficiencies. There is no simple measure of efficiency. There is no way to go to each of the campuses and look at those numbers and say o.k. that shows we are efficient. That is one of the struggles that we have all dealt with that there is no easy way to do it. The academic and financial folks are the experts on what should be looked at to help us understand which of these things we can look at and say we are doing a good job. We are being pushed going forward to be much more efficient in everything we do. Trustee Wharton added what are we doing, what should we be doing and how are we doing it. Vice Chair Murphy included what are we doing that we should not be and there is a great deal of that at play. In the past, from looking at what programs we offered and discontinued based on how many students signed up for a program for a period of time. Is that the only way to look at that issue or should we also look at what people will need in the future with the realization that we might not be able to offer as many courses that are not critical to students' ultimate career path. That is where I see things heading. Every time we have had Board meetings we have had to discuss cuts and I think we will continue to see that. Chair Horne told Trustee Wharton that he would like to work with him on productivity index. We have been working on costs, efficiencies, savings and reorganization but there needs to be a productivity index too. Vice Chair Murphy added that one of the things that will help on the productivity side is to focus on graduation rates. Our product is based on how many students graduate. Everything we need to do needs to be focused on this achievement. Chair Horne we need to recognize at the University of Tennessee that we want to evaluate and pay people more when they perform. Acting CFO Peccolo stated that some of the outcomes of this formula align nicely with productivity and there is a research component. Vice Chair Murphy agreed and said that this starts us down this path. Productivity is not going to be something that is an option – it will have to be reviewed. The formula is not a one size fits all for every institution. There are different metrics for each institution based on what it is suppose to be doing. The other side of that is making sure that those metrics are achieved in being more cost effective and efficient. Trustee Loughry commented that we need to continue to be proactive and not just do it because it is regulated. We need to evaluate our own and move in that direction. President Simek agreed with that and said

that his point is the new formula structure by need will focus on certain measures that will have to be accommodated. I think what we can try to accomplish is to create an assessment structure that is not redundant and doesn't measure the same thing five different ways. It will accomplish what we need to do and makes all feel comfortable.

- V. **UT Institute of Agriculture Presentation Regarding Measures/Actions Taken**—Chair Horne asked Dr. DiPietro, Vice President for Agriculture to present his report. Vice President DiPietro began by thanking the Chair and Committee for meeting on the Agriculture campus. He told the Committee the presentation was put together from the standpoint of how the Institute of Agriculture is managing more effectively and efficiently and how it is dealing with budget cuts. Over the last two weeks I have made my people focus on how to accomplish this. The bottom line is these have been tough times over the last couple of years. As we go through the information you will get a sense of teamwork from the commitment of the units that are being asked to deal with the budget reductions and costs. While they may not have been joyful about it - they rolled up their sleeves and got it done. I was impressed with that and take my hat off to the units of the Institute for their help. In this downturn of the budget we cannot be in the circumstance of sticking our heads in the sand and hope the budget gets better by the time the ARRA funds end.

The Institute of Agriculture includes:

Ag Research and Experiment Stations (throughout the state)
College of Agricultural Sciences and Natural Resources and its seven parts – those funds for that particular activity flow through the UTK Chancellors' Office to the Institute of Agriculture in the amount of approximately \$5 million.
UT Extension and its Regional Centers and 4-H Centers and its county operations in all counties across Tennessee
College of Veterinary Medicine and its four departments and teaching hospital

By the way, Ag Research, UT Extension and the College of Veterinary Medicine are all state-line funded.

The Institute's philosophy in dealing with our circumstances is to improve operating efficiency while maintaining critical positions that are necessary to drive our teaching, research, and extension or outreach missions. Our value principles in dealing with budget reductions include; minimizing negative impact on students, minimizing reductions in force and caring about our employees (as you will see later on in the

presentation a big part of our expenditures is in the personnel area) and maintaining program availability statewide in some sense.

He presented the budget trends from FY 2005 - FY 2010 for a five-year snapshot of the operation. He then discussed the various sources of revenue that the Institute receives. The first one being tuition and fees. The growth in tuition and fees are due to increases of tuition and class size for the College of Veterinary Medicine.

The federal appropriations are formula funds that are provided largely by USDA for Extension and Ag Research activities and are initially part of the Hatch Act. They are part of our allocations that are formula driven based on a formula Agriculture organizes across the state. We have to fight for these funds every year. We have to go to Washington and make sure that our delegation supports the fact that we need those capacity dollars from the Federal Government to run our operation. The largest year of growth was in FY 2008. It was due to the Federal Government deciding there would be no special projects allocated within the pool of funds and they distributed everything by formula. That is what made the big pot of money of \$12 million in FY 2007 and \$19 million in FY 2008. State appropriations were up from FY 2005 – FY 2008 and then started going the other way in FY 2009 – FY 2010.

The first allocation of ARRA/MOE Funds in FY 2010 consisted of \$10,098,400.

Gifts and endowments consist of revenue from endowments and gifts received throughout the year from the various parts of the enterprise. Endowment revenue is not counted as part of the campaign goal on the fund raising side. A good portion of the \$6,550,000 in FY 2010 is from return from the \$40 million endowment. The endowment has suffered a downturn like everything else.

Sales and Services are the proceeds from the Experiment Stations' sales, user fees from the standpoint of our Extension programming, and payment for veterinary services in our Teaching Hospital. For example from our Experiment Stations we have corn, beans, cattle, lumber, trees and seeds from orchards that we sell to help that operation balance the books.

Sponsored programs - our Research portfolio has grown 31% over the last five years but we need to push the edge of the envelope on that. Actually, those three areas; gifts and endowments, sales and services and sponsored programs are the areas which will provide future growth. Tuition and fee increases are losing elasticity with students,

external constituents and others. Trustee Wharton questioned whether or not the Institute of Agriculture can make money in sales and services. He went on to say that many farmers go broke and the larger they are the faster they go broke. Is there a profit after all the expenses are paid? Vice President DiPietro explained that the truth is without the federal funds that get poured into those programs because of the research enterprises that we do on them they would not be profitable. In fact, some of the Experiment Stations operate with little or any state funds and they have to generate nearly all of the revenue to operate (the University of Tennessee Forest Resources Research and Education Center and the Dairy Research and Education Center, Ames Plantation). In some ways we subsidize the rest of the Experiment Stations so the sales are important because they keep it afloat and they would be much more in the hole if we didn't do it – we are not profitable per say. Vice Chair Murphy asked if the sales and services were selling products at market prices. Vice President DiPietro said that they sell just like any commercial producer. Vice Chair Murphy asked if there were any discounted prices and Dr. DiPietro said that we are the same as any other farmer at market.

As you can see the trend over time has shown growth from \$131.4 million to \$165.9 million from the standpoint of our operations. That is startling when you consider we have been through budget reductions. The fact of the matter is state funds have gone down but other opportunities have increased. If you look at where the money goes in percentages the two biggest areas are in state appropriations and sponsored programs (our research activities). There really isn't much change in percentages of the state appropriations and sponsored programs from fiscal year 2005 and fiscal year 2010 but the state appropriations went down in fiscal year 2010 by 2%.

Vice Chair Murphy asked if the ARRA/MOE monies were included in the state appropriations number and Vice President DiPietro said no, it has already been taken out.

The estimates for state appropriations that might take place in Fiscal Year 2011 and Fiscal Year 2012 are around \$6 million. Our state appropriations rate was at its highest point in FY 2008 (\$76,714,152). The ARRA/MOE funds backfilled to the tune of \$11 million dollars and that was what we were struggling with to get ready for.

The two largest expenditures are salaries and benefits. Operating expenses are 20% of the budget and equipment is 4%. Vice Chair Murphy asked if some employees are in federal benefit programs and others are on state benefit programs and Dr. DiPietro said that is correct. Vice Chair Murphy then added that those are things that we

don't have the ability to effect the cost of from the standpoint of we can't offer less benefits as a way to save money. Dr. DiPietro said we have no flexibility in that. Vice Chair Murphy then reiterated that the number of employees drives the benefit costs and Dr. DiPietro replied yes. Trustee Wharton asked if we are competitive in salaries with our peer institutions. Dr. DiPietro replied that we're competitive on the faculty appointments at entry level. If faculty stays with us for a long time the salaries tend to get compressed and under market. However, it is a problem in Extension with our entry level agents. When we are looking at hiring Extension personnel our salaries are not stronger than our peer groups they are at the bottom. Dr. Cross, Dean of Extension is working to a greater extent with the counties to fix that problem. Trustee Wharton asked if this was a non-formula unit and how much ability do we have to increase revenue to be able to solve the problem. We are in the early phases of developing a workload funding model for non-formula units that may help.

Trustee Wharton asked if it was true that an entry level person with a wife and two children could qualify for food stamps. Dr. DiPietro said that it is embarrassing but in some cases and locations that is correct. Chair Horne asked what the entry level salary was and Tim Fawver, Chief Business Officer for Extension replied \$28,500 with a BS and \$33,000 with a master's degree. Chair Horne said the salary is low. He then mentioned that companies during these economic times have combined more territory and are paid more to be efficient. Trustee Wharton added that the agents are already so pulled and torn already. They are the face of the University of Tennessee in many of these rural areas. For example, our county agent in Franklin County is probably working twelve hour days. Chair Horne asked about having a county agent for two or three counties depending on the size of the rural county. Vice Chair Murphy stated the issue is do we have capacity that is not being used or are the people in all the other counties working full days. Chair Horne asked what about giving them assistants but give them a bigger territory and more money. Dr. DiPietro stated that a large number of employees have taken advantage of the Voluntary Retirement Incentive Plan. They are holding listening sessions across the state and some of those positions are being reorganized and redeployed across the state. We will look at that but we are hanging on to the county model because it is very important to the University of Tennessee in many ways. Chair Horne then mentioned the efficiency of BlackBerry phones and Dr. DiPietro said we have them.

