

MINUTES OF THE WINTER MEETING
BOARD OF TRUSTEES
THE UNIVERSITY OF TENNESSEE
February 25, 2011

The Winter Meeting of the Board of Trustees of The University of Tennessee was held at 1:30 p.m. EST, Friday, February 25, 2011, in the Tennessee Room of the University Center at The University of Tennessee at Chattanooga, Tennessee.

I. CALL TO ORDER AND INVOCATION

Mr. James L. Murphy, III, Vice Chair of the Board of Trustees, called the meeting to order. Reverend Steve Roper of the UTC Campus Ministers Association offered the invocation.

II. ROLL CALL

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

Charles C. Anderson
Anne Holt Blackburn
J.A.M. Boulet
William Y. Carroll
George E. Cates
Joseph A. DiPietro
Spruell Driver, Jr.
John N. Foy
D. Crawford Gallimore
Monice Moore Hagler
James E. Hall
William E. Haslam
Douglas A. Horne
Karen C. Johnson
Julius Johnson
Andrea J. Loughry
James L. Murphy, III
Richard G. Rhoda
Karl A. Schledwitz
Carey E. Smith
Don C. Stansberry
Robert S. Talbott
Betty Ann Tanner
Sumeet S. Vaikunth
Charles E. Wharton

The Secretary announced the presence of a quorum. Acting Commissioner Patrick Smith was unable to attend the meeting. Members of the administration, faculty, staff, and media were present. The meeting was also webcast for the convenience of the University community, the general public, and the media.

III. Introductions

Vice Chair Murphy welcomed former Faculty Trustee Verbie Prevost and former Student Trustee Tyler Forrest.

Vice Chair Murphy also welcomed Governor Haslam, President DiPietro, and Commissioner Johnson, each an ex-officio voting Trustee attending his first meeting, and presented each with a Trustee lapel pin.

IV. APPROVAL OF MINUTES OF PRIOR MEETING

Trustee Karen Johnson moved approval of the minutes of the October 22, 2010 meeting of the Board of Trustees as presented in the meeting materials. Trustee Stansberry seconded the motion, and the motion carried unanimously.

V. ELECTION OF THE CHAIR OF THE BOARD

Vice Chair Murphy recognized Trustee Loughry for the next item of business, election of the Chair of the Board.

Trustee Loughry reflected for a moment on the tradition of this great University, reminding the Board that in March 2003, longtime Trustee Jim Haslam nominated then-Governor Phil Bredesen as Chair of the Board. She stated that it was her honor and privilege to nominate Governor Bill Haslam to serve as the Chair of the Board of Trustees and to move further that nominations cease. Mr. Carroll seconded the motion, and the motion carried unanimously.

Governor Haslam thanked the Board for his election, noting that it was an easier process than his last election. He added that a key aspect of being Governor is to assist in leading Tennessee higher education, and that very little happening in Tennessee is as important as what the Board of Trustees and the Tennessee Board of Regents are doing. He stated that he looks forward to being an active participant on the Board to the extent feasible. He then briefly addressed the state budget situation, his goal of increasing standards and accountability for education across the board in Tennessee, and his 2011 legislative package, including a change that will make the HOPE scholarship available for summer school. The Governor concluded his remarks by stating that if Tennessee is going to be the state we all want it to be, The University

of Tennessee System must be a System of excellence and he is excited about the chance to work with the Board of Trustees to make that happen.

Governor Haslam then asked Vice Chair Murphy to continue to chair the meeting.

VI. PRESIDENT'S REPORT

The Vice Chair recognized Dr. DiPietro for his report.

Dr. DiPietro began by noting that he has been in office for about 60 days and has found it to be very hectic but also very rewarding and a real privilege. His initial focus was to reinforce stability and spread the word that there is a permanent president and no more uncertainty. He has done this with community events, media interviews, and campus visits. He thanked the Board for their support, involvement, and counsel.

Turning to his short-term priorities, Dr. DiPietro said he has been clarifying roles and setting goals with senior administrators. He holds Chancellor meetings on a monthly basis to discuss ideas, issues, concerns, and how the system administration can work more efficiently. He reported the recent hire of an Executive Assistant, Dr. Keith Carver, noting that Dr. Carver has experience across the System, most recently as the interim Vice Chancellor for Development and Alumni Affairs at the UT Health Science Center. Dr. Carver's role will encompass the duties of the vacant chief of staff position and also include strategic planning for the System. He then provided the Board with an update on the search for the Chancellor of the Institute of Agriculture and his future plans for searches for the Vice President for Development and Alumni Affairs, Vice President for Academic Affairs and Student Success, and Chief Financial Officer.

