

**MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE
THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES
FEBRUARY 26, 2009**

The meeting of the Finance and Administration Committee of the Board of Trustees was held at 8:00 a.m. CST, Thursday, February 26, 2009 in the O.D. Larry Dining Hall, Student Alumni Center at the University of Tennessee Health Science Center in Memphis, Tennessee.

- I. **Call to Order** - Mr. Robert Talbott, Chair, called the meeting to order and made the following introductory remarks:
 1. While the public is invited and welcome at all Board meetings, our meetings are “in the public” but not “public meetings.”
 2. The Chair will recognize to speak only members of the committee, other Trustees, and members of the senior staff.
 3. The Committee has a set agenda and prepared materials for that agenda. No “new business” has been brought to the Chair’s attention prior to the meeting, and so it is assumed there is none.
 4. Lastly, the name of the Trustee making the motion and the second will be announced to help in the preparation of minutes.

- II. **Roll Call** – Chair Talbott asked Dr. Gary Rogers, Senior Vice President and CFO to call the roll. He did so and advised the Chair that a quorum was present.

Present

Robert Talbott, Chair
Charles Anderson, Member
John Foy, Member
Jim Murphy, Vice Chair of the Board
John Petersen, Member
Charles Wharton, Member

Absent

William Carroll, Member

Other Trustees Present

Anne Holt Blackburn, Trustee
George Cates, Trustee
Crawford Gallimore, Trustee
Monice Moore Hagler, Trustee
Jim Hall, Trustee

Doug Horne, Trustee
Andrea Loughry, Trustee
Brittany McGruder, Student Trustee
Richard Rhoda, Trustee
Karl Schledwitz, Trustee
John Schommer, Trustee
Don Stansberry, Trustee
Betty Ann Tanner, Trustee

Also present was Senior Vice President and CFO Gary Rogers, other members of staff, and media representatives.

- III. **Approval of Minutes of Last Meeting**—Consent Item—Chair Talbott called for consideration of the last meeting’s minutes. On a motion made by Trustee Anderson and seconded by Trustee Wharton, the minutes were unanimously approved as distributed with no amendments necessary.
- IV. **Treasurer’s Report of Endowment Investment Performance**—Information Item—Chair Talbott asked Vice President and Treasurer, Butch Peccolo to present the report on Endowment Investment Performance. Vice President Peccolo stated the modern portfolio theory is that diversification is your only free lunch; however, diversification did not seem to help during this time. He discussed the capital market landscape and explained that the fourth quarter’s returns were all devastatingly negative except for government bonds. He explained that dollars were flooding into the security and high liquidity of the US Treasury debt, driving yields to new lows and at one point to levels below equity dividend yields. It was an anomaly as short treasuries yielded almost zero.

He mentioned that eighteen months ago the University was celebrating reaching the billion dollar mark and as of June 30, 2008 total funds invested to benefit the University dropped to \$939 million. Within the last six months the real carnage began from the capital markets, as total funds invested decreased to \$718.4 million. This decline impacts programs benefitted by the endowments as far as payouts of scholarships, professorships, etc. He stated that the income distribution for fiscal year 2010 will be approximately 6.7% less than the current fiscal year because of what is happening in the capital markets. The University uses a three-year moving average to calculate the distributions; the portfolio is valued as of December 31. If markets don’t turn around but just tread water then the next December calculation will probably be close to an additional 10% less in endowment support.

During the last down markets in 2001 and 2002, the University had to deal with “underwater” endowments. The Legislature did pass a new standard uniform act which eliminated that concept; the new standard is the Uniform Prudent Management of Institutional Funds Acts

(UPMIFA). The University can now distribute in accordance with the stated spending plan of the endowment pool; the "Prudent Man Principal" is still a part of the new UPMIFA law. If the markets continue to decline it will be necessary to look at when a prudent person would quit spending out of an endowment. As of December 31, 2008, the Investment Pool outperformed (-30.3%) the benchmark (-35.7%), albeit negative. The University's portfolio is constructed with a bias towards value stocks, which over long periods of time outperform growth stocks. For the twelve months ended December 30, the value stocks took the hit. The University does have a fairly diversified portfolio, but in 2008 diversification did not help that much. The portfolio is 33.2% liquid on a daily basis. That level of liquidity allows rebalancing decisions, spending plan distributions and new allocation commitments. January and February have not started off stellar. The S & P 500 lost 8.4% in January, its worst total returns performance in the first month of any calendar year ever recorded.

