

MINUTES OF THE ANNUAL MEETING
BOARD OF TRUSTEES
THE UNIVERSITY OF TENNESSEE

June 24, 2010

The Annual Meeting of the Board of Trustees of The University of Tennessee was held at 1:30 p.m. EDT, Thursday, June 24, 2010 in the Hollingsworth Auditorium, Ellington Plant Science Building, at The University of Tennessee Institute of Agriculture in Knoxville, Tennessee.

I. CALL TO ORDER AND INVOCATION

The Honorable Phil Bredesen, Governor of the State of Tennessee and Chair of the Board of Trustees, called the meeting to order. Reverend John Unthank, campus pastor for the Church of God College Connection, offered the invocation.

II. ROLL CALL

Secretary Catherine Mizell called the roll, and the following members were present:

Governor Bredesen
Charles C. Anderson
Anne Holt Blackburn
William Y. Carroll
George E. Cates
Spruell Driver, Jr.
John N. Foy
D. Crawford Gallimore
Monice Moore Hagler
James E. Hall
Douglas A. Horne
Karen C. Johnson
Andrea J. Loughry
James L. Murphy, III
Richard G. Rhoda
Karl A. Schledwitz
Jan F. Simek
Don C. Stansberry
Robert S. Talbott
Betty Ann Tanner
Sumeet S. Vaikunth
Charles E. Wharton

The Secretary announced the presence of a quorum. Commissioner Givens and Commissioner Webb were unable to attend the meeting. Members of the administration, faculty, staff, and media were present. The meeting was also webcast for the convenience of the University community, the general public, and the media.

III. REMARKS BY THE CHAIR

Governor Bredesen noted that the last Board of Trustees meeting he attended involved extensive discussions of capital maintenance needs, specifically the renovation of Glocker Hall, and since then the Tennessee government has directed over a billion dollars to higher education capital maintenance needs for Tennessee, and The University of Tennessee received a good share of those funds. He stated that this is a very critical time for the University, and he wanted to speak with the Board about important upcoming decisions.

Governor Bredesen stated that as he was making his way to this meeting he received the press release that the University had successfully achieved its \$1 billion goal of the Campaign for Tennessee ahead of schedule. He thanked everyone who participated in that campaign, and recognized Charlie and Moll Anderson for contributing the final gift to put the campaign over the top. The Governor stated that having been briefed on the campaign over the years, he is aware of the hard work and dedication that went into the success of the campaign from everyone involved. Discussing budget reductions, he noted that UT is in the same situation as many universities across the country, with the days of going to the state legislature for more money being long gone and private fundraising being more and more important in the future.

Addressing the upcoming presidential search, Governor Bredesen said that selecting the chief executive officer of the University is at the top of the list of responsibilities of the Board of Trustees. He urged the Trustees to have an independent way to ensure truly effective background checks on the candidates.

Governor Bredesen then discussed a strategic vision for the University. He stated that throughout his service as Governor, he has believed that Tennessee absolutely needs a first-rate research university because there are so many ways it can benefit the citizens of Tennessee, including economic development. He stated that he believes this goal is well within the reach of the University, but if it is to be accomplished, the University will need a laser-like focus on the goal, and it will fall to the Board to keep the rudder straight on this goal. This will mean right sizing the University, while growing the University, and being selective about what programs are advanced. He stated that he personally believes the relationship with ORNL has been an enormous benefit to the University, and the relationship has taken some significant steps, but the relationship requires constant attention on the part of the Board and the new President. Governor Bredesen stated that the new President must have a similar belief in this

destiny for the University, which argues for a particular skill set. To be a great research university, the President will need to have a functioning and effective relationship with the faculty, and fund raising will be absolutely critical. Governor Bredesen expressed his belief that there is a real opportunity now for the University to leap into a leadership position for Tennessee higher education by offering the state a first-rate research university that can survive and prosper in the decades ahead. The Trustees and the next President should focus on making that happen.