Concerning the current legislative session, he updated the Board on the status of the Foundation legislation, noting it has been well-received and he expects hearings in both the senate and house education committees very soon. Another key issue the administration will be talking to the legislature about is employee compensation, seeking the same consideration for UT employees as will be given other state employees. He discussed the possibility of internal funding for additional salary increases based on allocation of available campus resources but noted this would be more problematic for non-tuition generating units. He reported that the University's Compensation Advisory Board has been looking into a five-year plan, examining cost of living, merit pay, and market/equity as part of the equation around compensation for all faculty and staff.

Dr. DiPietro mentioned his recent visit with Governor Haslam, noting that the Governor fully understands the University and its role across the state. He talked with the Governor about priorities, including flexibility in capital funding and streamlining procedures, particularly procedures related to capital improvements. The University has dire needs around its capital programs, and without the right equipment and the

right laboratories, it is hard to be competitive. He also talked with the Governor about the need for creativity in finding funding solutions and the need to capitalize on low construction costs and an attractive bond market.

Dr. DiPietro also reported that his discussion with the Governor included the importance of performance-based funding under the Complete College Tennessee Act (CCTA), which has potential to be transformational for higher education. He also expressed appreciation to the Governor for including in his legislative package support for summer lottery funding, which is a significant step to help students save money and earn their degrees faster.

Dr. DiPietro then turned to the budget situation, using a PowerPoint presentation (Exhibit 1). Referring to a slide showing stimulus funding, which will end June 30, and state appropriations since FY 2008, he reported that on July 1, there will be a \$112 million cut in state support System-wide, a 23 percent reduction in state funds from 2008. In preparation, as of July 1, over 600 positions will have been eliminated System-wide, but by using stimulus funding to provide time for implementation, fewer than 75 people actually lost jobs. By spreading staff reductions over a two-year period, retirements, temporary jobs, transfers, and other attrition lessened the impact. Nevertheless, the reality is the University will be a different place because of these reductions.

With respect to capital funding, Dr. DiPietro reported that the University has four buildings held over on the THEC capital outlay priority list for FY 10-11, totaling \$159 million, and another four on the list for FY 11-12 totaling \$170 million. The University also has \$34.3 million for 12 badly needed capital maintenance projects from the FY 2010-11 list and another \$40 million for 14 capital maintenance projects for FY 11-12. All of these requests are very necessary. The University is very interested in working with policy makers to identify creative means to address these capital needs. Dr. DiPietro presented a five-year projection for capital building needs: \$665 million (as presented to the Board in October) with an additional \$175.6 million for capital maintenance—to protect and extend the life of aging facilities. Half of the University's buildings statewide are 40 or more years old.

Addressing the matter of tuition, Dr. DiPietro noted that we must be very mindful of the financial burden on students, but we must have options to assure delivery of a quality product and to support the University's critical role as the land-grant, flagship research institution for the state. Compared to top-25 public universities—the group UT Knoxville aspires to join—UT Knoxville's combined in-state fees and tuition of \$7,382 per year comes in at 80 percent of the top-25 average. After applying the HOPE scholarship and other available need-based funds, average net cost per year for fees and tuition is less than \$2,000 per student, demonstrating that the University is affordable and a real value.

Concerning the strategic planning process, Dr. DiPietro explained that he has been thinking about the planning process and expects the process to take about a year. The plan will be tied to the Complete College Tennessee Act, as part of the current profile of the University, and it will have realistic metrics. He has given great consideration to input he received from Trustees about the strategic plan as he traveled the state after his election. He also has concluded that use of an outside consultant will be very beneficial to the planning process.

Dr. DiPietro closed his remarks by stating that he enjoys his work, appreciates the opportunity to serve this great University, and very much appreciates the work of the 14,000 employees across the state.

VII. REPORT FROM THE TRUSTEESHIP COMMITTEE

Before recognizing the Chair of Trusteeship to present the report of that committee, part of which relates to Knoxville Athletics, the Vice Chair addressed the matter of some allegations related to the UT Knoxville Men's Athletic Department. The Vice Chair stated that the Board takes the allegations very seriously and recognizes that the department is under the supervision of the Chancellor of the Knoxville campus, Dr. Cheek. He reported that Dr. Cheek has been very much involved throughout the process of the NCAA investigation and is going to be very involved in the University's response. The Board is looking to Dr. Cheek to ensure that the interests of the University are protected during that process and that the University is put in a position to get through this process as quickly and painlessly as possible. The Board expects Dr. Cheek to keep us informed as we go through this process, and any Trustee who has questions or concerns should communicate those to Dr. Cheek.