Trustee Wharton asked if any of our financial advisors had opined with respect to when they expect to see improvement in the capital markets. Vice President Peccolo stated that he is starting to see differentiation where diversification again provides benefits. Some sentiment exists for optimism as the advantages of diversification are once again showing up in the markets. The percentages of S & P 500 companies' stock prices hitting new lows are declining and some of the earnings are starting to meet or exceed analyst expectations, albeit still negative, but no one is brave enough to go out on a limb and give a turnaround date.

Chair Talbott asked if other institutions like ours had invested in real estate because in this present market we could do much better on that total return. Vice President Peccolo said yes that particularly larger endowments have direct real estate investments and will go in directly and buy the property. When the University started buying real estate the decision was made to use Commonfund for direct real estate investments. The University's direct real estate investments are pooled with other schools' endowments through the Commonfund. Chair Talbott did ask if the larger endowed schools do invest in direct real estate investments. Vice President Peccolo stated yes that some have active real estate groups that look for properties and invest in them. Trustee Blackburn asked if there had ever been a period, particularly in recent history, when the University has had to suspend payments out of its endowment. Vice President Peccolo answered that has occurred on occasion out of Quasi-endowments. The endowment agreements are structured in a way that prohibits spending out of the corpus unless the agreement provides for that.

Trustee Blackburn wanted to know if there was a precedent regarding suspending spending out of the endowment or if it would be new territory. Vice President Peccolo stated that suspending distributions out of the endowment would be new territory. The University adopted

a total return approach which allows distribution of current yield as well as realized gains.

Vice President Peccolo then explained that intergenerational equity is the overarching concept for endowments; it allows whatever is distributed this year to be the same real value for the recipients as it would in 2050. The intergenerational value of the endowment earnings needs to be preserved so distributions will keep up with inflation while maintaining the corpus.

Trustee Anderson asked what percentage of the portfolio is in U.S. Treasuries and how does that compare to peer institutions. Vice President Peccolo explained that in the fixed income category a split is present between core bonds, which includes U.S. Treasuries high grade corporate, and the distressed debt high yield. Additionally, the University has \$60 million out of the \$500 million invested in U.S. Treasuries and Tips (inflation protected securities). Trustee Anderson then asked how that compares to peer institutions and if lower returns could be contributed to investing in U.S. Treasuries and avoiding the losses. Vice President Peccolo said clearly they had a higher allocation in fixed income, which is a Treasury component, and probably includes agencies and high grade corporate so yes that could be the reason.

Trustee Talbott asked if the Treasuries are shorter or longer term. Vice President Peccolo said that they are generally intermediate term. He noted that the Investment Advisory Group meets next week in Knoxville. Trustee Talbott is the Chair of the Committee, Trustee Cates is on the Committee and Waymon Hickman also serves. The Committee will be looking at what's happened and where we go from here.

- V. **Report of the Treasurer 2008 (Audited Financial Statements)**—Information Item—Chair Talbott asked Vice President Peccolo to continue with the 2008 Treasurer's Report. Vice President Peccolo advised the Committee that a copy of the Audited Financial Statements for June 30, 2008 was included in the Board book. The financial statements are audited by the State Auditor, a department in the State of Tennessee's Comptroller's Office. The draft distributed at the fall Board meeting did not include the University of Tennessee Foundation, Inc. nor the University of Chattanooga Foundation, Inc. as component units. The independent auditor's unqualified opinion is on page three. Part of the review included an assessment of internal controls for the University and no material weaknesses were noted. An initial draft of the Comptroller's Report includes two findings; one related to recording and collecting pledges, the other dealt with grant costs; the University is reviewing and responding to those. The financial details were discussed at the fall meeting.

VI. **Use of Quasi-Endowment Funds to Initiate a Fundraising Plan for the College of Veterinary Medicine**—Consent Item—Chair Talbott called on Vice President Peccolo to give details on the use of quasi-endowment funds to initiate a fundraising plan for the College of Veterinary Medicine. Vice President Peccolo explained the initiative for the College of Veterinary Medicine to help fundraising efforts on renovations and improvements to the large animal clinic. The proposal is to use \$1 million from a quasi-endowment fund to match gifts raised for the project. Until 2011, any gifts of \$12,500 or more received for this project would be matched up to the \$1 million limit assuming the Board approves the request. This endowment is funded by Affinity Card proceeds. Trustee Wharton noted that it was his opinion that the Committee should seriously and favorably approve this agenda item. He went on to explain that the College of Veterinary Medicine is on limited accreditation because of the condition of the large animal clinic facilities which need repair. On a motion made by Trustee Wharton, seconded by Trustee Anderson, the use of funds was unanimously approved.