Trustee Gallimore noted that there was \$80 million spent in salaries in Fiscal Year 2007 and then it jumped to \$92 million in Fiscal Year 2008. He asked how much of that represents headcount increase and how

much increase in salaries for those existing staff members. Dr. DiPietro said there was an increase in faculty numbers in FY 2007. He added that there were raises that year and CBO Fawver added that Fiscal Year 08 was the last year raises were received. Part of the issues is that there were vacant positions that year that rolled down into operating and we were able to realize savings over those few years. We filled positions in FY 2007-2008 and there was also a fluctuation in grants and contracts.

Chair Horne asked if the University has a performance evaluations system for all employees each year. Dr. Simek said absolutely and then on top of that for faculty there is a promotion and tenure process. Additionally, we have a post-tenure review process. We have the means to consistently evaluate our employees but the problem since 2008 is we haven't had any money to add for raises. Chair Horne said that in his opinion you need to look at combining some counties and Trustee Wharton stated there is fault to that and the assumption there is slack. As a farmer I don't see that. He stated that the extension agents are out there daily working with farmers. In West Tennessee, the cotton people would not still be in business if it weren't for Extension. Dr. DiPietro said that in the planning process this year they will take a look at whether to take out some of those positions and redeploy their FTE somewhere else and if you want to put it on the back of some of the entry level employees' salaries to get us more competitive is another approach. For example every county may not have a Family and Consumer Science person but two counties share that part of the operation. The Extension operations have various activities such as agriculture and 4-H Youth Development so there is a possibility it can be done.

Dr. Simek said let me observe that this process of looking at the efficiency of the individuals out on the landscape and retrenching that operation is something that Dr. DiPietro and his people have been doing through this entire budget consideration but the unfortunate thing is the funds that they have been able to recover have had to go to the budget reductions. I agree with you the ultimate desirable thing would be to shift the funds to reallocate them to people's salaries but we are facing budget reductions that are draconian.

Dr. DiPietro stated that he felt it was important that the administration at the Institute's level should absorb their cuts as well. The overall budget cuts anticipated in state appropriations will be between 12-14% by the time we get to FY 2012. The UTIA central administration's budget has been trimmed by 18% since Fiscal Year 2008. We are lean and will continue to be that way. We rely heavily on the Deans' offices and the other units of the Institute to manage their programs.

Reduction in FTE was 6.92 and the total amount of reduction for central administration was \$388,964.

Chair Horne asked how the Institute had done on development. Dr. DiPietro said very well and that he was proud that they are over goal at \$85 million on an original campaign of \$55 million. The Institute raises approximately \$15-\$17 million per year. Chair Horne then asked how many development people there were and Dr. DiPietro said there is roughly 3 1/2-4 FTE because a couple of them do mixed duties. Chair Horne asked if they work well with Vice President Nemcik's group and Dr. DiPietro said yes.

Dr. DiPietro went on to present cost savings that the Institute has achieved. A Travel Reimbursement On-Line Program has been developed instead of mailing in documents. Four of seven academic units in Agriculture and Natural Sciences converted all or part of multiple research support staff positions to restricted accounts or grant funding for research activities for a cost savings of \$208,000. The web based Smart Meeting approach for our Extension operation looks like a tremendous savings in the fact that there is an estimated savings of \$75,000 in travel costs and an additional staff time savings of \$1 million. Converting handwritten receipts to electronic systems is a direct savings of \$5,000 and staff time savings estimated at \$200,000.

We have reduced our bottom line in the anticipation of the ARRA/MOE funds running out by eliminating 152.91 positions that we thought we could live without for an estimated annual savings of \$6.56 million. Sixty positions were vacant, 59.50 employees took the Volunteer Early Retirement plan, 24.41 professional/support staff and 9.00 graduate assistants were eliminated. Trustee Wharton asked if these eliminations had adversely affected the ability to run the Institute of Agriculture. Dr. DiPietro answered that it makes it more challenging.

Chair Horne said we all know that we have the biggest and best Farm Bureau in the United States. Have you ever asked them to help us by donating money? Dr. DiPietro replied that we have a solicitation in front of them right now.

Dr. DiPietro went on to say that the operating budget reductions were cut annually by \$1.92 million. We allowed our units off campus to purchase vehicles with one time monies. A passenger van rate for our 4-H Youth Development events is about \$.66 per mile. Extension ran the numbers and felt that the one-time cost of the vehicle opposed to the cost annually that savings was \$.43 per mile versus \$.66 per mile. That is an advantage but when those vehicles wear out – the units will

have to figure out where they are going to find the \$25,000-\$30,000 to purchase that new van.

College of Veterinary Medicine has replaced a chiller that was thirty years old. It is estimated to be 50% more effective and there are eight more of those to go. Dr. Thompson has his eye on how to get those in place as well.

Chair Horne said that the legislators and other stake holders need to realize that we are struggling to maintain our mission in the University of Tennessee Institute of Agriculture. Legislators and constituents need to know that. Chair Horne offered to visit Farm Bureau on a development call and should ask them for a nice donation.

Dr. DiPietro went over strategic reallocations and noted centralized grants and contract pre-awards make it easier for a faculty to get it out to an agency more quickly. A growth area for us is in our research programs. We do not want our faculty wasting their time on boiler plates we would rather they use their time to work hard on the proposal itself. We want to let our staff take care of the boiler plate and this is what pre-awards do. It should make us more successful on the grant side and hopefully grow by 5-10% each year to maintain that.

We have re-focused some of the activities across the Research and Education Centers and consolidated an operation in Middle Tennessee to cut costs. We will not be doing vegetable trials at all locations or we will not be doing cattle work at multiple locations. We use to do a lot at every place and now we are more focused to trim state support in going to those. We have had a cost savings at Milan Research and Education Center from the standpoint of using our headquarter staff to help staff the museum.

We continue to develop our e-commerce store. We have a lot of people who work through us and sign up for other activities and need e-commerce as another way to make a few more dollars.

Our e-mail system was merged with UTK's. The Institute of Ag was Lotus users and would need to convert to Outlook but felt when CIO Studham came on board that it was prudent to think about whether we could use their help and trim costs. It was not painful. There were a few glitches like there are anytime you change technologies but it worked out and the cost savings were \$200,000. That is what campus/system enterprises should be all about and this is a good example. We appreciate CIO Studham and EVP Millhorn's help on this project.

The International Agriculture program partnered up with UTK on this. UTK has an International Education office and felt that at the Institute's level we could use their services, have the Deans' in my office to deal with the national agreements and save money.

Regarding cost avoidance we closed the Buford Ellington 4-H Center in Milan because it was in very bad shape and didn't serve the children as it should and could save money in doing it. There is still an intention in rebuilding the Center someday and it is still on our capital outlay list. We are trying other development approaches and securing funds to make that happen.

There has been a shift in how we hire faculty. We hire faculty with joint appointments between Extension, Experiment Station and the College of Agriculture. At one time in the Institute there was a strong commitment that you were either all Extension or all Research but you do not blend the two. It serves our citizens better and provides better communication between Extension and Research. We have blended those appointments and can hire more faculty that way. They can be serving both enterprises very well.

We have had collaborations with Nutrition and Animal Science faculty in establishing an Obesity Research Center. These collaborations have increased grant and contract revenue for projects related to health and nutrition, providing new educational programs for UT Extension using restrictive funding. The increase revenue is \$150,000. Trustee Wharton asked if there have been signs of success with the Obesity Research Center and Dr. DiPietro said agents can see success in their communities.

We purchased a new Eastern Region Extension office at Downtown West rather than building a facility. The estimated savings in \$500,000 and it is in a great location with great parking for regional operations.

The impact of the budget reduction when you look at the increase on extramural funding and there is increased demand on faculty from the standpoint of how much they have to do and how much help they have. The reduced funding for support of graduate student assistantships is painful because they support our faculty's work and we are committed trying to find dollars to fix that.

In the College of Agriculture Sciences and Natural Resources (CASNR) we consolidated some courses where there was duplication or the courses were terribly costly and enrollment was not that high. There was a public horticulture course and a public gardens management course. They were two separate courses and we

blended those two. Students interested in both areas are able to participate in one course. There was an Animal Science course where world experts were brought in – a very expensive course to run but great stuff for the students. Was it absolutely necessary for them to get their training and the answer was no.

The impact on students is that we have less diverse course offerings. The breadth of subject matter is sacrificed to maintain depth and reduced expensive hands-on labs in effort to trim costs. The faculty felt that the curriculum would not be impacted for the students. Trustee Wharton asked if it would be best to increase the lab fees and Dr. DiPietro said that is in addition to increasing the lab fees by \$34,000.

We increased the use of non-PhD faculty to teach some CASNR courses. We are underfunded in CASNR by 18 FTE. Teaching FTE is funded through Chancellor Cheek's office on the UTK campus. We use people from Extension and Experiment Station to teach in our program. Chancellor Cheek and Provost Martin are very committed to solving this problem.

Enrollment was increased by 10 percent from 2007-2009. We are using lecturers to teach where we have only had tenure track faculty. All graduate students are expected to teach in our programs whether they have a research assistantship or not. It is good because they should have that experience and training and it helps pull the two together. One staff position was eliminated as well.

One of the things that happened that we didn't poll as a principle until we got into budget downturns but it came up was to try and maintain faculty numbers over time. Part of that was my philosophy of my estimation that as we come out of this budget the driving force to get external grant support and be able to entice additional new contracts is faculty. To hire new faculty takes much longer than replacing some of the other people we have. You can see the trend on faculty numbers have pretty much remained the same over time. I suspect as we get into Fiscal Year 2012 they won't drift down too much. We think it is very important to maintain our faculty members. We are lean when it comes to faculty. Some land grant institutions may have five faculty in animal sciences with a dairy specialty and we have one. That is why it is very important to hang on to them.

Chair Horne stated that one of the University's benchmarks is faculty per student. For example, the College of Business has 117 faculty for 5,300 students. Five years ago they had 2,600 students. What has your student population done over the last four years? Dr. DiPietro

answered that the student population has grown by 10%. Chair Horne asked if they maintained their faculty. Dr. DiPietro stated that the faculty that are counted are research faculty that are being funded from Ag Research and Extension that is funded there. CASNR has about 26 FTE of the 253 number that have technically teaching appointments. Our ratio would be 25 faculty to approximately 1,200 students. That is if teaching money is paying their salary. We have 18 FTE from Experiment Station or Extension who do it with our full endorsement, are evaluated on it and we appreciate them doing it but the Institute of Agriculture is paying for that teaching activity. Truth be known those faculty members love that class work. If you told faculty that they had to do all research and no teaching they would not stay. We need to fix the problem but it is not by telling them how to do it.

