

**MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE
THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES
JUNE 23, 2011**

The meeting of the Finance and Administration Committee of the Board of Trustees was held at 10:15 a.m. EDT, Thursday, June 23, 2011 in the Hollingsworth Auditorium on the UT Institute of Agriculture Campus In Knoxville.

- 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.
 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 Mr. Charles Peccolo, Treasurer and Chief Investment Officer/Acting 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
John Foy, Member
Jim Murphy, Vice Chair of the Board
Charles Wharton, Member

Absent

Bill Carroll, Member

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

- III. **Approval of Minutes of Last Meeting** (Exhibit 1)—Consent Item—Chair Talbott called for consideration of the last meeting’s minutes. Trustee Wharton pointed out a correction on Page Eight. The sentence read in the minutes “Trustee Wharton noted that if that is the case we ought to pay everything that is on the table. Trustee Wharton

stated that what he had said was “we ought to consider pre-paying everything that is in the pipeline.” Trustee Wharton moved approval of the minutes of last meeting as amended; seconded by Trustee Anderson and approved unanimously with the amendment made to page 8.

- IV. **Treasurer’s Report on Endowment Investment Performance**—Information Item (Exhibit 2)—Chair Talbott asked Mr. Peccolo to present the Endowment Investment Performance Report. Mr. Peccolo advised the Committee that behind Tab 2 was a quarterly update on investment performance for the University’s Consolidated Investment Pool. The quarter ending March 31, 2011 was solid and the one-year return is just under 13%. Looking forward from March 31st the S & P is down about 2.5% quarter to date. Depending on what happens next week will determine how that quarter ends. If it stays about where it is today it will be another solid year of investment return that should be in the low double digits. There is a little more volatility than we like due to some situations but the Pool has been positioned to take advantage of the market. The only change that has been implemented since the last report to the Board is we took some of the public real estate off the table after a really good run and put in large cap core US equities. The schedule shows the composite breakdown. This format is different than in the past but is now aligned with the Investment Advisory Committee Statement that will be considered in the next agenda item.

Chair asked all to note that the University has a well-diversified portfolio as shown by the categories. There is an ongoing debate in the Investment Advisory Committee on how to be correctly diversified. Trustee Cates leads that debate vigorously and we have to deal with him at every meeting.

- V. **Investment Policies and Procedures**—Consent Item (Exhibit 3 and 4)—Chair Talbott asked Mr. Peccolo to continue. Mr. Peccolo started by saying that the Board of Trustees Bylaws stipulate that the Finance and Administration Committee formulate policies and recommend them to the full Board in matters relating to finance and business which includes the investment program. Policies have been presented in the past but there are some updates and edits that have been added to the latest version. Besides housekeeping edits, title changes, committee composition we also have for the first time included a reference to the Investment Advisory Committee Charter and Operating Policy. These are now attachments to the investment policies. The Committee considered the charter and operating policy at the February meeting and approved and ratified it. The other significant change in the policy that was not there before goes back to the Advancement Committee’s agenda yesterday when that Committee considered the agreement between the University and the University of Tennessee Foundation and the funding for that change as well as the growth and staffing for the development effort. A piece of that funding comes from a 100 basis point assessment on the endowment pool and this policy now

provides for that updated assessment. He then informed the Committee that this agenda item is an action item.

Chair Talbott asked for any questions or comments. There were none so he called for a motion to approve. Trustee Wharton moved approval of the June 2011 University of Tennessee Investment Policies and Procedures; seconded by Trustee Anderson and was unanimously approved.

- VI. **Resolution Authorizing Establishment of Bank and Security Trading Accounts**—Consent Item (Exhibit 5)—Chair Talbott introduced the next item – Resolution Authorizing Establishment of Bank and Security Trading Accounts and asked Mr. Peccolo to present. Mr. Peccolo began by saying that more and more financial institutions are requiring specific resolutions be considered and approved by the governing body (in this case the Board of Trustees) before an account can be opened. We had a fairly generic resolution that was used and accepted for a number of years but are no longer accepting it. We have been working with the General Counsel's office and have crafted a resolution which will give us the authority to open these accounts, complete the documents required and represent to them that the Board has approved the establishment of the account. The action does require the University Treasurer and General Counsel to review and approve. This issue has been somewhat limiting and is an efficiency measure for doing business.

Chair Talbott stated that his business has to do this and has adopted a general resolution. He then asked for comments or questions and there were none. Vice Chair Murphy moved the approval of the Resolution authorizing the University administration to execute documents establishing banking and brokerage accounts; seconded by Trustee Wharton and approved unanimously.

- VII. **FY 2011 Quasi-Endowments**—Consent Item (Exhibit 6)—Chair Talbott asked Mr. Peccolo to begin by giving a definition of quasi-endowments and to proceed with the report. A Board Resolution dated September 22, 1995 authorized the University to go ahead and establish quasi-endowments. These are funds received by the University for which the third party or an external party did not stipulate the funds be invested in perpetuity as an endowment. The term quasi-endowment means that this governing board has made the determination that the funds, upon recommendation of administration from the various campuses, would treat those funds as endowments. Similarly as we consider the next agenda item anytime the University desires to use the Corpus of these funds consistent with the restricted purpose it has to come back to this Board for their approval to take it out of the endowment fund.

There are 15 quasi-endowments that were established in fiscal year 2011 for a little over \$2.6 million. They are identified on the scheduled

attached to the action item, as well as, the program that is going to be supported by the quasi-endowment.

Chair Talbott called for any questions or comments and there were none. Trustee Wharton moved ratification of quasi-endowments established during fiscal year 2011; seconded by Trustee Anderson and was approved unanimously.

- VIII. **Use of Knoxville Campus Quasi-Endowment Fund for Debt Service and Other Operational Costs of Volunteer Hall**—Consent Item (Exhibit 7)—Chair Talbott asked Mr. Peccolo to present the Knoxville Campus quasi-endowment. Mr. Peccolo explained that this is a request from the Knoxville campus to distribute the remaining balance in a quasi-endowment fund that was set up in 2008 for supporting the growth and maintenance of the housing inventory and transition costs associated with Volunteer Hall. The April 30 market value of the quasi-endowment was a little over \$2.0 million. Obviously, with the appropriate Board action we will use the June 30 market value and hopefully it will be more than the April 30 amount. This is a request to un-endow the balance of that account. Vice Chair Murphy asked what the rationale was that we don't need the quasi-endowment any longer. Has it served its purpose? Mr. Peccolo stated that when it was set-up that the earnings would help support the inventory or for the transition costs with Knoxville Place. At this point, they need the Corpus more for the debt service and operating costs than they do the annual earnings going forward. Chair Talbott asked if there is negative cash flow for this property. Vice Chancellor Cimino said that is true. Chair Talbott asked if there were hopes of getting it to at least break even within the next few years. Chancellor Cheek said yes over the next few years. Trustee Wharton asked what next few years mean. Chancellor Cheek said hopefully sooner than later. There are some issues we are tackling but there were some residual issues with the facility when we got it. We are narrowing the gap. Vice Chancellor Cimino said that hopefully the breakeven will be in 2-3 years. Chair Talbott asked if it was fully occupied and the answer was yes. So the issue is that we have too much debt on the property and Vice Chancellor Cimino replied yes. Trustee Horne asked if they had thought about selling it if it was going to continue to lose money. Chancellor Cheek said hopefully we will get it under control in the 2-3 years. Trustee Horne said it is a good lesson to learn with Foundation work not to get into this type of situation when we don't need to. Previous Presidents encouraged UTK to get into this. President DiPietro interjected that the new Foundation we will be dealing with will not have the luxury of working outside of various state and local regulations from the standpoint of how we dealt with the resources that are in the Foundation. We have to comply with all the state policies so we can't get into this type of circumstance with the new Foundation. Chancellor Cheek said the issue is how much we owe. Trustee Cates asked if we are able to write it down incrementally each year to get it back towards realism or are we stuck with the high number. Chair

Talbott said we are stuck with the debt because no one will write the debt off. It is a question for us to get revenues up and get expenses down. It was then asked how many units – how big is the building. The answer was a little over 700 and then the interest rate was questioned. Vice Chancellor Cimino answered that they are staggered out but the range is 4.5-5.0%. Trustee Horne asked if we refinanced could we get a better rate and Vice Chancellor Cimino replied no, not at this point.

Chair Talbott asked if there were any other questions and there were not. Vice Chair Murphy moved that the Knoxville Campus Growth Quasi-Endowment Fund balance totaling \$2,063,011 be transferred to Knoxville Auxiliary for debt service and operating costs related to Volunteer Hall; seconded by Trustee Wharton.

- IX. **FY 2012 Distribution of UC Foundation Funds**—Consent Item (Exhibit 8)—Chair Talbott asked Mr. Peccolo to continue with the Distribution of UC Foundation Funds. Mr. Peccolo mentioned that Vice Chancellor Lyon noted that when he was updating the Advancement and Public Affairs Committee on the University of Chattanooga Foundation's activities that the merger agreement back in 1969 requires our Board to approve the distributions annually from the unrestricted endowment to the University of Tennessee at Chattanooga Campus. The attached schedule shows the distributions and the intended purposes in the amount of \$1,374,307. It is an action item for this Board to approve this distribution.

