

MINUTES OF THE EXECUTIVE AND COMPENSATION COMMITTEE MEETING
BOARD OF TRUSTEES

THE UNIVERSITY OF TENNESSEE

September 22, 2006
Knoxville, Tennessee

The Executive and Compensation Committee of the Board of Trustees of The University of Tennessee met at 11:00 a.m., Eastern Daylight Time, Friday, September 22, 2006 in the Board Room, Andy Holt Tower, Knoxville, Tennessee.

I. CALL TO ORDER

Andrea J. Loughry, Chair, called the meeting to order.

II. ROLL CALL

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

Mrs. Andrea J. Loughry
Mr. Waymon Hickman
Dr. Rhynette Hurd
Mr. James L. Murphy, III
Dr. John D. Petersen
Mr. William Stokely
Mr. John C. Thornton
Mrs. Susan Williams

Former Vice Chair Don C. Stansberry, Jr., was also present by invitation of the Chair.

The Secretary announced the presence of a quorum.

III. APPROVAL OF MINUTES OF LAST MEETING

Chair Loughry called for any corrections or additions to the minutes of the June 20, 2006 meeting of the Executive and Compensation Committee as mailed to the Committee by the Secretary. There being none, Mr. Murphy moved approval of the minutes. Mrs. Williams seconded, and the motion carried unanimously.

IV. OPENING REMARKS BY COMMITTEE CHAIR

Chair Loughry began her remarks by reiterating some comments Mr. Stansberry made at the beginning of his tenure, including encouraging the Committee to be proactive chairs of their respective committees. She noted that it was very important for committee chairs to discuss with staff issues on which the Board may need information, particularly in terms of preparing agendas for the committee meetings.

Chair Loughry stated that since a final Strategic Plan has been approved, she would like to ensure that Board committees fit with the Strategic Plan. She encouraged committee chairs to think about how their committees align with the goals of the Strategic Plan. She also encouraged committees to meet at times other than regular Board meeting if there is a need for additional information or exposure to an issue.

V. PRESIDENT'S REMARKS

President Petersen began by discussing the statewide "State of the University" celebration held earlier in the week, noting that it was a great success. He commented on how the Strategic Plan, the new branding campaign, and the celebration event positively impacted the Institute of Public Service ("IPS") when he had the opportunity to meet with IPS staff later in the week. He said the IPS staff clearly understood these events as reflecting their role and importance to the University even though they are not educating students.

President Petersen next addressed faculty salaries, noting that the continuing need to address faculty salaries was apparent at the Annual Meeting of the Board. He discussed a comparative report of faculty salaries prepared by the administration. He noted that he has asked each campus and institute to develop a plan from their current budget to generate additional funds for faculty salaries and asked also for a plan to award salary increases. He discussed faculty salary data for UTC, UTK and UTM compared to THEC peers and national averages. He provided a summary of standings for associate professors, assistant professors and professors for each campus, in comparison to THEC peers. He noted that some compression issues have occurred as newly hired professors have been offered more competitive salaries. In response to a question from the Committee, President Petersen responded that benefits are not included in the comparison. He stated he believed University benefits to be slightly better than average, but he noted he would follow-up with a comparison of benefits to peers. Mrs. Williams and Mr. Stokely commented that having attended the faculty retreat, concerns over the level of benefits were raised by the faculty. Mrs. Williams asked for the administration to provide a listing of the benefits provided to faculty. Mr. Hickman asked about salaries for extension agents. President Petersen said he believed they were fairly competitive and that those agents with faculty appointments would be included in the faculty salary comparison. Mr. Thornton noted that he believed UTC peer institutions should be more preeminent due to the addition of doctorate level courses at UTC. President Petersen commented that the peers have changed but not significantly because the number of students pursuing doctorate degrees remains fairly small. He also noted that salaries are also very dependent on geography. For example, he stated because of the low cost of living where LSU is situated, salaries for LSU are fairly low, which can skew peer comparisons. In conclusion, he stated that the administration would endeavor to build a rational formula for comparison. He noted that salaries would be identified as a most critical issue to the legislature.