Vice Chair Murphy said that is why it is a hard thing to measure. By Dr. DiPietro's example, we have technical people that are off budget teaching but they are teaching. That is why the numbers can sometimes be deceiving. If you look at UTIA's faculty to student ratio it looks like it is way out of proportion because these people are being used in other areas.

Chair Horne asked how much on-line training the Institute does. Dr. DiPietro said there is one Ag Leadership course that we are trying to develop on-line that we believe has potential statewide. We do feel other on-line activities need to be developed. They aren't always cash cows.

Trustee Gallimore asked Dr. DiPietro what his success has been in retention over that group of professors (total of 118). Dr. DiPietro stated that the Institute does not lose a lot of professors but did not have the numbers. He then went on to say there are two circumstances that happen. Either someone recruits them away because they are very talented. In that situation we find a way to counter offer in order to keep them. The more challenging circumstance is when you have that full professor that says an Institution has offered them an administrative job and they want to try their hand at it. Occasionally, we lose a few professors due to that circumstance. Generally, our retention is very good. Trustee Wharton stated that when we keep someone by matching an offer it creates internal inequities for everyone else. Dr. DiPietro said that they have a faculty incentive program for those with research activities or those that bring in grant dollars. There is some reward in securing those external dollars and people respond to incentives. Jack Britt created the program before I got here. I think it keeps a lot of our professors here. Trustee Gallimore said I wanted to hear you say that turnover is not an issue. Dr. DiPietro said no, turnover is not an issue.

Revenue enhancement opportunities are everywhere from selling organic vegetables to faculty and staff to charging fees for the master beef programs and pesticide safety certification. That brings \$200,000 in revenue into the enterprise. The capital campaign is the future of the University. I support the new foundation because the more development officers you have on the ground the more money is raised. There are new services establish with the Small Animal Hospital such as community, dental and integrative practices. Those are repeated disciplines where people repeatedly come back with their dog, etc.

We feel that the change from VTH to UT Veterinary Medical Center to enhance recognition of UT medical and surgical expertise will give us marketing strategy.

Currently, we are using stimulus money to make payments on the Voluntary Retirement Incentive plans. We have committed \$2 million from stimulus funds to the Large Animal Hospital addition and that project is estimated at about \$20 million. CVM will replace essential hospital and research equipment in the amount of \$3 million from those funds. Some stimulus funds may be needed to temporarily to meet ongoing hospital operation needs because CVM's revenue is currently forecasted at \$600,000 behind budget. We are hoping that it doesn't come to that. Some of the money will be used for Extension for upgrades to the Greenville 4-H camp. A consultant was hired with the funds to assist with the development of a new strategic plan and corresponding re-staffing effort due to loss of positions. New HVAC and heat recovery units have been purchased with the funds for the Johnson Animal Research and Teaching Unit is a \$200,000 savings with a \$54,000 savings per year in anticipated energy cost savings.

This presentation shows how the Institute of Agriculture has been managing more effectively and efficiently with reduced budgets. In closing, it is amazing what a part of the University can accomplish of people don't care about who gets the credit. The heart and soul of the place is the people we have roll up their sleeves and figure out how to get it done. They care about the people, they care about the programs delivered, they care about the parts to be developed and they certainly care about performance. They do it with a lot of style and grace and it makes my job easier.

Side note: Chair Horne mentioned to Acting CFO Peccolo that energy savings is an important issue that needs to be focused on. Chair Horne, President Simek and Bobby Thomas met with Tom Kilgore, TVA's President and Chief Executive Officer and Kim Green, TVA's

Chief Financial Officer. The Tennessee Valley Authority has money for capital improvements and we don't want to give that to entrepreneurial companies that help us with energy savings and take 1/3 of the benefit. He asked President Simek if there is someone assigned specifically to this topic. Each one of the campuses has pushed forward with identifying where those savings can be and getting after them. The ARRA funds as it turns out have been very useful. Projects like replacing the steam plant are enormous but ultimately do have to get after them. President Simek said that he recalled Kim Green saying that TVA had money for studies. The steam plant is a \$70 million project. TVA can help us around the edges but we are going to have to commit ourselves but we don't want to commit ourselves to endless litigation by bringing in companies that think they can do it. We are looking really hard at where we can do this and then it will have to be a commitment from all to get it done.

Trustee Loughry thanked Dr. DiPietro and his staff on behalf of the committee. The presentation was very well outlined and it takes a lot of time to get it into a form where it can be appreciated and look at it step by step. A great deal of work has gone into not only the report but getting UTIA to this place. They need to be complimented as a campus.

Vice President DiPietro commented that there was a great deal of people around the Institute that rallied around the flag and I take my hat off to them.

Chair Horne stated that every campus that the committee has been to has done an excellent job and should be commended.

- VI. **IT Report on Cost Effectiveness and Organization**—Chair Horne asked Executive Vice President Millhorn to present the IT Report. The committee is very interested in this topic and continually wants updates.

EVP Millhorn said he would say a few words in order to set up the presentation. Three years ago, the number one area of complaint across the University of Tennessee was Information Technologies. Every day the faculty, students and staff were complaining about our IT system. We brought in some experts as consultants to look at it and advise us. They came back to us and said it is broken. As we began to put it back together IT was moved into my office to oversee it. We started looking at how we could make the system better because IT is the nervous system of the University. Without having a good IT infrastructure you cannot communicate, share, or collaborate as well

as you should. To be more productive we had to communicate better with each other.

Initially, I convinced Jesse Poore to come in for one year and be the Chief Information Officer. We had never had a card carrying CIO to run IT for the University of Tennessee. Jesse Poore had done this at Florida State and other places. He would start the stabilization of IT and move it forward. Then we hired Scott Studham who came in a year and a half ago to continue that work. I am pleased to say today that I have not received one complaint this calendar year on IT. We have looked into the future and asked where we need to be as a first class university with our IT. How can we do it with the most cost effectiveness to be the most efficient system we can be and yet compete with the other major universities? I am pleased to report that we have moved in that direction and are making gains.

CIO Studham prepared this presentation but he could not be here today. EVP Millhorn said he wanted to lead the committee through where IT is today, where they have made cost savings, where we have become more efficient, where we have made better relationships with our constituent campuses and so forth. The first thing we had to do was to establish credibility. If you do not have credibility it is very difficult to establish a program and get people to buy into it and work with us. We want to be able to go to the campuses and they believe what we are saying about IT and then join in and collaborate with us.

He then went on to give examples of statewide IT progress. For many years we have tried to have common ID numbers so we would not have to use social security numbers. We now have ID numbers for everyone in the UT system whether it be students, faculty or staff. Now that you can be recognized with the ID number, social security numbers do not have to be rolled out and we can now share applications. If you are at Martin and you want to log on to something here in Knoxville – it can be done. Banner is the student system that allows us to manage our education program, space used for teaching, enrollment, recruiting and etc. It is up and working in Martin and Chattanooga. Knoxville has made a lot of progress in getting the system up here. Dr. Bonnie Yegidis and her staff have been involved. This certainly improves consistency. If you want data – we can give you data that we believe in rather than having to go to each individual campus to give you data and the way they calculate it. There should only be one way to do it. Banner core offers prerequisite/co requisite checking for registration leading to efficient use of classroom space so we can manage our classrooms better. Banner also reduces IT risks and costs. At the last Board meeting in Martin, we had as a guest Andy Johns from North Carolina who went over a Research

Information System called TERA. We are now implementing TERA. It will allow us to better manage all of our research, all collaborations, intellectual property, FTEs, the amount of money we can transfer for salaries. Who is collaborating with who, where we are getting the money from and where we have the best opportunities to get the money from. We are starting to roll this out now across the system and hope by fall it will be completely out. The campuses have been cooperating and this will take the place of the COEUS System which was inaccurate and very difficult to use. This will give us a better handle on our research program. Trustee Loughry asked EVP Millhorn what the anticipated dates for Banner to be up and running in Knoxville and Memphis. EVP Millhorn asked Joel Reeves, Assistant CIO to comment since he has been heading up the Banner project and TERA. UTHSC in Memphis will be up in all modules by July 2010. Knoxville is up on room scheduling. Registration is going live in September, Accounts Receivable and all other modules in November. Chattanooga has been up on Admissions since October 2009, Registration since April 2010 and Accounts Receivable will be up July 2010. When we get these enterprise systems up there will be a lot more consistency than we have ever had, will save time and make us more efficient.

