The meeting of the Finance and Administration Committee of the Board of Trustees was held at 2:00 p.m. CST, Wednesday, March 15, 2006, in the O.D. Larry Dining Hall of the Randolph Student/Alumni Center at the UT Health Science Center in Memphis, Tennessee.

I. CALL TO ORDER
Mr. Bill Stokely, Chair, called the meeting to order.

II. ROLL CALL
Ms. Sylvia Davis, Vice President for Administration and Finance, recorded the following members as present:

Mr. Bill Stokely, Chair
Ms. Johnnie Amonette
Mr. Bill Carroll
Mr. Jim Haslam
Mr. Jerry Jackson
Dr. John Petersen
Mr. Don Stansberry
Mr. Bucky Wolford

Ms. Davis announced there was a quorum present.

III. APPROVAL OF MINUTES OF LAST MEETING
Mr. Jerry Jackson moved approval of the minutes, and Mr. Bill Carroll seconded. Mr. Stansberry asked the minutes be amended to change "air miles" to "air hours" in the flight operations report. The minutes will be amended to reflect this change and were unanimously approved.

IV. DISCUSSION OF UT KNOXVILLE ATHLETICS DEPARTMENT OPERATIONS
Mr. Mike Hamilton, UT’s Men’s Athletics Director, and Ms. Joan Cronan, UT’s Women’s Athletic Director, provided committee members an overview of the athletic program. Ms. Cronan indicated the UT Knoxville athletic program has 20 varsity sports represented in the NCAA. UT Athletics provides over 258 scholarships to both men and women athletes, and The University of Tennessee is a role model for Title IX. Athletics goal is to graduate student athletes and to compete for and win SEC and NCAA titles.
Athletics is a self-supported department with no state funding. The FY 2006 budget totals $69.3 million with revenues primarily from ticket sales, donor gifts, and sponsorship contracts. The campus provides a $1.0 million allocation to Women's Athletics from student programs fees in return for the student tickets with an estimated value of $5.4 million. Eighty percent of athletic expenses are directly related to the performance of student athletes. The department is projecting a $125,000 surplus in FY 2006.

Mr. Hamilton further discussed the financial model for the Athletics department. Athletics is using a zero-based budgeting model to develop their budget. Over the past two years, Athletics has cut approximately $3.5 million from their operating expenditures. Athletics must be successful in men's and women's basketball and football for the funding model to work as these three programs provide the revenues needed to support the remaining 17 sports, provide funds to the community, and to support UT Knoxville campus programs.

Academic scholarships for non-athletic students total $1.375 million annually. There are over 2,400 undergraduate non-athletic students who receive academic aid as a result of this distribution from athletics. In comparison, the University of Georgia has made a donation of $50,000 and this year for the first time the University of Florida is making a donation to non-athletic students.

Approximately $4 million is given to the University for fund-raising purposes in parking passes and tickets for both football and basketball. The only institution that comes close to this amount is the University of Notre Dame, so this is a point of pride for the University. It should be noted no one in our league provides this type funding.

Mr. Hamilton indicated the department had capital debt of approximately $54 million. In comparison, Division I programs at the University of Alabama, Louisiana State University and Georgia have in excess of $100 million, and the University of Florida has over $80 million in debt. Ohio State University has over $225 million in debt. UT Athletics annual debt payments are $6.5 million. Of this amount, $1.125 million is for parking garages and $5.4 million is for athletic facilities.

Ms. Cronan noted the success of the University of Tennessee's athletic program by informing committee members that UT ranked third in the recently released Excellence in Athletics Cup rankings in FY 2004-05 behind Duke and Stanford, which makes UT the top ranked public university in the United States.

V. DISCUSSION OF DRAFT STRATEGIC PLAN DOCUMENT
Dr. Jack Britt and Dr. Gary Rogers presented the finance and administration components of the draft strategic plan. One area under review is the current organization structure with changes planned to make the structure more efficient underway by redistributing some of the activities back to the campuses/units.
This includes decentralizing some facets from the system, such as technology support.

Mr. Jackson asked how the goals were set in relation to our peers and further, which peers are we using because there are so many different peers mentioned. Dr. Britt replied the applicable peer set depends on the individual goal. For funding issues, we generally use the THEC peers. Salary comparisons are based on the recruitment area and may include local, regional, and national comparisons. Each plan element will be reviewed to determine the appropriate peer comparison.

