

THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE

June 19, 2013
Knoxville, Tennessee

The Finance and Administration Committee of The University of Tennessee Board of Trustees met at 3:15 p.m. EDT on Wednesday, June 19, 2013, in the Hollingsworth Auditorium on the campus of The University of Tennessee Institute of Agriculture.

I. CALL TO ORDER

Charles C. Anderson, Chair, called the meeting to order.

II. ROLL CALL

Charles M. Peccolo, Treasurer and Chief Financial Officer, called the roll, and the following members of the Finance and Administration Committee were present:

Charles C. Anderson, Chair
Joseph A. DiPietro
J. Brian Ferguson
John N. Foy
Raja J. Jubran
Don C. Stansberry, Jr.
Betty Ann Tanner

The Chief Financial Officer announced the presence of a quorum of the Committee. Other Trustees, administrative staff, members of the public, and representatives of the media were also present.

III. OPENING REMARKS BY COMMITTEE CHAIR

Chair Anderson welcomed Committee members and those in the audience and announced that the meeting would proceed with the published agenda, no new items having been brought to his attention before the meeting.

IV. REMARKS BY KARLY SAFAR, MEMBER OF EMPLOYEE RELATIONS ADVISORY BOARD

Chair Anderson welcomed Karly Safar, member of the UT Knoxville Employee Relations Council and the system-wide Employee Relations Advisory Board. Ms. Safar's presentation addressed concerns about the fairness of the proposed salary increase for University employees (Exhibit 1).

Trustee Horne expressed appreciation to Ms. Safar for her presentation and asked Linda Hendricks, Chief Human Resources Officer, if the University does salary comparisons across other institutions and companies. Ms. Hendricks explained that the Sibson survey, conducted by a third party vendor, included a review of campus and institute peers. As a result of that survey, each campus and institute has a multi-year compensation plan designed to close the largest gaps.

Trustee Horne then asked if it would be possible to reallocate money. Mr. Peccolo noted that all employees would receive a 1.5% increase with a minimum annual increase of \$600, which is greater than 1.5%, for those that make \$40,000 or less. He explained that the proposed plan for salary increases would be discussed in more detail at the Full Board Meeting.

Trustee Blackburn asked if the Trustees were getting a full and accurate picture of the performance evaluation process. President DiPietro explained that there are training programs for all supervisors that evaluate employees. He also noted that last year, only 40 employees out of 12,000 system-wide did not receive an across-the-board raise because of an unsatisfactory rating on their performance evaluation.

V. CONSENT AGENDA

- A. Minutes of Last Meeting - February 28, 2013
- B. Ratification of 2012-2013 Quasi-Endowments (Exhibit 2)
- C. FY 2014 Distribution of UC Foundation Unrestricted Endowment Funds (Exhibit 3)
- D. FY 2014 Operating/Capital Plans for University Owned or Leased Residences for Senior Administrators (Exhibit 4)

E. Disclosure of Additional Revenue/Institutionally Funded Capital Projects for FY 2013-14 (Exhibit 5)

F. Real Property Transactions

1. Acquisition of 785 Union Avenue (UTHSC) (Exhibit 6)
2. Acquisition of 955 Madison Avenue (UTHSC) (Exhibit 7)
3. Acquisition of 959 Madison Avenue (UTHSC) (Exhibit 8)
4. Acquisition of 969 Madison Avenue (UTHSC) (Exhibit 9)
5. Acquisition of 23 North Pauline Street (UTHSC) (Exhibit 10)
6. Acquisition of 38 North Pauline Street (UTHSC) (Exhibit 11)
7. Acquisition of 40 North Pauline Street (UTHSC) (Exhibit 12)
8. Acquisition of 255 South Pauline Street (UTHSC) (Exhibit 13)
9. Acquisition of Morgan County Property by Gift (UTIA) (Exhibit 14)
10. Acquisition of Street Right-of-Way Interests from City of Knoxville (UTK) (Exhibit 15)

G. Annual Report of Sales of Real Property Acquired by Gift (Exhibit 16)

H. President Emeritus Agreement with Dr. Joseph E. Johnson (Exhibit 17)

Trustee Ferguson moved approval of the Consent Agenda, Trustee Jabran seconded, and the motion carried.

