

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

May 8, 2008
Nashville, Tennessee

The Executive and Compensation Committee of the Board of Trustees of The University of Tennessee met at 2:00 p.m., CDT, Thursday, May 8, 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
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 Trustees Bob Talbott and 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.

The Chair noted that Dr. Hurd's absence was due to her participation in interviews for the position of Vice President for Academic Affairs and Student Success.

III. APPROVAL OF MINUTES OF LAST MEETING

The Chair called for any corrections or additions to the minutes of the January 31, 2008 meeting of the Executive and Compensation Committee. Mr. Carroll moved approval of the minutes. Mr. Stansberry seconded, and the motion carried unanimously.

IV. PRESIDENT'S REMARKS

Dr. Petersen provided the Committee with a brief update on recent events. He discussed two senior staff additions, Linda B. Hendricks, Vice President and Chief

Human Resources Officer (effective June 1, 2008), and Jesse Poore, Vice President for Information Technology and Chief Information Officer. He discussed Linda Hendricks' prior experience at Duke and Vanderbilt, and her proactive perspective. He also discussed Dr. Poore's prior experience as information technology leader at Georgia Tech and Florida and his 20-year research program at UT Knoxville focused on the economical production of high-quality software. He noted the benefits of having a software expert directing the University's information technology.

Dr. Petersen next briefly discussed a retreat held the week before for the President's Staff and senior staff from each campus. He noted that Ms. Hendricks and Dr. Poore were able to attend the retreat. He stated that the attendees focused their discussions on six areas: research, growth considerations, including transfer and articulation plans, strategic partnerships, optimizing k-12 teacher preparation, healthcare resources for the state and the University's operating budget.

Dr. Petersen next discussed the University's budget in light of the expected funding reduction from the state due to its revenue shortfalls. He stated that the University expected a possible 5% cut in base funding. He noted that this was a significant cut, and ramifications to academic programs would be very serious. Strictly as an illustrative example of the impact of the cut in base funding, he stated that a 5% cut in the base budget of UT Knoxville would be the equivalent of closing three colleges, Architecture, Nursing and Social work. He noted that approximately 50% of the University's budget falls in units that generate very little tuition--the Health Science Center, the Space Institute, IPS and some agricultural programs. A 5% reduction to those budgets would be very difficult for those programs to replenish. He stated that he has asked the Governor to allow the University as much flexibility as possible in making the reductions to avoid critical damage to strategic enterprises. He stated that the administration has conducted budget workshops to review different financial models based on various levels of tuition increases that would allow the University to continue to deliver quality programs. He stated that the models do not allow for salary increases for faculty and staff for this year. He stated that each of the campuses and units are developing plans for how best to meet the required reductions.

Dr. Petersen next updated the Committee on the Chancellor positions for Knoxville and Health Science Center. He stated that the University would begin the search for the Health Science Center Chancellor once its strategic partnerships and enterprises are in line. The search for the Knoxville Chancellor is underway and interviews will begin with the new school year. He also noted that interviews are currently being conducted for the Vice Pres Academic Affairs and Student Success.

Upon concluding his remarks, Dr. Petersen responded to questions from the Committee. In response to questions concerning position cuts and possible outsourcing, Dr. Petersen stated that some restructuring would be necessary. He

also added that some of the cuts would come from positions that become vacant from turnover and early retirement. He stated that critical positions would be filled. The Committee discussed possible outsourcing alternatives for the University as well as utilization of available natural gas supplies.

A Committee member asked if the University would be reviewing and eliminating inefficient programs. Dr. Petersen stated that the Knoxville campus has been regularly terminating unproductive programs and in fact has terminated more programs than it has started over recent years. He added that each Chancellor and unit leader, as well as the System, would be involved in positioning themselves to minimize the negative impact. Dr. Petersen stated that the University will be very deliberate about its efforts to absorb costs rather than turning to higher tuition increases to offset reductions, while continuing to deliver quality programs. He added that the University continues to work on models and still has a way to go in determining specific reduction figures.

V. CHAIR'S REMARKS

A. Status of Cost Project

Chair Loughry stated that the strengthening of the Board's ability to oversee costs, and the cost effective operation of the University with an effective cost management tool, has become more critical in light of the state's revenue shortfalls and the strategic cuts that must be made. She stated that the cost project analysis will provide a systematic way for the Board to review different functions, beginning with reviewing support and administrative functions, and then moving on to service, research and the academic area. She reported that BearingPoint has been collecting data and will have a progress report for the Board at the June meeting. She stated that analytical information the Board can use for the following fiscal year would be available prior to the Fall meeting. She stated that this project would result in an accessible and sustainable database for future use. Dr. Petersen stated that the expectation is that areas that are strategic and operating efficiently will be validated and those that are not will thoroughly understand our expectations.

B. AGB National Conference on Trusteeship

Chair Loughry provided a brief summary of key discussion from the 2008 AGB National Conference on Trusteeship. She stated that cost management was a reoccurring topic in many of the sessions at the conference. She circulated several useful and interesting materials from the sessions to the Committee. The Secretary, Ms. Mizell, also reported on her attendance at the two-day program for Board professionals. She discussed institutional best practices for paperless meetings. She noted that Microsoft has made available free software for University board meeting materials. She added that while the software is free, there would be an

implementation fee of at least \$5,000. The Committee discussed the benefits of electronic meeting materials, scheduling and contact information.

C. Vice Chair and Committee Chair Appointments

Chair Loughry stated that, in anticipation of the end of the current Vice Chair term in June, she has been in contact with the Governor to discuss the position of Vice Chair for the coming two years. She stated that she will be prepared to recommend a new Vice Chair from among the current membership of the Executive and Compensation Committee. She stated that the Trusteeship Committee met earlier today and determined that the current Committee Chairs should stay in place until Trustee appointments are announced for the next terms. She asked each Committee Chair to provide her with input for Committee appointments and leadership for the next term.

VI. REVIEW OF TENTATIVE SCHEDULE AND AGENDA FOR ANNUAL MEETING

Chair Loughry called the Committee's attention to the tentative schedule and agenda for the Annual Meeting of the Board of Trustees and its committees, June 19-20, 2008, in Knoxville (Exhibit 1). The Committee discussed the schedule in terms of maximizing available meeting time, including travel time from West Tennessee, without overtaxing Trustees' personal schedules. To allow for more meeting time, the Committee moved the start time forward on the first day and changed the meeting time for the Executive and Compensation Committee from the 7:00 a.m. June 20th to 12:00 p.m. June 19th.

VII. PROPOSED REGULAR MEETING DATES FOR 2009

The Chair referred the Committee to the proposed regular meeting dates for 2009 (Exhibit 2). The consensus of the committee was that the proposed dates were acceptable.

Mr. Murphy moved approval of the meeting dates for 2008. Mr. Stansberry seconded, and the motion carried unanimously.

VII. OTHER BUSINESS

There was no other business to come before the Committee.

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