

**MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE
THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES
MAY 5, 2009**

The meeting of the Finance and Administration Committee of the Board of Trustees was held at 10:00 a.m. CST, Tuesday, May 5, 2009, at the law offices of Bradley Arant Boult Cummings located at 1600 Division Street, Nashville, 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
William Carroll, Member
Jim Murphy, Vice Chair of the Board
Jan Simek, Member
Charles Wharton, Member

Absent

John Foy, Member

Other Trustees Present

George Cates, Trustee
Spruell Driver, Trustee
Monice Moore Hagler, Trustee
Jim Hall, Trustee
Douglas Horne, Trustee
Andrea Loughry, Trustee

John Schommer, Trustee
Karl Schledwitz, Trustee
Don Stansberry, 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 Carroll and seconded by Trustee Anderson, the minutes were unanimously approved as distributed with no amendments necessary.
- IV. **Discussion Concerning Sale of President's Residence, 940 Cherokee Boulevard, Knoxville**—Discussion Item—Chair Talbott noted a time limit of thirty minutes for this item and asked Dr. Gary Rogers, Senior Vice President and CFO to begin the discussion.

Dr. Rogers noted the various residential properties the University has owned. He then explained that two years ago the Board had determined to discontinue providing housing for senior administrators. The plan called for disposing of the properties or discontinuing any lease with a change in administration. That led to converting the Martin residence into other uses and sale of the house in Memphis. The University property at 940 Cherokee Boulevard and the leased house in Chattanooga remain. Housing allowances are being paid in Martin and Knoxville and will be paid in Memphis when a new Chancellor is hired.

Chair Talbott asked for confirmation that this is a discussion item only and no decisions would be made today; Dr. Rogers confirmed. Jim Murphy, Vice Chair of the Board said he would start since he asked for it to be put on the agenda for discussion. He explained that the original idea was to put this item on the agenda as an action item for approval. However, several people expressed concern about whether selling the house is the best decision. Thus, this discussion is to allow a measured consideration and alleviate any concerns of a rushed decision.

Dr. Rogers noted that in accordance with the Board discussion of June 2007, the University declined the opportunity to acquire the Chattanooga house from the UC Foundation; the explanation cited the University's plan to get out of the housing business.

Mr. Murphy listed some primary considerations for selling 940 Cherokee Boulevard, including significant costs of maintaining the property and the annual operating expenses. The issue remains regarding benefits of using the house for fundraising. Additionally, the house may be a factor in recruiting Presidential candidates. Information shows that not every school provides housing for Presidents; more and more individuals are expressing interest in building equity in their own home as opposed to living in University housing. Mr. Murphy further said he believes it is the right decision to sell and it will be up to the Board to make the call. Viewpoints need to be expressed so that the Board can deal with those between now and the June meeting.

The required time to sell the house and its value in light of present real estate conditions are factors for consideration. State process requires an appraisal and approval of the sale by the State Building Commission. Mr. Murphy suggested that an appraisal be obtained and the Board review the matter and be ready to vote at the June Board meeting.

Trustee Wharton asked that the Board explore use for various UT affairs or rent it to generate income to cover cost. Vice Chair Murphy said the venue has a very limited parking footprint with parking limited to the street; that may involve a zoning issue. He also noted that Dr. Simek had pointed out that it is difficult to get from the residence to campus on football weekends because of traffic. A concern from donors is the house not being on campus.

Trustee Loughry noted that she shares sentimental memories regarding the residence but they have been somewhat buffered over recent years. Any activities, expenses or expenditures that occur in this public housing are very much scrutinized in today's world. Also, a family has to live in a fishbowl in today's public and or private University setting with questions about how the University affords it. She expressed her views that the University really needs to be out of the housing business.

Vice Chair Murphy stated that if this residence were on campus or right next to it there might be different considerations. The house being in a residential area is a significant factor; residential zoning does not lend itself well to alternative uses.

