

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

September 18, 2008  
Knoxville, Tennessee

The Executive and Compensation Committee of the Board of Trustees of The University of Tennessee met at 1:00 p.m., CDT, Thursday, September 18, 2008 in the offices of Boulton, Cummings, Connors and Berry, 1600 Division Street, Nashville, Tennessee.

**I. CALL TO ORDER**

James L. Murphy, III, Chair, called the meeting to order.

**II. ROLL CALL**

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

Mr. Spruell Driver, Jr.  
Mr. James E. Hall  
Mrs. Andrea J. Loughry  
Mr. James L. Murphy, III  
Dr. John D. Petersen  
Mr. Don C. Stansberry, Jr.  
Mr. Robert S. Talbott

The Secretary announced that a quorum was present.

Also in attendance were Trustee Charles Wharton, members of the President's Staff, members of the University's public relations staff, Audiology and Speech Pathology Department Head Ilsa Schwarz, Dr. Kelly Tiller, and a member of the media. Due to a schedule conflict, Trustee George Cates was unable to attend the meeting.

**III. APPROVAL OF MINUTES OF LAST MEETING**

The Chair called for any corrections or additions to the minutes of the June 19, 2008 meeting of the Executive and Compensation Committee. None being noted, Mr. Stansberry moved approval of the minutes. Mrs. Loughry seconded, and the motion carried unanimously.

**IV. PRESIDENT'S REPORT**

The Chair called on Dr. Petersen to update the Committee on recent events at the University. Dr. Petersen stated that he is in the process of visiting all of the campuses and units as part of his annual campus tour. He stated that campus and institute leaders are outlining strategic priorities and needs for the coming fiscal year, and faculty and staff are discussing issues and concerns at informal question-

and-answer sessions. He stated that in addition to meeting with students and staff, he is meeting with community leaders and local legislators.

Dr. Petersen stated that he has continued to be in touch with state fiscal officers. He discussed potential budget shortfalls for the year based on revenue for the first couple of months of the fiscal year. He stated that the administration, in anticipation of potential budget shortfalls, is looking into potential budget cuts. He discussed use of the cost project, which will include a review of the productivity, effectiveness and efficiency of the University, to take into account potential savings.

Noting that compensation levels for faculty and staff are below the median in comparison to peers, Dr. Petersen said that compensation must once again be a priority. The Chair commented that compensation disparity for University employees is a very important issue, but the cost control initiative is also imperative to the success of the University. He stated that as UT deals with potential short falls in the budget and possible tuition increases, the staff also needs to be aggressive about controlling costs. He stated that the faculty and staff need to be fully engaged in the efficiency initiative.

Mr. Hall commended the President on his recent visit to Chattanooga and stated that the meetings he was able to attend were successful and very helpful.

Mr. Driver stated that given the uncertainty we have seen in the markets, it is possible that this fiscal year will be worse than last year and asked whether there is ongoing planning for that possibility. Dr. Petersen stated that many scenarios have been modeled, and the administration is looking at a broad base of cuts to position the University. He discussed a previous program review conducted a few years ago by the Knoxville campus involving both faculty and administration. He noted that such a preemptive exercise does have potential for causing undue anxiety to programs identified.

He stated that there is time at this point to engage constituencies for broader input to develop criteria for what is a core program and to build a matrix to identify programs we may need to cut. Mr. Stansberry noted that efforts should also be made to identify any possible legally binding commitments the University may have made to continue programs. Dr. Petersen stated that each campus is going through a process that engages the faculty and prioritizes what each campus does. Leadership would still make the final decisions. Mr. Murphy stated that, at the end of the day, until we can convince everyone that we are cutting our costs, cutting programs is going to be a very hard thing to do. Dr. Petersen stated that the process is still necessary, because even without the requirement to make cuts, we need to continually focus the programs of the University to position the University for success for the future.

Mr. Wharton asked if the University is reviewing its money market deposits in light of

the recent bank failures. Dr. Rogers confirmed that the review is ongoing.

