

THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE EXECUTIVE AND COMPENSATION COMMITTEE

January 27, 2012
Nashville, Tennessee

A meeting of the Executive and Compensation Committee of the Board of Trustees of The University of Tennessee was held at 11:30 a.m. CST, Friday, January 27, 2012, at the offices of Bradley Arant Boult Cummings in Nashville, Tennessee.

I. CALL TO ORDER

Don C. Stansberry, Chair, called the meeting to order.

II. ROLL CALL

Catherine S. Mizell, Secretary, called the roll, and the following members of the Executive and Compensation Committee were present:

George E. Cates
Joseph A. DiPietro
Spruell Driver, Jr.
James E. Hall
James L. Murphy, III
Don C. Stansberry, Jr.
Charles E. Wharton

The Secretary announced the presence of a quorum of the Committee. Other Trustees and members of the administrative staff were also present.

III. APPROVAL OF MINUTES OF PRIOR MEETING

Trustee Stansberry asked for any corrections to the November 29, 2011 minutes. Hearing none, Trustee Murphy moved approval of the minutes as presented. Trustee Driver seconded the motion, and it carried unanimously.

IV. PRESIDENT'S REMARKS

Chair Stansberry recognized Dr. DiPietro for remarks. Dr. DiPietro noted that the previous day was the last day to file bills in the General Assembly, and some unusual bills would hamper the University's ability to increase tuition as a means to maintain quality. One bill would link tuition increases to the Consumer Price Index, and under another bill, increased tuition would result in an automatic decrease in appropriations.

THEC and the Governor's office have supported the University's five-year plan for capital outlay and capital maintenance. The first year's funding of capital outlay is likely to be included in the budget, including the renovation of the General Education Building at the Health Science Center in Memphis with a simulation lab, Strong Science Building in Knoxville, and the MTSU science building. The University's request for capital maintenance was approximately \$40 million, and it is not likely that the full request will be funded.

The strategic planning process is at the point of completing data collection. The plan will be brief and direct, with a clear definition of system and campus roles and responsibilities and appropriate recognition of campus autonomy.

Chair Stansberry asked Dr. DiPietro to remember the importance of the President serving as the spokesman for separating the subject of tuition from the cost of education, noting that the real change is not in the cost of education but in who pays for it. The University should not be punished for raising tuition in the face of reduced appropriations. Lengthy discussion then ensued about communicating the University's message on the subject of tuition.

Trustee Cates requested Dr. DiPietro's assistance to achieve a culture change for the UT Research Foundation. He noted that good things are happening in research across the state, but UT Health Science Center and UT Knoxville faculty are not as tuned in as they need to be. He believes Dr. DiPietro can help with making the connection to the UT Research Foundation through communication with the Chancellors and the faculty.

V. LONGEVITY, RETENTION AND PERFORMANCE PLAN FOR CHANCELLORS

Chair Stansberry asked Chancellors Arrington and Cheek to step out for this discussion, and invited Dr. DiPietro to present the Longevity, Retention and Performance Plan (LRPP) for Chancellors (Exhibit 1). Dr. DiPietro reviewed the

principles and procedures of the draft plan as presented in the meeting materials and requested comments from the committee.

Trustee Wharton asked whether the Chancellors would be eligible to receive the LRPP payment every year. Dr. DiPietro explained that the payment potential is 10% of the annual compensation for each year of the retention period, but the payment will be made only at the end of the retention period.

Trustee Cates stated that while he supports performance compensation, he believes when given as part of a group, there is a tendency to approve the full amount for everyone. Dr. DiPietro responded with examples of quantitative, objective goals, including graduation rates, retention rates, alumni giving, degrees granted, freshmen ACT, research expenditures, and other measurable numbers. Trustee Cates suggested these be guidelines and parameters, with flexibility allowed in extenuating circumstances. Dr. DiPietro explained that he would work with the Chancellors to address extraordinary circumstances impacting their ability to achieve their goals.

Trustee Murphy recommended annual review of performance, and Dr. DiPietro responded that he will conduct annual performance reviews of the Chancellors. Trustee Wharton pointed out that during last year's reviews, Dr. DiPietro gave very direct evaluations not only to the Chancellors, but also to system staff, and he sees no reason for concern that the LRPP payment will be given to a Chancellor who has not earned it. Trustee Horne reiterated, however, that the Trustees need to ensure the President continues to assess each Chancellor individually. Trustee Murphy agreed, stating the President will need to work with each Chancellor to make his plan specific. Chair Stansberry reminded the Committee that it will approve the plan for each Chancellor.

Trustee Driver asked whether the correlation between the Chancellor and the metrics is strong enough to drive change and not too dependent on others for success. He prefers a plan that incents everyone in the organization to succeed by making the marks. Dr. DiPietro responded that the Chancellors are very capable of influencing the outcome and will be interested in incenting their employees to assist with achieving the overall goals. However, he will leave it to the Chancellors to determine how to accomplish that.

Trustee Wharton reminded Dr. DiPietro to keep all goals in line with overall University long range goals, and he then asked what Dr. DiPietro plans to do for other key staff. Dr. DiPietro responded that he intends to try this approach first

with the Chancellors and, as appropriate, come back to the Committee with a broader plan. Trustee Wharton suggested that the plan be more inclusive from the beginning, but Trustee Murphy cautioned that Dr. DiPietro should have the discretion to determine the scope of the trial plan. Trustee Cates reminded the Committee that the plan will add a layer of cost regardless of how it is done, and unlike the private sector, the University may not have the flexibility to continue or expand the plan.

The consensus of the Committee was that Dr. DiPietro should move forward with the LRPP and bring the final plan to the Committee for approval at the next meeting.