We send out surveys a couple of times a year and we are anxious to find out from our faculty, students and staff what do you need, what is important to you, how well is it working and how often do you use it. There are a lot of categories and we score the survey 1-5 with 5 being the best score. Our personal goal is to have 4 and above in every category. That means it is important and it is working well. He gave an example of results of a survey given just a couple of months ago where we asked faculty, students and staff to score their use of IT activities, how often they use it, how important it is to them and their satisfaction. The one most often used is e-mail. A couple of years ago e-mail was a real problem. We had all kinds of servers and have tried to combine them all into one system so that there is a common e-mail. All are excited over that. It is still one of those areas that we want to continue to improve. Chair Horne asked if the central server had been activated. EVP Millhorn said that there is a central server here in Knoxville and we have servers on other campuses. Chair Horne went on to ask if people had bought into the central server here in Knoxville and EVP Millhorn said yes. He went on to say that now there are very few complaints about e-mail. It was so bad at one time that we were being censored by several funding agencies because they couldn't trust us. Our security is much stronger now. We are in the good graces of all of our agencies. Chair Horne asked if that had happened in the last two years and EVP Millhorn confirmed yes. Again, it is the people running this program that understand IT, know how to manage

it and develop IT programs. Trustee Wharton asked EVP Millhorn to explain the headings on the survey. EVP Millhorn said this survey is only broken down by faculty to show an example. President Simek added that one of the most critical problems that we had when this whole thing started was the security. It had to be fixed before we went much further on the other because we were actually on some of our funding sources' black lists because our security was not strong enough. Our number one partner is Oak Ridge and everyone knows that. They did not trust our IT. That is a real problem when you cannot communicate with your partner. So we had to figure out where the security problems were coming from and fix them immediately. We have done that and we have a very secure IT system and we continue to monitor it every day in order to keep it secure. If there are certain services that we provide that do not have many users we need to rethink and eliminate some of them. Again, be able to provide the most important services. Vice Chair Murphy asked at what point did you start this process. I recall your expressing concern that each of the campuses had their own system and the reason was that there was no confidence in the main system. Have we gotten to a point where they are migrating into a more centralized process? We want them to want to migrate rather than telling them because it would never work. Every day, we are establishing more credibility with our faculty on all of the campuses that want to be a part of the system. They see that they can save money and get a better service and become more efficient by subscribing to the central server. Vice Chair Murphy asked if we are convincing them of that? EVP Millhorn said that we are demonstrating to them. Trustee Wharton asked if anyone on campus could have access to TERA. EVP Millhorn said that yes but that they will have to have authority along with checklists. Trustee Wharton went on to say there is a lot of information there. President Simek said that faculty members would have access to their own research portfolio but wouldn't necessarily have access to others. EVP Millhorn said just like Dr. DiPietro mentioned earlier about having people help with award applications – that will all be available through TERA. It is to make the job easier for scientists/researchers going out after the money. We want them to be concentrating on the science and make their application as strong as possible. We will help put the application together. It becomes almost paperless. When you submit an application out to a federal agency it is electronic. So everything from the initiation of the project to the pre and post award will all be without paper. We think TERA by far is the best system out there and we got a bargain. We bought it for \$300,000 and it has now gone public and it would probably cost us \$3 million dollars if we bought it today. We continued our partnership with the University of North Carolina in developing it and we have free access to their staff as well. Acting CFO Peccolo asked EVP Millhorn to differentiate so the committee can

understand the security issue. All of the issues were outside the financial area (payroll, HR, etc.) were secure. He wanted to make sure that all knew we were not blacklisted because of that. EVP Millhorn stated that the security breaches were mostly through our e-mail servers and other types of servers. Vice Chair Murphy said that goes back to why we are trying to centralize. EVP Millhorn said our system is secure now. He added that does not mean there won't be hackers but we will find them quickly.

He said we are constantly trying to get better. This is an area that is continuously changing. Operating, e-mail and research systems are always changing. We have to always be moving forward and improving. We plan to outsource student e-mail in order to save money and we are looking at Microsoft. He stated that probably $\frac{3}{4}$ of all the major universities in this country outsource their student e-mail. We are not going to outsource faculty and staff e-mail right now but will upgrade it and keep it in-house.

It is important that our faculty, students and staff be able to use the computer and IT to get the information they need. We are going to have an agreement with Google that will help us personalize the University of Tennessee to use their search engines that will give us more power.

We hope to deploy TERA and Banner this year. We will also work on common definitions across campuses because we must have commonality.

He went on to give some examples of survey comments "I appreciate the new emphasis on service. It's always been there, but I like the promotion you have done with One Call. Your reputation has improved." "Just let me say "THANK YOU!" --YOU ARE GREATLY APPRECIATED!" To me these comments speak for themselves about CIO Studham and his team. The Central IT Organization is gaining credibility all the time.

After credibility the next thing on the IT Road Map is have customers drive the direction of IT so it is what they need. Rather than say this is what you need we want you to tell us what you need and we will help you do it the most efficient and effective way possible. He then showed a sample of the IT Services Catalog. IT provides all the services listed to the entire University family. He then showed a portion of the IT budget. There is a budget on each campus, central, departments, institutes, etc. It will never be the exact number – it is only ballpark.

We have IT service centers that reflect our recharge activity. We pay the telephone bills and cable TV, bill you for it and you pay us back. It is a net zero gain. We bill out what we pay. There are technology fees that are charged to each student each year. Most of this fee goes to end user services to help them with their computers, certain types of instruction, software, etc. Additionally, there is the UTK Central IT and the UT System Central IT and again this is broken down on how the money is spent. This comes up to less than half the total IT budget system wide. The bulk of IT's money is spent in user services. We have established four governance committees so the campuses now have control over what services are offered from central IT. This is part of credibility – this shows them that we are providing them what they need not what we think they need and that is really important.

The Statewide IT Strategic Planning Committee has members from each campus. They provide input to the system of what IT services should be offered, a list of common objectives for each year and they are preparing a one page five year vision for IT at UT.

We are always looking at ways to reduce duplication and increase value from existing IT expenditures. There is a lot of duplication and a lot of it is based on the history of IT itself. IT did not start as a central focus anywhere but it came up through the grass roots. So departments had IT systems before colleges and colleges had them before the university. It has a history of being a disburse system. Now we are saying it needs a more central focus so that we can provide better service, keep you update-to-date and be more efficient. Reduce duplication and increase value of IT expenditures is an important thing. He then went over an Institute of Agriculture case study. CIO Studham starting working with UTIA and were able to eliminate certain duplicating systems and saved \$200,000. The money that is saved stays with the unit. It does not go to central IT. The use of OIT services to reduce administrative costs while improving communications saved \$75,000 so the Institute would not have to duplicate that same service and staff time savings totaled \$1 million. Collaboration with UTK Campus on Electronic Receipts system saved a total of \$200,000 on staff time. We established plan to use OIT Help Desk Service to avoid duplication. He then read a quote from Mike Keel, UTIA CIO – “This is the right thing to do for the University and it is the right thing to do for the Institute of Agriculture...It's not personal, it's business, let's get this worked out.”

There is a new agreement to share servers between UTIA and UTK. IT staff will “share” control over servers and this is a major paradigm change. It will save the University money in hardware and licensing and may improve end user ease at moving between systems. There is

strong support from management. Again, Mike Keel, UTIA CIO quoted “This is a ground breaking project where two distinct IT organizational units will logically work as one to provide a service to end-users.”

Each campus is making progress at reducing duplication. We signed an agreement with Microsoft for \$500,000 and we were able to eliminate a number of different programs because they were being provided by the Microsoft contract. These savings have added to \$345,000. As we are getting ready to upgrade to Office 2010 (currently using Office 2007) we now have 13,194 licenses across the system and we can now buy them for \$55.00 each versus \$100.00. We get the discount as part of the enterprise agreement and leads to a future savings of \$725,000. Also, central IT bought other software at significant savings. At UTK and across the system provide common wide area networking for each campus based on statewide NetTN contract. There was a reduction of \$1.7 million in central funding with a decrease in end user services. There were a lot of things we have been able to identify as duplications and have worked to make those into a single function. Trustee Wharton stated that CIO Studham had mentioned \$20 million in IT savings and if that is not correct what is the number. EVP Millhorn commented that what we are doing is looking at all these duplications have eliminated as much as we can to become more efficient and getting people to play in the same sandbox. I am reluctant to put a number to that but it will be a significant savings. If you add the current pages that we are discussing it totals around \$5 million or so that we have done so far. We have only started reducing the duplications. I hate to say that \$20 million is the target because it could be more than that or it could be less than that. We will maintain a first class IT system. If we don't do that we will become less productive and won't be able to compete successfully for grants and contracts. First and foremost on my list of priorities is a first class system with as little of duplication as possible. President Simek said that is exactly right and maybe we invest money that we are generating by efficiency back into the system. Trustee Wharton state that was a given. President Simek said it will be in the millions and be a significant number and I am also reluctant to put a number on it. EVP Millhorn restated that it is ongoing and in ten years from now a more efficient way will be found to IT. More and more we will see the University of Tennessee in collaboration with partnerships of other institutions and organizations. Videoconferencing is an extremely efficient way to do business. It is easy to reach out and touch somebody in a room that is 200 miles away. It has to do with the culture but we can learn new ways of doing business by trying some of these new approaches and save a lot of money in travel. It would not be an IT savings but a savings that was accomplished through IT. We

are moving in that direction and the price of those technologies are continuously coming down which makes it cost effective.

He made a note about the 13, 194 licenses that will need to be changed for Office 2010. He said if we begin to change Office 2007 to the new Office 2010 system we do it by hand and takes approximately 2 hours per computer. If you do the same thing at Oak Ridge it is done in one day and it is done overnight because of their centralized structure. We are moving in that direction the manpower required to change from Office 2007 to Office 2010 is enormous. The end goal is to be able to do this centrally. The number on the end services category will shrink as we start to do that because of automating the process with a more centralized approach. Trustee Wharton asked if a universal help desk is anticipated or help desk specialized per campus. EVP Millhorn we need to look at it but it is doable. The figures show that campuses are making some savings in the area of IT moving forward and the systems are getting better. The UT Health Science Center has made incredible efforts with \$713,000 in savings.

My report is that IT is becoming more efficient, we are saving money, and we are much more effective than we were last year. Each year is getting better and better. The levels of satisfaction have increased considerably among all constituencies of the University and campuses. There is more work to do. The campuses have to work with us and there has to be a commonality because we are a University. We understand that there is uniqueness at each campus that we will work with on an individual basis. By combining our efforts and activities we can bargain for better prices on software and can have the most modern hardware. We can have an IT system that is just as good as anyone else's and that is the goal. Trustee Wharton asked if there was a system to replace a certain amount of computers yearly. President Simek said yes it is done every three years if it is needed. A lot of faculty will say they do not need the upgrade but that process has been in place for a long time. EVP Millhorn said the problem is that technology is changing so fast and laptop technology is changing even faster because of the technology demand.

Chair Horne commended EVP Millhorn for your leadership with IT as well as CIO Studham. I was impressed at the last meeting when CIO Studham said that we had reduced from 40 to 20 IT central managers. We have saved millions and will save millions more. I am impressed that he is doing quarterly performance reviews on IT managers. You are customer oriented and that is wonderful idea that it you are customer based. EVP said that he will extend the compliments to the entire staff. They are working as a team with the campuses' IT staff. There are still some problems that need to be solved but there are less

than there were last year and there will be even less next year. Chair Horne noted that when you say you have customers drive the direction of IT as to what they need. It is so simple but so prophetic too. The service drive is also the mission of the University. Right now I cannot tell you how much of our space is being used for certain research activity – we have to get to the point that we can do that so we can be more convincing to our legislators. We could say we just don't have space – this is how efficient we are currently using the space now. This whole thing comes together to improve the overall quality and breadth of the University. Chair Horne said that is what Chair Murphy and Trustee Loughry says and Vice President Dye is pleading our case to the legislature that we are making big improvements and are advancing.