VII. **Use of Proceeds under UT Medical Lease and Transfer Agreement to Repay Hamilton Eye Institute Debt**—Consent Item—Chair Talbott requested that Dr. Petersen present the information on the repayment of the Hamilton Eye Institute debt. Dr. Petersen informed the Committee that the UT Health Science Center undertook a capital project in 2004 to renovate the Hamilton Eye Institute. They reached a portion of the fundraising goal and incurred debt for the remainder.

Donors were told by Dr. William Owen that the University would fund repayment of the debt. The debt that remains is \$1.15 million dollars. The proposal is to move ahead on the basis of that donor's agreement with Dr. Owen and use \$1.15 million from the UT Medical Center Hospital proceeds to retire the debt. Vice Chair Murphy questioned whether the balance in this account was \$4.6 million and Dr. Petersen replied, yes. Vice Chair Murphy then wanted confirmation that \$4.0 million had been committed for Audiology and Speech Pathology. Dr. Petersen advised that up to \$4.0 million has been committed over the next four years. He noted that no money would be put in the account for the current year because of the hospital's operating loss. If hospital funds are not received over the next four years the result will be a small deficit in this account. Vice Chair Murphy reiterated that the proposal was to go ahead and pay the \$1.15 million now and hope the money is in the account on the backside. Dr. Petersen stated that the entire \$4.0 million may not be needed for Audiology and Speech Pathology. Chair Talbott asked how the shortfall would be made up. Dr. Petersen said that he thought dollars could be generated by the UT Health Science Center to offset the audiology and speech pathology deficit in order to accommodate the donor and get this debt off the books. Vice Chair Murphy stated again that the account has a balance of \$4.6 million so the problem, if there is one, would probably occur in the last year. If a deficit exists in year three it will need to be looked at.

He also noted that it would be a one-time expenditure and could be taken out of reserve, if need be. Dr. Petersen also mentioned that a replenishment of the fund in the amount of approximately \$800,000 would occur when the UTHSC Chancellor house is sold.

Trustee Loughry asked for the status on the sale of the Chancellor's house. Dr. Rogers informed the Committee of a pending contract with a buyer that has a primary loan approved and is trying to get a second loan for improvements. Chair Talbott confirmed that when the house is sold that the funds will go into the account currently being discussed. Dr. Petersen stated that is correct. Dr. Rogers explained that \$1.3 million was taken out of the account to buy this house and another house was sold for roughly \$500,000. After the last house sells, some \$800,000 will go back into the account. On a motion made by Vice Chair Murphy, seconded by Trustee Anderson, the use of proceeds was unanimously approved.

Trustee Cates thanked Dr. Petersen, the Administration and the Finance & Administration Committee for this action. He explained that the action was critical to UTHSC fundraising.

- VIII. **Approval of Revised Budget for FY 2008-09 Budget Update—** Consent Item—Chair Talbott noted that Dr. Rogers would be presenting the revised budget for FY 2008-09 Budget Update. Chair Talbott asked the Committee members to insert the words “by the President, and” in the approval section of the resolution. Trustee Wharton asked if the Executive and Compensation Committee needed to be added to the resolution as well. Chair Talbott asked Catherine Mizell, Vice President and General Counsel to make the modification.

Chair Talbott suggested that Dr. Rogers go ahead and make his presentation. Dr. Rogers noted that a \$21.2 million dollar appropriation reduction and corresponding cut in expenses had been made at the beginning of FY 2009. In October, an additional \$17 million dollars was reverted to the State. Further reduced appropriations of \$3.4 million related to benefits and insurance. The State also funded some costs for a \$400 bonus for each employee and an increase in the group insurance and retirement plans (401K) for a total additional \$5.7 million dollars. The net lost on appropriations is \$14.7 million. Additional tuition monies were collected on increased enrollment and the Athletics departments at Chattanooga and Martin received additional game guarantees of \$1.2 million dollars. The UT Health Science Center generated \$800,000 with the Family Practice unit. Agriculture received one-time federal appropriations (HATCH Act money) of \$800,000. The additional revenues of \$6.5 million reduced the \$14.7 million down to \$8.2 million.

Chair Talbott reiterated an earlier point that the original expense cut of \$21.0 million had been made at the beginning of FY 2009.

Trustee Wharton made the motion to amend the resolution to include the Executive and Compensation Committee along with the President to allow Board representation in advance on decisions that have been implied in the resolution. Charles Anderson seconded and Chair Talbott asked for any discussion. Catherine Mizell advised that Vice Chair Murphy had asked if this meant that the Executive and Compensation Committee would have to act before any furloughs could be implemented before the end of this fiscal year. She commented that the Executive and Compensation Committee would have to act and the next scheduled meeting is on May 5, 2009. A need to do something sooner would simply require a special meeting of the Executive & Compensation Committee. Chair Talbott then asked for a motion to approve the resolution as amended by the prior motion. On a motion made by Vice Chair Murphy, seconded by Trustee Wharton, the resolution was approved as amended.