Chair Talbott asked for any comments or questions and Trustee Wharton commented that we appreciate all that the University of Chattanooga Foundation does for Tennessee. How do they determine allocation of those funds? Do they sit down with the administration of the University of Tennessee at Chattanooga and work it out or do they say here is money and we think this is a good cause. Chancellor Brown said they do sit down with us, especially the Provost and his team, to talk about what our highest strategic priorities are. For example, when you see the three items at the top of the schedule that are non-recurring – those all came out of Provost Oldham's highest priority in strategic projects for the year. We give a great deal on input on how these funds are used. President DiPietro questioned that the majority of them are already designated. Chancellor Brown said yes and most are restricted for professorships and scholarships.

Trustee Foy moved approval of the FY 2012 Distribution of University of Chattanooga Foundation Funds as presented in the meeting materials; seconded by Vice Chair Murphy and approved unanimously.

- X. **FY 2012 President Emeritus Agreements**—Consent Item (Exhibit 9 and 10) —Chair Talbott asked President DiPietro to present the FY 2012 President Emeritus Agreements. He began by saying as you know we have agreements in place with President Emeritus Edward

Boling and President Emeritus Joseph Johnson and the proposed agreements are in the meeting materials. Both annual salaries for Drs. Boling and Johnson remain the same as in past fiscal years and all other terms and conditions are unchanged. Following the proposed agreements are their reports of services for the past fiscal year. These gentlemen are bargains for as hard as they work on behalf of the University. Particularly, Dr. Johnson goes beyond the call of duty and he is in the audience this morning. I don't see Dr. Boling. I ask that you move approval of President Emeritus Agreements with Dr. Edward J. Boling and Dr. Joseph E. Johnson for fiscal year 2011-2012.

Trustee Anderson moved approval of President Emeritus Agreements with Dr. Edward J. Boling and Dr. Joseph E. Johnson for fiscal year 2011-2012; seconded by Vice Chair Murphy and approved unanimously.

Chair Talbott called on Trustee Wharton for his comments. Trustee Wharton stated that Dr. Johnson's work is invaluable to many of us in many different areas. The consequences are that he drives all over the state and the question I ask this Committee is his expense account at the right level considering the cost of gas at this time (\$3.50 or so per gallon). As Dr. DiPietro said earlier, he is a bargain. He steps in at every instance. Dr. DiPietro and Chair Talbott asked Dr. Johnson if he should get more money. President Emeritus Johnson said that he is treated very well by the University. When I am traveling on University business I get reimbursed for mileage. Mr. Chairman I appreciate what Trustee Wharton has said and that I am a bargain but I am totally satisfied. The University treats me very nicely and it is an honor to continue to be involved with Chancellor Cheek, President DiPietro and Chancellor Rakes and many others. It is a lot of fun. Chair Talbott stated that he is a bargain and the University is lucky to have him.

- XI. **Extension of UTC Regional Tuition Rate Program for Undergraduates for 2011-12 Academic Year**—Consent Item—(Exhibit 11)—Chair Talbott asked Chancellor Brown to present the Extension of UTC Regional Tuition Rate Program for Undergraduates. Chancellor Brown told the Chairman that he had carefully followed Chancellor Rake's presentation and the Board's discussion. As Trustee Stansberry said we have a business case to make for the pilot program the Board generously let us begin in Chattanooga in 2007. For those that were not on the Board at that time, this is a program that targeted seven contiguous counties to Hamilton County. It was also targeted at areas at UTC that had excess capacity. We talked about students only that had 60 hours of earned credit or more and met all of our admissions criteria.

On academic success, these students have persisted to graduation and succeeded academically at rates higher than the native population at UTC. We have had a good group of students that have taken advantage of this tuition differential program. The rate that the Board

approved for UTC to use was 75% percent reduction on out-of-state tuition or another way to put it is in-state tuition plus 25%.

We had 50 students from these targeted counties at the time the Board approved the pilot program. In the fall of 2010 we admitted 135 and in the spring 2011 (which is always a bit lower) 130 were enrolled. The way we have pursued the fiscal analysis on this is to see how much additional enrollment beyond the original 50 would it take to recover the tuition revenues that we would have gotten on out-of-state tuition. By our calculations we have now gained in the fall of 2010 \$111,705 in tuition revenues and in the spring of 2011 was \$87,054. A total of the opportunity revenue gained was \$660,493. You can be dining in Georgia without even knowing that you crossed the line. We have a large population in those contiguous counties that work in Chattanooga, pay gasoline and sales taxes in Tennessee. I believe it was Trustee Wharton who said that many of these students do stay after graduation. Typically, the rate is at about 80% of the students that graduate at a campus stay in that regional area. Chair Talbott asked if those were true numbers and Chancellor Brown said I will have to answer you that they are anecdotal but I can get those figures. Chair Talbott asked if we tracked and is there a way to do that. Chancellor Brown said certainly through our Alumni Association we hope that we would be able to find zip codes for those graduates and that is an idea we should follow-up on.

The Board has extended this program a year at a time. We hope that we have been able to satisfy your concerns that no Tennessee residents have been displaced by the institution of this program. We believe that it has economic value to the region we serve and especially to Tennessee. We ask for the Board's permission to continue the undergraduate program for more than a one-year extension but would be happy with a one-year extension.

Chair Talbott asked if there are records on academic success for these folks. Chancellor Brown said yes that information has been tracked. They are performing at a rate higher than students that began as freshman. That is typically true of transfer students because they come in with two years of academic credit behind them. They are performing very well. We are around a 3.0 average for all of these students who came through the North Georgia and Northeast Alabama program. Graduation rates exceed our average graduation rate. Trustee Wharton asked if every Tennessee resident that meets your criteria accepted and Chancellor Brown replied that is correct.

Chair Horne asked Chancellor Brown what the difference in UTC is compared to the information that was given in another Committee regarding UT Martin. Do you think Martin should recruit from North Georgia and Northeast Alabama? Chancellor Brown said that he agrees with the Trustees that said there is an economic argument to be made and there is also a cultural argument to be made. When

Chancellor Rakes reported about a 94.5% in-state enrollment rate and UTC is at a 92% in-state enrollment rate. We have a lot of students that have never met anyone outside their county. I think there is some value to their having some interaction with people from other places. Trustee Horne asked Chancellor Brown what UTC's tuition comparison to competitors in your area. Chancellor Brown said for example, Dalton State in Georgia which is the nearest out-of-state campus to UTC gives full in-state rate to Hamilton County residents. I would agree that we are at a competitive disadvantage with our out-of-state rate to those students. Trustee Horne explained that he wanted UTC's in-state rates compared to your competitor's in-state rates. Chancellor Brown stated that they are competitive at the in-state rate but we are very high at the out-of-state rate with our entire peer set.

Trustee Foy mentioned that without this program it is questionable whether or not Volkswagen would have located in Chattanooga. You could never prove it but the fact is we were able to show the populous who was going to serve that industry. The same thing could apply to other industries that have been brought to our city. If you talk to our local Chamber of Commerce and they will tell you they have 29 major industries that are looking at this tri-city area of Tennessee. Education is an incredible important part of that. Without this program, the question is what would happen to these industries. We are not costing the state of Tennessee any money and residents of Tennessee are not losing any chance to go to the University of Tennessee at Chattanooga. It is a program that I think financially has worked out well. It has created additional demand for industries to locate to our area. It has been an exceptionally good program and I think the numbers prove it has been.

Trustee Driver asked if the market could bear and the model that you have could continue the successful trend if you moved the differential tuition up by 1.4% or 1.5% of in-state tuition. The Martin discussion talked about 1.4% of in-state. It may be a greater challenge to attract people to the Martin campus in some respects. Why aren't we sitting at 1.4% or 1.5% in Chattanooga? You would still fill out those seats whether it is 30 or 35 or do you think you would gut your program by moving in that direction. Chancellor Brown replied I honestly don't know how elastic it is for the students in that area for that kind of raise. We have succeeded so well at this level that we think we would prefer staying at 1.25% but will of course follow the Board's guidance. If the Board would like us to standardize with the Martin rate we will certainly calculate that.

Trustee Wharton interjected that it seems to him that UTC's competition is local and local is not the Martin area. If we price ourselves differently from our local competition we put ourselves at a disadvantage. This plan seems to be working well and we are making money on it. As the saying goes, "If it ain't broke don't fix it."