VI. 2013 FINANCIAL REVIEW OF UTC, UTK, AND UTM ATHLETICS DEPARTMENTS

Chair Anderson recognized representatives from UTC, UTK, and UT Martin to address the financial condition of athletics at their respective campuses (Exhibit 18).

Richard Brown, UTC Executive Vice Chancellor, and David Blackburn, UTC Vice Chancellor and Director of Athletics, gave a financial overview of UT Chattanooga athletics. It was noted that UTC athletics is now supported by a dedicated student athletics fee.

William Myers, UT Knoxville Senior Associate Athletics Director, presented a financial overview of the UT Knoxville athletics program. Trustee Gallimore asked about the increase in costs resulting from team travel to Missouri and Texas A & M. Mr. Myers replied that it is estimated to be an additional \$750,000 to \$1,000,000 annually. Trustee Schledwitz asked how much of the

reduction in expenses is due to the completion of contract buyouts. Mr. Myers replied the reduction in expenses was not related to completion of buyouts and went on to say that the full value of a buyout is booked in the year the buyout occurs.

Chair Anderson added that travel costs to Missouri and Texas A & M will appear in the financial statements for future fiscal years, but it is hoped that television revenues from those large markets would increase far more \$1.0 million.

Phil Dane, UT Martin Director of Athletics, gave an overview of UT Martin Athletics based its mission to enhance the total collegiate experience for currently enrolled students and generate interest in UT Martin from stakeholders by developing competitive teams academically successful student athletes. He described the active involvement of student athletes and staff in the campus and external community.

Trustee Blackburn asked what the impact will be on UT Knoxville Athletics from anticipated costs and revenues under the SEC Network. Chancellor Jimmy Cheek answered that ESPN is putting a substantial amount of money into developing the Network. The anticipated revenues should be substantial but additional costs are not yet known. He explained that UT will be responsible for the cost of providing video and other types of material to the Network. The University entered into the agreement with the assumption that the revenue will be significant. Texas A & M and Missouri add around 25% more televisions/homes in the footprint.

VII. HR AND COMPENSATION ADVISORY BOARD REPORT

Linda Hendricks, Chief Human Resources Officer, gave a presentation (Exhibit 19) on progress made under the Human Resources Strategic Plan (Exhibit 20). One of the areas highlighted in Ms. Hendricks' presentation were improvements in the performance review system. She explained that performance review forms have been redesigned and supervisory training has been implemented at every campus and institute.

She also highlighted work on competency-based job descriptions as an initiative underway that will also impact performance reviews. She explained that a competency-based job description defines the work in terms

of skills and behaviors that one must have to meet expectations and makes it clearer to the employee on what they are being held accountable. In order to use the applicant tracking system to its total efficiency, there must be competency based job descriptions because it searches for key words and components.

Dr. Richard Brown, UTC Executive Vice Chancellor, presented activities of the Compensation Advisory Board (CAB) and explained that it was Dr. DiPietro's vision with the notion of threading excellence throughout UT's workforce strategies. He noted that CAB will be presenting an entry level pay of \$9.00 for the lowest paid employees this year and that increasing staff compensation will be a focus going forward.

Dr. Brown reported on CAB's meeting with the State of Tennessee's Commissioner for Human Resources, Rebecca Hunter. Commissioner Hunter addressed the Governor's support of the state employees' compensation plan with special financial allocations. This year alone, the state will put another \$58 million in new dollars into compensation for state employees. Dr. Brown concluded by noting that in the future, CAB may recommend to President DiPietro that additional funds be requested to close the compensation gap.

Trustee Horne asked about average faculty salaries, and Dr. Brown explained that salaries can range from 84-95% of market and vary by campus/institute. Trustee Horne then asked average salaries for lower paid employees, and Dr. Brown responded that the range is 78-84% but also varies by campus/institute because each Chancellor has his own compensation plan. Every campus/institute is concentrating on the lowest paid employees and working to move the needle.

Trustee Ferguson asked if employees receive a benefit profile allowing them to benchmark their total compensation (salary and benefits) against the market. Dr. Brown explained that Human Resources provides employees with a profile of salary, benefits, and the total value UT pays for every employee. Ms. Hendricks added that employees can access that information online. She also explained that the Sibson compensation survey was based on total costs (salary + benefits).

