

THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE

October 8, 2015
Knoxville, Tennessee

The Finance and Administration Committee of The University of Tennessee Board of Trustees met at 1:00 p.m. EDT on Thursday, October 8, 2015, in the Hollingsworth Auditorium on the campus of the UT Institute of Agriculture in Knoxville, Tennessee.

I. CALL TO ORDER

Charles C. Anderson, Chair, called the meeting to order.

II. ROLL CALL

Charles M. Peccolo, Treasurer and Chief Financial Officer, called the roll, and the following members of the Finance and Administration Committee were present:

Charles C. Anderson, Chair
Joseph A. DiPietro
John N. Foy
Raja Jubran, Vice Chair
James L. Murphy
John D. Tickle

Mr. Peccolo announced the presence of a quorum of the Committee. Trustee Brown was unable to attend the meeting. Other Trustees, administrative staff, members of the public, and representatives of the media were also present.

III. CONSENT AGENDA

Chair Anderson directed the Committee's attention to the Consent Agenda and called for requests to remove any items. Hearing none, the Chair called for a motion to approve the Consent Agenda, consisting of the following items:

- A. Minutes of the Last Meeting (Committee Action Only)
- B. FY 2015 Annual Flight Operations (Exhibit 1)
- C. Report on Use of Differential Tuition Funds at UTC (Exhibit 2)
- D. Report on Use of Differential Tuition Funds at UT Knoxville (Exhibit 3)

- E. Disclosure of Additional Revenue/Institutionally Funded Capital Projects for FY 2015-16 (Exhibit 4)
- F. President Emeritus Agreement with Dr. Joseph E. Johnson (Exhibit 5)
- G. Melrose Avenue/Melrose Place Easement (UTK) (Exhibit 6)
- H. Fee Sale and Easement to TDOT, Alcoa Highway and Maloney Road (UTIA) (Exhibit 7)
- I. Easement to KUB at Alcoa Highway and Maloney Road (UTIA) (Exhibit 8)
- J. Property Disposal (Exhibit 9)

Trustee Foy moved that the Consent Agenda be approved and that items requiring full Board approval be moved to the Consent Agenda of the Board. The motion was seconded by Trustee Murphy and it carried unanimously.

IV. AMENDMENT OF THE RULE ON USE OF UNIVERSITY PROPERTY

Chair Anderson called on Matthew Scoggins, Deputy General Counsel, to present the next item of business, Amendment of the Rule on Use of University Property. Mr. Scoggins began by stating at the 2015 Winter Meeting, the Board approved amendments to Chapter 1720-01-02 of the Rules of the University, titled "Use of University Property," under the formal rulemaking procedures of the Uniform Administrative Procedures Act (UAPA). One of the amendments to the Rule was intended to establish standards for the issuance, appeal, and enforcement of a "no-trespass notice." A no-trespass notice is a written directive requiring a person to leave and/or not enter all or part of University property.

As part of the UAPA process, the amendments to the Rule were reviewed by the Joint Government Operations Committee of the Tennessee General Assembly on August 19, 2015. At the conclusion of the committee's review, the committee voted to request the Board of Trustees to amend Section .05 of the Rule relating to no-trespass notices.

In response to the committee's request, the University is proposing the following amendments to Section .05:

- Section .05 will apply only to non-affiliated persons (i.e., it will not apply to students and employees).
- Only a sworn law enforcement officer may issue a no-trespass notice.
- A person who receives a no-trespass notice may appeal to the campus/institute chief of police.

Mr. Scoggins stated that upon adoption by the Board, the Rule will be submitted to the Attorney General for approval and, if approved, filed with the Secretary of State and published for the statutorily required period prior to becoming effective.

Trustee Murphy moved that the Board of Trustees adopt the amendment of Chapter 1720-01-02 of the Rules of The University of Tennessee as presented in the meeting materials (Exhibit 10) to be effective after completion of the rulemaking procedures under the Uniform Administrative Procedures Act. The motion was seconded by Trustee Jubran and it carried unanimously.