Vice Chair Murphy said for those of you that have been on the Board for a while know that I was a very skeptical Board member when this proposal was brought forward. I remain skeptical and Chancellor Brown knows that. I am also skeptical of the Martin proposal that being said I have been convinced in the past to approve the Chattanooga proposal. I do think that it needs to be kept at a year, particularly with the Martin proposal coming forward. It makes sense to look at those side by side and address some of these issues. I think Trustee Wharton makes a good point. A great deal of this is about market and one of the things that Chancellor Rakes has done is looked really hard at his market. One of the things that Chattanooga needs to do and present at the next meeting is to give the Board the same kind of information so that we can see if there is a way to make the situations more uniform, if that is desirable. I am comfortable at this point that Chattanooga has been doing what we asked them to do when we first started this program such as not excluding any Tennessee residents. It appears we are getting good students that are helping in the objective of meeting the Complete College Tennessee Act objectives. From that standpoint it does make sense to continue to do but I would support a year because it makes sense that the Board start looking at the proposals together and have discipline and look at the same kind of factors. It addresses the concerns that Trustee Stansberry raised in the other meeting. This issue may go away if in-state tuition and out-of-state tuition become the same. Hopefully, that won't be any time soon.

Chair Talbott informed President DiPietro that this topic needs to go on the Workshop agenda. I would like for staff to give the Board their thoughts at the workshop. We have gone about this on an ad-hoc basis but need to have a strategy since the issue is coming up at Martin also.

Trustee Driver said that he would be interested in knowing what the market profile is and if there is some room there and not get out of kilter with the market. Chancellor Brown informed the Committee that UT Chattanooga would have that information ready for the Workshop.

Trustee Horne commented that Trustee Foy's comments were excellent about economic development. We have heard this from everyone in the country and West Tennessee sure needs jobs. We lost the Goodyear plant with a loss of 1,800 jobs. If Martin could encourage students from three or four states like Missouri, Kentucky and Illinois it might produce jobs there. Please include this factor in the analysis. President DiPietro added that at the Workshop we will focus for a couple of hours on this entire issue of tuition and fees with a longer-term plan. We will definitely roll up our sleeves and take a look at not only these regional arrangements but also collectively about tuition and fees structure over a period of time. Trustee Horne interjected again to consider the economic development and Chair Talbott asked that plenty of market data be included as well.

Trustee Wharton moved approval to extend for the 2011-12 academic year the UT Chattanooga regional tuition rate program for undergraduate students residing in seven contiguous counties in Georgia and Alabama; seconded by Trustee Foy and was approved unanimously.

- XII. **Extension of UTC Regional Tuition Rate Program for Graduate Students for 2011-2012 Academic Year**—Consent Item (Exhibit 12)—Chancellor Brown then gave a brief update on the graduate tuition rate program that was approved in October 2009. This program is newer and quite different as we have learned in this past year trying to market this kind of differential tuition to graduate students. Remember that most of the graduate students that come to the University of Tennessee Chattanooga are part-time graduate students. They come for professional programs particularly in nursing and education. They are full-time professionals in those fields. I say that as a preface to show you that we did in fact use the same base rate of 1.25% factor on the in-state tuition rate. We used a base enrollment comparison figure of 22.8 students from the contiguous counties. We did raise that in the fall of 2010 to 40 graduate students. From the materials you see that we have accumulated a small deficit. We are only five students away from the breakeven point in the graduate tuition differential program. In working with our Provost, the Admissions Director we are fine tuning the way we publicize the information to attract these professionals. It is truer at the graduate levels that those people who come to Chattanooga to earn a Master's degree in nursing, education and business are more likely to stay in the Chattanooga area and add to the economic viability. Even though we show a small deficit in the first year of operation of this program – I ask the Board to consider a one-year extension to give us the opportunity to show that this program can make economic sense. In the first year the undergraduate program was approved we had almost the same scenario. In the second year, the publicity around the program brought it to the full level of recapturing our investment.

Chair Talbott asked for the definition of breakeven. Chancellor Brown replied that 22.8 graduate students came from those contiguous counties. The breakeven to UTC is how many students you have to add to that to gain enough tuition differential to offset what was lost from the 22.8 average enrollment at the full out-of-state rate.

Vice Chair Murphy commented that Chancellor Brown is correct when we looked at the other program in the first year it had the same issue. As I recall, last year when the program was brought before the Board you said it was late in the game as far as recruitment. Chancellor Brown did predict last year that the Board might see that there would be a ramp-up period to be able to generate more revenue than before. This is part of the same discussion that was discussed earlier. We need to look at all of these tuition issues at the Workshop.

Vice Chair Murphy moved approval to extend for 2011-12 the UT Chattanooga regional tuition rate program for graduate students residing in seven contiguous countries in Georgia and Alabama; seconded by Trustee Foy and approved unanimously.

- XIII. **UT-Erlanger Faculty Practice Plan**—Action Item (Exhibit 13)—Chair Talbott called on Chancellor Steve Schwab to present the UT-Erlanger Faculty Practice Plan. Chancellor Schwab began by saying the College of Medicine conducts its faculty practice through a group with 501(c) 3 not-for-profit corporations. Over the last four years these corporations have aggressively grown in conjunction with our core teaching hospital partners. We have reported on these practices to this Committee, Audit Committee, the Board of Trustees and the Health Affairs Advisory Committee. These practices now generate well in excess of \$200 million per annum for the College of Medicine. These practice corporations are governed and chaired by the Executive Dean of the College of Medicine or by his campus designated Dean. We have pursued a strategy of alignment with our core teaching hospitals. Our first joint venture hospital practice, UT-Le Bonheur Pediatric Specialists was approved by this Board last year and is growing and prospering. It has allowed the hospital to receive, for the first time, national rankings in pediatric cardiovascular, pediatric neuroscience and pediatric orthopedics. We are enthusiastic about this strategy.

Today, we bring before the Committee for approval our second hospital joint venture practice plan. This practice plan being the UT-Erlanger Faculty Practice Plan based on our Chattanooga Health Science Center Campus and is a joint venture with the Erlanger Hospital Corporation. I am truly grateful to Dr. Ken Brown, Executive Vice Chancellor for the key role he played in these negotiations over the last year and a half and as the Chattanooga Trustees know it has had its ups and downs – thank you. I am equally pleased to tell you that the new Executive Dean of the College of Medicine is a veteran not only in Science but also in practice plans. We successfully recruited Dr. David Stern while he was the Dean of the University of Cincinnati. We introduced him to the Trustees last night and he is here to tell you about our proposal and seek your approval for the UT-Erlanger joint venture Faculty Practice Plan. He then asked Dean Stern to present.

Dean Stern thanked Dr. Schwab and stated his delight in being able to present to the Committee. The word in medicine is alignment and that alignment has to do with informed patients interacting with physicians, primary care physicians interacting with specialists, and with all physicians interacting with healthcare providers in the forms of hospitals in particular. These practice plans are an effort to bring together the physician component with the hospitals. Why do we want to do that and what is there to gain? What we want to gain by putting

this together is alignment. What this alignment would achieve is to control the strategic direction in which we are going and the quality of care particularly to assess outcomes. At the same time, financial performance and efficiencies in operations are goals. In the end, we are looking for operational efficiencies and practice at the highest quality in which the physicians and the hospital administration are working together and closely.

He then went over some of the mechanics. The UEMG – UT-Erlanger Medical Group, Inc. is an affiliate with the Erlanger Health System because that is how the salaries are paid to the employees of Erlanger whether they are UT employees. The Erlanger System assumes full risk for this venture and not the University of Tennessee. This is different than the UT-Le Bonheur initiative in that sense. An important consideration is as one achieves efficiencies or increases in market share through this alignment as the profit or contribution margin increases there is an incentive that is shared with the physicians' group and that financial incentive is reinvested in the practice. Again, it would enhance quality and enhance patient safety and other parts of our mission (research and education in addition to clinical care). UEMG will be designated as a faculty practice plan for the College of Medicine in Chattanooga. I specifically went there with Dr. Brown several times and we discussed it with each of the participating departments and virtually reached out to every faculty member there. We feel there is enthusiasm at this level for the venture.

All the physician members of the group will hold faculty appointments in the College of Medicine. The initial departments involved are listed in the meeting materials. He pointed out that pediatrics is exceedingly important at Erlanger. It is the only children's hospital in the region. It is the only area of children's subspecialty physicians. It is a wonderful opportunity for us and the Erlanger Health System to accomplish something important in child health in that part of the state. We are working closely to integrate that and what is happening in Memphis along the lines of a statewide College of Medicine Campus serving the citizens of the state. Family and internal medicines and obstetrics are particularly primary care physicians and will be a part of the hospital's primary care strategy.

Dr. Stern admitted that he had noticed in all the discussions that the Committee is astutely focused on outcomes. Is what we are doing good, bad or are we not making a difference? What we are interested in is very specific things. What about the outcomes? We are past the stage where we can say Chancellor Schwab is a better physician than me or not. We want to understand what the outcomes are for the patients. What happens to the patients that are admitted to the Erlanger hospital? How many are readmitted within 30 days of discharge? Are we really doing good and in a quality way? These are the types of outcomes that we are looking for from this practice plan in particular. In addition, we are looking for a change in market share

and fiscal performance and you might ask why. It is because we are trying to have Centers of Excellence as we draw up a group of clinicians and educators in a particular area with a niche in cardiovascular disease, neuroscience and perhaps in metabolic disorders. We are trying to achieve something that is not done in the region and prevents patients from having to go elsewhere. For example, a patient with cancer not going to MD Anderson or Sloan-Kettering but having special clinical trials in our area that allows them to stay there. That is the types of Centers of Excellence I am interested in seeing built in Chattanooga with this Practice Plan but also in Memphis and Knoxville where we have our footprint.