The Vice Chair then recognized Trustee Andrea J. Loughry, Chair of the Trusteeship Committee.

A. Revised Resolution for UT Knoxville Athletics Board

Trustee Loughry reported that after the Board of Trustees approved the change in reporting structure for intercollegiate athletics at UT Knoxville, Chancellor Cheek and his staff undertook a review of the "Board Resolution on Organization and Mission of the Athletics Board," last adopted by the Board of Trustees on October 24, 2008, to identify needed revisions resulting from the change in reporting structure. A revised Resolution was prepared, approved by the Athletics Board, and reviewed and approved by the Trusteeship Committee on January 21, 2011 (Exhibit 2). She reported that most of the proposed revisions are editorial or technical in nature, primarily to recognize the change in reporting structure. However, she asked the Board to note the following changes:

- Vice Chancellor for Student Affairs has been added as an ex officio member, reflecting the important role of athletics in student life on the campus.
- Up to three non-alumni members, rather than just one, may be appointed by the Chancellor.
- Vice Chancellor for Finance and Administration for UT Knoxville replaces the University's Chief Financial Officer as a member of the Executive Committee of the Athletics Board, reflecting the change in reporting structure from University-wide Administration to UT Knoxville. However, the CFO remains a member of the Athletics Board.

Trustee Loughry moved approval of the revised Resolution on Organization and Mission of the Athletics Board for The University of Tennessee, Knoxville. Trustee Driver seconded the motion, and it was unanimously approved.

B. Diligent Boardbooks—Board Portal Demonstration

Trustee Loughry reported that both the Executive and Compensation Committee and the Trusteeship Committee have had an initial demonstration of the Diligent Boardbooks Board Portal. The portal will facilitate efficient and paperless operation for the Board. She stated that Diligent is active in both the corporate and non-profit arena, as well as with other AGB members. Trustee Loughry then introduced Jeremiah Slade from Diligent Boardbooks to conduct the demonstration.

Following the demonstration, Ms. Mizell discussed the implementation schedule. Trustees will receive training in May and the book will be projected through the Diligent portal at the June meeting. Trustees will have an option to receive a printed copy of the book for the June meeting. Vice Chair Murphy commented that the training is excellent, the portal is easy to use, and he used it to prepare for this meeting. He also noted the convenience of being able to access the materials wherever he could access the internet. Trustee Loughry concurred in the Vice Chair's assessment of the portal.

VIII. ACTION ITEM FROM THE FINANCE AND ADMINISTRATION COMMITTEE

The Vice Chair recognized Trustee Robert S. Talbott, Chair of the Finance and Administration Committee.

A. Revised Operating Budget for FY 2010-11

Trustee Talbott stated that Mr. Peccolo gave a comprehensive presentation to the Finance and Administration Committee on the preceding day about the Revised Operating Budget for FY 2010-11. Referring the Board to the meeting materials for this item (Exhibit 3), Trustee Talbott stated that there are inevitably matters that come up during the year after the Board has approved the budget. Those items are then

reviewed and approved by the Board at this meeting. He reviewed the items detailed in the materials and added that the proposed Resolution provides that if actions of the General Assembly, the state Department of Finance and Administration, or if changes in estimated resources occur, the budget will be further modified to ensure that expenditures do not exceed available resources. The Finance and Administration Committee recommends the Revised Operating Budget for FY 2010-11 as presented in the meeting materials.

Trustee Talbott moved approval of the Resolution approving the Revised Operating Budget for FY 2010-11 included in the meeting materials (Exhibit 3). Trustee Stansberry seconded the motion, and the motion carried unanimously.

IX. REPORT OF THE AUDIT COMMITTEE

The Vice Chair recognized Trustee Jim Hall, Chair of the Audit Committee, to provide his report to the Board.

Trustee Hall stated that the Audit Committee has met twice since the October Board meeting, November 4th and December 10th. The minutes from the November 4th meeting are included in the meeting materials (Exhibit 4). He highlighted the significant matters addressed at the meetings:

- There is an ongoing internal audit quality assurance review conducted by audit directors of other universities to determine how well the department complies with standards of the institute of internal auditors. The peer review has given the department the highest possible rating. Trustee Hall thanked Judy Burns and Mark Paganelli for their leadership of the audit staff.
- Institutional compliance reviews are ongoing at the Knoxville campus and risk assessments at the Institute of Agriculture and Health Science Center.
- Two changes in state law affect reporting to the Audit Committee. First, the Higher Education Financial Accountability Act has been amended to change the requirement of audits of all senior level officials. However, the CFO's office will continue to review the expenditures quarterly to ensure the appropriateness of expenditures. Second, the Act was also amended to reduce the reporting of spending of discretionary funds for the President and Chancellors from quarterly to annually.
- The Audit Committee approved a 2011 Audit Plan and reviewed staffing needs. Trustee Hall reported that as Chair of the Audit Committee, he is concerned about staffing levels and whether they are sufficient to allow the audit coverage needed. Budget cuts over the past decade have reduced the staff's size. Although budget cuts are necessary, they should be made strategically and not

in the area responsible for improving the efficiency and effectiveness of operations and preventing and detecting fraud. To address this issue, he has written to Dr. DiPietro asking him to evaluate the situation. Much discussion has already taken place and three of the campus business officers have requested increased audit coverage. The President, Chancellors, and CFO will meet with Judy Burns to determine if the budget will allow for expansion of the audit staff. He added that the Audit Committee would be remiss in their duties if they did not bring this critical issue to the Board's attention, and he appreciates the response he has received to date from President DiPietro.

X. CONSENT ITEMS

The Vice Chair reminded the Trustees that each Trustee is invited to all Board committee meetings. Each item on the consent agenda was reviewed fully by the appropriate committee and recommended for approval by consent. The Vice Chair then asked for any requests to remove items from the consent agenda. There being none, the following items were submitted for approval by unanimous consent:

- A. Naming of the Golf Practice Facility at UT Knoxville (Exhibit 5)
- B. Revised Policy Statement on Discretionary Expenditure Reporting for the President and Chancellors (Exhibit 6)
- C. Report of Capital Projects Outside the Budget Process (Exhibit 7)
- D. Real Property Transactions (Exhibit 8)
 - 1. Easement – Fulton Bottoms Rugby Fields (UTK/Knox County)
 - 2. Easement – Metron Building (UTK/Knox County)
 - 3. Easement – Student Health Clinic (UTK/City of Knoxville)
 - 4. Easement – Sutherland Avenue (UTK/Knox County)
 - 5. Closure of Lebanon and Mann Streets (UTK/Knox County)
 - 6. Easement – West Tennessee Research and Education Center (UTIA/Madison County)
 - 7. Easement – West Tennessee Research and Education Center (UTIA/Madison County)
 - 8. Disposal in Fee – TDOT Highway Expansion Project (UTIA/Morgan County)
 - 9. Acquisition in Fee – Closure of Allbright Road (Solar Farm/Haywood County)
 - 10. Acquisition in Fee – 720 McCallie Avenue – Thornton Building (UTC/Hamilton County)
 - 11. Acquisition in Fee – 801 McCallie Avenue – Red Cross Building

(UTC/Hamilton County)

12. 825 McCallie Avenue – Art Accent Building (UTC/Hamilton County)
13. Easement – Library – Lot 6 Oak Street (UTC/Hamilton County)

E. Statement of Commitment to the Graduate Medical Education Program at the College of Medicine in Chattanooga (Exhibit 9)

The Vice Chair asked for a motion to approve the consent agenda. Trustee Wharton moved approval. The motion was seconded by Trustee Talbott and carried unanimously.

XI. OTHER BUSINESS

The Vice Chair stated that no other business had been brought to his attention.

XII. ANNOUNCEMENTS

Vice Chair Murphy noted that this is the last meeting during the terms of the current Voting Faculty Trustee, Karen Johnson, and the current Voting Student Trustee, Sumeet Vaikunth. On behalf of the Board, the Vice Chair expressed appreciation for their service and explained that the Board will recognize them with a formal resolution at the Annual Meeting in June. The Vice Chair then reminded the Board of upcoming meetings:

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| May 5, 2011: | Executive and Compensation Committee, Nashville |
| June 22-23, 2011: | Annual Meeting, Knoxville |
| August 24, 2011: | Summer Workshop, TBD |
| October 27-28, 2011 | Fall Meeting, Knoxville |

The Vice Chair thanked Trustees Foy and Hall for the gracious reception the night before. He also expressed the Board's appreciation to Chancellor Brown and the entire UTC Community for being such wonderful hosts during the meetings.

Ms. Mizell added her personal word of thanks to Chancellor Brown and to his excellent staff. She stated that it has been a delight to work with the UTC staff, and she especially wanted to recognize Adrienne Teague and Terry Denniston for their assistance.

XIII. ADJOURNMENT

With no further business to come before the Board, Trustee Stansberry moved

adjournment of the meeting. Trustee Carroll seconded the motion, and the motion carried unanimously.

Respectfully Submitted,

Catherine S. Mizell, Secretary