V. FY 2016 UTM VOLUNTARY RETIREMENT INCENTIVE PROGRAM

Chair Anderson called on Interim Chancellor of UT Martin, Dr. Robert M. Smith to present the proposed UTM Martin Voluntary Retirement Incentive Program. Interim Chancellor Smith stated that this item of business was a request for approval of a voluntary retirement incentive program. He explained that this program is parallel to the program approved for UTIA and specifically tailored around the same program approved for UTC. He stated that UTM proposed to offer the FY 2016 UTM Voluntary Retirement Incentive Program for faculty and staff members. The program offers a lump sum incentive payment of six months' base salary, and retirements under the program would be effective December 31, 2015.

The pro forma would include the cost of a 13.5% surcharge, which is mandated by the Tennessee Consolidated Retirement System (TCRS). TCRS governs all University retirement plans, including the TCRS plan, the Optional Retirement Plan (ORP), and the now-closed Joint Contributory Retirement System plan (JCRS).

Dr. Smith reported that according to the pro forma, the estimated cost of the program would be \$3,171,580, and the estimated maximum savings in FY 2017 would be \$5,905,658. The savings will be partially allocated to overall budget reduction measures. Any remaining savings will be held at the campus level (e.g., faculty lines) and re-allocated as needed to achieve a better alignment of campus resources with instructional needs.

Dr. DiPietro added that as we look at the Budget Advisory Group reports, this is an approach by UTM to operate within the boundaries we advised and the need to keep tuition low and to reallocate to other key programs. He stated that this is a necessary and positive step for UTM to put this in place.

Trustee Foy moved that the FY 2016 UTM Voluntary Retirement Incentive Program (Exhibit 11) be approved with authorization for the administration to take all steps necessary to implement the program. The motion was seconded by Trustee Jubran and carried unanimously.

VI. TREASURER'S REPORT ON ENDOWMENT INVESTMENT PERFORMANCE

Rip Mecherle, Executive Director of Investments provided a report on endowment investment performance to the Committee (Exhibit 12). Mr. Mecherle provided an extended report covering the investment pool returns, including all of the investment assets as well as gross and net distributions, and liquidity. He noted that the pool has a greater allocation to international markets versus benchmarks for the pool. He stated that at \$1.16 billion the pool overall was roughly flat with the previous year returning right around 1% and trailing peers by roughly .5%. He stated that the primary reasons for the pool trailing peers is because the pool has a capital markets value style weighting that lagged the capital market growth sectors significantly this year and secondly the pool has a greater allocation to international markets that were out-performed by US markets. Lastly, Mr. Mecherle reviewed the performance of the pools versus its key broad policy benchmark, as set by the Investment Committee, noting that the pool is even for the fiscal year-end and trailing for 3yr, 5yr and 10yr and ahead on 20yr returns. The pool's returns are achieved at only two-thirds of the broad policy benchmark volatility. Trustee Wharton requested that going forward the report include a key to abbreviations used in the report. Trustee Wharton asked how cash is generated to make distributions. Mr. Mecherle responded that distributions are made quarterly and planned at the beginning of the year to utilize income and realized capital gains towards the distributions over the fiscal year.

VII. TREASURER'S FINANCIAL REPORT

CFO Peccolo presented the 2015 Treasurer's Financial Report to the Committee (Exhibit 13). Mr. Peccolo stated that included in the materials is the draft June 30, 2015 financial statements for the University. The report is draft because it does not yet include the component units of the UTFI, UTC Foundation and the UT Research Foundation which are still being audited. He stated that we are undergoing our audit and all we are aware of, at this point, two potential findings for UTHSC in their IT program. He presented a power point presentation to highlight differences between this year's financial statements versus last year's statement and noted that while net assets increased, our net position declined. He explained how all of that is related to this being the first