VI. DESIGNATION OF STANDING COMMITTEE CHAIRS TO PARTICIPATE IN THE ANNUAL PRESIDENTIAL PERFORMANCE REVIEW PROCESS

Chair Stansberry asked Secretary Mizell to address the next item of business, Designation of Standing Committee Chairs to Participate in the Annual Presidential Performance Review Process (Exhibit 2). She stated the Policy on Presidential Performance Reviews calls for two members of the Executive and Compensation Committee to participate with the Vice Chair of the Board in the annual process. In the past, the Chairs of Trusteeship and Audit were designated.

Chair Stansberry recommended that the same two standing committee chairs again be designated. Trustee Driver moved that the Chairs of Trusteeship and Audit be designated to participate in the annual presidential performance review process. Trustee Wharton seconded the motion, and it carried unanimously.

VII. REVIEW OF TRUSTEESHIP COMMITTEE'S RECOMMENDATION ON BYLAW AMENDMENTS TO CREATE A HEALTH AFFAIRS COMMITTEE AS A STANDING COMMITTEE OF THE BOARD

Trustee Murphy, Chair of Trusteeship, explained that the Trusteeship Committee has recommended amending the Bylaws to create a Health Affairs Committee as a standing committee of the Board, replacing the Health Affairs Advisory Board. Trustee Murphy read the proposed amendment of Article III, Section 2 (b), listing the composition of the new standing committee (Exhibit 3). Dr. DiPietro stated his strong support for the new standing committee, noting that new revenue streams for the Health Science Center might involve financial risk in the future. The Health Affairs Committee will provide expertise to the Health Science Center and ensure adequate Board oversight of Health Science Center clinical

activities. Trustee Murphy indicated that the Bylaw amendments will be presented to the full Board for approval at the 2012 Winter Meeting.

VIII. AUDIT COMMITTEE'S RECOMMENDATION FOR APPOINTMENT OF THE EXECUTIVE DIRECTOR OF AUDIT AND CONSULTING SERVICES

A. Determination of Necessity for Action Before the Next Board Meeting

Chair Stansberry called the Committee's attention to the facts and circumstances stated in the meeting materials justifying action by the Executive and Compensation Committee on behalf of the Board to appoint the Executive Director of Audit and Consulting Services. Trustee Murphy moved adoption of the Determination of Necessity to Act for the Board of Trustees before its Next Meeting to appoint the Executive Director of Audit and Consulting Services (Exhibit 4). Trustee Wharton seconded the motion, and it carried unanimously.

B. Audit Committee's Recommendation

Chair Stansberry recognized Trustee Hall, Chair of Audit, to present the Audit Committee's recommendation. Trustee Hall first thanked the staff and Judy Burns for serving the Audit Committee and the University so well during the interim appointment period. Trustee Hall then stated that the Audit Committee, meeting earlier that day, concurred in his recommendation for the appointment of Sandy Jansen. Trustee Hall then moved approval of the Audit Committee's recommendation for the appointment of Ms. Sandy Jansen, CIA, CCSA, as the Executive Director of Audit and Consulting Services, with an annual compensation of \$150,000 and a moving allowance of \$10,000 (Exhibit 6). Trustee Wharton seconded the motion, and it carried unanimously.

IX. REVIEW OF TENTATIVE SCHEDULE AND AGENDA FOR WINTER MEETING

Secretary Mizell presented the draft schedule of events and tentative list of agenda items for the Winter Meeting on February 28-29 in Memphis (Exhibit 7). She noted that February 27 included meetings of the UT Foundation, UT Research Foundation, and the Compensation Advisory Board, but no official

Trustee functions. Calling the Committee's attention to an item on the agenda for the Academic Affairs and Student Success Committee, Dr. DiPietro explained that SACS has requested that UT Knoxville and UT Health Science Center be accredited separately in the future. As a result, UT Knoxville and UT Institute of Agriculture will be re-accredited as a single unit; and UT Health Science Center will go through a new accreditation process. In response to a Trustee question, Dr. Cheek stated the accreditation change will not impact the Top-25 quest.

Trustee Cates noted he was unaware of the proposal concerning a Proton Therapy Center. Dr. DiPietro stated UT has been approached by ProVizion Health with an opportunity to participate in a Proton Therapy Center in Knoxville. Proton Therapy is a type of radiation treatment with fewer side effects than traditional treatment. He noted, however, that the proposal will very likely not be ready for discussion at the February meeting, and speaking from a legal perspective, General Counsel Mizell concurred.

Trustee Hall suggested preparation and quality of teachers coming out of the system be on the June agenda. He would like to see information from the President or Chancellors regarding teacher education. Chair Stansberry stated that subject would be appropriate for the Academic Affairs and Student Success Committee in June.

X. PARTICPATION IN ASSOCIATION OF GOVERNING BOARD PROGRAMS

Chair Stansberry announced tentative plans for the Vice Chair, the President, and a representative of the Trusteeship Committee to attend the AGB National Conference on Trusteeship April 22-24. He encouraged members of the Committee to review AGB programs available throughout the year and other valuable information on the AGB website, www.agb.org.

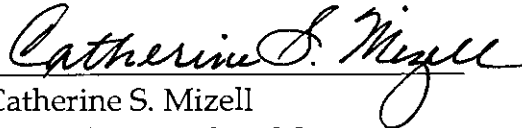
XI. OTHER BUSINESS

The Chair called for any other business to come before the Committee. There was none.

XII. ADJOURNMENT

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

Respectfully Submitted,


Catherine S. Mizell
General Counsel and Secretary