

MINUTES OF THE EXECUTIVE AND COMPENSATION COMMITTEE MEETING
BOARD OF TRUSTEES
THE UNIVERSITY OF TENNESSEE

January 31, 2008
Nashville, Tennessee

The Executive and Compensation Committee of the Board of Trustees of The University of Tennessee met at 1:00 p.m., CST, Thursday, January 31, 2008 in Nashville, Tennessee, at the offices of Boulton, Cummings, Conners & Berry.

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:

Mr. William Carroll
Mr. Spruell Driver
Dr. Rhynette N. Hurd
Ms. Andrea J. Loughry
Mr. James L. Murphy, III
Dr. John Petersen
Mr. Don C. Stansberry, Jr.
Mr. James L. "Bucky" Wolford

The Secretary noted that a quorum was present.

Also in attendance were Trustee Charles Wharton, Senior Vice President and Chief Financial Officer Gary W. Rogers, Vice President for Public and Government Relations Hank Dye, and Chief of Staff to the President Margie Nichols.

III. APPROVAL OF MINUTES OF LAST MEETING

The Chair called for any corrections or additions to the minutes of the October 19, 2007 meeting of the Executive and Compensation Committee (Exhibit 1). Mr. Stansberry moved approval of the minutes. Dr. Hurd seconded, and the motion carried unanimously.

The Chair noted that in the continuing effort to improve the efficiency of meetings, it is important for committee chairs to remember that discussion at committee meetings should be limited to members of the committee, other Trustees who may be present, and members of the administration. Members of the public should not be recognized to participate in the discussion. The Chair also noted that materials to be presented to a committee should come through official channels rather than being placed on the meeting table by members of the public. Mr. Murphy

emphasized that Trustees must exercise discretion to refrain from making extraneous materials the subject of discussion and exercise thoughtfulness before raising a subject for discussion that is not on the agenda. The administration deserves the courtesy of knowing what the issue is and having time to prepare a thoughtful response. Dr. Hurd concurred and noted that the established agenda should control the meeting and that committee chairs need to limit discussion to items on the agenda in the absence of an appropriate motion to add an item to the agenda. The Chair noted that the Board wants to listen to the public, but there is a limited amount of time for committee meetings at which the Board must make important decisions and have the necessary information to make those decisions. Committee chairs need to remind committee members of the proper way for items to be placed on the agenda for discussion.

IV. PRESIDENT'S REMARKS

As a preface to discussing System-Campus issues, President Petersen distributed an administrative organizational chart (Exhibit 1). He noted that there have been two sets of issues in the System-Campus relationship—some organizational and some operational—but there has been no decision to make organizational changes. Accordingly, the reporting relationships of the Institute of Agriculture and Knoxville Athletics and oversight of the Oak Ridge National Laboratory and oversight of Cherokee Farm will not change. However, the System-Campus interface of those organizations and certain infrastructure issues need to be addressed. Six committees have been established to address these matters.

A committee on Financial Transparency, consisting of System and Knoxville campus staff, is looking at how finances are generated and separated, what reserves exist, and where they are designated between the System and the Knoxville campus, especially, but also all enterprises. Mr. Murphy mentioned the concern that had been expressed by the Knoxville campus about the System's interest sweep on accounts. President Petersen explained that this concern related to the method of funding the System operations by what is, in effect, a tax. Interest on this account was retained by the System even if it exceeded the System budget. The President suggested that the method of funding the System needs to be reviewed and perhaps changed. Mr. Murphy noted that the purpose of the System is to maximize campus operations, so the mechanism of funding the System should not create a windfall for the System or create winners and losers.

Referring to the organizational chart the President distributed, Mr. Stansberry asked which of the vice presidents is responsible for UT-Battelle and ORNL. President Petersen responded that there are five UT representatives on the UT-Battelle board of directors: the President, David Millhorn, the Chancellor of the Knoxville campus, Steve Schwab of the Health Science Center, and Pete Debusk, a community. Mr. Stansberry asked how this organizational chart would settle for all time the issue of whether the System or the Knoxville campus controls the ORNL relationship.

President Petersen responded that the Department of Energy insists that the contractual relationship be with the System, but the matter becomes more complicated at the joint institute level. Of the four joint institutes, two are headed by Knoxville faculty members, one by an ORNL employee, and one by Thomas Zacharia, who is a joint employee of UT and ORNL. The UT-Battelle board of directors has made it clear, however, that the appointment of joint institute directors is the prerogative of the board of directors in conjunction with ORNL management. Knoxville campus may think its faculty should head every joint institute. Mr. Stansberry reiterated his concern that the matter needs to be settled before a new chancellor is hired for the Knoxville campus. Mr. Murphy asked what areas of intersection other than joint institute heads are at issue with the Knoxville campus. President Petersen responded that the Governor's Chairs and where funding for the chairs will reside has been at issue. Mr. Stansberry and Mr. Murphy continued to express their view that these matters need to be resolved before a new chancellor is hired. President Petersen then referred to a document entitled "The University of Tennessee Management and Reporting Responsibilities" that had been agreed to in October 2007 by former chancellor Loren Crabtree. After that accord was reached, the remaining fundamental issues were the Institute of Agriculture and Athletics, from an organizational perspective, and IT and HR from an operational perspective.