year the University has to report its pension liability in our financial statements. He called attention to the footnotes in the report that explain how we account for the pension liability going forward under the new requirements. He discussed increases to liabilities attributable to additional debt issued by the school bond authority, liabilities due to component units, UTFI as they accept endowments and transfer them to UT, and interest due to UTFI from their cash invested in UT's cash management pool. He next discussed increases in receivables and assets caused by construction assets at UTK. He stated that deferred outflows increased due to the now required inclusion of pension contributions. He discussed the composition of the University's liabilities which includes the University's share of the pension's unfunded liabilities.

Trustee Murphy asked a question related to Mr. Peccolo's discussion of UT's liability on the pension's unfunded liabilities allocated to us based on our percentage. He asked Mr. Peccolo to discuss our financial responsibility to fund the unfunded liabilities. Mr. Peccolo explained that because the vast majority of it is non-contributory, the state appropriates that portion to us. Trustee Jubran requested that Mr. Peccolo send to the Board a side by side comparison of the 2014 balance sheet and income statement versus a 2015 balance sheet and income statement.

Mr. Peccolo next discussed source of revenues. He stated that revenues decreased by \$66 million and good portion of this was explained by Mr. Mecherle with the endowment returns. He then discussed the major expense categories, the largest being salaries which increased by \$14 million. He stated that he expected the final audit financial statements to be completed by the end of the calendar year.

VIII. FY 2016-17 OPERATING BUDGET APPROPRIATIONS REQUEST FOR NON-FORMULA UNITS

CFO Peccolo presented the operating budget appropriations request for non-formula units for FY 2016-17. Each year the University has the opportunity to present a state appropriations budget request for improvement funding at its non-formula units— the Health Science Center, Institute of Agriculture, Space Institute, Institute for Public Service, and System Administration.

He stated that this year, THEC working with the state department of finance and administration, has asked that the request be formatted in priority order and articulated in a way that details how the request aligns with state initiatives. He stated that each unit complied with that request. He added that

the President has shared the prioritization with the Chancellors and Senior Administrators and the prioritization is still being finalized. The proposed resolution will allow the President and CFO to submit the final prioritization after full vetting. A summary of the FY 2017 improvement request follows this memorandum.

Trustee Foy moved that the University's FY 2016-17 operating budget appropriations improvement request for the non-formula units (Exhibit 14) be approved, with authorization for the final priority to be determined by the President and Chief Financial Officer after full vetting with the Chancellor/Vice President of each non-formula unit. The motion was seconded by Trustee Murphy and carried unanimously.

IX. FY 2016-17 CAPITAL OUTLAY AND CAPITAL MAINTENANCE PROJECTS

CFO Peccolo stated that in accordance with the Tennessee Higher Education Commission and State Department of Finance and Administration guidelines, the University administration has developed the Capital Outlay and Capital Maintenance Funding Requests for FY 2016-17 and subsequent years. The Capital Outlay and Capital Maintenance schedules are included in the meeting materials. He stated that the first four priority projects are the renovation of the UTC Lupton Fine Arts Building, the UTHSC Dentistry Faculty Practice Research Building, UTK Engineering Services Facility, and UTIA Energy and Environmental Science and Ed Research Center. He stated for all four of our top priorities have the 25% required matching funds identified.

He stated that the five-year schedule for Capital Outlay reflects \$758,762,000 in recommended state funded Capital Outlay Projects, which is net of the requisite institutional funding match (25% for UTK, UTC, UTM and 10% for all others). The five-year schedule for Capital Maintenance reflects \$389,780,000 in recommended Capital Maintenance Projects. He reviewed the priority requests for Capital Maintenance Projects.

He stated that the administration seeks approval of these requests and authorization to enter into contracts for design and construction within available funds. Upon approval by the Board of Trustees, the administration will submit these funding requests to state government. In response to a question from Trustee Wharton, Mr. Peccolo reviewed the renovations needed for the College of Veterinary Medicine Building at UTIA.