VIII. PRESENTATION ON THE SYSTEM ADMINISTRATION BUDGET

Treasurer and CFO Peccolo made a presentation on challenges the System Administration budget has for the next few years (Exhibit 21). The budget consists of 4% of the entire University of Tennessee System budget. The funding for the System Administration has dropped because of reorganization and the current interest rate environment. Over the last few years about a third of the funding came from interest earnings on the net cash position of the University. The low interest rates have caused a gap in what the System Administration has to fund its operation. Existing reserves set aside when interest rates were higher will be used to fill the gap, along with some of UT Battelle's management fees. Chancellor Schwab has agreed that part of the employer share of the refund of FICA taxes paid for medical residents can also be used to fill the gap. A plan is in place to mitigate the potential additional charge to the campuses/institutes for the next two years in the hope that the interest rate environment improves.

IX. ACQUISITION OF 1525 AND 1610 UNIVERSITY AVENUE

CFO Peccolo presented the University's proposal to acquire two properties located just north of the UT Knoxville campus, 1525 University Avenue and 1610 University Avenue (Exhibit 22).

Mr. Peccolo explained that both buildings have two stories and were originally designed for office use and have open floor plans with offices on the perimeter. The University proposes to use the buildings for administrative and office space. Firm plans for use of the buildings will be decided by the UT Knoxville administration and the System Administration. Mr. Peccolo noted that approval to acquire the properties would be subject to subsequent review and approval by the Executive and Compensation Committee of a detailed plan for use.

President DiPietro added that the buildings are relatively new, and the purchase price is reasonable in comparison to new construction. He explained that some employees are located in various rented properties, and the administration believes the acquisition of these buildings would be more economical.

In response to a question from Trustee Wharton, it was explained that the buildings are located less than three miles from the main campus.

Trustee Hagler asked if the proposal is to investigate or to acquire the properties. President DiPietro responded that the administration is requesting approval to acquire the properties, subject to subsequent approval by the Executive and Compensation Committee of a plan for use. It was agreed that the motion would be revised to reflect the subsequent review and approval by the Executive and Compensation Committee.

Vice Chair Stansberry moved that acquisition of the properties located at 1525 and 1610 University Avenue in Knoxville, Tennessee, be approved at a purchase price equal to or less than the appraised value, provided that this approval is subject to the Executive and Compensation Committee's review and approval of the administration's proposed uses for the properties. Trustee Tanner seconded, and the motion carried.

X. TREASURER'S REPORT ON ENDOWMENT INVESTMENT PERFORMANCE

Rip Mecherle, Executive Director of Investments, presented the Treasurer's Report on Endowment Investment Performance (Exhibit 23). There was nothing negative or out of line to report about the Pool.

A question was asked about total exposure of emerging markets. Mr. Mecherle responded that total exposure across the entire pool is roughly 12%. It is approximately 1/3 of the public equity exposure, which is 10% of the pool.

XI. REPORT ON STUDENT FEE CHANGES

Mr. Peccolo explained that the student fee changes have been incorporated and would be included as part of the budget action item for FY 2014 to be presented to the full Board on June 20, 2013. He then described the following campus-specific student fee changes for FY 2014:

- A. Campus-Specific Fees Requiring Approval by the Board of Trustees: various program fees and fees dedicated for specific purposes, such as facilities, athletics, and libraries (Exhibit 24).
- B. Campus-Specific Fees Approved by the President: various special course fees, lab fees, application fees, and other fees (Exhibit 25).

C. Campus-Specific Fees Approved by the Campus Administration: housing fees, meal plan fees, and certain special fees (Exhibit 26).

Trustee Schledwitz asked about student input on these student fees. Chancellor Rakes replied that most of the UT Martin fees other than the parking fee had been voted on by the students. Chancellor Cheek replied that UT Knoxville students do not vote on these fees but are informed and have given a lot of input. The new student union and bus contract were at the encouragement of the students.

Trustee Blackburn asked if the fees apply to all students or only those that use the services. For example, she continued, are the residence hall fees for only students that live in the halls, and are the course fees for only those that take those specific courses? Mr. Peccolo explained that the course fees approved by the President are for students that take that specific course, and the same is true for the fees the Chancellor's approve. The fees the Board approves typically apply to every student except the graduate fees apply only to graduate students.