- IX. **UTIA Voluntary Retirement Incentive Program for Staff**—Consent Item—Chair Talbott advised the Committee that Dr. Joe DiPietro, Vice President of Agriculture (UTIA) would present the Voluntary Retirement Incentive Program. Dr. DiPietro said that UTIA is proposing a program to incentivize separations or retirements that offers a lump sum payment of 4 months base salary. The program has two important goals if approved to execute. First, it will allow UTIA to get to the bottom line from the standpoint of State budget cuts. Secondly, it will allow UTIA to continue to provide services to the county operations.

The VERA program is offered by the federal government and it reduces the number of years of service needed and/or the age requirement associated with retirement for federal employees. UTIA's concept is an incentive for agents to retire with the option of coming back at 35% time to service their county on a part time basis for one year. This allows for security of the employee retiring and allows Extension to minimize disruption of services. Trustee Wharton asked what would happen after a year. Dr. DiPietro replied that the employees would be reviewed with a possibility of renewal depending on the circumstances in the county and the number of employees taking advantage of the program.

Trustee Stansberry asked if some counties would only have a part time agent. Dr. DiPietro replied that all counties would have at least one full-time agent but could have some part time people as well. Trustee Stansberry asked if Dr. DiPietro was increasing his costs with this program versus decreasing costs. Dr. DiPietro stated the plan does not increase costs. Trustee Wharton asked if retention of talented agents could be ensured if the program is open to everyone. Dr. DiPietro stated that the policy stipulates the specific type of employees based on age and years of service. The qualifications automatically identify a particular group. The crux of the matter is that some talented people will be lost. Of the 700 employees across the state, 225 are eligible for the VERA program. It is anticipated that no more than 35-

50 employees will take advantage of the program. The Institute reserves the right to discontinue the program at any time without notice. Program participants would be ineligible to return to full time service or work at the University and acquire benefits for at least three years. All UT policies and procedures remain the same within this program. Trustee Stansberry then questioned whether or not every part time person would be replaced. Dr. DiPietro explained that the part time status was a one year option on the agent's part with the possibility of not being renewed after the first year. Chair Talbott asked for confirmation that Extension is hoping to take full time employees and replace them at a 35% rate with a 1 to 1 ratio. Dr. DiPietro answered that is correct and once that is done the recurring costs will have a savings of 65% because the agent is coming back at 35% along with benefits. Extension has the front end money to implement this program in this year's budget. This proposal is only for Extension. Trustee Shledwitz commented that he felt this was a creative way to address budget issues and more ideas such as this needed to be looked at. Trustee Gallimore wanted to ensure that Extension has enough agents to implement this program without deteriorating the mission to the citizenry. Dr. DiPietro summarized by saying rather than doing reductions in force and gutting a program, part time employees will help full time employees carry out the mission.

Trustee Loughry stated that she would like to ask Trustee Stansberry, Chair of the Research, Outreach and Economic Development Committee to add Dr. DiPietro to the Committee's agenda in June to present an agricultural 101 presentation to see how it all works. On a motion made by Trustee Wharton, seconded by Trustee Foy, the UTIA Voluntary Retirement Incentive Program for Extension Staff was approved.

- X. **Approval of Real Property Transactions—Consent Items—**Chair Talbott called on Dr. Gary Rogers, Senior Vice President and Chief Financial Officer to present the Real Property Transactions. He explained that each one must be approved separately.
 - A. **UTK – Air Rights Easement**

Dr. Rogers informed the Committee that the air rights easement relates to the construction at Neyland Stadium so that the stadium can be extended out over the street. The easement is needed from the City of Knoxville and would be given to the University at no cost. On a motion made by Vice Chair Murphy and seconded by Trustee Wharton, the UTK air rights easement was approved.
 - B. **UTK – WUOT Easement**

Dr. Rogers explained that this transaction was an easement related to the property where the University's public radio station tower is located. It is an improvement in the ingress/egress and the consideration is the improved road and access to the

property to service the tower. On a motion made by Vice Chair Murphy and seconded by Trustee Wharton, the WUOT easement was approved.