- VII. **UTK Athletics Department Presentation on E & E and Debt**—Chair Horne began by thanking Athletics' CFO, Bill Myers for representing the Athletic department. We are very proud of the Athletic Department. It is self sufficient and it does contribute to the University academia and that is greatly appreciated. However, we have to watch it too because it cannot get out of balance on expenses and debt service. He then asked Mr. Myers to give his report. Mr. Myers thanked the Chair, Committee and the Board members for allowing him to present. He stated that Athletics is different and this allows him the opportunity to explain how they operate and look into our world. We have the benefit in Athletics, as an auxiliary unit, to have had some of the pains that the campuses are going through now. We have to generate our own money. If the money is not coming in we see that ahead of time and adjust our own budgets accordingly. The EEF Committee was formed September 2008 and in October 2008 Athletics started looking at our business. We were not winning many football games as hoped and the economy was not as good and we weren't sure if we could pay our bills based upon the current model. We sat down and reallocated our budget. We took \$2 ½ million of discretionary expenses out of it and filled it with fixed costs that we knew we were going to absorb. The overall budget was the same at the end of the year. We had a cash surplus of \$2.6 million. We had to book all of the football coaches' buyouts and that created the accounting deficit that people talk about. On a cash basis, we created a surplus and we are proud of that.

I want to present athletics to the Committee from a different approach. Efficiency is not always about dropping your budget. Sometimes it is taking the budget you have and making sure that you are allocating that towards the goals you find important. If you are not accomplishing those goals then maybe you need to spend your funds differently.

Internally, there are four goals that we want to accomplish. We want to invest in the success of our student-athletes and I like to put it in three words - graduate and win. We need to maximize our fans' experiences because they pay the bills. Except for the \$1 million in student fees, all of our revenues are externally generated. We must be able to support campus programs. We are proud to be able to give back to the University. Lastly, we must remain financially self-supportive. In the times that our campuses are in Athletics cannot be a draw on resources.

We have just put in our business plan for 2010-11. We will have athletically generated revenues right at \$100 million. We do receive \$1 million in student fees and that is due to equity purposes with women's athletics. That is a total of \$101 million in revenues. We have expenses in our programs right at \$93.1 million. We will provide \$6.9 million back to the University/campus. Some of the monies we give back go across the system and not just in Knoxville. Chair Horne asked him to define the \$6.9 million they give back. There is \$1.375 million that goes to the Office of Admissions for academic scholarships to non-student athletes. There is \$1.125 million in funds that go to the system to help support the debt service on the University's parking structures. We use them on Saturday and the University uses them the rest of the time. There is \$3.825 that is used at the discretion of the various Chancellors. The Knoxville campus receives the majority of that amount (\$2.82 million). UT Martin, UT Chattanooga, UTHSC and Institute of Agriculture receive the other \$1 million. That is direct money going to them and they can spend it as they see fit. There is another \$575,000 that goes for things like support of UT Flight Operations and for the UT Health Services doctor for women student athletes. There is an assortment of things across the board that total up to the \$6.9 million. Trustee Wharton asked if there were other in-kind services that Athletics provides to the University that is not included in the \$6.9 million. Mr. Myers said yes. One example would be luxury suite ticket boxes used for fund raising for the Board, President, etc. at no charge. Second example would be Athletics pays the annual operating deficit on Thompson Boling Arena. Athletics is the primary tenant of that facility but does not operate it. The facility is managed by the campus and at the end of the year they come to us and say we lost X amount of dollars. We try to coordinate with them so we know what amount that is going to be. Right now it is \$1.5 million. Chair Horne asked when Thompson Boling Arena is used for concerts where does the revenue go. Do you have to pay the deficit on that as well? Mr. Myers said the money for the concerts goes into the campus revenue pool and at the end of the year the campus tells Athletics what they owe. Vice Chair Murphy asked if Athletics receives the revenue from concessions, etc. for athletic events at Thompson Boling Arena to

match against expenses and Mr. Myers said yes. Athletics and campus share the use of the facility and the expenses are on an event by event basis. At the end of the year, if there is a deficit they go to Athletics. Chair Horne asked if Athletics gets credit for the concerts and Mr. Myers said the revenue for the concerts shows up on the campus financial statements and not Athletics and it minimizes the deficit. In 1996, legislation said that Gibbs Hall could no longer be just for student athletes. Athletics pays for 49% of the rooms for student athletes and they operate at a deficit. At the end of the year they come back to us to and say here is our deficit so we pay all. Trustee Carroll asked what is that cost and Mr. Myers replied \$141,000 for last fiscal year. Trustee Wharton said that only Florida athletics gives back to their University \$3 million to the campus so we are doing a lot of things right here. President Simek added that among the SEC Presidents this issue is discussed frequently. There are only two institutions in the SEC where there is a substantial net contribution from athletics to the academic side. The University of Tennessee is the higher of the two. In the end, we do very well.

Chair Horne commented that at the June Board meeting it will be decided whether or not the Athletic Department will move under the Knoxville campus. We have had a couple of ex-Trustees that have raised a question about if it goes under UTK Chancellor would the University take money from the Athletic Department. Chair Horne's opinion is no – it should be saved. If the economy gets weaker and/or we don't do well in sports the revenues will go down and the savings will be needed. I don't believe in terms of effectiveness by doing the right thing the University academia should take any of athletics money because you may need it one day other than what you are giving. Vice Chair Murphy stated that you have to be careful in how you say this. They are already taking a significant amount of money and I don't think the goal here is to change that. In the Trusteeship meeting, there was an extensive discussion about moving athletics to campus was with the expressed understanding that none of that goes away. This is not about finding a way for the campus to control the budget. Chancellor Cheek said this is not designed in any way to change Athletics funding. It is working the way it should be working. As President Simek says, we are a model and one of the things that we need to be careful about is not upsetting the successes we have achieved over the years. Again, the Board has made very clear that nothing new is anticipated from the system supervising Athletics versus the campus. All of this is to be put in a memorandum for the Board meeting. President Simek stated that the aligning of Athletics with the Chancellor's office is not about the money as much as it is about the academics. That is an increasing pressure as the NCAA refines its view on how this should go forward. We will protect the relationship between athletics and its

ability to fund itself and the campus and Athletics ability to bring money into the campus and will be stated explicitly in the articulation. Chair Horne said in his opinion that any monies they get over what is given to the University should be saved because times can get hard. Athletics is like its own business and it needs to be managed well. Vice Chair Murphy added that he has been on the Athletics Board and he has been after them to build up their reserve funds. Athletics needs to have an adequate reserve to make sure that when things come up they are not coming back to the campus with a cash flow problem. They need to be able to handle cash flow issues out of reserves. Mr. Myers has done a very good job over the last 4-5 years in building a reserve that was almost nonexistent when he started. This surplus is really a mechanism to help grow the reserves. Mr. Myers said that at present time Athletics has \$4 million in restricted funds in the bank and another \$5 million that is restricted in the bank for coaches' buyout. The goal over the next year is to have that \$4 million grow. Chair Horne asked about the term of the debt and that most of the debt is through TSSBA but asked if the length of the debt term was o.k. Mr. Myers said that that they are good and have it planned out. We have dedicated revenue streams for debt service. The bigger risk is a commercial paper that we want to pay out in five years. Acting CFO Peccolo added that they have been working with the bond counsel to get a private letter ruling allowing tax exempt financing on a number of Athletic projects. We are close to getting a favorable ruling and once the ruling hits the TSSBA is ready to lock in the rates and issue. We have been carrying that for about a year and a half. Trustee Wharton asked what the tax savings would be. Acting CFO Peccolo stated that the 30 year term would be approximately 4%. Chair Horne asked if you could pay off any time that you want. Acting CFO Peccolo stated that most have call premiums and it just depends on the bond issue. Trustee Loughry asked if the Athletic Department is required to pay local taxes. Mr. Myers said yes we currently pay 9.25% state sales tax and 5% city/county regional tax on top of that. All of our tickets are taxed at 14.25% which totals to about \$4.5 million a year. In the conference there are four schools that do not pay any tax at all. The other schools in the conference pay their state's sales tax only. Chair Horne wanted to know if we should ask the legislatures to exempt us from that. Mr. Myers said that we have tried but the unfortunate thing is the dollars we are paying are allocated. They are using our funds to pay for projects that are committed. Vice Chair Murphy said they are looking for every penny that they can get. This is not a good time to go asking for money. President Simek said that part of it was generated in negotiations for support to build certain facilities. Chair Horne stated that the Legislature does need to know that we are paying taxes that the other Conference schools are not.

Mr. Myers stated that in summary we have increased our planned surplus from \$500,000 to \$1.0 million. Our revenues went down \$350,000 so that made it challenging. On top of that our fixed costs went up over \$2.5 million. The variable costs were cut by \$3.4 million. Our expense budget last year was almost \$100.8 million and this year it is \$100 million with an overall decrease of \$850,000.

Campus funding is included in our fixed costs. Vice Chair Murphy noted that is a good point. When they are saving money they are not doing so at the cost of the campus. That is a point a lot of people don't appreciate. They think the campus funding piece is just money Athletics gives if there is any left over. President Simek noted that most of it is budgeted in the longer term because of the annual commitments. Chair Horne said the point is that the campus gets more academic funding from Athletics than any other school in the SEC.

Mr. Myers went on to explain about fixed costs. Listed below is what he considers recurring variable costs totaling \$16,700,000:

Team Travel	\$4,225,000
Utility Charges	\$2,100,000
Facilities Services	\$2,000,000
Recruiting	\$1,775,000
Game Guarantees	\$1,700,000
Event Officials/Security	\$1,250,000
Parking Services	\$1,200,000
Aramark	\$1,150,000
Medical Expenses	\$ 500,000
Credit Card Fees	\$ 500,000
Media Guides	\$ 300,000

Trustee Carroll asked how often the credit cards are bid out. Acting CFO Peccolo stated not often. We bid it out a number of years ago but then we monitor it routinely. Any time there is an increase the credit card company has to justify it. We do test the market by looking at what other campuses have but we have not bid it out in a while.