Mr. Jackson asked about student funding and per student expenditures. Dr. Britt responded the peers used are those assigned by THEC for the individual campus.

Mr. Stokely stated that each Board committee had a different piece of the plan and he felt some documentation of the bullet points would help with understanding the entire strategic plan. Dr. Britt undertook to transmit a shorter version with benchmarks and associated goals to each board member.

VI. APPROVAL OF FY 2005-06 REVISED BUDGET

The revised budget reflects the six strategic goals presented to the Board of Trustees last year. The revised budget totals $1.4 billion, an increase of $4.7 million over the budget approved by the Board of Trustees in June 2006. Student fee revenues increased $2.4 million reflecting actual enrollment estimates for Fall 2005 in lieu of the estimated enrollments used in June. Enrollment estimated in the original budget was 42,422 and the enrollment reflected in the revised budget is 43,686, an increase of 1,264 students. Over the last two years UT Knoxville has experienced a decrease in out-of-state undergraduate students as total enrollment has increased. Although we are educating more Tennesseans, there is a financial implication as the change in enrollment mix results in a revenue decrease with higher out-of-state fees replacing lower in-state fees. The out-of-state student pays approximately $11,000 per year more in fees than the in-state student. Collectively, the University of Tennessee has the highest enrollment growth among Tennessee public institutions. UT Martin has the greatest percentage increase of all public universities and community colleges while UT Knoxville has the highest numerical change.

Revised state appropriation revenue estimates include minor adjustments to reflect the final state appropriations allocations provided by the state Department of Finance and Administration. The adjustments recognized increased funding for the increase in the state’s 401K matching program from $20 to $30 per month and the January 2006 group insurance rate increase.
Budget adjustments resulting from the FY 2005 year-end close are included in the revised budget with the most significant change being an increase in departmental research expenditure budgets.

Ms. Davis reviewed with committee members the actual FY 2005 and projected FY 2006 current fund balance. The Reserve for Encumbrances represents committed purchase orders that the university has yet to receive. These reserve funds are used in the next fiscal year to pay the associated invoices. The Reserve for Reappropriations designates funds in one year for a specific use in the following year. The Unallocated category represents the university’s rainy day fund. The fund is needed in case of a downturn in enrollment, or a sharp decline in state appropriations, or other situations that cause expenditures to exceed available revenues. The rainy day fund provides short-term funding support while necessary expenditure adjustments are made to bring the budget back into balance. The campuses are asked to maintain between two and five percent of E&G expenditures in the unallocated fund balance. The FY 2006 projected E&G fund balance of $26.2 million is 2.9% of expenditures.

Mr. Ennis previously noted the significant change in state funding support over the past decade from 62.5% to 50.0% of total expenditures. Student fees have made up the difference.

Ms. Davis presented revised senior-level administrators’ university housing budgets for the committee’s consideration in accordance with university policy. Adjustments made between June 2005 and February 2006, approved by the Chief Financial Officer in accordance with policy, included an increase of $13,220 in the UT Chattanooga budget for emergency minor maintenance and repairs. A $51,752 increase in expenditures is recommended for the Health Science Center associated with the acquisition of new residence for the chancellor, temporary residence expenses, and on-going maintenance at the old residence.

Mr. Haslam moved approval of the revised budget, Mr. Jackson seconded the motion. The motion passed unanimously.

VII. FY 2006-07 BUDGET UPDATE
Ms. Davis provided the committee an overview of the university’s FY 2007 operating budget request presented to the Tennessee Higher Education Committee for consideration. The budget request includes recurring base funding of $439.2 million to support on-going operations, the continuation of the non-recurring $2.1 million in operating funds for the three campuses, and strategic initiative funding.

The Governor’s recommended budget includes $4.0 million in state matching funds to fund the hiring of distinguished faculty in the targeted areas of neutron science, biological sciences, computational sciences, and materials science. Coupled with the $2.5 million in state appropriations received by the university in
FY 2006, this recommended improvement increases the total match availability to $6.5 million. Our goal is to reach $10 million in recurring matching funds. Oak Ridge National Laboratories (ORNL) is providing the matching funds for the Governor's Chairs.

The FY 2007 budget recommendation provides $450,000 to continue for a year the minority scholarships provided under the Geier Consent Decree. As Geier funding is phased out, the Governor is recommending an evaluation of the Geier programs in FY 2007 with the results used to formulate post-Geier funding priorities in FY 2008 and future years.