C. UTIA – City of Knoxville Property Conveyance

Dr. Rogers commented that the City of Knoxville wants to build a bridge over the Holston River at Riverside Drive and the real property involved is 1.9 acres that the University would deed to the City at the appraised value which is estimated currently at \$55,000. Trustee Wharton asked if it was waterfront property. Dr. Rogers replied no. On a motion made by Vice Chair Murphy and seconded by Trustee Anderson, the city of Knoxville property conveyance was approved.

D. UTIA – Gibson County Property Conveyance

Dr. Rogers explained that the United States Government needs to acquire property to relocate and install a railroad spur serving the arsenal in Milan. The property is slightly less than half an acre and the estimated current value is \$11,500. The University would deed that property to the United States Government to build the spur. On a motion made by Trustee Foy and seconded by Vice Chair Murphy, the Gibson county property conveyance was approved.

- XI. Revised Traffic and Parking Regulations, UT Martin—Consent Item—**Chair Talbott called for Dr. Tom Rakes, Chancellor of UT Martin to present the proposed revisions of traffic and parking regulations for UT Martin. Dr. Rakes stated that they have estimated approximately \$20,000-\$30,000 a year in specific fee increases by making these changes. Comparisons within peers and other Tennessee institutions have been made and UTM's prices are still well below what others are charging. Trustee Wharton asked why the violation of handicapped parking was not on the list and why it couldn't be increased to \$500. Dr. Rakes responded by saying that the handicapped violation charge is set by the State. Dr. Rogers added that the Committee dealt with that issue at the last meeting when the State increased that charge and the state's revised amount was adopted. Vice Chair Murphy asked what process was used in developing the recommendations. Dr. Rakes stated that UTM has a campus-wide parking committee that has broad-based participation. The Committee gathered the data and recommended the amounts. Trustee Loughry asked if the committee includes students. Dr. Rakes answered yes and they are heard from more than others. Dr. Rakes explained that the proceeds would go into a fund that is designated specifically for paving, improvements to parking lots and so forth. Trustee Foy asked how long it had been since UTM had updated their parking fee schedule and Chancellor Rakes replied approximately five or six years to his knowledge. Trustee Foy commented that UTM is barely keeping up with inflation. On a motion made by Trustee Foy and seconded by Vice Chair

Murphy, the UT Martin revised traffic and parking regulations were approved.

- XII. **Report by the Chair of the Committee on Effectiveness and Efficiency for the Future**—Information Item—Chair Talbott asked Doug Horne, Chair of the Effectiveness and Efficiency Committee for the Future to give his report. Trustee Horne advised the Committee that the EEF Committee has been meeting every four to six weeks. He, Dr. Petersen and Dr. Rogers have held meetings to go over the budget plans and the effectiveness and efficiency ideas. The Committee is pleased to have a plan to accommodate this \$66 million reduction in budget and is prepared to do more if needed. He thanked Dr. Petersen for his work with the Committee. The next Committee meeting will be held on the UT campus at Knoxville. The last meeting was held on the UT Martin campus. To date 700 suggestions have been received from the dedicated members of the UT family across the state and the administrative staff has followed up on these suggestions. Hopefully, the proceeds from the stimulus package can be used for classes and faculty so that the core mission of academics can be preserved. Lastly, we have to find a way in the next two or three years to generate more long term recurring dollars for higher education. Chair Talbott asked Trustee Horne if he would be submitting a report at some point. Trustee Horne replied no that the Committee had worked with administrators and others on all the ideas and the recommendations are included in the budget plan. He added that it is a continuing committee and will work with the President and members of the administrative staff on all the savings ideas submitted from across the state.

- XIII. **Report on FY 2009-10 Budget Planning**—Information Item—Chair Talbott explained that Dr. Petersen would give an overview, each of the campuses would present a plan and Dr. Petersen would then end with the non-formula unit plans. Dr. Petersen gave some framing comments about the magnitude of the cuts and state and national funding for higher education. The \$66.4 million cut is for the University of Tennessee System (some 13.9%). The UT Knoxville cut results in a little over \$25 million. That budget cut, plus fixed cost increases for next year, would take a 26% increase in tuition to break even. In peer comparisons, of appropriations and tuition per student FTE, UT institutions are either ninth or tenth compared to their 12 peers. The difference between the FTE average funding of UT undergraduate institutions multiplied by the number of FTE, shows underfunding of: UT Martin \$9.5 million; UT Chattanooga \$14.5 million; and Knoxville \$30 million. Those are dollars that are not coming to bear on our primary mission of educating students. President Petersen explained that first a plan was looked at with no tuition increases considered. Then plans were reviewed with 7% tuition increases at UT Martin and UT Chattanooga and an increase of 9% at UT Knoxville. The Chancellors have all agreed that whatever stimulus money comes in goes directly back into the classroom. The tuition increases will not be

considered until the Board meets in June, but the campuses would like to implement the cuts as outlined. Otherwise, the cliff becomes a lot larger two years down the road when the stimulus money goes away.

