

**MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE  
THE UNIVERSITY OF TENNESSEE  
BOARD OF TRUSTEES  
FEBRUARY 28, 2012**

The meeting of the Finance and Administration Committee of the Board of Trustees was held at 10:00 am CST, Tuesday, February 28 in the Student Alumni Center on the UT Health Science Center Campus in Memphis.

- I. **Call to Order** - Mr. Robert Talbott, Chair, called the meeting to order.
- II. **Roll Call** - Chair Talbott asked Mr. Charles Peccolo, Treasurer and Chief Investment Officer and Interim Chief Financial Officer to call the roll. He did so and advised the Chair that a quorum was present.

**Present**

Robert Talbott, Chair  
Charles Anderson, Member  
Joseph DiPietro, Non-Voting Member  
Brian Ferguson, Member  
John Foy, Member  
Don Stansberry, Vice Chair of the Board  
Betty Ann Tanner, Member

Also present were other Trustees, Mr. Charles Peccolo and members of staff and public.

- III. **Approval of Minutes of Last Meeting** – Action Item – Chair Talbott called for consideration of the October 27, 2011 minutes. Trustee Ferguson moved approval of the minutes of the last meeting as amended; seconded by Trustee Foy and approved unanimously.
- IV. **Treasurer’s Report on Endowment Investment Performance** – Information Item – Chair Talbott asked Mr. Rip Mecherle, Executive Director of Investments, to present the Treasurer’s Report on Endowment Investment Performance for the periods ended December 31, 2011 (Exhibit 1). Mr. Mecherle pointed out a bit of a discrepancy in the 3 month and 1 year columns comparing the UT pool to a broad policy benchmark and that it speaks to the broadly diversified strategy of the fund, with a long investment horizon. Our under-performance in the most recent 3 months was because of our underweighting relative to that index in pure public equity or common

stock. The year-to-date estimated performance for the consolidated investment pool is 2.25%.

Asset allocation has seen no major changes. Global equity allocation consisted of 55% US, 45% foreign as of 12/31/2011. The portfolio totaling \$600 million is broadly diversified and is looking more like the larger endowment of the NACUBO universe. All of these categories are invested with outside managers, through a consultant.

Mr. Mecherle stated the annual endowment performance has had two good years on a comparative basis. For the five year comparison, it underperformed due to the 2008 and 2009 endowment under-performance. There were considerably more real assets than smaller institutions, and fixed income was more in line with our larger peers. He also presented the NACUBO Endowment Study Universe vs. the UT consolidated investment pool ten-year comparison, stating that UT's endowment has performed in the top 1/3 of all higher education institutions' endowments in six of the last eight years (with the exception of 2008, 2009). The consultant who took over in 2004 is doing a good job with the endowment.

Trustee Stansberry suggested to Chair Talbott that as the long term investment drifts below 5%, it might be time to assume we can no longer spend 5% endowment income annually. He also inquired regarding the liquidity of venture capital investments. Mr. Mecherle responded that the private equity/venture capital allocations are not liquid, but long duration. Chair Talbott validated Trustee Stansberry's concern, and stated that if the endowment continues to under-perform long term, then the expectation will need to be lowered. He asked Mr. Peccolo to place it on the committee's next agenda for discussion. Chair Talbott stated we are broadly diversified, and Mr. Mecherle noted a great deal of the portfolio could be liquidated in a crunch. Mr. Peccolo pointed out that over a longer period, the income is still in the double digits.

- V. **Annual Report of the Treasurer, 2011** – Information Item – Chair Talbott asked Interim CFO Peccolo to present the Treasurer's 2011 Financial Report (Exhibit 2). Mr. Peccolo reminded the Committee that they had reviewed the draft financial statements at the fall meeting. The difference is three foundations are now included, UC Foundation, UT Foundation Inc., and UT Research Foundation. The statements have been audited, and we have received an unqualified audit opinion stating there are no material weaknesses. We are awaiting the final audit report from the state comptroller. The draft included four findings, two included costs to reimburse the federal government. The other two are more procedural.

These weaknesses have been identified and new procedures are in place going forward.