The Governor’s budget includes a recommended 2% salary increase for higher education employees. The funding for “academic formula units” (Chattanooga, Knoxville, and Martin) is from tuition or other budget reallocations. 100% state funding is recommended for all remaining units.

The recommended budget also provides funding for the state’s share of increases in the state’s retirement contribution rate and the employee health insurance program.

Although not recommended for inclusion in the University of Tennessee’s appropriations, there are several items funded in other state agencies of interest. These items include: $1.0 million in planning funds for a Residential Math and Science High School located in Tullahoma, $500,000 for a 4-H Foundation Grant, $500,000 for the Future Farmers of America, $3.5 million for the Memphis Bio-works, and $100,000 for renovation at the Ames Plantation.

The Senate Education Committee is referring to the Senate Finance Ways and Means Committee a committee budget amendment recommending an additional $28 million to assist in defraying higher education operating costs. The amendment provides $20 million for formula units and $8 million for non-formula units. Ms. Prevost asked where the $28 million dollars would be applied. Ms. Davis answered funds would be added to operating budgets and it would be up to campuses to designate the allocation.

The Governor’s FY 2007 Capital Budget recommendation for UT totals $72.3 million: $51.8 million for Capital Outlay Projects (4 projects) and Capital Maintenance Projects (10 projects) in the amount of $20.4 million. Funded capital outlay projects include the UTK the Joint Institute in Advanced Materials building for $10.0 million, $13.9 for a Fine Arts Building Renovation/Addition at UT Martin, $4.9 million for the Bio-Tech Greenhouses at the Agriculture campus, and $23.0 million for Ayres Hall Renovation.

Mr. Wolford asked how much of a 9% increase is needed to fund the 2% salary increase on each campus. Ms. Davis indicated that roughly every 1% in salary increase requires a 2% tuition increase. The recommended 2% salary increase
translates to a 4% tuition increase, assuming you use all fee increases to fund the salary increase.

Mr. Thornton noted Chattanooga did not receive any funding for capital projects. Mr. Stokely indicated the UT Chattanooga recommendations did make the THEC recommendation but the Governor’s recommendation did not go far enough down the priority list to fund a Chattanooga project.

Mr. Stokely updated the committee on the status of the $1 billion dollar joint bond for higher education capital funds. The project is currently in the dialogue stage and Mr. Stokely plans to meet the Tennessee Board of Regents chairperson. Any major bond bill proposal all needs discussing with the governor.

VIII. APPROVAL OF USE OF PROCEEDS FROM LEASE AND TRANSFER OF UT MEDICAL CENTER TO CONSTRUCT NEW PHARMACY SITE IN KNOXVILLE

Dr. Rogers presented to the committee the proposed capital expenditures associated with the College of Pharmacy’s location expansion approved by the Board of Trustees in March 2005. The proposed building expansion at the University of Tennessee Medical Center provides space for up to 225 students.

The University of Tennessee Medical Center is proposing to expand the Graduate School of Medicine Building to accommodate the College of Pharmacy needs. The Medical Center and the University will enter into a long-term lease in which the University will pay for the actual costs of construction and the operational costs associated with the facility. The estimated construction cost is $2.7 million.

The university seeks approval to use payments received from University Health Systems (UHS) pursuant to the 1999 Lease and Transfer Agreement between the University and UHS to cover the cost of construction. The proposed payment schedule is $1.5 million in 2006, with the balance due in 2007 based on the actual construction costs incurred by UHS on behalf of the University.

Mr. Jackson asked if any funds are remaining in the reserve. The current unexpended proceeds are obligated for other initiatives and not available for the Pharmacy Building expansion. The required payments will come from future hospital proceeds payments.

Mr. Stansberry moved for approval and Mr. Jackson seconded the motion. The item was approved unanimously.

IX. APPROVAL OF UT KNOXVILLE MASTER PLAN UPDATE AND APPROVAL TO ACQUIRE METRON PROPERTY

Dr. Rogers said the administration seeks approval to acquire approximately eleven (11) acres located at 191 Metron Center Way in Knoxville. The property
fron.ts Kingston Pike just east of Alcoa Highway. The property is improved with a building that contains 74,400 square feet or 42,300 square feet of office space and 32,100 square feet of warehouse space. The property also has 354 parking spaces.