He closed by saying this is the summary and would entertain questions. Chair Talbott asked what the reward was financially for the University as far as a result of the Practice Plan. Dr. Stern went on to say that the specific reward if the contribution margin of the hospital increases will be shared with the Practice Plan by a formula that has not yet been determined. That is standard in Practice Plans in general and something that Dr. Brown and myself have discussed with the Erlanger administration in particular Jim Brexler. It is a contribution margin sharing. Chair Talbott replied for the Practice Plan but how does the Practice Plan remit funds to the University. Dr. Stern explained that those funds would be expended within the Chattanooga pod and they would be reinvested in the College of Medicine there. The funds would be particularly invested in the research and educational missions. Chair Talbott asked from a financial standpoint, Erlanger is not indemnifying the University against any loss. Dr. Stern stated that the University has no liability.

Trustee Wharton asked with respect for calculating in the future what the University might expect and that he recalled reading that Erlanger has incurred some fairly significant fines. Will any of those previous liabilities affect the potential income that the University receives? Dr. Stern went on to say that all of the liabilities that Erlanger has will definitely affect what the bottom line will be. On one hand, we do not share in those liabilities at all. On the other hand, enhancing outcomes and developing Centers of Excellence to the extent that we can enhance fiscal performance is essential. We will share in the upside potential.

Chancellor Schwab expanded on Trustee Wharton's question. What you are asking about is the corporate compliance agreement that Erlanger currently operates under with the Federal Government. If you look at the details of that government compliance agreement – a faculty practice plan integrated with Erlanger would have prevented those violations. When you have a joint integrated practice plan then the issue of self-inurement isn't raised. It is good for everyone and gets the University and the University physicians marching together with Erlanger in a joint venture. One of the many purposes of this joint

venture is to prevent things that led to the unfortunate corporate compliance agreement.

Trustee Cates asked if it was safe to say prior to this practice plan a practice plan didn't exist and it was fractionated and had no tangible benefit to the University. It is my understanding that what this does through this proposal is consolidates and begins to conglomerate the service delivery. For the first time, it gives the University opportunity for an income stream as it develops. Dr. Stern confirmed Trustee Cates' comments. What happens in a case like Erlanger is they have purchased multiple physician groups, individual practices including our faculty and put them under the Erlanger umbrella. It is not organized just as you said Trustee Cates. It is not coordinated as an economical model of care and it is not working to the advantage of the hospital and certainly is not working to the advantage of the school in terms of investment into the research and educational missions. Yes, this is to invent something where there was nothing. As Chancellor Schwab said, I believe this to be of great value to the health system and should be of similar value to the University.

President DiPietro added that it also allows UT Health Science Center's brand in Chattanooga and with the UT association. The patients that are treated at Erlanger will realize the quality of medicine and care that is provided with physicians that are part of our faculty. I applaud UTHSC for putting together the practice plan with Erlanger. The key is that there is real value in the University of Tennessee association for a hospital like Erlanger because of the quality of care that comes out of the academic UT Health Science Center. Dr. Stern thanked the President and stated that Drs. Schwab and Brown have informed him that there is a direct flight from Memphis to Chattanooga and they expect him to be on it regularly. We do believe it should be a statewide Campus in the College of Medicine and we now have a Pulmonary Fellowship in Pediatrics that extends from one campus to the other. It works with multiple joint programs with the idea that the brand of innovation and advantage clinical effort that we have from the medical campus should extend through the state.

Chair Talbott went off point and asked Chancellor Schwab if we had to share some kind of loss potentially with Le Bonheur. Are there any offsetting revenues so we don't have any loss to worry about? Dr. Schwab clarified the issues that went with the approval of the UT Le Bonheur practice. When we created the UT-Le Bonheur joint venture practice plan we actually moved the vast majority of physicians from one practice group into another. The University received a \$5 million per year payment from Le Bonheur. However; as a result of that we were responsible for half of the loss or gains of that children's practice group. We limited our liabilities to \$5 million per year so literally we could not lose beyond the \$5 million we were given every year. It was certainly our expectation not to lose anywhere near \$10 million which is what we would have to do to breakeven. Dr. Stern and Mari Armour,

the CEO from that practice plan have managed it very well and we expect a substantial margin from that practice. Dr. Stern added we are worried about that every day and moment and as long as you are in medicine there are risks and are paying attention to that. Chair Talbott continued by applauding Chancellor Schwab for taking the lead and making it happen. It is great for the University but because the numbers are so large, I wanted to be sure that we have had adequate counsel to view the documents and make sure our liabilities are what we thought they would be. Chancellor Schwab assured the Chair and the Committee that Vice Chancellor Brown won't let Dr. Stern or he move without an appropriate legal opinion and that General Counsel Mizell's staff has been heavily involved in reviewing every step of the way.

Trustee Foy moved that UT-Erlanger Medical Group, Inc., which Erlanger Health System will create as its wholly-owned affiliate, be designated as the faculty practice plan for the UTHSC Campus in Chattanooga; and the administration be authorized to execute a Revised and Restated Master Affiliation Agreement with Erlanger Health System and an affiliation agreement with UT-Erlanger Medical Group, Inc., after review and approval by the University's Chief Financial Officer and the University's General Counsel and after all required or appropriate state government reviews and approvals; seconded by Trustee Wharton and approved unanimously.

- XIV. **FY 2012 Operating/Capital Plans for University Owned or Leased Residences for Senior Administrators**—Consent Item (Exhibit 14 and 15)—Chair Talbott then asked Mr. Peccolo to present the next item. Mr. Peccolo advised the Committee that University Policy, FI 630, Housing for Senior-Level Administrators, requires approval of the Board of Trustees before any renovation, major maintenance, or grounds project begins for University-owned or leased housing and before any furnishings or fixtures are purchased for public areas. The University has two properties; the Chattanooga Chancellor's residence and the President's house in Knoxville. The budgets that are submitted with this agenda item show Chattanooga's annual operating budget for that residence is \$92,278. It is \$900 more than it was last year solely due to increased utility costs. The Knoxville President's home is budgeted for \$25,000 and has been that way for the last several years. We did have to include \$40,000 for storm damage where trees fell on parts of the house (fencing and roofing). We anticipate repairing the damages and would be proceeds from the insurance policies that would be the revenue to fund the repairs. Trustee Wharton noted that he went by the President's residence last weekend and the yard is getting shabby. If we are serious about trying to sell it, which I am not, the yard does not help. Trustee Horne suggested that the house be rented since the market is so weak and let the tenant maintain it. Just a thought for the staff. I am not suggesting that something be done at this meeting but why let it

deteriorate. Chair Talbott said what he has heard from realtors is that when you have it rented – it is very hard to sell it.

Chair Talbott called for any questions or comments and there were none. Trustee Foy moved approval of the operating and capital plans for senior administrator residences as presented in the meeting materials; seconded by Trustee Anderson and approved unanimously.

- XV. **Real Property Transactions**—Consent Item (Exhibit 16-20)—Chair Talbott asked Mr. Peccolo to continue. Mr. Peccolo began by saying there were five items for consideration.
- A. Phillip Fulmer Way Right of Way Closure – UT Knoxville – They are using this for future development. One of the major projects the Campus has going forward is the redesign, reconfiguration as well as the construction of the University Center which would be adjacent to that. This is the first step in allowing that to happen. Trustee Wharton with respect to this and the next proposed closing the question in my mind is are we tearing down the existing parking structure with the renovation of the Student Center. I understand from the maps that you can't get to it any longer. Mr. Peccolo replied yes, that is one of the first phases and will be addressed in another agenda item regarding the UTK Master Plan. Trustee Stansberry asked if 15th Street would be permanently closed. Mr. Peccolo said no it would just be a right of way. It is the University taking possession of the road from the City and it will actually be widened (four or five lanes) on Phillip Fulmer. They will also widen Peyton Manning Pass. Trustee Wharton confirmed that the road is not being closed but the right of way is being acquired. Chair Talbott added that the University has the obligation to repair and maintain the road. Mr. Peccolo said that is correct. Trustee Wharton moved approval of the right-of-way closure of Phillip Fulmer Way on the campus of UT Knoxville; seconded by Trustee Anderson and approved unanimously.
- B. Peyton Manning Pass Right of Way Closure – UT Knoxville – Mr. Peccolo began by saying it is similar to Phillip Fulmer. Again, this is adjacent to the large parking lot where the parking structure will go. It will be widened and is the same action as the previous item. Trustee Wharton moved approval of the right-of-way closure of Peyton Manning Pass on the campus of UT Knoxville; seconded by Trustee Anderson and approved unanimously.
- C. Sutherland Avenue Parcel Acquisition from City – UT Knoxville – Mr. Peccolo informed the Committee that the third and fourth item have to do with Sutherland Avenue. It is being developed into student recreation fields and there is a small piece of property on the back side that we are working with the City on to acquire by gift at or appraised the market value. It helps us further develop the recreation fields. Trustee Anderson moved approval of the

proposed acquisition of 0.65+/- acres on Sutherland Avenue in Knox County; seconded by Trustee Foy and approved unanimously.