Chair Talbott stated that the parking issue with cars on the street makes it dangerous to be on Cherokee Boulevard when an event is held at the residence. Trustee Stansberry questioned how long it took for the Memphis house to sell and the sale price. Dr. Rogers replied that it took eleven or twelve months and the sale price was \$850,000 (appraised was \$1.1M). Chair Talbott noted that 940 Cherokee is not in a depressed area. He suggested that the Board should establish a price subsequent to receiving an appraisal and ensure that the offering price is not understated since some appraisals in the current market appear too low. Trustee Stansberry asked Chair Talbott if it was his recommendation to sell the residence; Mr. Talbott said yes that the University should get out of the housing business.

Trustee Anderson said that he would like for the Board to look at the official events that have been hosted there in the last few years to make sure that a venue is planned for the same type of events in the future. Chair Talbott agreed with Trustee Anderson's point. Acting President Simek said that he agreed but that the strongest events held for development are on campus. The campus is the centerpiece of the University. He noted the investiture for Dr. Cheek was held there in the Haslam Building – a splendid venue and parking is available. He expressed thoughts that the University could use more than one venue for events and proposed using some of the proceeds of the sale to renovate the Tyson House (center of campus) or the old Faculty Club (located on Neyland Drive). He believes having events on campus is much better than the event being offsite.

Trustee Anderson stressed that the Board needs assurance that the sale of this residence will not be a detriment to the recruitment of the best possible candidate for President. Dr. Simek said the percentage of schools that have residences for their Presidents and those offering a housing stipend is about 50/50. Individuals often want to invest that money in a residence and avoid the kinds of issues that Trustee Loughry mentioned earlier.

Trustee Driver asked about the status of a proposed alumni center near the location of the old Faculty Club. Acting President Simek said that campus development commissioned a study that showed very little interest from the donor base in contributing to that facility; they want to give to professorships, scholarships and other purposes.

Chair Talbott summarized the issues that had been mentioned during the discussion: sell or not sell; alternative venues for events; effect on recruiting a President; zoning in regards to alternative uses; and, the Board must establish a sales price (likely higher than an appraisal).

Trustee Loughry then asked Dr. Rogers for an estimate of what it would cost to close the house for a period of time until the market is better or the right buyer comes along. Dr. Rogers replied the amount would be approximately \$30,000 to \$50,000 annually.

Trustee Driver asked if the University might use the house as a venue in some fashion instead of it just sitting vacant. Chair Talbott noted the zoning issues related to uses other than a residential purpose. Dr. Rogers also noted that using it for other purposes adds to issues of showing and maintaining the property if it is on the market.

- V. **FY 2009-10 Budget Overview**—Information Item—Chair Talbott asked Dr. Jan Simek, Acting President to present the FY 2009-10 budget overview. Dr. Simek stated that he would present how the overall budget looks for the next two and a half years, as well as how the stimulus is affecting the overall budget process and planning for the end of the stimulus package and its effects on the next years' budgets. He showed an illustration of the general fund revenues of the State of Tennessee over the past 15 months, noting that revenues were last positive in January 2008. The most severe decline in revenue has been from November 2008 to March 2009. Additionally, indications from current reports show that April's results may be worse. Vice Chair Murphy observed that April is normally a very big tax collection month with franchise and excise taxes; however, the trends are not promising. Dr. Simek concurred that the University must plan with the expectation that circumstances regarding state appropriations will not improve in the near future.

Dr. Simek summarized expected appropriations for FY 2009 through FY 2012 clearly showing the effects of declining state revenues on state appropriations to the University. The recurring funds will decline from a high of \$486 million for FY 2009 to a low of \$421 million in 2012. The FY 2009 budget already reflects a \$20 million reduction in state funding from the previous year. That was followed by a \$17 million mid-year rescission announced last October

and soon after that preparations began for a potential \$66 million in state funding to begin in July. The stimulus funds simply serve as a temporary bridge that delays the coming of that \$66 million reduction; the reduction is not eliminated. That is based on the assumption that the state's revenues flatten out and don't continue on a downhill spiral.