**A. Update on Teambuilding and System Administration Organizational Structure**

Dr. Petersen provided a handout illustrating the meeting structure, reporting structure and operating structure for the President's staff (Exhibit 1). He discussed each of the handouts and responded to questions from the Committee. He stated that these structures have been in place informally for several months. He stated that a key component for the reporting structure and the operating structure to work is for each of the positions that will have other Vice Presidents reporting to them--specifically, the Vice President for Government and Public Relations and the Vice President for Human Resources--to be Board elected officers. He stated that the reporting structure enables efficiency and effective communication channels and reduces direct reports to the President. The lead for each area would be accountable for communication flow and day-to-day operational support and guidance. Mr. Talbott stated that 14 direct reports to the President is still a large number. Dr. Petersen stated that the University is a complex organization with many large campuses and units which in itself results in a large number of direct reports; however, the operating structure streamlines the actual workflow and communication cascade.

Mrs. Loughry asked Dr. Petersen to discuss the process for selecting these structures. Dr. Petersen stated that the initial iteration was a process that started with those Vice Presidents that interact with a large number of employees by virtue of their roles. He stated that feedback was then sought from the larger group on several occasions, and Linda Hendricks was able to provide peer structures for comparison and discussion. He stated that a full staff meeting was held about ten days ago and the final material was presented for discussion.

Mr. Wharton asked for a clarification of the role of chief of staff. Dr. Petersen stated that the chief of staff sits in on all meetings, takes notes, tracks and follows-up on all deliverables. Mrs. Loughry asked Dr. Petersen about activities that have developed a team approach. Dr. Petersen stated that the reporting and operating structure charts are one example of a project that involved input from the full staff, and collectively these structures were agreed upon as a way to operate and communicate effectively. A discussion ensued regarding whether IPS should fall under the Executive Vice President with other programs. Dr. Petersen stated that there is more programmatic overlap with the Vice President for Government and Public Relations.

Mr. Murphy asked what steps need to be taken to review and approve Board elected

positions. Ms. Mizell stated that the action requires a bylaw change, which would need to come before the Trusteeship Committee for consideration. Mrs. Loughry, Chair of Trusteeship, indicated that the Trusteeship Committee would consider this and other pending Bylaw amendments to be presented to the full Board at the Winter Meeting in February 2009. The Chair suggested that Dr. Petersen explain the reporting and operating structure at the Fall Meeting to make other Trustees aware of it.

#### **B. Update on UT Knoxville Chancellor Search**

Dr. Petersen next discussed the progress of the search for a UTK Chancellor. He stated the fourth candidate is currently visiting the campus, and the fifth (and final) candidate will visit next week. The Search Committee will send to the President a short list of no fewer than two candidates, unranked, after the visits are concluded.

Dr. Petersen stated that he has been able to sit down with each candidate and provided them an opportunity to ask questions on a one-on-one basis regarding reporting, governance, and any other issue. He stated that the candidate pool is very strong. Mr. Stansberry asked if the Search Committee has prepared an agreement in advance for whoever will be selected. Dr. Petersen stated that there have been informal discussions with the candidates about terms and there is a sense that the negotiations will not be a difficult aspect. Dr. Petersen stated that the salary would be understood before an announcement was made. He confirmed that a housing allowance would be offered.

#### **C. Update on Audiology and Speech Pathology**

Dr. Petersen stated that Dr. Schwarz, the head of the Audiology and Speech Pathology Department, and Tony Ferrara, the chief business officer for UTHSC, were present at the meeting. He stated that they along with Sylvia Davis and many others have been instrumental in framing the proposed migration of the Audiology and Speech Pathology Department to UTHSC. He stated that the department would remain in Knoxville but it would be administered by the College of Allied Health at UTHSC. The clinic would remain open, and the graduate program would continue. He stated that having the program report to UTHSC enables it to be a component of an academic health center and to make connections with other health science programs. He stated that while the undergraduate major will not be continued, there will be options for undergraduate students, specifically a concentration in the College of Health and Human Services, to take the courses needed to enter the graduate program. He stated that taking the budget for the graduate program and clinic and moving it to UTHSC without state appropriations will generate an initial need of about \$1 million. He stated that the administration proposes that proceeds from the lease and transfer of the UT Hospital be used to offset the cost to UTHSC. He stated that there are capabilities to expand the program and make the program a self sustaining program and potentially reduce the