Mr. Myers went on to present some of Athletics revenue trends. In football, 2008-09 is much lower than 2009-10 and the reason is we did not go to a bowl game in 2008-09 and there is an extra home football game in 2009-10. In 2010-11 there is one less home game and the revenue decreases almost \$1.0 million.

Men's basketball had a huge run between 2007-08 and 2008-09. What we are trying to do now is protect and grow it. The revenue for

women's basketball is flat and shrinking a little. One of the factors is demographics and that demographic can watch it on television.

Development is interesting. It was down in 2008-09 but even with the bad economy, etc. the numbers have went up. We have added two premium seating areas to our stadium. The Terrace Club which opens this fall and the West Club was opened last year. Between the two clubs the increased revenues are \$5.0 - \$6.0 million. The challenge that we have is the reduction from 2007-2009 is from non-premium gifts. We are selling premium seats and we are over and above. But for the people giving \$500 to sit in section Q – those are the ones we have a struggle with. Vice Chair Murphy asked what percentage wise that is and how do you handle that. The profit that you saw is that coming back and what is happening in the market? Mr. Myers explained that the market fell 7% last year and right now it is stabilized. It has not dropped again but it has not come back either. Vice Chair Murphy explained that the profit from the premium seating is disregarded because it is a new product that has been put on the market. In the base market the amount dropped was 7% and it hasn't come back. Mr. Myers went on to say there are two reasons why it has not come back. One is coaching changes and people are still affected by the economy. The month of April was good but is not back to where it was. Even if people have the discretionary income they want to protect it because they don't know what is going to happen and they want to save it. Chair Horne asked who supervises Athletics' development officers and how many officers are there. Mr. Myers replied that Mark Ingram is the supervisor and there are about 12 on staff. Chair Horne noted that it is a gift to raise money.

Currently in capital projects, we have phase 4 of the Neyland Stadium project that is around \$21.0 million and will be funded by TSSBA debt. It is to brick out the west side and it is a beautiful project. The TSSBA debt numbers for Baseball and Basketball have already been captured. The golf facility is a project that was started ten years ago and we are still hoping to finish. The debt is \$3.8 million and we did not borrow money for it. We put in \$2.0 million last year and we have the remainder in the budget for this year. The tennis stadium broke ground yesterday and the \$2.5 million will be paid out of operating surplus that is budgeted. The football training center will cost \$39 million and we have \$32.5 million pledged which is phenomenal. We anticipate fundraising for the remainder before breaking ground. If gifts come in over the next five years we can pay that off. However, if some of those gift expectancies go onward we will have to use debt service and use the remaining gifts. We are still waiting to see how the cash flow comes in on this project. Trustee Gallimore asked Mr. Myers to tell about the pleasant surprises received when the bids went out to

market. Mr. Myers said specifically regarding the Neyland Stadium expansion - the estimated construction was \$7 million and the bid came in at \$6 million. Unfortunately, we have noticed they are coming back up. The basketball arena bid was targeted at \$3.2 million and it came in at \$3.4 million. Tennis went out at \$2.0 million and came in at \$1.7 million so we are seeing some stabilization. Chair Horne asked who makes sure the contractor is competent and that we don't get into trouble like we did on Thompson Boling Arena. Mr. Myers said that would be Facilities Planning. Chair Horne said that in these tough times we have seen contractors get in trouble and default on the project. President Simek added that we have experienced some of that. The contractors came into the project when the economy was good and then suffered and we have had to make some transitions. Mr. Myers stated that is what happened with the golf facility.

Mr. Myers then went over a list of all the debt service. He pointed out that in 2009-10 the debt service was \$13.25 million and in 2010-11 the debt service was \$14.3 million. The reason it is going up is because in the next two years there are gifts for swimming, softball, and soccer that are anticipated coming in before completion of the projects. There were costs that came in afterwards. So we can actually use those funds to pay off the debt service over the next two years. We are lowering our debt for 2010-11 because there were some recoveries and then they wind down 2013-14.

I referred to there being a lot of work to be done on the commercial paper earlier. Neyland Stadium at \$17.1 million and then add another \$2.6 million on Pratt it is almost \$10 million. The good news is at the present time we have two years worth of commercial payments in escrow. What we are worried about is years 3-5 when the gift expectancies are due in. We believe they will come in but someone asked earlier if the gifts don't come in how will we pay for it. We will have to reorganize our budget, fixed costs and reevaluate our discretionary spending now and deal with it over time. Trustee Wharton asked what is the weight of commercial papers. Acting CFO Peccolo said last time he checked it was hovering around 1%. Trustee Wharton said that it is a lot cheaper than bonding in his mind. Is it backed by the entire University or just Athletics? Acting CFO Peccolo said it is backed by two things. One is total fees and charges of the University and that includes tuition and everything. There is also an appropriation offset that guarantees it so if we don't have the money before the state sends us our appropriation they will pay for it. It is short term and timing is always an issue. One of the problems that TSSBA has is they only have an authorized limit on commercial paper and they are at that limit now. They would like to go to bonds soon to fill more capacity in the commercial paper program but the point is well

taken. Vice Chair Murphy stated that we don't have control over it because of TSSBA. They drive so much of this that we are somewhat at their mercy. Chair Horne said just like Mr. Myers said if we don't get the gifts we have to pay it off.

Recruiting has grown over \$267,000 in the past six or seven years. That is not bad considering how much travel costs have went up, etc. Our coaches have been ingenious of finding ways to save money.

Coaching salaries and facilities is the two places where most of Athletics money goes. Those are the two areas where we can make a difference in our programs. In 2003-04 the total in salaries was \$7.7 million and this year we are budgeting \$12.9 million and the next year \$13.8 will be budgeted. That is the market right now. Vice Chair Murphy asked if we knew what our other competitors are doing comparatively. Where do we fit in comparisons in total coaching salaries in all sports? Mr. Myers said that we are number one in football and women's basketball for the SEC Conference. We are number three in men's basketball (Florida, Kentucky and Tennessee).

Trustee Wharton asked if Athletics continues to work with academic side on the same basis so that we can maintain good relations with large and important donors who are interested in the academic side. Mr. Myers said there are no foreseen changes in the funding on the academic side. It is our goal that those individuals supporting the campus be just as happy as they were before. Trustee Wharton asked if that was the recommendation. Mr. Myers said yes but also stated that does not mean everyone will have it like they had before. The answer is no there will be some changes. Chair Horne added that what we want to make sure of is when people made contributions did the money go to Athletics and not come back to the campus. We want to make sure that the campus receives contributions from the donors as well. President Simek stated that the progress of the campaign shows that despite this change it shows the remarkable impact Athletics has on the academic side to raise money. The effort of looking at and realigning the role Athletics' tickets play in campus development operations was because the system we had in place before was simply unfair. There may be blips in the road and there will be people that are disappointed that they can't continue the privileged position they had before. That is what we were after to try and modify. There has been no reduction in the campus' side to raise funds. Part of the \$6 million that Athletics gives back to the campuses was a negotiated premium to mitigate the impact of that and do it in a way to gain discretionary funds for the Chancellors as they saw fit. He went on to say that he doesn't believe that it is in its final form and that means we can go back and make sure that it works the way it is

suppose to. The goal here was fairness and certainly was not to diminish any one's ability to raise funds. Chair Horne said if a College Dean or Head has a hot prospect on the ropes about a big donation and they want some tickets do we accommodate them. President Simek said historically there are tickets that have been allocated to the campuses and the system to distribute for exactly those purposes. Trustee Wharton asked if that included season tickets and President Simek said yes. Mr. Myers added that it was his understanding there was a pool of 16,000 tickets and Athletics assumes approximately 15,000. Trustee Wharton said that his question is if a donor has donated money for years to the academic side can they still get tickets like they have had for years. Mr. Myers said yes but now they would make a donation to Athletics. If they wish to make a gift to their academic program they can do that but they would not get ticket credit. President Simek said but let's note the gift they would have to make to Athletics for the tickets is a much reduced sum and they are still free to give significant quantities to the academic side. Mr. Myers said there is \$2.75 million going back to the academic side this year for the Chancellors to use as they see fit. Mr. Wharton said that is different than what I am talking about. Mr. Myers asked if he wanted to know if donors can give to a college or county and get football tickets. Mr. Wharton used the example of a donor that has given the University \$50,000 per year for the last ten years. Can he still get his season tickets? Vice Chair Murphy said no if he does not contribute to Athletics but he can give part of his donation to Athletics and he can get them. President Simek said the portion that he would have to give to Athletics to guarantee season tickets is very small. Trustee Wharton asked if \$3,000 would be enough to donate and was told it is based on the seating area. Everyone else that sits in those seats should be giving the same amount and that is the issue. Before, donors were giving all of their money to the campus and they were sitting next to someone that had given a lot less. Trustee Wharton stated that we do not need to handicap fund raising on the academic side. President Simek reminded that there are tickets in the hands of the Chancellors to be used for those cases. Chair Horne said if we have a big problem with academic donors the Board can always change it. Vice Chair Murphy said there are a few that are upset about it that are as Trustee Wharton described. This makes them have to donate to two places versus the one to academics. The reality is we are telling Athletics to operate on a budget and they need the revenue from it. President Simek added that there are a certain amount of costs to the academic unit for managing this process that are now going away. Dr. DiPietro, Vice President for Agriculture said that in his office he has a pool of funds to grandfather in people who have historically given to the Institute of Agriculture. He tells those donors if you gave us \$10,000 worth of scholarships and now with this new change you have to give

\$3,000 of that number to Athletics - go ahead and make that gift to Athletics. In order to meet the needs he sends the additional money to that unit; henceforth, if new people come along they have to donate to Athletics and academics. The ones before that are grandfathered in. President Simek stated that he would argue that the way the process was set up even if you grandfathered everyone you still have some discretionary money because they are returning more to the units than the units made in this process last year. We thought this through and it was really designed to maintain the benefit to the campuses. Vice Chair Murphy said it just makes it harder on the donors because they have to write two checks instead of one but the reality is the net effect to the campus is a plus revenue. It is not like Athletics is taking money that is going to the campus and keeping it. President Simek said and now the system is fair.