Mr. Murphy asked the administration to provide a hypothetical analysis for a reasonable increase. Mrs. Williams asked the administration to provide a model for a typical workday for a professor. The Committee asked that department heads be invited to a future meeting to discuss how faculty members are evaluated. The Committee also asked that merit components for faculty salaries and other similar issues, if known at the time, be discussed at the November meeting.

President Petersen next discussed a comparative salary review of senior staff, both elected and appointed. Dr. Gary Rogers, Chief Financial Officer, explained how he established the estimated market figures for comparison to current salaries. He stated that there were three sources, the surveys by the National Association of College and University Business Officers, surveys by the College and University Personnel Association, and commentary from the Baker Parker search firm. He stated that many of the salaries were close to market because the individuals have been recently hired. He noted that many of the senior staff also have an assigned University vehicle. He stated that athletics personnel were compared separately and noted that UT is one of the few schools with a separate women's athletics director. The Committee determined to review the information and provide input at the November meeting. President Petersen stated that the administration would provide recommendations from Chancellors and staff on additional faculty and staff compensation by campus and institute at the November meeting.

President Petersen next updated the Committee on capital projects by priority. He stated that the number one priority is space for ORNL-related programs. He discussed a possible site of interest and development costs. He discussed the possibility of incorporating a joint research building already approved by the state and a potential joint-industry building to reduce some of the development costs. He also discussed the crucial need for a new library for UTC and the need to move certain departments out of Neyland Stadium to allow for renovations to the stadium in the next decade.

President Petersen next discussed the headcount student enrollment for fall. He discussed 2005-2006 comparative data for each campus (excluding the Veterinary School and Space Institute). He stated that each campus showed percentage increases. He noted that the large increase for UTM was mostly attributable to UTM's dual credit program. He stated that UTC enrollment has increased, but retention numbers for UTC still need to increase.

President Petersen next informed the Committee that Dr. Rogers has conducted a preliminary analysis considering use of the UT Plane, use of charters, maintenance costs, and other costs. The consensus of the Committee was that the administration should proceed to finalize its study.

Lastly, President Petersen discussed the newly designated site for a UT sorority

village. He stated that the site, Morgan Hill, is located across from the new Visitors Center (formerly University Club).

VI. PRESENTATION OF PROPOSED INCENTIVE COMPENSATION PLAN FOR DEVELOPMENT AND ALUMNI AFFAIRS

President Petersen discussed the proposal to implement an incentive compensation plan for Development and Alumni Affairs (Exhibit 1). He stated that the administration would seek Board approval at the November meeting and implement a pilot program in a few areas. He noted that it was his intent that the pilot program include lower paid employees. President Petersen introduced Henry Nemcik to discuss the proposed plan for Development and Alumni Affairs.

Mr. Nemcik stated that he viewed the plan as a tool to create consistent focus and energy to accomplish the goals set for his department by the University. He added that the plan would not only serve to reward hardworking staff, but also to set parameters to terminate underperforming staff.

Mr. Nemcik stated that he first developed the model for this plan several years ago for another employer. He noted that in creating the plan, his goal was to require the plan to enforce a team environment and to drive the organization forward. Mr. Nemcik stated that he was proposing the plan for all staff-exempt and non-exempt employees in Development and Alumni Affairs. He stated that the plan was predicated on accomplishing specific goals and objectives and that all staff would either succeed as a team or fail as a team. He noted that if any individual part fails, it affects the entire team's evaluations. He stated that the plan has been tested during the past year in a pilot program.