Trustee Stansberry asked if it would be fair to say that between now and FY 2012 that expenditures of \$92 million have to be eliminated. Dr. Simek replied, it would be fair to say that between now and FY 2012 the University has to find and eliminate \$66 million because the \$38.5 million has already been taken of. Vice Chair Murphy explained that the \$38.5 million is coming back from the State to qualify for the federal stimulus money. The State has to restore money to the University for cuts already made. Those cuts are out of the base budget and do not have to be accommodated in the base budget again. Chair Talbott interjected that the expense line is still going up too, so more than the \$90 million in costs will affect the ultimate budget. Trustee Stansberry said that we need to create a plan from now to FY 2012. Dr. Simek added that the units have been asked to prepare plans through the entire stimulus period to the ultimate appropriation budget of \$420 million projected for FY 2012. Dr. Simek explained that the stimulus allows and requires us to gently move from FY 2009 to FY 2012. The reduction in the number of people that work for the University will still occur but over a longer period versus in July. With the stimulus funds the normal processes of attrition can absorb some of the cuts rather than having draconian cuts. It doesn't change the final outcome but it allows for a more humane process.

Trustee Stansberry asked the President to describe the kind of University that will exist in FY 2012 compared to the one today. Dr. Simek stated that he thinks the University in FY 2012 will be smaller and leaner with a portion of the current operations being outsourced. The administration will be leaner, some academic segments will have larger classes, combined classes and programs will be rethought and consolidated. The basic function as a higher education, research and outreach institution will be uncompromised and poised for growth. Trustee Stansberry asked if students would be able to graduate within three to four years. Dr. Simek said possibly but they would have to stay focused. Trustee Wharton asked if the student population would be reduced. Dr. Simek indicated the student population was expected to remain the same. Vice Chair Murphy noted that one of the things lost as part of the \$66 million cut is the ability for students to schedule with as much flexibility as they desire. The University will need to ensure plans are in place for students to be able to schedule courses to graduate in four years. Students also have to be responsible in their planning. Dr. Simek said that it is an advising problem and the University is working on that systematically. For most courses of study, clear plans are laid out.

Trustee Stansberry asked Dr. Simek to prepare a summary description of the impacts of the cuts through FY 2012. Dr. Simek said that given a choice he would prefer instituting higher costs before eliminating programs and reducing quality.

Dr. Simek advised that he intends to stick with the tuition increase proposals brought to the Board for this year because so much of that will simply cover fixed cost increases. Trustee Stansberry noted that he would like the Board to know what they are signing up for and Chair Talbott said the Board would also like to know the comparative tuition rates across the South.

Trustee Anderson raised a question about the University in 2012 and beyond. He asked if the University of 2012 would be taking a look at UTM and UTC and UTK and possibly redefining some of those roles so that the University in Martin may not offer exactly the same disciplines at Knoxville and then tuition increases might be according to what a location offers. Dr. Simek agreed and stated that is already beginning; Martin, Chattanooga and Knoxville do different things. As a system the University shouldn't try to be all things to all people; it should actually try to be highly specialized so that each campus has a very particular function that serves the greater whole.

Dr. Simek discussed the total stabilization funds being received by the University and how the funds are distributed across the campuses and units. Trustee Carroll asked how many auditors would have to be hired to monitor the stimulus funds. Mark Paganelli explained that it will be more significant for external auditors but that quarterly reports will be required by the federal government. Federal auditors are receiving stimulus money to beef up their staff so they can verify how the money is being spent and that the money is not being spent for executive or other non-authorized costs. Dr. Simek explained none of this stimulus money can go to the System; it has to go to the degree-granting units. Trustee Loughry asked if the chief business officers and campus offices have the kind of staff to handle the reporting that has to be done. Dr. Rogers noted that the general reporting will be handled centrally with a separately defined set of accounting records to track stimulus funds. Fortunately, the University's IRIS System will permit such tracking. The decision making as to those individual expenditures will become the issue. Trustee Hall made mention that federal requirements will get more detailed as it goes along; plus, once the first person misspends, more regulation will ensue. Trustee Cates noted that restrictions on the stimulus money reduce the opportunity to address capital needs at UTHSC. Trustee Wharton asked if money could be shuffled around in the pools. Dr. Simek responded that we can do a little of that but because it is accounted for separately we have to show exactly where the money went.