The Governor ended his remarks by expressing his appreciation to the Trustees for their hard work and great stewardship of the University and encouraged them to building on that for the future.

Governor Bredesen then called on Vice Chair Jim Murphy to chair the remainder of the meeting. Vice Chair Murphy welcomed Emeriti Presidents Dr. Ed Boling and Dr. Joe Johnson and introduced Dennis Barden of Witt/Kieffer Executive Search Firm.

IV. APPROVAL OF MINUTES OF PRIOR MEETINGS

Trustee Driver moved approval of the minutes of the February 26, 2010 meeting of the Board of Trustees as presented in the meeting materials. Trustee Talbott seconded the motion, and the motion carried unanimously.

V. ADOPTION OF HONORARY RESOLUTIONS

The Vice Chair recognized Trustee Hall to present a Resolution honoring Dr. Verbie Prevost for her service as Trustee for the past two years (Exhibit 1). Trustee Hall stated that it was a pleasure to have the opportunity to present this Resolution to Dr. Prevost, noting that he and his wife have been friends with Dr. Prevost for some time, knowing her first as a soccer mom prior to knowing her as a Trustee. After reciting the Resolution, Trustee Hall moved its adoption. Trustee Foy seconded the motion, and the Resolution was unanimously adopted. Dr. Prevost thanked the Board and stated that it has been a great privilege to serve with each Trustee. She stated that she was grateful for the opportunity to work with the Board for the betterment of the University.

The Vice Chair then recognized Trustee Foy to present a Resolution honoring Tyler Forrest for his service as a Trustee for the past two years (Exhibit 2). Trustee Foy recounted some anecdotes about Tyler shared by this friends and colleagues. After reciting the Resolution, Trustee Foy moved its adoption. Trustee Hall seconded the motion, and the Resolution was unanimously adopted. Mr. Forrest thanked Trustee Foy and stated that it has been a great honor for him to serve the University as a Student Trustee. He thanked the Governor for appointing him to the Board and stated that representing the 48,000 students of the University is one of the highest honors a student can have. Mr. Forrest ended his remarks by stating that he hopes to return to serve on the Board of Trustees in the future as Governor of the State of Tennessee.

VI. ELECTION OF CHAIR AND VICE CHAIR OF THE BOARD

Vice Chair Murphy stated that pursuant to the Bylaws, the Chair and Vice Chair are elected every two years. He stated that traditionally, the Governor has been elected to serve ex officio as the Chair of the Board. He commended the Governor for all he has done for higher education in Tennessee. He stated that this past winter Tennessee joined the Complete College National Alliance to increase degree completion, an initiative that is a highlight of a series of higher education accomplishments under Governor Bredesen. He stated that the University has benefited greatly from Governor Bredesen's efforts on behalf of higher education.

Trustee Loughry moved the reelection of Governor Bredesen as Chair of the Board. Trustee Schledwitz seconded the motion, and the motion carried unanimously.

Vice Chair Murphy stated that traditionally the former Vice Chair recommends the election of the next Vice Chair, but due to the circumstances of transition this year, he recognized Trustee Loughry for a motion.

Trustee Loughry moved that Vice Chair Murphy be elected to serve an additional year as Vice Chair of the Board to provide continuity during the presidential search and the election of a new Governor. Mr. Stansberry seconded the motion. The Vice Chair stated that the action required a three fourths vote of the Board and then called for any discussion.

Trustee Wharton stated that he is in favor of term limits because he believes they serve an important purpose. He stated that the Board is fortunate to have a wise Governor and able Vice Chair, but that may not always be the case and he is opposed to setting this precedent.

Governor Bredesen stated that he understood Trustee Wharton's comments but wanted to make it clear that he had asked Vice Chair Murphy to consider extending his service as Vice Chair several months ago when it was clear that the University would be searching for and transitioning to a new President at a time when the state would be electing a new Governor.

Trustee Talbott asked whether a Vice Chair has served an additional year in the past. Ms. Mizell recalled that Vice Chair William Sansom served for an additional year during the transition of a new President in 1999-2000.