- D. Sutherland Avenue Parcel Acquisition from City – UT Knoxville – Mr. Peccolo noted that the information for this item is the same as above. Trustee Anderson moved approval of the proposed acquisition of 1.35 +/- acres on Sutherland Avenue in Knox County; seconded by Trustee Foy and approved unanimously.
- E. Gibson County Milan 4-H Property Disposition – UT Institute of Agriculture – Mr. Peccolo explained that the Board approved disposition back in 2009. There have been efforts to sell it and had two public auctions. The first high bid proposal was for \$310,000 but it was contingent upon the release of an existing federal deed restriction. We were not able to accomplish that. There was another public auction and the high bid was \$296,000. The property has been appraised for \$383,000. We are requesting authorization to dispose of this property at the high bid. This is procedural and requires State Building Commission and Sub-Committee approval. Robbi Stivers, Director of Real Estate Management presented that to them yesterday. They have approved it pending the Board's approval to sell it at that price. Trustee Wharton asked what the cost was to carry it. Chief Business Officer, Tim Fawver said the costs are basic such as utilities, lawn care, etc. The buildings are steadily going down so the sooner the better for disposal. The appraisal was done in September 2009. Trustee Anderson moved approval of the disposal of the Milan 4-H Center in Gibson County for the sum of \$296,000, subject to all required state government approvals; seconded by Trustee Foy and approved unanimously.

XVI. **Annual Report of Sale of Gift Property**—Consent Item (Exhibit 21)—Chair Talbott asked Mr. Peccolo to continue. Mr. Peccolo informed the Committee that the report includes two pieces of gift property that the University has sold. This is the annual report. The University sells property at or above the appraised values and it is an action item. Chair Talbott called for any comments or questions about the report and there was none. Vice Chair Murphy moved approval of the 2010-11 Annual Report of Sale of Gift Property; seconded by Trustee Wharton and approved unanimously.

XVII. **Long Range Master Plan for UT Knoxville**—Action Item (Exhibit 22)—Chair Talbott commented that it looked like there would be enough time to devote to this agenda item as he hoped and asked Mr. Peccolo to handle the introduction. Mr. Peccolo began by saying the Knoxville Campus has been working on their Long Range Master Plan for some time. They have engaged Bullock Smith and Partners. The UT Committee Co-Chairs are Chris Cimino and Bill Dunn. They are here today. Mr. Peccolo then introduced Curtis Catron from the Bullock

Smith and Partners firm to go through the UTK Long Range Master Plan.

Mr. Catron thanked the Committee for the opportunity to present the Master Plan. It was a year-long process that began right after the Tennessee Higher Education Commission (THEC) standards were set. He then condensed the entire process down about 15 minutes if possible and only hit the high points.

One of the main design requirements was that the University decided to hold the undergraduate level as a flat number overall. Student enrollment within the different schools and colleges will fluctuate but as a campus little growth in undergraduates was projected. In space planning we need to know how to plan for the future buildings to accommodate these changes. The governing principles included the new goal of becoming a Top 25 University. This is significant because it changes the priorities on the Capital Outlay List. It brings lab buildings up higher in priority to meet that goal.

The other significant goal he pointed out was that the University is still striving to be a more pedestrian friendly Campus by moving vehicular traffic back to the perimeter and putting pedestrians to the Center. As part of that goal – there is also to be a displacement of on-site parking facilities to the perimeter using as many parking garages as economically feasible.

We went through a somewhat public process to be sure that the University staff and faculty were informed of what was going on. We also had several committees that assisted us in going through this process to provide us with information. He then oriented the Committee on the site. He pointed out Cumberland Avenue, Andy Holt Boulevard and surrounding Volunteer. The new THEC standards revealed something quite interesting. By their standards, and us calculating them into a gross square foot building size so we would know what size footprint to put on the Master Plan. We found an instructional space deficit, based on today's enrollment of almost 600,000 gross square feet (GSF) of building space. Another deficit of about 300,000 GSF was found for research lab space. This is fairly significant and shows the University's ability to use its space very efficiently.

The proposed long-term Master Plan addresses many of the elements that were listed in our goals. First of all, there is an increased amount of green space especially in the core around Andy Holt and East Volunteer Boulevards. In the concentric circles are a 5 and 7 1/2 minute walk time for the pedestrians. We use that to calculate the pathways in doing the greenway space. The traffic circulation that comes in across the Agriculture Campus uses Volunteer Boulevard and we are going to push it southward creating an outer loop road to free this space for more pedestrians. There are new key parking

structures around the Campus. There is one on the Agriculture Campus behind the Bioengineering Building; there is an additional one as well as an expansion of an existing one on West Volunteer. There is an expansion of the Lake Avenue Garage and a new garage proposed for Lot 9 next to the stadium.

A part of our requirement in growing the Campus is if we are going to create green space we have to densify the building areas so we identified those zones within the Master Plan. We then identified near-term projects for which the Campus has programmatic needs. We focused on the lot on the planning of that and the mid-term portion of it which continues the programmatic needs. Then the long-term gives us the long-term strategy growth of the Campus.

On the long-term plan we have the Cumberland Avenue, University Center and Baker Center projects. One of the first is the Strong Hall Project which is a new class lab building converted from a residential hall. Moving eastward from Cumberland across from Ayres Hall on the hill there will be a new class lab building adjacent to Jessie Harris Building. The building connected to the Jessie Harris Building could be built something like that new building. It is a 200,000 gross square footage (GSF) building. These two buildings are key in the beginning for the University's Top 25 goal.

Cumberland is left on this plan and is focusing on the development of this whole area. East Volunteer Boulevard closed in the long-term and not in the near-term. In the near-term we are looking at the new University Center project and a 1,200 car garage to support it and faculty and staff. Also in the plan is a raised pedestrian crossover beginning back at Volunteer Boulevard past the Haslam Building and then increased green and public space. Views that one would see from the Library on the right and towards the Tower is the closure in the long-term again of East Volunteer Boulevard. He then showed Peyton Manning Pass where it curves now towards Volunteer Boulevard. By closing the northern two lanes to reduce traffic (because we want to push traffic to the south) we straighten that out and create more pedestrian areas.

The new Great Mall is the result in the beginning of Dr. Joe Johnson allowing us to close a piece of Andy Holt Boulevard next to the Library. We extend it all the way down to the residential area. He then showed the aerial view of how it has been extended even further to get vehicular traffic out of the center of the Campus.

On the Agriculture Campus, there are several proposed improvements including an addition to Morgan Hall to extend its outreach to the State of Tennessee agricultural programs. Also, additional class lab space on that end of the Campus at Joe Johnson Drive. A view of what could happen if there was an addition to the existing building which is to

remain would be an addition of some architectural relevance that could relate to the new Bioengineering Building.

Mr. Catron explained to the Committee that it was a very quick overall of the Master Plan. We have it in phases and the near-term projects, in orange, identify the projects that have been approved for design or construction already. The red projects are additional projects yet to be presented. He then asked for questions.

Trustee Stansberry asked if a calculation had been made regarding extreme classroom locations for how long it is going to take to walk from one to the other and what is the standard. Mr. Catron said yes in the plan that showed the concentric rings there could be up to 15 minutes going from the far end of the Hill which would be the new Min Kao Building to the west end beyond the academic area. Trustee Stansberry noted that in the past there was only ten minutes to get from one place to the other. Mr. Catron said that is the extreme but most of it falls within the ten minute realm. It was then shared that there is 15 minutes to get to classes. Vice Chancellor Cimino explained that the other component to that is the transit system. For those areas where we are concerned about students getting to class on time we would provide the necessary transit systems to move them around Campus. Mr. Catron showed the Committee within the ring where the academic area is and explained that it was a ten minute walk. There would be an additional 2 ½ minute walk to get beyond the Hill. It is within a ten minute walk for the vast majority.

Trustee Wharton stated that he had no recollection of this Board ever having a conversation about our strategy being one of limiting undergraduate growth. That seems to me to be a Board issue and if that is the premise of this Master Plan – I am concerned. That seems to me to be a very broad policy issue that is worthy at least of Workshop discussion. I have never met an architect that liked renovation – they always like new. He then posed the question to Mr. Peccolo and Vice Chancellor Cimino have we satisfied ourselves that none of these buildings can be renovated and made useful like the University Center. By comparison, it is one of the University's newer buildings. Why are we tearing it down – is it inadequate. I think that the topic of limiting undergraduate growth requires more discussion. I am troubled by it. Chancellor Cheek stated that UTK has stabilized undergraduate admissions to 4,200 over the last two years and that is about where we are going to stay. We may go up a couple of hundred but efficiency is very important. That is why we have to move students through the undergraduate program at a more rapid pace. Chancellor Cheek said that he could show data later that UTK can do it then we can't increase undergraduate enrollment as far as new freshman in. We have to increase our efficiencies and graduate students in the four-year period of time instead of a six-year period of time. As Mr. Catron has indicated, we do not have the classrooms. We are almost 800,000 square feet less than what the THEC standards are. We are bumping

up against classroom capacity but will look at that when we get the efficiency for the undergraduate program better. The 4,200-4,300 numbers are about where we are going to be for admissions until we get the efficiency where it should be.