Petersen then added that he would like to explain mechanisms for program discontinuance. Each campus has identified programs with clear metrics that may be considered for discontinuance. The goal is to provide Board members with the materials, if needed, to approve or disapprove programs that might be eliminated. Dr. Petersen then presented some general slides that compare the expenditure side of the FY 2009 revised budget and proposed cuts by function for FY 2010. The salient features are a smaller percentage of instruction was cut and a larger part of institutional support (administration) has been removed from the budget. More cuts will be made out of the central administration due to some restructuring. Chair Talbott asked Dr. Petersen what components account for the approximate \$14 million cut in Institutional Support. Dr. Petersen replied that Institutional Support is really Administration. He then defined each category. Instruction includes those costs that appear in the classroom, in the lab or have direct contact with instruction. Research is self explanatory and Public Service is outreach. Academic Support costs are associated with instruction but are not involved in direct contact (College administrators). Student Services costs relate to nonacademic issues associated with students. Chair Talbott then asked Dr. Petersen to go into the components of the fixed costs. Dr. Petersen gave an example of an increase in utilities.

Trustee Wharton asked if the University had consulted with THEC for their recommendations on programs. Dr. Petersen explained that THEC identified those programs with low graduation rates and UT campuses are reviewing those programs. Dr. Petersen explained that the list presented has THEC's low performance programs, along with others that may have some issues at a campus. Trustee Wharton asked that all Board members receive a copy of the THEC report. Trustee Rhoda, Executive Director of THEC noted that the University of Tennessee System and THEC are working very well together.

Chair Talbott wanted to confirm operating overhead will not increase after the stimulus money is gone. Dr. Petersen said that is correct.

Dr. Petersen added that no program cuts were included in this \$66.4 million, nor were any tenured or tenure track faculty cut. These kinds of cuts require more long term processes. Trustee Wharton asked if the stimulus money would come allocated or will we have some flexibility for capital improvements. Dr. Petersen said that the only flexibility that we have with the stimulus money is it comes to us by formula. In order to put a larger burden on the System and Administration the chargeback rate was modified to mitigate cuts on the undergraduate campuses. Dr. Rogers added that what we do know is the funds will be allocated through the appropriation process.

Trustee Foy noted that we had done a great job with the Committee on Effectiveness and Efficiency for the Future looking at cuts and so on, but just like any organization there is only so much you can cut out. Trustee Foy asked if the Chancellors are exploring revenue besides an increase of tuition. Dr. Petersen responded that units are looking at various ways to generate additional revenues and that although it is not part of the E & G budget; UTK Athletics is revising their budget. They are looking at five programs to consolidate as of June 30, 2009 and another three programs as of June 30, 2010. Trustee Horne mentioned the Foundation Study Committee is discussing private fundraising and that is the key to the additional revenue.

Trustee Loughry noted Dr. Petersen had referred to differential tuition in professional education and asked if the campuses are examining differential tuition in their most attractive majors. Dr. Petersen explained that some institutions have run into the problem of students waiting to declare a preferential tuition major while taking courses and electives at lower rates and then switching towards the end of their enrollment. He affirmed that it would take some study to figure out how to do effective differential pricing. Trustee Loughry agreed that it is true of a lot of the things that are currently being looked at but it clearly needs to be given consideration. Dr. Petersen added that nothing is held sacred and everything has to come under scrutiny for what can be done.

Chair Talbott then asked to hear from the campus Chancellors and called on Tom Rakes, UTM Chancellor. He noted that detailed information for each campus and other units was included in the Board's materials.

UTM Budget Reduction Plan – Total Planned Reductions - \$2,267,500

Dr. Tom Rakes, UTM Chancellor, presented an overview of the UT Martin campus along with budget reduction plans. The UT Martin plan includes consideration of a tuition increase of 7%. Chancellor Rakes explained the cost cutting measures including reductions in force, adjunct faculty positions, reorganizing academic departments and eliminating staff positions and administrative positions, moving staff to auxiliary & revenue accounts, eliminating administrative functions, reducing operating budgets, and eliminating one sport (athletics is part of the E & G budget at UTM).

Trustee Wharton asked how much of the tuition does scholarship money pay for. Chancellor Rakes answered that approximately 92% of their students receive the Hope Scholarship. The Hope scholarship has covered the tuition increases at UTM and has more than covered it over the last several years. As admission standards have been raised, the quality of students enrolling has also increased.