- VI. **FY 2012 Revised Operating Budget** – Action Item – Chair Talbott asked Interim CFO Peccolo to continue with the revised operating budget presentation (Exhibit 3). Mr. Peccolo explained that the budget requires revision each year to update revenue and expenditure projections. The FY 2012 revised budget takes into consideration final fall enrollments (estimated at the time the original budget is prepared), the effect of any prior year’s activities carried forward into the current year, and adjustments in state appropriations occurring since the FY 2012 budget was prepared and approved in June 2011.

Dr. DiPietro pointed out that over two-thirds of the budget goes directly toward educating students, as it should. Trustee Boulet asked what comprises Institutional Support. Mr. Peccolo called on Ron Maples, who responded it includes IT, purchasing, finance and other support services.

The complete revised budget was presented in a separate document (Exhibit 4). An overview with summary information regarding the principal revisions appears at the beginning of the document. It includes adjustment to allocate significant carry-overs from FY 2011 and minor revisions to budgeted revenues.

The FY 2012 Educational and General (E&G) and Auxiliary Enterprises revised budgets are balanced and within available resources. The Revised Budget complies with all applicable policies and guidelines. Therefore, University administration recommended a formal Resolution (Exhibit 5).

Chair Talbott asked how much we have deferred for capital maintenance. Mr. Peccolo stated the amount is \$600 million. Trustee Horne inquired whether the University or THEC informs state government of our needs. Dr. DiPietro noted that while THEC is involved, he is in direct conversation with the governor regarding needs.

Vice Chair Stansberry moved approval of the Resolution for the Revised FY 2012 Operating Budget as presented in the meeting materials; seconded by Trustee Tanner and approved unanimously.

- VII. **Increasing the University’s Contribution to the UTRF Budget for FY 2013 in Support of Research and Economic Development Opportunities Arising out of the UT Biofuels Initiative** – Action Item – Chair Talbott asked Dr. David Millhorn to present this item. Dr. Millhorn stated it had been

considered in the Research, Outreach, and Economic Development Committee and gave a brief summary (Exhibit 6).

Chair Talbott called for any questions or comments and there were none. Trustee Ferguson moved that the university's contribution to the UTRF budget for FY 2013 be increased by \$1,300,000, to support research and economic development opportunities arising out of the UT Biofuels Initiative; seconded by Trustee Stansberry and was approved unanimously.

- VIII. **Use of Proceeds from the Lease and Transfer of UT Medical Center – Action/Consent Item (Exhibit 7) –** Mr. Peccolo reminded the committee that one of the provisions of Chancellor Schwab's taking the position was that the Board would commit annual payments under the UHS Lease and Transfer Agreement for use by the Health Science Center for a 5-year period.

Trustee Foy moved that the allocation of \$1,500,000 from the UHS Proceeds Fund to the UT Health Science Center be approved for the program initiatives related to the Regional Biocontainment Laboratory and development of a Physician Assistant Program; seconded by Trustee Anderson, and unanimously approved.

- IX. **Agreements for Development of Cherokee Farm Research Park – Action Item –** Chair Talbott called on Dr. David Millhorn, who stated these agreements were extensively reviewed in the Research, Outreach, and Economic Development Committee earlier. Chair Talbott asked Dr. Millhorn to elaborate a little on the Agreement for Development Management Services (Exhibit 8) and the payments to be made. The \$3 million over five years with \$800,000 annual cap will come from unrestricted management fee from ORNL which has been saved in anticipation of the Cherokee Farm Development Corporation. These funds will be used for staff and operations of CFDC.

Chair Talbott also pointed out on the Master Ground Lease (Exhibit 9) and noted that it is up to the President of the University to approve subleases, and it will be incumbent upon him to move quickly. Trustee Murphy asked whether it will be required that the President report to the Board regularly on what has been done and what needs to be done.

Trustee Stansberry suggested that the President report quarterly to the Finance and Administration Committee regarding various subleases which have been approved, as well as an annual reporting of the status of Cherokee Farm Development Corporation.