We did have architects look at the questions as to whether or not we should renovate or rebuild. Clearly, the answer in this case is to rebuild. There is an entire host of reasons and we could spend a great deal of time explaining how we got to this decision. That was certainly a decision that was made with input on the Master Plan that Vice Chancellor Cimino has had throughout the city. We relooked at what we thought about the Clarence Brown Theatre, Melrose and the expansion past our zone. We have spent some time talking about those issues.

Chair Talbott asked Vice Chancellor Cimino if he could back-up and address the amount of input that has gone into this Plan. I know you have been before a number of groups. I think it would be helpful for all here to understand that. Vice Chancellor Cimino explained that for the last 1 ½ years we have been meeting with a Committee consisting of faculty, staff and students. There was a lot of input throughout the Committee process and sub-committees. As far as the public input, we have made presentations to the Council of Deans, Department Heads, Faculty, Staff, Fort Sanders' representation, Knoxville Heritage and the Community at Large. We have spoken to nearly 600 people through the process as well as feedback we received from the Web site. We incorporated those comments and suggestions into the final proposed Plan. Chair Talbott asked him to also address Trustee Wharton's second question regarding existing structures. Vice Chancellor Cimino commented that as Chancellor Cheek mentioned we look at that with every single project. We obviously have a budget and we have to pay attention to the costs. We also look at the program and what our needs are for each individual facility whether it is; classroom, graduate student or research spaces. We look at each individual building based on the programmatic needs as well as the budget. We do look at whether a building can be preserved either in whole or in part with respect to renovations. In some cases it is just not cost effective so the decision has to be made to raise the facility and build new.

Trustee Wharton then commented that he wanted to go back to the first part. Have we looked at data about what the needs of the State of Tennessee are going to be with the respect of the number of students the University needs to take in 20 years down the road? Is there a correlation there that says limited growth into will increase throughput is o.k.? Chancellor Cheek addressed Trustee Wharton and stated that the issue is UTK cannot afford to take more students in with the tuition base that we have. Our state support since 2009 has gone down over \$60 million. We can't grow our Campus student wise unless we receive additional resources from somewhere. Tuition is one, but you

cannot grow enrollment in tuition alone. The state resources are necessary unless we increase tuition substantially. The balance that we are trying to do is to serve the students that we have extremely well, provide them a world class education and not compromise on that. As a matter of fact, enhance the educational experience our students are getting here. Provost Martin talked about some of those things like international experiences and experiential learning. We can't do it in an environment where we continuously lose money. This year, we lost 2.4% of our state resources in this year's budget in the amount of \$3.8 million. We must have the state support as well as tuition support if we are going to grow enrollment.

Trustee Wharton then asked if the Master Plan allow us to expand in the future and if circumstances change will we be equipped to deal with the changes. Chancellor Cheek replied absolutely. We review the Master Plan on a five-year basis. To date we have enough spaces identified in this Master Plan to substantially increase the academic building space. The challenge is how we pay for it. President DiPietro added that the amount of dollars that UTK receives in state appropriations per FTE is \$6,835. If you grow enrollment and don't see additional state appropriations we drive that parameter lower. We are already underfunded in comparison to peers in the Top 25 from the standpoint of state appropriations. It gets back to Trustee Horne's and Vice Chair Murphy's comments. We have a situation where we don't have adequate state appropriations for any of the campuses relative to many of their peers, particularly Knoxville with the Top 25 initiative being mandated by the Complete College Act. If we were to drive another 2-3,000 students into a seat we will drive that parameter even further away from the Top 25 and make that goal even harder to achieve. For several years now, we have had enrollment here in Knoxville in that range that it is currently now from the standpoint of undergraduate students. I don't remember if we ever spoke of this issue at a Board meeting but somewhere along the line it has been that way for some time. At the Workshop, we will talk about tuition and fees and we can include this too from the standpoint of the longer range goals for undergraduate enrollment for the campuses within the system.

Vice Chair Murphy had a question regarding the underlying basis for the calculation of the THEC formula. This may be an answer that Dr. Rich Rhoda, Executive Director of THEC may have to answer. In looking at how much classroom space you need obviously is square foot per student. The other factor is how long you use your buildings during the day. The more classes you have in a building – the more capacity you have. In looking at that, do we have an understanding of what the durational period was? Vice Chancellor Cimino stated that it gets into classroom management and is an efficiency use that the Provost, Admissions and Class Room Scheduling offices looked at a much broader level, in terms of overall building utilization especially during the summer when there is additional capacity. That is

something that we have taken into account and are looking at. Trustee Boulet said we have seen it at the staff level and there has been incredible forethought. This Campus utilizes facilities very well and is very much a part of the administrators' thinking.

Chair Talbott asked if there were plans to try and incorporate the sorority houses and Cherokee Farm more into the Campus. Vice Chancellor Cimino said no, Cherokee Farm is not incorporated in this Master Plan because it has its own Master Plan that this Board has approved. Sorority Village is a part of this Master Plan and that construction is now underway. It is an ongoing project. Chair Talbott questioned that when you say it is part of the Plan is there some way to connect it because it is somewhat of an island. Vice Chancellor Cimino explained that it is part of the Plan regarding transportation services to and from the Campus.

Dr. Cheek then asked the Chair if he could address Vice Chair Murphy's question. About a year and a half ago we looked at the complete classroom schedule so the Provost and her staff have restructured how we teach and when we have classes. If you walk across the Campus in fall and spring late on Friday afternoon there are a lot of students walking around. In the past, we did not have that so we have to utilize it. Summer School is very important to us. What we have to do is graduate more students in a timelier manner so that we can produce more graduates using the resource base that we have. Graduation and retention rate is so important to us and we will share more of that with you later.

Chair Talbott asked for additional questions or comments and there were none. Trustee Anderson moved the motion to approve the Long Range Master Plan for the University of Tennessee, Knoxville as presenting in the meeting materials; seconded by Vice Chair Murphy as was approved unanimously.

- XVIII. **Report of Fee Changes**—Information Item (Exhibit 23)—Chair Talbott asked Mr. Peccolo to present the Report of Fee Changes. Mr. Peccolo began by informing the Committee it was an information item. The schedules reflect all of the fee changes that are outside the tuition consideration. There are three different reports. One is the report of fee changes that the Board of Trustees approves and will be an action item at the full Board meeting when the budget and tuition and fee increase is considered. Secondly, there is a report of special course fees delegated to the President for approval and finally there are fees that are assigned to the campuses and institutes for approval. There are eight fees that the Board will consider in the full Board meeting. Additionally, there are 27 different fee changes that are increases or new fees that the President has approved and nine from the campuses. Chair Talbott asked for any comments or questions and there were none.

- XIX. Review of UT Foundation Operating Budget for FY 2012—**Information Item (Exhibit 24)—Chair Talbott asked Mr. Peccolo to continue. Mr. Peccolo began by saying the UT Foundation Operating Budget for FY 2012 was presented to the Advancement and Public Affairs Committee with the new agreement between the University and the UT Foundation. It requires a disclosure of the annual budget. The first is the proposed budget for FY 2012 which is an addendum to the operating agreement that the Advancement and Public Affairs Committee considered and approved on June 22, 2011. This is an information item for the Finance and Administration Committee.

Chair Talbott called for any questions or comments and there was none.

- XX. Review of UT Research Foundation Operating Budget for FY 2012—**Information Item (Exhibit 25)—Mr. Peccolo began by saying that this was an information item for the Finance and Administration Committee. The Research, Outreach, and Economic Development Committee was given a detailed presentation of the proposed budget for FY 2012. There are two main components of the budget. The University finance piece of it which will be part of the budget that will be considered by the full Board on June 23, 2011. The other part is the funding that comes through licensing agreements and intellectual property revenues that together go to fund the full operations of the UT Research Foundation.

Chair Talbott called for any questions or comments and there was none.

- XXI. Annual Human Resources and Compensation Advisory Board Update—**Information Item (Exhibit 26)—Information Item—Chair Talbott called on Chief Human Resource Officer, Linda Hendricks to present the update on the Annual Human Resources and Compensation Advisory Board. CHRO Hendricks began by saying Vice Chancellor Brown and she would be providing an update on the Compensation Advisory Board (CAB). She went on to acknowledge a number of individuals. The first was Dr. Jan Simek who initiated CAB late in his term as Interim President. President DiPietro was the first Chair of CAB. He continues to guide, support and provides leadership for this key leadership team. When he became our President he asked Vice Chancellor Richard Brown to become the Chair. He is an outstanding leader, really understands compensation and has already made a huge difference with CAB. She then thanked every Chancellor in this room and Vice President Mary Jinks. They have supported CAB through their leadership and support. They have elected representatives from their campuses and institutes to serve on CAB, and they are financially supporting the market assessment that Vice Chancellor Brown and I will present.