Vice Chair Murphy asked Dr. Rakes what percentage tuition increase he would recommend. Chancellor Rakes said UTM can manage with 7% but 8% would provide some flexibility. Vice Chair Murphy then asked if 8% would permit UTM to remain competitive with peers. Chancellor Rakes confirmed that 8% would enable them to stay competitive. Vice Chair Murphy went on to say that he hears a huge hue and cry of opposition from parents, students and Legislators about any increase in tuition, even though it might be in the best interest of Hope Scholarship recipients to say yes we want to pay more tuition to allow this institution to be better. Chancellor Rakes noted that constituents pretty much ignore the impact of the Hope Scholarship covering the tuition increases for students across the state. UTM tuition levels are still one of the biggest bargains, even within the South, since salaries are lower than in certain parts of the state. Even when that is factored into the cost of tuition, no one wants to ask for a tax increase – no one wants to pay more money in tuition or taxes.

Trustee Horne mentioned K-12 getting more money and the reason is they have a bigger constituency than higher education. He noted Tennessee higher education is losing ground and when budgets are tight the University may lose faculty and administrators. Trustee Schledwitz asked for the percentage of students at UT Martin receiving Pell grants. Chancellor Rakes estimated it to be at least 50% or more. Trustee Schledwitz then asked about the Pell Grant average amount. Chancellor Rakes indicated \$4,000. He then noted the Hope Scholarship is received by 92% of the incoming freshmen for Martin and Knoxville is closer to 99%; however only 50% of those students keep it after a year. Chancellor Rakes added that scholarship retention is showing improvement and the retention rate on returning sophomores is around 72%. Trustee Anderson asked how UTM's tuition increase compared to peer institutions. Chancellor Rakes explained that some peer schools increased their tuition by double digits but most stay with single digit increases. He said that he thinks UT Martin was on par and that is whatever everyone is looking at this year. Trustee Wharton asked if distance learning was a profit center for UT Martin. Chancellor Rakes answered yes that distance learning is a profit center for UT Martin and two more master degree programs were added this fall. They were existing degrees moved to an online format. He noted that UTM has four offsite campuses Ripley, Parsons, Jackson and Selmer and their students supplement their other classes with online.

Trustee Stansberry asked if it was accurate to say that the average student at UT Martin has no tuition and gets a check for \$4,700 that they can spend on housing (on or off campus), cars, books, etc. Chancellor Rakes added that it includes private scholarships, Pell grants, etc. and Trustee Rhoda added that the noted costs are part of the cost of attendance. Chancellor Rakes explained that financial aid is awarded based on the cost of attendance; it is not a blank check.

UTC Budget Reduction Plan – Total Planned Reductions - \$6,032,300

Dr. Roger Brown gave an overview of the UT Chattanooga campus along with budget reduction plans. UT Chattanooga requested consideration of a tuition increase of 7%. Cost cutting and revenue measures include reductions in force, balancing tuition and fees with peer data and access goals, energy management, enhancing on-line instruction and programs, and completing the full Banner implementation. UTC also has 18 academic programs slated for review.

Dr. Brown reported that over the past five years UTC has automated some of their energy usage management and is achieving savings by using systematic controls, although utilities have shown a constant increase. These are largely TVA increases that are passed on through Chattanooga's Electrical Board. UTC hopes to engage a dialogue with TVA about the magnitude of these increases and the justification.

Trustee Wharton asked about the Electrical Engineering program being on the proposed academic program review list. Noting the value of an engineering curriculum, he posed the matter of the cost of the program considering the limited number of students. Dr. Brown believes the demand and need will rise due to the manufacturing environment improving around Chattanooga with such things as the Volkswagen plant. The Governor and Commissioner Kisber also just announced a new billion dollar investment in a solar cell plant near Chattanooga. Thus, UTC believes it needs to make sure that it offers the specialties for students to address those opportunities. Trustee Wharton suggested that unless a significant increase in enrollment in the freshman year occurs, the program needs to be looked at hard. Chancellor Brown noted that Electrical and Computer Engineering have begun to merge as a discipline and may be part of the answer that we wouldn't have stand alone programs.

Chancellor Brown updated the Committee on the piloted test of regional tuition discount to reach those bordering counties in North Georgia and one county in northeast Alabama. UTC gained enough new students from these targeted counties so by the end of spring 2009 semester UTC will show a \$316,000 revenue increment. UTC appreciates the Board's approval to permit implementation of the program.