Mr. Nemcik stated that the plan would consist of four criteria, endowment growth, campaign contributions, gifts and pledge commitments, growth in planned gifts and critical success factors. He explained that critical success factors would be the major drivers for Development and Alumni Affairs and could be customized to individuals. He stated that critical success factors would be the most controllable goals for individuals. In response to a question from the Committee, Mr. Nemcik commented on the aggressiveness and achievability of the incentive goals. He stated that the incentive goals would be based on five-year averages and therefore successful years would increase the difficulty to achieve incentive goals in future years. The incentive goals would be approved by the President and CFO prior the start of each calendar year and results would be certified by the CFO prior to the award. He stated that the plan would be funded through salary savings in advance of implementation. He added that each year, funds would be earmarked in advance for the plan. He also stated that he is continuing to explore other ways to fund the plan. Mr. Nemcik clarified that the other sources would not come from unrestricted gift funds. Mr. Nemcik reviewed a prototype fully implemented plan with the Committee. Mr. Nemcik stated that he would be available to assist in establishing

this plan for other departments. Mr. Nemcik concluded by stating that he believed the plan would assist him to do his job better, maximize performance for the University, and focus staff on the important goals of UT.

The Committee asked whether this plan would require any type of approval from Nashville. Ms. Mizell responded that the plan would be included in the System Administration compensation plan to be presented at the November meeting and, if approved by the Board, would then be sent to Nashville.

A Committee member encouraged President Petersen to look into broadening the plan to include other departments across the University. Dr. Petersen responded that the administration would look into implementing the plan in trial pilot programs in other departments; however broadening the plan too much may make it ineffective.

Mr. Dye stated that a performance plan, previously approved by the Board, had been implemented by the Institute for Public Service, and the plan has been very successful.

VII. APPROVAL OF GRANTING TENURE UNDER EXPEDITED PROCEDURES TO PROFESSOR BAMIN KHOMAMI OF CHEMICAL ENGINEERING DEPARTMENT AT UT KNOXVILLE, AND PROFESSOR MICHAEL FRAZIER, HEAD OF MATHEMATICS DEPARTMENT AT UT KNOXVILLE

Chair Loughry called on President Petersen to discuss the proposed recommendations for tenure under exceptional circumstances (Exhibit 2). President Petersen stated that the Board approved expedited procedures for considering and granting tenure at its March meeting. He stated that he recommends that the Board exercise those procedures and grant tenure to two of UT Knoxville's recent department head appointees, Professor Bamin Khomami and Professor Michael Frazier. He reviewed the qualifications of each Professor and noted that Chancellor Crabtree also recommends the grant of tenure to these outstanding professors. In response to a question from the Committee, President Petersen stated that the full tenure review process was been followed by the campus on an expedited basis.

Dr. Hurd moved approval to grant tenure as recommended by the President. Mr. Murphy seconded the motion and the motion carried unanimously.

VIII. UPDATE ON THE BRANDING CAMPAIGN

Chair Loughry asked Mr. Dye to discuss the recently launched branding campaign. Mr. Dye noted that the video presentation from Tuesday's celebration was still available on the web if anyone would like to view the presentation again.

Mr. Dye discussed the broad involvement and assistance from UT staff and from the community to launch the campaign. He specifically thanked Mrs. Williams for

her input as Chair of the Advancement and Public Affairs Committee. He stated that the consensus is that the launch was very successful. He stated that UT has a limited budget for the campaign; therefore it will be a kind of a “burst” campaign with a launch and a modest amount of television advertising, newspaper ads and billboards. He reported that two existing television spots during the football games have been used and that ORNL paid for two “neUTrons” billboards. Mr. Dye said he was hoping to find similar opportunities to supplement the limited resources for the campaign. He provided an example of a newspaper ad funded and placed by the Knoxville campus and stated that each campus will place similar advertisements. He also circulated other print ads to be used for the campaign. He noted that he has a rendition of the 30-second television spot that he plans to provide to legislators. He stated that there would be a three-minute segment on the Jumbotron at this weekend’s game, and the marketing team that helped create the campaign would be guests in the skybox. In conclusion, he discussed internal opportunities to use the branding including the websites.