initial need, and further there are incentives to do so as quickly as possible. He stated that UTHSC is excited about the program and its possibilities and that the department is also excited about the migration. Opportunities will exist to expand the clinical and academic faculty and thereby increase the number of students. Mr. Wharton asked how many undergraduates in the program go on to graduate school. Dr. Schwarz stated that about 90% go on to graduate school. She added that undergraduates may continue to prepare for the graduate program at UT by taking courses in the College of Health and Human Services. She stated that they would not have to take an additional year. Mrs. Loughry asked how this saves money for UTK. Dr. Petersen stated that geographically, the program remains in Knoxville, but the budgetary responsibility has been moved to UTHSC. He added that the tuition model and business model for the program will change to fit the UTHSC clinic and graduate program model. He added that this is similar to the pharmacy students in Knoxville who are part of a UTHSC unit. Dr. Petersen stated that over five years we hope to double the size of the graduate program. In response to a question, Dr. Schwarz stated that incoming freshman would be steered toward the College of Health and Human Services concentration rather than starting the undergraduate program that is being phased out. The clinic has a function as an academic component; graduates need the clinical experience for their degree which is similar to almost every program at UTHSC. Dr. Petersen stated that this solution is a win-win solution that is good for students and the state and makes financial sense for UTK and for the program.

**V. MODIFICATIONS OF THE UNIVERSITY OF TENNESSEE BIOFUELS INITIATIVE CONCERNING CONSTRUCTION AND OPERATION OF CELLULOSIC ETHANOL AND BIOENERGY RESEARCH AND DEVELOPMENT FACILITIES**

Dr. Petersen discussed the proposed modifications to UT's Biofuels initiative facilities (Exhibit 2). He referred to the detailed memorandum circulated prior to the meeting. He stated that the Committee is being asked to approve a modification of a Resolution adopted last year to now authorize the University administration to take all steps necessary to contract with UTRF to manage and operate the biofuels facilities, through Genera Energy, LLC and its collaborators, as deemed desirable, in compliance with all University and state requirements. Dr. Petersen stated that negotiations with Mascoma terminated in June 2008. He stated that while Mascoma was agreeable to the venture, they were unable to come to an understanding on the business agreement. Dr. Petersen stated that the modification, in essence, substitutes DuPont Danisco Cellulosic Ethanol, LLC (DDCE) as the technology collaborator for the biorefinery facilities project, including a pilot plant and a process development unit (PDU), and a separate switch grass utilization demonstration unit. He stated that the modification does not involve any change in the purpose of the

project, the commitment to Tennessee farmers for switchgrass as a biomass feedstock, nor in the state's total capital outlay. He stated that the switchgrass initiative wholly complements DDCE's technology, resulting in a quick agreement in principle.

He stated that Genera Energy LLC, whose sole member is UTRF, will collaborate with DDCE for Genera to own and DDCE to design, construct and operate the pilot plant and PDU. The pilot plant is on track to commence operation by the end of 2009 and as research progresses; switchgrass will be used in the pilot plant as early as 2010. Dr. Tiller discussed changes to the proposed pilot plant. She stated that the originally proposed 5 million gallon plant is bigger than necessary and creates project risks that can be avoided with a smaller 250,000 gallon per year pilot plant. Consistent with the schedule for commencement of pilot plant operations in late 2009, in their letter of intent, DDCE and Genera agreed to an aggressive September 30, 2008 deadline for approval of definitive agreements, including the Master Collaboration Agreement and lease. The Committee is asked to determine that action on this matter is necessary at this time rather than at the next regular meeting of the Board and therefore that action by the Committee on behalf of the Board is necessary. Mr. Stansberry asked if the agreement was similar to the agreement being negotiated with Mascoma-for example, does UTRF retain the same intellectual property rights? Dr. Tiller stated that it is too difficult to make a comparison because an agreement was never reached with Mascoma. She stated that there is a difference in the scope, and that other feed stock, including corn cob, is being considered. Mr. Wharton asked whether there will be royalties to UTRF down the line. Dr. Tiller stated that royalty stacking has become a significant issue in this field. She stated that a milestone-based success fee to UTRF, in line with the risk and investment UTRF is making, is being negotiated. She added that there is also a possibility for direct revenues from licenses. She stated that there will be various ways for the University and UTRF to benefit, such as developing our own intellectual property in the areas of co-products and processing feedstock. Also there will be significant "first mover" advantages for the state and University in growing this industry. Mr. Talbott asked whether DDCE would be obligated to build the first scale plant in Tennessee. Dr. Tiller stated that DDCE could build in Tennessee or make available to UTRF a license and royalty free opportunity to build in Tennessee. Mr. Talbott asked about licenses for future technology. Dr. Tiller stated that ownership would follow inventorship. If the University has no involvement and the technology is based on DDCE's intellectual property and its improvements on it, the University would not have any ownership. Dr. Petersen stated that ORNL does have a bio-energy center that is researching conversion technology. Discussion ensued about whether the best possible intellectual property deal had been negotiated for UTRF and the University. Dr. Petersen stated that the only two other biofuels initiatives similar to ours going on in the country are the BP and Berkley imitative and the Mascoma and Cornell initiative. Dr. Tiller stated that she believed UTRF is in a better position than both other initiatives. She stated that we are developing a supply chain management system for a dedicated energy product starting with switch grass, but it