UTHSC Total Planned Reductions - \$15,023,072

Dr. Ken Brown, UTHSC Executive Vice Chancellor welcomed the Board to Memphis and gave an overview of the UT Health Science Center campus. The UTHSC Budget Reduction Plan includes reductions in force, vacant position eliminations, and a proposed tuition

rate increase of 10%, along with some increases in enrollment. UTHSC has also identified six programs for review.

UT Health Science Center is considering a tuition increase of 10% but increases of 15% for most of the units would not price them out of the market. Dr. Brown told the Committee if they do not take anything else from the presentation, please understand that these are considerations and nothing more at this point. Tuition will be set by the Board in June.

Trustee Schledwitz noted that Dr. Brown had mentioned six or seven programs in the College of Medicine that are under consideration for cuts. He asked if that included the Social Work Program at UTHSC. Dr. Brown explained that the College of Social Work is actually a UT Knoxville College and they are just physically located on the UTHSC campus. The UT Health Science Center has not been actively engaged in the discussions regarding the closure of this program in Memphis. He suggested that Dr. Cheek may be better able to answer questions on that.

UTK Total Planned Reductions—\$25, 594,000

Dr. Jimmy Cheek, Chancellor, UTK presented the UT Knoxville campus budget reduction plans. UT Knoxville requested consideration of a tuition increase of 9%. The differential has been discussed with THEC and appears workable given UTK's overall mission.

The UTK budget reduction plan includes reductions in force, cuts of 8% for academic units and cuts of 10% to 15% for non-academic units. The plan also includes a 9% tuition increase and \$1.85 million additional auxiliary revenues captured for E & G use. UTK also has fourteen academic programs slated for review and three possible program consolidations. A full discussion was held on the Social Work Program with more information to be provided at the next meeting.

Reduction Plans for Other Units

Dr. Petersen then reviewed the budget reduction plans for the UT Space Institute, Institute of Agriculture, Institute for Public Service and the System Administration.

UT Space Institute Total Planned Reductions—\$748, 791

The cuts for UTSI include; reductions in force, deferral of maintenance, elimination of some administrative functions, and reduction in research and technical support staff.

UT Institute of Agriculture Total Planned Reductions—\$7,327, 938

UTIA includes Veterinary Medicine, Experiments Stations and the Extension Service.

Veterinary Medicine budget reduction plans include reductions in force, deferral of equipment replacement, deferral of maintenance, reduced number of teaching animals and lab expenditures, and reduction in travel budget. Veterinary Medicine also plans up to 20% in additional tuition.

Experiment Station budget reduction plans include reductions in force, elimination of some research initiative funding, reduction in departmental operating funds, elimination of equipment replace funds; and consolidation of programs at Research & Education Centers.

Extension reduction plans include: reductions in force – (some employees will participate in the VERA retirement incentive program), elimination of a 4-H camp, and reduced administrative costs.

Institute for Public Service Total Planned Reductions—\$623,000

The Institute for Public Service Budget Reduction Plan includes reductions in force, reduction in IT staff and services, reduction in sponsorships/memberships, reduction in staff development and training, and reduction in central administrative expenditures. IPS may also receive additional funding from tax sharing through the State for local programs.

System Administration (UWA) Total Planned Reductions—\$5,402,500

The System Administration (UWA) budget reduction plan includes reductions in force to be done throughout the administrative areas, along with streamlining of operations and reorganizing of functions, elimination of staff cars and a 5% salary reduction for the President's staff has already taken place. A revamping of the organizational structure is also being planned.

Dr. Petersen summarized by saying that significant reductions in force were at hand. He stated that these are some very tough decisions and he is proud of all involved for the work that was put into these plans.

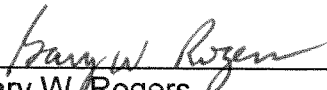
Chair Talbott asked if anyone had any questions or comments for Dr. Petersen. Brittany McGruder, Student Trustee, made a general comment about tuition from a student's perspective. She commented that if students and parents are asked if they want tuition to be increased, the answer would be no. She went on to explain that the UT Martin students raised their own tuition and fees by over \$300 for a new recreational facility and an athletic fee. She noted that when students understand the reasons behind tuition increases, especially when related to academic programs, they are not as adverse to them. It is her opinion that students would understand if the increase had to be raised an additional 1-2% beyond the proposals.

Chair Talbott commended Dr. Petersen and the Chancellors for their time and effort that went into the plans. He then made sure that all Committee members had a copy of the budget reduction plan packets.

XIV. **Other Business**—Chair Talbott stated that no other new business had been brought before the Committee.

XV. **Adjournment**

There was no other business and Chair Talbott adjourned the meeting.



Gary W. Rogers,
Senior Vice President and
Chief Financial Officer