Mr. Thornton noted that quite a few of UT’s outreach programs are not associated with UT in the mind of the public. He commended Mr. Dye on the branding campaign and hoped that the campaign will bring awareness to some of UT’s outstanding outreach programs. Mr. Dye discussed some ads being planned for certain outreach programs.

IX. PLANNING FOR FALL MEETING, NOVEMBER 2-3, 2006

Chair Loughry asked the Committee for any other recommendations for the agenda for the November meeting (Exhibit 3). Ms. Mizell called attention to the planned orientation session. She noted that the session would still be held regardless of whether new appointments are announced before the meeting. Ms. Mizell discussed the Chancellor reports, noting concerns about the length and content of those reports. She noted that the reports would be presented to the Academic Affairs and Student Life Committee at the Fall Meeting and would consist of the annual fall enrollment reports. Mr. Murphy asked that the Governance Committee be scheduled to meet at 8:00 a.m. on Friday, November 3.

X. APPROVAL OF AMENDED CHARTER OF UNIVERSITY HEALTH SYSTEMS, INC.

Chair Loughry asked Ms. Mizell to address the next item for the Committee’s consideration. Ms. Mizell stated that in 1999, the Board of Trustees approved the Charter of University Health Systems, Inc., a not-for-profit corporation created for the purpose of operating the University of Tennessee Memorial Research Center and Hospital. She stated that the Charter established a fifteen-member Board of Directors for UHS, with six members being designated as “UT Board Members” and nine members as “Non-UT Board Members”. Ms. Mizell discussed the current composition of the Board. She stated that the proposed amendment to the Charter

would allow re-appointment or reelection of certain UT and non-UT members for three (rather than two) additional three-year terms (Exhibit 4). She noted that the amendment was proposed by UHS because of significant turnover on the Board over the past seven years. She stated that UHS desires to achieve some continuity in the composition of the Board over the next few years and believes this continuity is particularly important in view of the current state of the Knoxville health care market.

Ms. Mizell stated that several board member terms expired as of June 2006, and therefore there is a need to make the appointments as soon as possible. She asked that the Committee determine that the circumstances make it necessary for the Committee to act for the full Board of Trustees prior to its next meeting.

Mr. Murphy moved approval of the determination of the necessity for the Committee to act for the Board on this issue prior to its next meeting (Exhibit 4). Mr. Stokely seconded the motion, and it was carried unanimously.

Mr. Stokely moved approval of the amended charter of University Health Systems, Inc. Mrs. Williams seconded the motion and the motion carried unanimously.

Mr. Thornton asked Ms. Mizell to briefly explain the relationship between UT and UHS. Ms. Mizell stated that UT originally owned UT Hospital and continues to own the land. A transaction in 1999 leased UHS all of the facilities to operate the hospital.

XI. Other Business

Mr. Thornton asked whether the parking lots, garages and other facilities have been recently audited to assess their safety. Dr. Rogers said fire safety is assessed as part of facilities planning. He stated that he would need to report back to the Committee regarding other safety assessments. The Committee determined that for the Winter Meeting, the Chancellors should report on campus safety.

Mr. Hickman updated the Committee on the recently held press conference announcing the dismissal of the Grier lawsuit. Mr. Hickman noted the excellent progress UT has made with minority enrollment since the lawsuit was filed. He also reminded the Board that the Audit Committee will meet on October 20th at 2:00 p.m. Dr. Hurd stated that the Academic Affairs and Student Life Committee, at their meeting earlier in the day, discussed the impact of the dismissal of the *Geier* litigation for all minorities, and the Committee will discuss the issue further at its November meeting.

The Chair stated that there was no other business to come before the Committee.

XII. Adjournment

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

Catherine S. Mizell
Vice President, General Counsel and Secretary