could lead to other feedstock, and our process could become valuable to every conversion technology. Mr. Talbott noted that we are in the position of not really knowing what the best deal would be in this situation.

Mr. Wharton asked whether the pilot plant would be moved now that it has been reduced in scale. Dr. Tiller stated that it still makes sense to retain the same location for the smaller plant. She stated that switchgrass that will not be needed for the pilot plant will be used for other purposes within the supply chain, such as in lieu of coal.

Mr. Murphy asked whether there is another alternative to the proposed deal with DDCE. Dr. Tiller stated that there are some other technologies, but DDCE appears to be the best aligned strategic partner given its experience, expertise and size. Mr. Murphy asked whether we have the expertise for conversion that we could bring to another partner. Dr. Tiller stated that we do have research that looks promising but nothing at this time that could substitute for the technology that DDCE can provide. Mr. Murphy asked whether we could retain technology that we created at the PDU. Dr. Tiller confirmed that we would retain the technology, and DDCE would have an option to license it under fair market conditions.

Mr. Stansberry moved that the Committee find it necessary to act on behalf of the Board given the exigency of the initiative. Mr. Hall seconded the motion. The Chair asked for any further discussion. The motion unanimously carried.

Mr. Stansberry then moved that the Committee acting on behalf of the Board of Trustees adopt the Resolution, as included in the meeting materials and presented at the meeting: (1) authorizing the University administration to take all steps necessary to contract with UTRF to manage and operate the biofuels facilities, through Genera and its collaborators as deemed desirable, in compliance with all University and State requirements; (2) authorizing the University administration to grant \$40.7 million in State appropriated capital funding to UTRF, for UTRF to capitalize Genera, as approved by the State Building Commission; and (3) rescinding last year's resolution. Mr. Hall seconded the motion. The Chair asked for any further discussion. A discussion ensued regarding whether external intellectual property expertise should be sought by UTRF. The Chair recommended that UTRF utilize whomever else they deem necessary to evaluate the agreement before its execution. The Chair then called for a vote on the motion to adopt the Resolution, and the motion carried unanimously.

## **VI. REVIEW OF TENTATIVE SCHEDULE AND AGENDA FOR FALL MEETING, OCTOBER 22-24**

Mr. Murphy asked for comments or additions to the proposed schedule and

agenda items for the Fall Meeting. Ms. Mizell noted that an Executive and Compensation Committee has been scheduled for Thursday morning on the assumption that there may be a Chancellor recommendation. She also noted that the use of the hospital proceeds mentioned today would be added to the Finance and Administration Committee agenda.

**VII. PROPOSED EXECUTIVE AND COMPENSATION COMMITTEE MEETING DATES FOR 2009**

Ms. Mizell stated that she has responses from most of the Committee, and once she receives a reply from the remainder of the Committee she will circulate the proposed meeting dates for 2009 for approval at the next meeting.

**VIII. OTHER BUSINESS**

No other business came before the committee.

**V. ADJOURNMENT**

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

Respectfully submitted,

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Catherine S. Mizell  
Vice President, General Counsel and Secretary