Trustee Horne thanked Athletics for keeping the coaches' salaries down.

- VIII. **Report on Development of New Funding Formula**—Chair Horne asked Dr. Bonnie Yegidis, Vice President of Academic Affairs and Student Success to present the report on the new funding formula. Dr. Yegidis thanked the Committee for allowing her to give a progress report on the development of the new funding formula. She expressed that she wanted to locate this discussion within the context of the new education reform legislation which passed the Legislature in January 2010. It is called the Complete College Act. While there are a lot of critical features for the new Complete College Act it is really focused on getting more Tennesseans to complete their degrees to meet the workforce needs of the state. One of the central features of the Complete College Act is development of the new funding formula. We had an earlier discussion about what the formula is going to look like, what are the major components and the differential ways it will play out for the Institutions. I want to draw your attention to this and let you know that the Tennessee Higher Education Commission (THEC) is in partnership with UT and TBR leadership. There are four committees that are in place that THEC has organized is working on to guide the development of the funding formula, the master plan and the natural components of the performance based formula. It also focuses on making this opportunity affordable for Tennesseans. Within the broad construct of the Complete College Act the work is ongoing.

She then introduced Dr. Russ Deaton, the Tennessee expert on the funding formula, from the Tennessee Higher Education Commission to present. She added that questions will then be taken regarding how all of this plays out between the institutions and the mission of all the campuses

Dr. Deaton then presented a slide that they use to set the stage for the challenges that higher education faces as we are going into the implementation of the Complete College Act, funding formula, etc. The slide presented a ten year history of total University revenues per FTE from state appropriations and tuitions and fees adjusted for inflation. The numbers are relatively flat over that time period and we use this slide to reinforce the point to higher education that it has been fairly good stewards with its money. Cost inflations have not been out of control. There have been adjustments for enrollments and inflation factors have remained flat over time. What has changed is the two revenues sources (yellow is the tuition and fees and the blue is state). That has shifted dramatically the last ten years or so. Most of our schools now are more dependent on tuition and fees revenues than on state appropriations and that is a change that no one envisioned when the system was created. The last 2-3 years the American Recovery Reinvestment Act that has backstopped a lot of the state reductions that have been seen. It has kept the system whole for a few years but as President Simek said earlier the bottom falls out at the beginning of 2011 and 2012. I do not have data going that far back enough to tell when the last time there was a reduction of that size. Dr. Yegidis referred to the Complete College Act. The preface of this presentation is the last sentence "The policies and funding formulae or guidelines shall result in an outcomes-based funding model." The fundamental question is how does state government allocate its resources to its higher education institutions? On what basis is that decision made. Going back into history, most of the time that decision had been based on enrollments. As campuses enrolled more students they got more money and states built funding formulas just like our's to reflect enrollment increases. Now days that has changed. We have developed a different structure. It is a formula that doesn't care so much about what the inputs are but cares what the outputs are.

The representation on the committee that is charged with this development is extensive. We have campus and system representation, constitutional officers, external consultants who are nationally recognized in this area and have had extensive feedback from them all.

He then gave a brief overview of what this is doing and to show you where we are going. We are in the process of working of figuring what outcomes are appropriate to reward higher education institutions to produce. These things vary to degree production, reduction, transfer activity, research if appropriate and developing family outcomes across the sector and then reward. Now what is unique there are dial up and down weight factors for each of those outcomes. Research becomes a more important function on campus and will be given stronger weights

as the production transfer students is less important for a campus we dial that weight down. Calibrating is a way to see what a campus does, what it is good at and what its mission is. In this variable is a key feature for the legislation is to include specific student subpopulations in the model as a campus has a particular interest in serving low income or adult students, etc.

We asked institutions to give us a priority order of how things rank at their specific institution. He then showed a compilation of that data. These numbers represent the average rank across the institutions (UT & TBR). The ranking order varies considerably by individual institutions. Listed below are those rankings:

Bachelor Degrees	1.4
Graduate Degrees	2.7
Degrees per FTE	3.6
Student Retention	3.7
Transfer Activity	4.6
Research	4.9

On average, bachelor degrees were ranked primarily as their top priority except for Knoxville had research as one of their top priorities as they should. This is a sense of how schools prioritize the outcomes that they are to be funded per the model for the next fiscal year. Dr. Deaton said the committee thought a great deal about this and tried to avoid grades as much as possible because many schools have the potential of access. Vice Chair Murphy stated if you are still just ranking the number of degrees aren't you still just rewarding institutions for size. Dr. Deaton replied in some ways but this it is at a place where weight productions are more important and the weights come in and you dial those weights up. Certain schools - all kinds of people worry about their weights production because the incentive is to simply skim off the bottom and to reduce the size is simply to improve and get more money. What this does is give a middle ground focusing on access, success and quality. President Simek said that you are looking at four year institutions and what you are talking about might be the difference between community colleges and four year institutions. He said that he feels very strongly and has advocated in this process for weights being actually critical. It is not simply enough to produce more graduates because I would argue that the incentive there is for size. The bigger you are the more you are going to do. The real incentive needs to also be for quality, efficiency and effectiveness. The graduation rate is important but I will express my personal disappointment that this has become less of a focus moving forward. Dr. Deaton said that he agreed with that. The degrees per FTE metric is sort of a rough proxy for a rate. There are 30 people in

the room and getting 35 different opinions. That was our compromise but we will be visiting it again. Vice Chair Murphy added that if what we are trying to get at is not just growing that it is also looking at people doing a good job of getting students out not just running students through the front door and a lot more going out the back door. Our rate of production is poor. That process is doomed to failure because we don't have the money to operate a system like that anymore. The first slide you presented showed that. State resources are drying up and everyone is going to be challenged to be more effective and efficient and there has to be a way to measure that. Trustee Wharton stated that he could look at the mission statement and say like no child left behind there will be unintended consequences for that. Where the temptation is going to be is having people turning out degrees without a rigorous structure to it. Vice Chair Murphy said that he is concerned about that as well but if there is not something that forces people to value getting people in and out. What you do to generate a higher number is you give it to a lot more people and you are still just graduating 30% of them. You are still losing 70% of those people in the process which to me is an extreme waste of resources. President Simek said that he would argue that you are probably not doing as good of a job with the 30% percent that you are getting out as you would before because you have so many more people that putting more resources into it. I agree with you – you don't want to get where you are putting more people through and just generating degrees in order to receive money. There also needs to be an incentive for quality. Quality has to be a part of this and if you don't do that you fail. Trustee Wharton said I don't see that up there.

Dr. Yegidis stated that this part of the presentation is just on formula and not on performance based funding. There are qualitative factors about the high degree programs and accreditation and they add value to those programs. There is a component that is based on performance to get our qualitative factors.

The data definitions are how we have attempted to define the metrics. Some populations have had interesting discussions. The schools have weighted what they think their particular resources should be focused on and rewards based upon extra production for these particular metrics.

Most things we are trying to do in the model are trying to avoid the rates if at all possible and instead concentration on successful production looking at outcomes and not rate. Legislation requires us to use the term FTE rather than the census state count in terms of higher education. Even though this is a productivity based model there is nothing in here that sets an arbitrary target for a campus to meet for

degrees produced or certain potential rates. Instead the outcomes themselves are used as feeder data for the model. There will be a phase in process something on the order of 3-4 years. Another big change is the removal of the hold harmless policy. Essentially state appropriations have not been able to drift towards schools that are productive on the funding model that we have now and they have stayed where they are. Therefore, discrepancies crop up with what campuses ought to have rather than what it does have based on appropriations. Old money would go across the board whereas new money should go more to where our focus is. The first time the model will be used is in the 2011-12 budget cycle. We are required by law to run both the old and new models side by side to give people a sense of how this is changing things.

The committee is wrestling with quite a bit of work right now as you can see from the next steps. We have met 4 times already for a couple of hours each time and will meet more in the future. Currently, we have our hands full.

He then showed the prototype that was developed last fall on how this model may look. It is quite simple particularly when you compare it to what the state does with K-12 education. They have a very elaborate funding model. We think this is much more transparent and simple for state government to understand. Again, taking out the roll-out data and generate it across the matrix. It is starting to multiply things together the number times the point value times the weighting structure to get to a number on the side. The number on the side reflects the sum total of your productivity. Vice Chair asked if the items on the left side are institution specific and will they remain the same and Dr. Deaton said yes. The prototype shown was an older generation. The points convert into dollars using a salary multiplier, with additions for fixed costs and performance funding and it gets back to doing what the funding formula does now.

The Complete College Act requires each institution to construct a profile that will guide the outcomes-based funding formula and performance funding. At core level, we are trying to put in words the mission of each campus. There is a basket of data that we are providing to campuses. In the coming weeks we will ask institutions to come together as a group with their senior staff and begin to wrestle with their mission and what their institutional profile looks like such as, where does research fit into our mission, what particular types of services do we want to provide the institute and what areas do we want to focus on. Those kinds of institutional features and profiles need to be wrapped up into a paragraph and forwarded to THEC and the General Assembly. This is somewhat of an ambiguous task but is

one that we are trying to wrestle with now. These are not like what campuses do now with very detailed profiles and mission statements that they do for accreditation purposes. These are simply the first attempt made to essentially figure out who does what and how each school fits in the compilation of campuses within our borders. That process is ongoing and will also be a part of what forms the basis of the funding formula itself. Again, it makes sense where research, reproduction and transfer activity fits in with particular units.