Dr. Simek discussed the total impact of stabilization funds available for each of the units over the stimulus period. That provides the \$92 million for FY 2010 and FY 2011, plus \$38 million for FY 2009. Trustee Hall asked for confirmation that a total of \$222 million in stimulus and stabilization money is available for the three years; Dr. Simek answered yes.

Dr. Simek also reviewed the constraints to spending mandated within the ARRA for state fiscal stabilization funds. Trustee Hagler asked how the University moves forward with a proposal for tuition and if it will be limited to out-of-state students given apparent constraints relative to the stimulus funds for resident tuition. Dr. Simek pointed out the regulation requires mitigation, not elimination of tuition increases. Proposed increases are in line with THEC

guidelines. Vice Chair Murphy asked for confirmation that THEC is still standing by that even post stimulus and Dr. Simek replied yes.

Dr. Simek then reviewed plans for reducing the budget at the System; he described it as a first stage budget reduction at the system level, including a redesigning of the system administration. The plan was developed through conversations with the Vice Presidents; the approaches reflected remarkable continuity and consistency. Trustee Wharton asked if the \$1 million reduction was hard money saved or reallocation. Dr. Simek replied that hard dollars are saved. Trustee Wharton then asked if unfilled positions were eliminated and if vice president positions had been eliminated. Dr. Simek said it reflects dollars pulled out of the System and returned to the campuses in a reduced institutional chart. The System will have rational and important functions but have fewer vice presidents with the budget implemented in July. Trustee Stansberry asked for an impact analysis.

Dr. Simek said he plans to present a model of the first stage system reorganization to the EEF Committee on June 1, 2009. Trustee Hagler asked about a proposal for restructuring that Dr. Petersen presented it at the last meeting. Dr. Simek explained that this model is different. He said the structure will have fewer vice presidents. Trustee Horne asked if athletics will be in the system or at the Chancellor level. Dr. Simek said that decision remains to be made. After this first stage of reorganization, Dr. Simek plans to convene a series of focused small task forces that will include members of the Board, along with the constituencies involved with campus and system levels in order to decide the best reporting structure.

Trustee Horne asked if the University of Tennessee should have a position regarding the reorganization of higher education. Dr. Simek said that he would like to have and added that he would like to talk about that in his presidential report. He noted the need for a conversation about the organization of higher education to ensure that education serves the people in the most effective and efficient way.

Dr. Simek reviewed potential tuition scenarios by campus. Chattanooga and Martin are proposing a 7% increase that amounts to approximately \$300 per student for Chattanooga and just over \$300 for Martin. The Knoxville increase would be \$489 and around \$564 for the engineering program at UTSI that is connected to Knoxville. Veterinary Medicine is proposing a 20% increase. These figures have been reviewed by the students and they testified in Nashville in favor of the increases to maintain service and quality. Chair Talbott asked if the increases tie in with the expense numbers and Dr. Simek said yes they tie in with the expense numbers in the original July budget with a \$66 million reduction. Trustee Schommer inquired about the federal stimulus guidelines requirement to mitigate tuition and asked how that was reflected in the plans. Dr. Simek explained that the University has mitigated by not recovering all the cuts and fixed costs. These increases do not actually eliminate the impact of the budget cuts. Tuition increases over the last decade show the proposed increases are about average; these increases are not dramatically different than normal in order to deal with the budget decrease.