This building will be used for multiple office and warehouse functions. It will allow the University to forgo the previously approved construction of a storage facility for Housing and the Library at the Middlebrook Pike location.

The University has evaluated the improvements and determined the building to be in good condition. The original building was built in 1964, and multiple renovations have been completed throughout the years. The acquisition price for the property will be based on an independent third party appraisal.

The administration requests authorization to acquire the property located at 191 Metron Center Way in Knoxville at fair market value or less, as determined by the appraisal, and subject to all required state government approvals. In addition, the administration seeks authorization to revise the University’s land acquisition plan to include this property. The funding for the acquisition will come from the auxiliaries and other funds available for land acquisitions.

Mr. Stansberry made a motion for approval and Ms. Amonette seconded the motion. The item was approved unanimously.

X. TREASURER’S REPORT ON INVESTMENT PERFORMANCE
Mr. Butch Peccolo presented the University’s investment performance for the endowment pool for the quarter ending December 31, 2005 and for the twelve-month period then ended. The investment performance was 2.8% and 10.3%, respectively and Mr. Peccolo indicated those returns would be in the top quartile for similar styled investment pools. The investment pool for The University of Tennessee grew to an all time high for the reporting period totaling $556.4 million, up over $27 million for the quarter, due to generous gifts and strong market returns.

Mr. Peccolo also presented the comparative performance results from the NACUBO endowment study for period ending June 30, 2005. The University of Tennessee’s total endowments (UT endowments, Chairs of Excellence, and UC Foundation) ranked 28th among participating public institutions. Performance for the period under study showed out-performance for the one and three years and comparable performance for the five year return.

XI. APPROVAL OF REVISED INVESTMENT POLICY STATEMENT
Mr. Peccolo presented a revised investment policy statement that contained only two significant changes from the previously approved policy. The first change was to expand the investment advisory committee to eight members by adding the chief financial officer for the University, and the second change was to
require this committee to adopt a charter and operating policy. A draft policy was attached for the committee and board review. The committee discussed this change with comments being made by Mr. Stokely and Mr. Hickman, both investment advisory committee members, and then recommended the policy change for full board consideration.

Mr. Stansberry asked if this change will affect what we do. Mr. Stokely answered there would be no change it would just formalize the current policy.

Mr. Peccolo indicated that active managers would be asked to sign an acknowledgement of the plan.

Mr. Hickman indicated this was a good step. Dr. Rogers also indicated this structure was discussed in more than one session of the meeting.

Mr. Stokely said this would help the campaign with paper in hand to show how the money is being handled.

Mr. Haslam moved for approval and Mr. Jackson seconded the motion. The item was unanimously approved and will be put on the consent item list.

XII. GRANT OF EASEMENT TO CITY OF MILAN FOR WATERLINE
The City of Milan has requested a permanent easement on the South Tract of the Research and Education Center at Milan, situated in the Wolf Creek bottom at the northern edge of the property along Highway 79. This easement will be located within a drainage easement area owned by the Tennessee Department of Transportation. The area is poorly drained and is not suitable for research. As a result, it will have not net effect on University operations at the Center.

The permanent easement is approximately 20 feet in width and approximately 1,102 feet in length. The total easement area will contain approximately 22,060 square feet or 0.50 acres.

Mr. Stansberry moved for approval and Ms. Amonette seconded the motion. The item was unanimously approved and will be included on the consent agenda.

XIII. APPROVAL OF SALE OF GIFT PROPERTIES
Dr. Rogers presented to the committee a chart of property donated to the University within the past few months and proposed for sale. The chart describes the property and the intended use of the proceeds. The two pieces of property will be sold at or above the appraised value. Neither piece of property is of use to the University.

Mr. Haslam moved for approval and Mr. Stansberry seconded the motion. The item was unanimously approved and will be included on the consent agenda.
XIV. APPROVAL OF UNIFORM RULE ON ELEVATOR KEYED LOCK BOX
In the 2005 session, the General Assembly enacted Public Chapter 404, dealing with the installation of emergency keyed lock boxes in all dormitories and other University housing with functioning elevators. The University is in the process of installing the required elevator keyed lockboxes in accordance with the legislation.

Mr. Haslam moved for approval and Mr. Stansberry seconded the motion. The item was unanimously approved.

XV. ADJOURNMENT
With no further business to come before the Committee, the meeting adjourned.

Respectfully submitted,

Sylvia Shannon Davis
Vice President for Administration and Finance