Dr. Deaton told the committee that the overview was slightly abridged due to time and asked if there were any questions. Dr. Deaton commented that enrollment is about 60% currently and what we are doing now is 0, unless that enrollment is productive in the future. Again, it was designed at a time where enrollment was the key policy in the state and across the country but times have changed. Vice Chair Murphy asked if you have taken the 60% that was enrollment based before, is that 60% going to run through the new formula at all. Dr. Deaton replied the whole thing. Vice Chair Murphy then asked about if the fixed cost is the proportion that we think it will be if you got \$130 million - \$7 million of that would be performance is that a rough approximation or is that a pure ball park. Dr. Deaton said the \$7 million was close but the fixed costs would probably be a lot higher than \$16 million. Fixed costs would be about 20-25%. Vice Chair Murphy said you are talking 20-30% that would still be in the performance funding and 70% would be productivity. President Simek stated it will not be funded fully. Vice Chair Murphy said he understood but that is the formula that puts us all in ranking. Dr. Deaton said it is an allocation. Vice Chair Murphy stated that his point is it is still going to be roughly 70% that would be distributed based on the new formula and then there will be fixed costs and performance.

Trustee Loughry asked if it would pay us to have our external consultants for a certain period of time. Dr. Deaton said this is an internal project. Trustee Loughry said it was her understanding that Lumina and others were involved. Dr. Deaton said that Lumina is helping with a direct initiatives regarding adult education of Tennessee. That is about a \$1.2 million grant over 5 years which is going to campuses for programmatic efforts. They are giving us some guidance on this as well. Dr. Deaton added that the consultants are being paid by the grant and not state appropriations. Trustee Loughry asked if the consultants will be there to help us until we are in the full implementation phase. Dr. Deaton said yes and they have been in on these meetings and have been given private briefings. Vice Chair Murphy added that they are just helping us offline. Dr. Deaton said we do not have a contractual obligation with them.

IX. **Summary of Appropriations and Reductions and E & E Savings—** Chair Horne noted that the next item was the summary of the reductions that we have been required to make and the savings that we have had to achieve. He then asked Acting CFO Peccolo to present.

Acting CFO Peccolo began by saying Chair Horne touched on it earlier when he was talking about which campuses are reducing and how much. He explained that there was a line graph that shows the percentage student fees and the percentage of state appropriations as a percent of E & G revenues. Obviously, they don't add up to 100% because there are still sales and services and other revenue sources. The two primary revenue sources have converged over the past 10-12 years. The next bar chart shows by campus what the reductions would be by year. There were two graphs handed out earlier. One was a bar graph which takes the \$112 million by campus and shows you where the cuts are coming out of the functional areas and it is across the entire University. The pie chart shows from the base the instruction component actually goes up a percent so where the cuts are coming from is institutional support and academic support. The administrative area is really where the cuts are.

The comparative data show how the University stacks up in those academic and institutional support areas versus our peers. Chair Horne stated that the one that disturbs him is of the \$112 million cuts almost \$37 million is in instruction. President Simek said that is tough on all of us. The important thing to remember is that most of our expenses are in that functional area. Vice Chair Murphy added that what he said to the faculty a year or two ago was that when you are cutting 20%+ over 2-3 years in the budget it is not possible to do that level of reductions without having a significant impact on the core mission. We cannot eliminate all administration or the faculty would have to collect their fees and pay themselves. It is just not possible to eliminate non-instructional costs and cut as much money as we have had to do. There is 70%+ of our expenses are personnel. A big portion of the remaining costs is utilities, etc. that we can't live without. It is not as simple as saying we can absorb these cuts. I appreciate the chart that Dr. Deaton showed us. We really need to talk about what is happening in higher education and look at what is happening to funding per FTE back in 1999. Basically, it is flat and what has changed is the amount of money the state has put in has dropped dramatically and the amount of tuition has increased dramatically and the cost per FTE is going up. There is no way to make that system work when you take as a significant cut as we are going to take in 2011 without reducing service. There is no money in the system to take that money away without doing what we are doing in instruction.

It is unfortunate but that is what we need to be telling people and I have asked each of the campuses to talk about it. What is this going to do about how we provide educational service because there is not a way to absorb these levels of cuts by being a little more efficient? When we started two years ago it wasn't like the pay for our faculty was at the top of our peers. We were already behind and we are not starting from a position where we have a lot of room to cut and not have an impact with those graduating students. When we talk about this we have to shoot straight with people and explain that this is going to have a major impact on what we do. We cannot continue to provide classes; size and choice of classes are going to be leaner because we don't have the money that we have had in years past. Trustee Wharton said that it is frustrating because we are trying to graduate students in 4-5 years. Vice Chair Murphy said it exacerbates the facilities issue as well. What we have done during this 1999 – 2011 year period is we have neglected our tactical needs and put all of our money in operations so that we could keep this system working. We now have some major capital needs that are going to have to be addressed in all likelihood through donor contributions and tuition or they are not going to get addressed. We are heading towards a situation where the bulk of our funding is going to be tuition and private fund raising. A very small portion of funding will be from state appropriations and that is what is happening across the country. Trustee Loughry said that is why the spotlight has to be what we are doing now focusing on development, looking at that factor and what we can do to enhance it. I have asked Acting CFO Peccolo to get together for us a graph, and I know that it is a moving target, that projects the future in private dollars that we have to bring in to do these things. If we know what the figure is then we know what we have to staff to get to that factor. Vice Chair Murphy said that just by raising your endowment is not going to solve all of our problems. It has to help and we have to raise more money. Acting CFO Peccolo said it has to be a general University endowment. Trustee Wharton said we also need to understand that raising endowments and increasing development is going to require putting more feet on the ground and that doesn't mean the first year you get all the results. Trustee Loughry agreed that it is a long term project. Trustee Wharton added that we need to be thinking about how to position this University is that tuition will have to bear the brunt of meeting the early on deficit. We start out with our faculty and staff at 85% to our peer average and the leadership took a 5% cut two years ago. We noted earlier that we have serious budget issues and we have to get it on the table. Our short term solution will have to be tuition increases as bad as it is. Acting CFO Peccolo said the challenging thing is that not all of our units have tuition. Trustee Wharton said there are certain obligations

that we have to this University and there is a certain supply and demand issue here. We are below in our peer comparisons.

Chair Horne stated that President Simek has led on the net savings of the system and has done a good job. Acting CFO Peccolo said the difference from 2008 system budget and the fiscal revenue budget is \$5.9 million less. We do not have the details but can get them and will present at the June Board Meeting just like the campuses. Trustee Loughry stated that the question that has been asked is that is the net savings for the system operation but how much of that has been offloaded on to the campuses. President Simek said it has either been allocated to offset budget cuts that came to us from the state or we basically transferred it to the campuses. Vice Chair Murphy interjected that Trustee Loughry's point is if it was transferred to the campuses is it really a savings. If you transferred it to the campuses they directly eliminated and absorbed it into their cuts. President Simek said that we are doing all of this in the diminished overall funding and so the real issue right now is where do the cuts occur. I believe that what we have done is offset the need for cuts and the decision making at the campus level. That is where the instruction is and what we are trying to do is mitigate as best we can with the impact of the reductions. Appropriately in my view, we shifted as much as we could to the campus level and let them handle it in the context of what they are looking. We have also shifted a lot of functions to the campuses and that is their's to make more efficient. Vice Chair Murphy said so basically what you are saying is by doing that the campuses then has to balance those things you shifted with their priorities and determine which of those things survives based on those priorities and which of them go away on a campus by campus level as opposed to the system making the determination of keeping those functions even if the campuses will not do them. Trustee Loughry remarked that we will get those campus by campus and several have been shown already. Dr. Simek said the pictures are complex enough that it actually takes more than a five minute presentation is not going to be with a lot of comfort level that you got with Dr. DiPietro today. Vice Chair Murphy said that Dr. DiPietro's template is a good one for others to look at. Trustee Wharton said that the IT template was a good one also. President Simek added that the UT Health Science Center did a good job when we were in Memphis. Trustee Loughry noted that we asked for it in a simple form not just for the Board but for the public to be able to see. Vice Chair Murphy said the other thing we need to talk about is how it is going to impact the service delivery on campuses. If in fact at Knoxville we are going to have to increase class sizes – how are we going to handle. For students how differently is it going to look a year from now? When students register for classes is it going to be harder and how are we going to deal with that? I think the campuses have

ways to look at that but we don't want people to be surprised that these things have happened. We have been saying for two years it is coming but we need to know enough at this point to layout the roadmap of what it is going to look like. Trustee Wharton stated that it will almost be impossible to graduate in four years because of the lack of class availability. Vice Chair Murphy stated that one of the things we need to start telling people is that your flexibility is severely limited and you are not going to be able to say that you are not going to take that course this semester because it is offered at a bad time or offered by a professor that is not desired. Those kinds of decisions will be a lot harder to make for students because the fact is forced that they may not get that class. President Simek said we are going to have to invest in a way that we haven't before in very clear and concise advice to students that tells them exactly what the landscape is they are operating on. Make it clear that there is very little choice. Vice Chair Murphy added that there will be some students that won't listen but if they do not it is their choice. President Simek said that given who the University of Tennessee is and what its mission is this is the most appropriate uses for distance learning of all to make sure that certain classes can be offered this way so students do have a way to go outside the normal time schedule and be able to accommodate those courses. Trustee Carroll asked if the University is on extended hours. President Simek said that we are already on extended hours and will extend them further but there is a lot of reluctance to taking classes at 10:00 p.m. or at 7:00 a.m. The distance learning is the way to do that in order to reach them. There are only going to be certain courses within the in-house curriculum amenable to that. They are working hard to make sure those are the ones that are focused on. There are other strategies you use to help with this. There are classes that we may not know as particular cohorts move through these particular sequences which classes may be an issue on any given semester. It is likely that we will have to hold funds back so that we can quickly add sessions. These are strategies that all the academic leaders are thinking through. We will cut more to have those funds available to put in that breach. This has been a difficult and complicated thing. I have said this before a hundred times but I really believe it these folks that are doing these plans have attacked these problems for three years and have done it very methodically and straightforwardly and I have great confidence that we will get through it. It won't be pretty. Chair Horne agreed that the faculty and staff have done a great job but doesn't know if we could go through this process again.

He then thanked Dr. DiPietro for hosting the meeting.

- X. **Other Business**—Committee Chair Horne asked if anyone had any other business to discuss; none was noted.

XI. **Adjournment**—Committee Chair Horne adjourned the meeting.



Charles M. Peccolo
Treasurer and Chief Investment
Officer/Acting Chief Financial
Officer