Vice Chairman Murphy noted that one of the things that exacerbates the matter is that the University is not getting inflationary increases on the state money so tuition is increased to keep up with inflation on the state appropriation, plus keeping up with inflation on the tuition money. It looks like higher education has a high rate of inflation; however, the total budget increase reflects a lower percentage. Chair Talbott said that is a great point and asked to receive those numbers. Dr. Simek made another point that state appropriations are on a downward slide so we are dealing with inflation and decreasing state appropriations to come up with these numbers.

Chair Talbott asked Vice President DiPietro to address the issue of the veterinary medicine tuition increase. Dr. DiPietro stated that Dr. Thompson, Dean of the College of Veterinary Medicine is administering a team to look at what the impact is from the downturn of the economy and the reduction in state resources and how to cope with that. Revenue in the amount of \$2.2 million will drop off by the FY 2012 budgets. The College has \$50,000 in utility cost increases on an annual basis, \$500K in projected service revenue losses due to the economic downturn in hospital patient flow and \$100,000 in increased facility costs. With that in mind the team took a look at the College of Veterinary Medicine's tuition and found that its in-state tuition is one of the best bargains in the United States. Their current tuition is \$15,384 which puts them in the lower 25% of veterinary colleges. This proposed increase in tuition and maintenance would then bring the college up to \$17,443 which puts them slightly below the national average of \$17,843. The students are obviously not happy about the fact that they will have to pay more, but with the understanding that the quality will be maintained, professors will be kept and operations will provide them a quality education, they are willing to pay it.

Dr. Simek discussed the 10% tuition increase for the Health Science Center. Trustee Wharton asked if 10% was the proper amount for a tuition increase for the College of Dentistry. Trustee Schledwitz noted that a study was completed before the new dean came to the dental school that showed the tuition rate was the lowest in the South. At the time, a 30%+ tuition increase was needed to get to median but UTHSC realized it needed to occur in stages. Trustee Cates added that UTHSC has quality teaching but the facilities require work and the private fundraising for this effort will take at least two to three years.

Trustee Hall questioned whether or not the large tuition increases affect the stimulus money or if stimulus money is being put into these colleges. Dr. Simek stated that stimulus money is being put into the colleges. In some respects, less justification might be needed in the absence of a stimulus package. He also told the Committee to bear in mind that there is next year. Strategically, one of the advantages to this two-year stimulus program is having the second year where UTHSC can build capital.

Chair Talbott made the point that capital expenditure needs are significant for all campuses. This issue needs to be addressed. Chair Talbott noted that it especially needs to be looked at in Memphis and Trustee Wharton added the vet school. Chair Talbott also noted that deferred maintenance was

significant. Dr. Simek remarked that recurring funds have to accomplish these goals because the stimulus money provides no help regarding this matter.

Chair Talbott then noted some issues to address at the June Board meeting:

1. Quality implications of cuts at the System and campus levels.
2. Comparative tuition rates for peers and SREB institutions, along with the levels of state support.
3. Cost increase percentages per year at the overall budget level versus increase in tuition.
4. Faculty salaries.

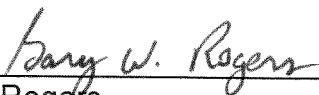
Trustee Hagler asked if we have a “but for” case related to tuition, to ensure solid ground with respect to the mitigation factor. Vice Chair Murphy said that was reviewed in March and it was some 24%. Trustee Hagler asked if there was documentation for the federal auditors that in fact we had been faced with that. Dr. Simek said yes.

Trustee Hall asked for a list of functions performed at the System level to be put on the list of follow-up items.

I. **Other Business**—Committee Chair Talbott asked if anyone had any other business to discuss; none was noted.

II. **Adjournment**

With no other business, Chair Talbott adjourned the meeting.



Gary W. Rogers
Senior Vice President and Chief Financial Officer