Trustee Foy moved that the Capital Outlay and Capital Maintenance Funding Requests for FY 2016-17 and subsequent years be approved (Exhibit 15), with authorization to enter into contracts for design and construction for these projects within available funds. Chair Anderson called for any further discussion. Trustee Jubran stated that he just wanted to point out that the BAG document asks for the units to find funding if money does not come from the state. Dr. DiPietro stated that is specifically for deferred maintenance which is also big number. Trustee Murphy seconded the motion, and the motion carried.

X. FY 2016-17 REVENUE/INSTITUTIONALLY FUNDED PROJECTS

CFO Peccolo discussed the next item of business, the revenue/institutionally funded projects. He stated that the revenue/institutionally listed funded projects are on the following schedule for inclusion in the FY 2016-17 State of Tennessee Budget Document. He reported that identified projects total \$81,650,000 and will be funded through their own resources. Although, no state funds are requested, legislative approval of the projects is required. The administration seeks Board approval of these projects prior to submitting them to the Tennessee Higher Education Commission to begin the legislative approval process. The administration also seeks authorization to enter into contracts for design and construction for these projects within available funds. In addition, the administration seeks authorization to enter into contracts for design and construction associated with revenue/institutionally funded projects subsequently identified during the fiscal year. Any subsequently identified projects will be approved by the President and reported to the Board of Trustees at its next regularly scheduled meeting.

Trustee Murphy moved that the Revenue Institutionally Funded Projects for FY 2016-17 be approved (Exhibit 16), with authorization to enter into contracts for design and construction of these projects, within available funds, and, with the approval of the President, for design and construction of other revenue/institutionally funded projects identified during the fiscal year within available funds. The motion was seconded by Trustee Jubran, and the motion carried unanimously.

Chair Anderson thanked CFO Peccolo for his reports and thorough preparation especially the time he spent preparing the Committee for these meetings.

XI. HR/COMPENSATION ADVISORY BOARD REPORT

Chair Anderson called on Vice President of Human Resource Linda Harig and Executive Vice Chancellor of UT Chattanooga, Richard Brown to present annual report on the HR/Compensation Advisory Board (Exhibit 17). Ms. Harig called the Committee's attention to a bi-annual newsletter she provided each member called "For Your Benefit" that is provided to employees by mail to help them take advantage of their benefits. She also provided each Committee member with a pen/stylus that advertises the HR call center. She stated that the call center is staffed Monday thru Friday 8am to 6pm and is vastly utilized by staff.

Ms. Harig presented a Powerpoint presentation with a cover photograph showing some of the 3500 employees in Knoxville who attended an employee appreciation picnic hosted by Chancellor Cheek. She reported the results of a recent employee engagement survey. She discussed each of the response results and noted that overall the survey showed improvement but further concerns still need to be addressed. She discussed the process to help advance those areas that need improvement.

Ms. Harig discussed training programs available to employees. She highlighted three of the different programs available for leadership training. She discussed a new state-wide recognition award recommended by the Compensation Advisory Board called the President's Award. She discussed the qualifications for the award and the recognition for the recipients. In addition to the recognition, the recipients will receive a monetary award, a plaque and will serve in a three year advisory capacity to the President. She noted that it was a significant award to recognize outstanding individuals.

Ms. Harig next shared clip of a video illustrating UTC's redesigning of their orientation and onboarding program. Ms. Harig stated that through the Compensation Advisory Board, UT has done a lot of work on workplace health and wellness, aligning with the Governor's program. She stated that a new feature from the CAB this year is the creation of a website, "Work Healthy UT" and an employee blog focusing on health promotion, work life balance and mental health. Since the end of April, there are 33 new blogs and over 3200 views of our new website with a goal of having 6-10 new blogs each month written by our own faculty and staff. Ms. Harig stated that annually the System HR office develops a workforce strategic plan statement and high level plan for every campus and institute to understand employment trends and the health and wealth of our workforce. She shared some of the statistics from the report, for example, statewide over 70% of our workforce is over 40 and five years from now, 32.4% of our workforce will be retirement eligible. Ms. Harig introduced Richard Brown, the Chair of the Compensation Advisory Board.