A year ago, I provided the first update on Human Resources and reviewed the HR Strategic Plan. I spoke in detail about five different categories and there were many initiatives that follow under each of the categories. Two of the major areas are impacted by the CAB. The first being development of UT's first compensation plan. The University has never had a formal compensation plan. Secondly, this group is actively working on the redesign of performance management and professional development statewide. CAB is very active and touches on all components of the HR Strategic Plan. She then asked Vice Chancellor Brown to give some background on the Board.

Vice Chancellor Brown began by thanking President DiPietro and Chancellor Roger Brown for allowing him to serve. He said it has been his privilege to work with CHRO Hendricks. Brown said that he has been saying all along that she brings an enormous amount of Human Resources skill sets to the University of Tennessee. This is an outstanding Board launched by Dr. Jan Simek in 2010 and continued by President DiPietro. This fifteen member Board consists of quality administrators across the University. The focus of the Board is, of course, is to identify and review best practices of total compensation for all faculty and staff across the state. It also looks at University policies relative to total compensation and benefits programs, particularly those regarding compensation and reward systems. He said that after the market analysis is complete, CAB will then recommend a strategy for improvement after analysis. Finally, CAB will recommend work culture initiatives to strengthen the University's ability to attract, reward and retain top talent. He concluded by saying, we know across the industry that a system must have a competitive rewards and recognition system if we are going carry out the goals and objectives of every campus and institute across the University. He then recognized CAB members:

Verbie Prevost, UT Chattanooga
Nancy Yarbrough, UT Martin
Jenna Wright, UT Martin
Ken Brown, UT Health Science Center.
Tim Hottel, UT Health Science Center
Tim Gross, Institute of Agriculture
Mary Jinks, Institute for Public Service
Susan Martin, UT Knoxville and Space Institute
Toby Boulet, UT Knoxville
Margie Russell, UT Knoxville
Butch Peccolo, System
Scott Rabenold, System
Linda Hendricks, System and UT Knoxville
Priscilla Bright, System

He then briefly reported on some of the accomplishments that CAB has done in the last year. CAB drafted and updated a policy on UT compensation philosophy and distributed the policy. It has been

approved at every campus and institute. CAB has recommended an approved employer of choice model with an emphasis on recognizing and rewarding significant workplace contributions. Human Resources Officers on every campus are busy developing employer of choice models. We really want to know what it takes for each campus to be competitive in attracting and retaining top talent. We have recommended and have gotten approval for increasing UT's minimum starting pay rate for full and part time employees to \$8.50 per hour, effective July 1, 2011. This is significant in terms of our focus on employees at the lower end of the University's pay spectrum. The national minimum wage is \$7.25 per hour, so it puts UT at a competitive rate for all job classes. He then thanked every Chancellor, Human Resources Officer and Chief Business Officer across the system for including this funding in their base budgets. Also, CAB is developing a draft of UT's first compensation plan and will discuss more as we move forward. He then turned the program over to CHRO Hendricks to talk about next steps for CAB.

CHRO Hendricks explained that CAB has developed several teams working on the compensation plan, and they meet between the CAB quarterly meetings right before the Board of Trustees meetings. CAB meets quarterly, and the work teams meet two to three times for three to four hours at each session between each quarterly CAB meeting. They have done an incredible amount of work to develop this first plan. The first team is the infrastructure team, and they are charged with developing and communicating our employer of choice model – which assesses UT as an employer of choice and charts our progress as we implement new programs and initiatives. The model maps out HR strategies and practices from misalignment to foundation building to supportive and promising and ultimately to becoming an employer of choice. There are many ways to measure that both in terms of metrics (like turnover, professional development and opportunities to advance) and also the University's employee engagement survey results. The survey allows us to hear directly from our employees about what is working and not working. It is a critical measurement that helps us chart our progress on the employer of choice model. This group is helping to communicate our new compensation philosophy policy. That policy was actually drafted by members of our Compensation Advisory Board and has now been approved by the President and staff. They are assisting with the communication of the 2012 Compensation Guidelines and are really working hard to develop performance goals and metrics. The goals and metrics are important as we implement new strategies such as a new \$8.50 starting rate, as we can measure the effectiveness. The ultimate question is -- what difference does it make in our ability to recruit, develop and retain? This group is focused on how the University measures CAB's progress.

The second group is the market relationships team. This is the group that is sponsoring the work of the statewide market assessment that

we are doing now. It is a statewide assessment where we are looking at total compensation. That means salary and benefits for all of our employees (staff, faculty and administrators). This market assessment is something that has never been done statewide at this detailed level. This team is sponsoring this work and coordinating from the selection of the third party who will be administering the survey all the way through the findings and what do we do with them. They will also be looking at what we need to do for the University to remain competitive. Two important components are the ability to recruit and retain. This group is looking at acquisition data – where does the University recruit from. Why do people turn down offers to the University and where do they go. When we lose employees at the University we need to know where they are going and why they left (if it is salary, benefits or even a workplace issue). We are trying to capture that data because it is an important component of the compensation plan.

The third group is called the Employee Development Team and is working on the redesign of performance management and professional development. This is something that is needed all across the state. Last year, the Chancellors held their campuses and institutes accountable for every single employee receiving a performance review. I am pleased to report that it did occur. There is so much work that needs to be done in the terms of redesign of the entire performance management process, including tools and training for our supervisors to understand how to differentiate performance. If you want a merit system (pay for performance), you must have knowledge on how to differentiate performance. Another component is we want every employee to have a professional development plan. That is a partnership and a plan with their supervisor to discuss not only goals at work but personal goals that develops their career and helps them move along that path. For those that are not performing well, the new system will require performance improvement plans. If an employee gets less than meets expectations on their performance review it will require a performance improvement plan with a timeline and expected results. This allows us to monitor performance. This group will also work to expand our development of career paths, a formal succession planning program and moving the University to pay for performance. This is to reward those who are contributing significantly to the progress of the University.

Those are the three major teams that are made up of the members of the Compensation Advisory Board and resources from my team or Butch's team to do data analysis or whatever they need. The other teams that I am going to mention are other groups that work outside of the Compensation Advisory Board but are coordinating with them.

The first is a HR Policy Committee. Most of the University's HR policies were written in the 1980's. They need to be reworked and some are not even valuable any longer and are being eliminated. There are policies that we don't have and those are being created. We

are certainly updating the policies that we do have and that are still pertinent. We have a Committee that is rewriting and looking at all of HR's policies. The Committee is made up of statewide representatives and not only HR representatives but supervisors and key users that use the policies. Their input is very important in terms of what is working, what they don't understand and what can be done to improve the policies. We moved all of the compensation policies to the top of the list, and the HR policy team has now rewritten or eliminated all of them. They are now in front of the Compensation Advisory Board for their review.

There is a Job Evaluation Committee, and CAB will review their results. They are looking at how the University evaluates jobs, how we determine the level of positions and how we can improve that process. Although that Committee is not made up of just CAB members, they will have input into the decisions.

We have several Committees working on recruitment and retention. Theotis Robinson has a statewide Diversity Council that is working on these issues. There are members of CAB that are on the Diversity Council as well. We are looking at issues such as qualifications and diversity of the candidate pools and what can be done to improve. Also, being looked at is increasing opportunities for internal promotion and development of high-performing employees that have been with the University for a long time. We should be finding opportunities to help employees progress throughout the organization. We do that but want to improve the rate, and it will be another area of focus. CAB is also assisting with the Employee Engagement Survey. In the fall, we will be doing a statewide survey by Modern Think that will be for every employee throughout the University. CAB is looking at all the questions on the survey related to benefits and compensation and helping to shape those questions. The key work for CAB once we get the results back with information from the employees will be what improvement teams to put together to make progress and changes. Once employees participate in this survey, they expect to hear back from us about what we learned and what was heard. We need to show that we will have committees to work on those areas that need improvement. This group will be recommending programs for employee recognition and also review bonus and incentive plans. Before the bonus and incentive plans go before the Board of Trustees, they have been before CAB. Even though it is an advisory board and cannot approve a plan, they have valuable input as we start to create these types of plans.

There is a group on technology training and communication. I can't say enough about how important supervisor training is. With the \$8.50 an hour starting rate increase for regular employees – we have now trained every supervisor on every campus and institute. Not just the supervisors of those employees who are receiving the increase but supervisors of employees who aren't. The reason being is they need

to understand the reason we started there and why it was the first recommendation that came out of the Compensation Advisory Board. They need to know that it is just the first recommendation and that the work has just begun. We launched a program where we trained all supervisors with open forum sessions, in-tact work teams and a webcast for those that could not get away from the office. We did track attendance and reported to the Vice Chancellors on every campus so they knew that supervisors did attend the training. That is just the beginning. It is something that we need to be doing at least quarterly on HR policies and a number of issues which better prepare our supervisors to administer policies and be good supervisors. This group will also work with the IRIS Team on the data that needs to be captured to track progress. Two things that we don't currently track that we should and need to is acquisition data (where do people come from and for people who turn down offers where do they go and why). If we can find out their total compensation package, we need to make note of that. All of this information is needed and is valuable information. That is how we gauge the University in the marketplace. The issue is the same with turnover data. We need to know why people leave and although we do track termination codes in IRIS, they are too generic. One of the codes that is used the most is personal reason and that doesn't tell us anything. Does the code personal reason mean that the employee got a job somewhere else because the compensation is better, was in a bad working environment or had problems with a supervisor? This is valuable information that we need to know. This group will be setting up ways that we can capture and record that data in the HR System to make improvements and changes. She then turned the program back over to Vice Chancellor Brown, and he talked about the CAB website.