Trustee Foy moved approval of the agreements between The University of Tennessee and University of Tennessee Research Foundation for development of the Cherokee Farm Research Park - the Agreement for Development Management Services, and the Master Ground Lease; and that the President be authorized, with the concurrence of the Vice Chair and the Chair of the Finance and Administration Committee, to approve any revisions to the agreements required or recommended by the State Building Commission or the State Attorney General. The motions were seconded by Trustee Ferguson and approved unanimously.

- X. **Designation of UT Methodist Physicians, LLC, as a Faculty Practice Plan for the College of Medicine in Memphis – Action Item (Exhibit 10) –** Chancellor Schwab introduced Dr. David Stern, who stated the request focused on the clinical (central) mission of the medical school. UT Methodist Physicians will increase the depth, breadth and excellence of the clinical faculty of the College of Medicine. The University will have a role in governance and management, but no financial risk or liabilities.

Trustee Stansberry asked what the expected monetary benefit to the College of Medicine would be from this practice partnership. Phase 1 is the affiliation agreement and the benefit will be an academic payment in phase 2 of the practice plan.

Trustee Anderson moved that the administration be authorized, after review and approval by the University's Interim Chief Financial Officer and the University's General Counsel, and after all required or appropriate state government reviews and approvals, to execute an Addendum to the Master Affiliation Agreement between the University and Methodist Healthcare-Memphis Hospitals and an Affiliation Agreement between the University and UT Methodist Physicians, LLC, under which UT Methodist Physicians, LLC will serve as a faculty practice plan for new adult multi-specialty care physicians in the short-term, pending development of a larger plan; motion seconded by Trustee Tanner and was approved unanimously.

- XI. **Capital Projects Outside the Budget Process – Action/Consent Item –** Mr. Peccolo stated the capital outlay budget submission includes disclosed projects which are institutionally funded. Between budget cycles, there are critical projects that need to move ahead. Therefore the proposed list for approval prior to the next budget process is submitted (Exhibit 11).

Trustee Foy moved approval of the additional revenue/institutionally funded projects outlined in the meeting materials; seconded by Trustee Tanner and the motion was approved unanimously.

**XII. Report on the Status of Sprinkler Installation at Residential Facilities –** Information Item – Mr. Peccolo stated this report (Exhibit 12) is a follow up to a request by Trustee Hall from the last meeting. All campuses are in compliance with state regulations.

**XIII. Real Property Transactions – Action/Consent Item –** Mr. Peccolo presented three items.

A. Property Exchange, UT Institute of Agriculture (Exhibit 13)

Trustee Stansberry motioned that the disposal of 58+/- acres in Oak Ridge, Tennessee, in exchange for 83+/- acres in Sweetwater, Tennessee, be approved subject to the terms described in the meeting materials; and that the disposal of the 83+/- acres in Sweetwater, Tennessee, be approved at a sale price equal to or greater than the appraised value. Trustee Foy seconded the motion and it carried unanimously.

B. Alley Transfer from City of Knoxville, UT Knoxville (Exhibit 14)

Trustee Ferguson moved that the administration be authorized to request that the City of Knoxville transfer to the University an unnamed alley lying north of Andy Holt Avenue, east of Frances Street, south of Melrose Avenue, and west of Melrose Place. Trustee Foy seconded the motion and it carried unanimously.

C. Permanent Easement to City of Estill Springs, UT Space Institute (Exhibit 15)

Trustee Stansberry moved that the Permanent Easement and the water tank improvements, as described in the meeting materials, be granted to the City of Estill Springs, subject to the University's right to relocate the area of the easement at its sole expense. Trustee Anderson seconded the motion, and it carried unanimously.

**XIV. Revision of UT Martin Traffic and Parking Regulations – Action Item –** Chancellor Tom Rakes stated the current parking stickers are easily counterfeited on the UT Martin campus. The proposed revisions (Exhibit 16) are the result of a request by local officials that offenders be handled through the University rather than the Weakley County court system.

Trustee Tanner moved approval of the proposed revisions to the UT Martin Traffic and Parking Regulations; Trustee Foy seconded, and the motion carried unanimously

XV. **Other Business** – Chair Talbott asked for any new business and there was none.

XVI. **Adjournment** – Chair Talbott adjourned the meeting.



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Charles M. Peccolo  
Treasurer, CIO and Chief Financial Officer