Mr. Brown discussed the work of the Compensation Advisory Board, which serves in an advocacy role for over 14,000 employees across all the campuses and institutes of UT. He began his report by highlighting that UT has increased the minimum rate of pay to over \$9.50/hr. across the UT campuses and many of the campuses are moving to \$10.10/hr. He noted that this represents the third time minimum pay was increased in the last three years. Pay ranges were also increased by 3% to avoid compression issues. He stated that the hourly donation requirement for joining the sick leave bank was also reduced allowing a vast majority of employees to participate. He stated that performance review completion rates were improved to over 98% and 99.7% for faculty. He stated that this is integral to providing a comprehensive compensation plan across UT as we move more towards performance and merit based compensation planning. He reported that one of the things that CAB is working on is evaluating and projecting the Fair Labor Standards Act Proposal. This legislation will increase the minimum salary for an exempt employee from \$23,660/yr. to \$50,440/yr. He stated that this legislation is moving right now at the Federal level. He discussed the significant impact the legislation could have on UT and employees.

He reported that CAB requested that he, as chair, conduct a listening tour on each campus and unit to determine what employees across the University are concerned about. He thanked the Chancellors and Senior Administrators for their warm and generous response. He reported that there were four to five major themes in terms of what faculty and staff really want CAB to work on in the next one to three years. The first is to continue our momentum to invest in people to improve compensation. The second was to guard against any decline against benefits. He stated that employees asked that UT continue to expand opportunities for a healthy work place for employees and to continue the momentum to make each campus a campus of choice for employees. Lastly he stated that employees also asked for professional growth opportunities for every position across the University.

Mr. Brown turned to the current market analysis on the market gap progress included in the meeting materials. He stated that UT engaged Sibson consulting in 2011 to take a look at salary competitiveness across all of our entities. He stated that there is momentum and progress is being made. He thanked the Chancellors for their continuing effort in light of tough economic times. He commended the President, under his BAG initiative for keeping compensation as a top priority. Trustee Pryse asked whether the salary gap was about the same percentage of total salary across the campuses. Mr. Brown stated that they would run those numbers and report back. Trustee Wharton

asked whether the compensation analysis was also looking into minority gap analysis. Mr. Brown responded that every campus, through their HR system really takes a look at all categories of compensation including disparity impact of compensation on minorities. Ms. Harig reported that race and gender compensation analysis is done every year and reported to Chancellors and Diversity officers. Trustee Wharton commented that he believes there are some on at UTK that believe there to be gender compensation differences. Ms. Harig responded that usually when you dig down into the data, there are reasons for disparity such as experience level, or jobs, responsibilities or performance not being exactly the same. She stated that occasionally when the reports are run, we do find something that we need to make an adjustment to and adjustments are made. Trustee Jubran asked Mr. Brown, how much of the total adjustment amount was attributable to the corrections to the Sibson data analysis and how much was attributable to the effort of increasing ranges. Mr. Brown reported that roughly \$50 million was attributable to correcting data mostly at UTHSC. Chancellor Schwab explained the corrections that were made after a thorough review of the data collected by Sibson on physicians, nurses and other medical staff with salary sources from other entities. Ms. Harig also stated that it was important for the Board to remember that the data ages and the market moves so for some campuses the market moved so much in a year that they may have lost ground.

XII. OTHER BUSINESS

There was no further business to come before the Committee.

XIII. ADJOURNMENT

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

Respectfully Submitted,



James R. Maples
Interim Treasurer and
Chief Financial Officer