Mr. Wolford asked if the University is operating differently than other systems. President Petersen responded that comparisons are difficult because no one system is exactly like another. He then compared the Institute of Agriculture with Agricultural programs in the University of California System. Mr. Murphy noted that there really is no single model for system governance, and that the only issue the Board needs to be concerned about is whether the current structure somehow impedes the University's mission. He suggested that until the Board is convinced that where Agriculture reports or where Knoxville Athletics reports is impeding the mission, the Board does not need to spend any more time on the matter of system structure.

Concerning information technology, President Petersen explained that an interim Chief Information Officer would be announced soon. He further noted that two consulting studies have been done, and both noted that there has been no strategic plan for IT, which will be a major emphasis for the CIO. He stated that the major problem in the past was leadership.

The Chair noted that what the committee is hearing seems to be the same as the Trustees heard in June and November and that we seem to be moving around in a quagmire. The Chair asked the President if he had time to manage all of the direct reports reflected on the organizational chart. President Petersen responded that Executive Vice President David Millhorn helps him significantly on the operational side of the chart.

Mr. Wolford asked if some Board action is needed to resolve all these issues. Mr. Murphy noted that it appears a consensus is developing that an item should be on the agenda for the March meeting asking a straight up vote.

Mr. Driver asked whether the structure impacts the ability of the Knoxville campus to become an AAU institution and whether the institution is still moving in that direction.

President Petersen responded that research data is reported in the same manner as it was under the 2001 restructuring—that is, UT Knoxville, Health Science Center, Agriculture, UTSI, and IPS are reported as one. President Petersen further responded that the Agriculture and Athletics reporting relationships do not in any way negatively affect achieving AAU status.

President Petersen mentioned his plan to move IPS over to the operational side of the chart and away from reporting to the Vice President for Public and Government Relations.

Dr. Hurd asked if there is anything the committee has not heard that would prevent these issues from being resolved. She expressed concern that there could be something the Trustees are unaware of that is keeping this issue alive.

Mr. Murphy responded that some degree of system-campus tension is normal—the campus wanting complete autonomy, and the system wanting control to ensure quality and appropriate consistency. Management and the managed have to work together as a team, and Trustees need to be diligent to observe how each group are relating to the other.

Mr. Wolford asked if there is a way for an independent party to advise the Board that the structure does not affect AAU status. The President responded that system-campus structure is not a criterion for AAU membership.

Chair Loughry stated that this matter would be an agenda item for the full Board meeting in March. She also noted that ultimately the question is how the Board measures outcomes—how the Board determines if the structure is working; how, for example, the Board determines that IT has been fixed.

Petersen Petersen concluded his report by discussing efforts to improve funding for the Health Science Center and actions to align the SimCenter at UTC with ORNL.

V. APPROVAL OF THE PRESIDENT’S LIMITED DURATION APPOINTMENT OF DR. HERSHEL P. WALL AS UTHSC CHANCELLOR AND VICE PRESIDENT FOR HEALTH AFFAIRS

President Petersen explained his decision to put the search for a new Chancellor for the Health Science Center in abeyance while efforts are underway to improve funding and make the position more competitive for outstanding candidates. He

indicated that he hopes to resume the search within the next year. In the meantime, he proposed changing Dr. Wall's appointment from Interim Chancellor to Chancellor for a limited duration not to exceed the date on which the position has been filled pursuant to the search (Exhibit 2).

Mr. Stansberry moved approval of the limited duration appointment of Dr. Wall as UTHSC Chancellor and Vice President for Health Affairs. Mr. Murphy seconded the motion, and it carried unanimously. The committee's recommendation will be forwarded to the full Board for action on March 12, 2008.

VI. ASSOCIATION OF GOVERNING BOARDS' NATIONAL CONFERENCE ON TRUSTEESHIP

Chair Loughry distributed brochures describing the upcoming National Conference on Trusteeship sponsored annually by the Association of Governing Boards. She encouraged Trustees to give serious consideration to attending the conference. Registration fees would be paid by the University, but Trustees would be expected to cover other expenses.

VII. PROGRESS REPORT ON COST PROJECT

Chair Loughry recognized the Senior Vice President and Chief Financial Officer, Dr. Gary Rogers, to give the committee a progress report on the Cost Project. Dr. Rogers began by noting the Board's responsibility to oversee costs, including ensuring that the University is operating cost effectively and that internal charges are justified, as well as ensuring that costs appropriate match the strategic plan. He explained that he is currently working with the BearingPoint management consulting firm to define and defend benchmarks. Data have been collected over a five-year period, and BearingPoint will begin their analysis of that data in the near future.

Mr. Murphy stated that the Board must demonstrate prudent stewardship of public dollars and must ensure that the most cost-effective methods of operation are being used. Chair Loughry asked Dr. Rogers to be prepared to give a status report on the Cost Project at the March meeting.

VII. PLANNING FOR WINTER MEETING, MARCH 11-12

Chair Loughry called the committee's attention to the tentative schedule and agenda for the Winter Meeting of the Board of Trustees, March 11-12, 2008, in Chattanooga. After discussion, the consensus of the committee was that the schedule and agenda were acceptable.

VIII. 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