Vice Chancellor Brown began by saying you can see we have been quite busy. We do have a Website that is up and is interactive about CAB's work, and I encourage all to visit that site. It can be accessed at: <http://humanresources.tennessee.edu/cab/>. Employees have access, and we are getting a lot of good ideas coming through the feedback section. We welcome from the Board of Trustees ideas you deem important. One of the things we were asked to do, specifically by Trustee Wharton, at the winter board meeting was to determine how competitive the University is in regards to paying its staff. What are the issues, gaps and what is the process in order to fix what is necessary? In order to do that, we had to develop a statewide compensation and benefits assessment. Vice Chancellor paused and thanked President DiPietro and the chancellors that are here today. In order to achieve this, we had to collectively ask for support from every chancellor at the University. Each of them supported us unanimously with this project. We have hired an outside consulting firm, an independent body, to come in with the expertise to look across the entire University. We have been fortunate to bring on Sibson Consultants, a nationally ranked consulting firm with 22 offices nationwide. This firm specializes in higher education total compensation. We have engaged them to

come in and begin this particular process. Sibson Consultants have now completed visits with every campus and institute to begin to gain some degree of information about compensation issues throughout the University. This firm will give an assessment of recommendations to be completed by the CAB's mid-August meeting for review. He then presented an overview of what Sibson Consulting has been asked to do. We want to conduct an objective benchmarking for faculty, staff and administration compensation and benefits. We feel that the University's benefit package is generous. We are going to look at value analysis and provide implementation strategies and cost impacts. What does it cost to close the gap if we determine that there are gaps in compensation? These topics are also going to include what is working well for the University and what is not in the areas of compensation planning. We are pleased to report that the group is on the ground and a great deal of information has already come in. They have conducted focus groups at every campus to begin these conversations. The Vice Chancellor then handed the program back to CHRO Hendricks to go over some of the things that have been learned primarily.

CHRO Hendricks showed the categories of information that we learned about compensation. Remember that these are perceptions from focus groups that were held on each of the campuses and institutes. This is what employees believe to be true about total compensation. I will tell you that each campus and institute received an individual report, but the results were similar all across the University. The summary consists of five areas. One is market competitiveness – all have the belief that we are below market. Most of it is anecdotal information and not really detailed analysis, but the sense is that the University's compensation is below market. There has been concern about the lack of annual increases and that it has put us even further behind in the market because we have gone a number of years without an increase. There is a concern regarding compression. To be able to bring new talent into the organization we have to pay at market rates and that causes compression with long term high performing employees who have been here many years without any increases. That is another concern statewide. There was a lot of discussion around comparative markets, and every campus and institute has different markets, different issues and needs. When the report is finalized, there will not be one report including the entire state because it would not add much value. Each campus and institute will get their own report. There was also discussion about pay positioning, and the results will come back at the market median, but will also show the 25th and 75th percentile for each position. The summary of benefits perceptions fell into the areas of healthcare (increasing healthcare costs). It is the perception of many of our employees that we don't have a competitive plan at UT. The market assessment will likely show employees that we do. There are rising healthcare costs for all employers and not just the University. Two strong benefits that enhance our ability to recruit and retain are our retirement program and

tuition for both the employee and dependents. We also heard that overall the University has a generous leave program. These are some of the things that we heard very clearly that have caused employees to stay and helps us to recruit even during difficult financial years. CHRO Hendricks then asked Vice Chancellor Brown to inform the Committee what happens next.

Vice Chancellor Brown stated that what happens next is that the Board is going to get a great report. It will not be a cookie cutter report, but will be campus/institute specific and the procedure for making improvements will be campus specific. We will continue to engage the Board and every leadership team when these reports are generated and presented to you. He then thanked all for their interest in compensation and talent management across the University. Over 70% of the resources that you approve and allocate every year are driven by human capital investment. The quality of the workforce will also determine our success.

Chair Talbott said this is exactly the kind of information that we have been asking for, and that he really appreciates the work on it. Trustee Horne stated that it is great that all employees are being given performance evaluations and that it dictates merit pay. Secondly, on the Effectiveness and Efficiency for the Future Committee, we will be looking at the same medical coverage but self-insured.

- XXII. **Other Business**—Chair Talbott then asked Chancellor Cheek to address the Committee regarding an issue that was left off the agenda. Mr. Peccolo explained that when we put up the student fees, particularly those that the Board approves, a significant fee consideration for the Knoxville campus is what they are terming as a facility fee at \$200. We wanted to have this Committee and the full Board listening in briefed on it because it logically follows the presentation of the Campus Master Plan as well as UTK addresses their space needs, etc. He then apologized to the Chancellor for not presenting earlier. Chancellor Cheek began by saying if you look at the facilities on campus we have outstanding buildings like the Haslam Business Building, the renovated Ayres Hall but we also have some extremely poor buildings and facilities. I would point out the chemistry, biology, physics geographic laboratories and some of the classrooms. We have been trying to address how we deal with that problem. Vice Chancellor Cimino chaired a group that has looked at an expansion of a facilities fee that would pay for renovations of academic space. There is a real differentiation there particularly with two students that are here concerning academic space. Bathrooms are not included in academic space they said so we are talking about spaces that students use. What we are proposing is \$100 per semester and it would generate approximately \$4.9 million per year that would be targeted to renovation and could also be targeted toward new buildings. As we talked to our students about this they said there are about 2 or 3 things that we must have. One, we have to be involved heavily in the process

of identifying what we want renovated. We agreed with that. Secondly, students want accountability at the end of the year on what the money was spent on. We have agreed to publish it in our newspaper so that every student can see it as well as posting it on the Website. It is critical for us to deal with the quality of space we have on this campus. Unfortunately, we do not have any new money coming from the State for those kinds of purposes. President DiPietro has worked diligently on that but we have heard over and over again that you can't get money that is not there. This is a way that we can step up, respond and say we can't continue to utilize the space we have. We will take affirmative action toward that and hopefully be in a situation where we can say to the Governor and the General Assembly we have done this can you help us. We are not going to look at this as the only source but hopefully leverage this. He commented that this is the proposal and offered to answer questions. Trustee Talbott asked if they planned on leveraging that money or is it recurring. Have you considered doing a bond issue and letting that dedicate the source of funding? Chancellor Cheek stated that we could do a bond issue on renovation but I think the Committee of students will look at that. We will look at some high priority issues and get those taken care of and use the next year to think about bonding for example \$70 million. There is certainly a tremendous amount of need. The deferred maintenance on the UTK campus is at least \$200 million and we think it is closer to \$400 million. The money from the fee would not be for deferred maintenance. There are other issues as well but must look at our academic space. When students come on the campus they see buildings that don't say it is a world class institution. We must make our facilities better for students. Chair Talbott reiterated the \$4.9 million at a rate of 7% constant is \$70 million of new buildings or renovations. He went on to say that it is a fantastic idea and applauded UTK for coming up with it. Trustee Wharton asked if other universities like Georgia, Florida and Virginia have user fees. President DiPietro replied that the University of Illinois, his Alma Mater, charges students \$500 per semester in facilities fees. If you have the opportunity to go to that campus you will see new buildings springing up all over the place even though the state's economic plight borders on receivership. Chancellor Cheek went on to say another thing too is that Florida has a tax that is devoted to funding higher education that funds buildings and renovations. I know the Governor is considering what to do. President DiPietro has spoken with him and key leaders in the General Assembly. He told Trustee Wharton he would be a great member of the task force regarding that issue. We have to be thinking on how we can raise resources and support our higher education institutions. What we are doing is stepping forward and saying we are trying to help with the situation as well. President DiPietro clarified one thing that Vice Chair Murphy is tax averse. The state of Florida provides an assessment on your utility bill called PECO (acronym that stands for Public Educational Capital Outlay). Those monies are then provided to public campuses throughout the state of Florida to build buildings and do renovations. It also allows them to do projects

parallel as opposed to doing them in series like we do in Tennessee. It is more efficient and is the same with the Illinois model from the standpoint of being able to generate a revenue stream to support capital buildings and maintenance over the long haul. You do more things collectively because you know you can plan two, three and four years out. Trustee Horne stated that Memphis needs to consider this too. President DiPietro explained that when the University of Tennessee proposed it to him it was at a Chancellor's meeting. The one problem in Memphis is that enrollment is not as large because of the professional programs. So you can't generate as much revenue. The Chancellors at Martin and Chattanooga are aware of it and they did not want to get into this kind of fee assessment this year. I am sure they will watch UTK closely.

XXIII. **Adjournment**—Chair Talbott called for any other business and there was none so the meeting was adjourned.



Charles M. Peccolo
Treasurer, Chief Investment Officer and
Interim Chief Financial Officer