Trustee Horne asked the President if he has had a conversation with the Governor about giving the University an additional \$25 million for operational money without having to increase tuition. President DiPietro replied that he had spoken with the Governor about that approach. The problem is the ability to fund the differential. The Complete College Tennessee Act funds are not to produce operational dollars but to push these programs forward to the next level. There is really no other way to do it but to trim budgets by eliminating programs or raise tuition. An increase of approximately 4-6% is required just to balance the salary package that we provide and the increase of operational costs. He remarked that the budget for FY 2013-14 is one of the strongest he has seen in his time in Tennessee. In other states, universities are frozen and are looking at eliminating programs or people. Some have a much greater allocation of state appropriation on a student FTE basis. For example, North Carolina's figure is \$20,000 per FTE and Tennessee's is about \$6,000 per FTE. Trustee Horne suggested that the the University ask the Governor and legislative leaders to target a 3% tuition increase next year. He noted that Missouri's governing board had an arrangement with the Missouri governor for no tuition increases for two years. President DiPietro responded that the State of Missouri could not live up to its obligation because of the constraints of the economy. That is the

worst circumstance because if appropriations fall off the cliff, there is an expectation that the institutions will nevertheless live up to their commitment. Trustee Murphy interjected that the number needed from the State in order not to have a tuition increase would be around \$32 million, according to the President's analysis. The issue becomes what program do you take the money from.

Trustee Jubran asked for clarification of whether the Governor's commitment for the additional \$38 million. Mr. Peccolo replied the request was to raise tuition no more than 6%.

XII. EXTENSION OF UTC REGIONAL TUITION RATE PROGRAM FOR UNDERGRADUATES, FY 2013-14

Dr. Richard Brown, UTC Executive Vice Chancellor, summarized the Regional Tuition Rate Program for Undergraduates, FY 2013-14 (Exhibit 27). The program is based on existing capacity in upper level courses, which means no Tennessean is being denied a seat because of this program. Since inception, the undergraduate program has earned \$1.8 million, and in FY 2012-13 another \$300,000 is predicted. These revenues would never have been recognized if this program had not been implemented.

Vice Chair Stansberry asked the cost to generate the \$1.8 million in revenue. Dr. Brown replied that there is no cost because there were empty seats, and the instructor was already in place.

Vice Chair Stansberry moved that the UTC regional tuition rate program for undergraduate students residing in seven contiguous counties in Georgia and Alabama be extended for FY 2013-14. Trustee Foy seconded, and the motion carried.

XIII. EXTENSION OF UTC REGIONAL TUITION RATE PROGRAM FOR GRADUATE STUDENTS, FY 2013-14

Dr. Richard Brown, UTC Executive Vice Chancellor, reported that although predictions for graduate enrollment were not met, the UTC Regional Tuition Rate Program for Graduate Students is still expected to produce additional revenue of \$400,000 for FY 2012-13.

Trustee Foy moved that the UTC regional tuition rate program for graduate students residing in seven contiguous counties in Georgia and Alabama be extended for FY 2013-2014 (Exhibit 28). Trustee Jubran seconded, and the motion carried.

XIV. REVISION OF UT MARTIN TRAFFIC AND PARKING REGULATIONS

Chancellor Rakes explained to the Committee that the proposed revision of UT Martin traffic and parking regulations involves an increase in the late payment fine from \$15 to \$20, with the goal of encouraging payment of fines within fourteen days.

Vice Chair Stansberry moved that the proposed revisions to the UT Martin Traffic and Parking Regulations be approved (Exhibit 29). The motion was duly seconded and carried.

XV. REPORT OF THE EEF COMMITTEE

Trustee Horne thanked President DiPietro, CFO Peccolo, Chancellors and others for their cooperation and support of the Effectiveness and Efficiency for the Future Committee. He then asked Ron Loewen, System Administration Budget Director, to present the report (Exhibit 30).

XVI. OTHER BUSINESS

There was no other business to come before the Committee.

XVII. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned.

Respectfully Submitted,



Charles M. Peccolo
Treasurer and Chief Financial Officer