The Vice Chair then called for a vote on the motion. The motion carried with Trustee Wharton abstaining.

Vice Chair Murphy stated that he is honored to continue to serve in this capacity, appreciates the confidence placed in him by the Governor, and looks forward to a successful presidential search. He added that the Board has a lot of work ahead of it in the next several months to find just the right person to lead the University to be a top research university.

VII. PRESIDENT'S ANNUAL REPORT

Welcoming Governor Bredesen to the meeting, Dr. Simek stated that while serving as acting/interim President he has worked closely with the Governor and his administration to make higher education better for the people of Tennessee. Discussing the special legislative session in February, Dr. Simek noted that the success of that special session changes the mission of the University in many respects, for example requiring that the University articulate with other institutions across the state in new ways so that our students can make timely progress through their education. He stated that we are now focused on outcomes and what we can do to be responsive to the needs of the people. He stated that he is proud to have been a part of that process and that he commits the University to further those ends in as a rapid a time frame as possible.

Dr. Simek noted that the Governor has challenged UT Knoxville to accomplish the goal of becoming a top-25 public institution of higher education. He stated that Chancellor Cheek will discuss with the Board exactly what that will entail and how the campus has begun the process to achieve that goal.

Dr. Simek observed that although we continue to face difficult economic times, as reflected in the budget passed by the legislature and signed by the Governor, stimulus funds continue to allow the University to function reasonably well. He added that we will not come unprepared to the cliff in 2012 because we have worked very hard to be certain that we will be prepared. He stated that each Chancellor will report to the Board today and describe specific plans for each campus as well as the cost cuts and impacts to their campuses. He stated that the University worked very hard to come to solutions to this problem that position us well to move into the future. He stated that each campus has tried very hard to move toward a gentle landing and be mindful of employees and have as little impact on people as possible. He stated that well over 600 positions will be eliminated by the time the stimulus funds are gone, but we have allowed for attrition and retirement and have moved employees around over the past two years so that in the end, the total impact will be 50-60 people who will lose their jobs.

Dr. Simek stated that we will also need to raise revenues to prepare for 2011 and 2012, and one of the ways that we propose to do this is by increasing tuition on most campuses by 8.5%. He explained that the increase will mostly offset the increase in fixed costs. He stated that there will also be some funds that will provide some

flexibility to the campuses to react to needs that arise at the end of the stimulus funding, such as adding additional sections as courses get bottlenecked during the school year. He stated that the administration is very aware of the burden placed on students and families by tuition increases and noted that by no means does the increase in tuition make up for the budget reductions we are facing. He argued that even with the increase, the University remains a very good buy compared to its peers. He explained that with Hope Scholarship funds taken into account, which approximately 99% of incoming freshman receive, a freshman would pay approximately \$2400 out-of-pocket for the year. He stated that the University is committed to keeping tuition as low as we can and still provide the quality education students deserve and expect. He stated that the incoming freshman class at Knoxville is once again the best class the University has had with average high school GPA's of 3.8 and ACT's of approximately 28. He stated that the University must provide a first rate education and cannot draw down what it is doing or these outstanding students will stop coming. He stated that he is very proud of the job our institutions and campuses have done to reduce costs and find innovative ways to save and conserve resources. He reported that Trustee Horne, Chair of the Effectiveness and Efficiency Committee, has been very diligent in encouraging cost reductions and it has paid off with important savings.

Dr. Simek stated that one of the challenges the Board gave him was to streamline the system administration. He stated that today there are fewer Vice Presidents, costs have been reduced by millions of dollars, the system administration is better defined, and it is an effective operation that plays a critical role to the statewide mission of our institution. He stated that another challenge he was given was to lead a review of whether the athletic departments for UTK should report to the President or to the Chancellor. He stated that last fall he appointed a distinguished task force that unanimously recommended a change in the reporting line. The study included a written agreement that governed the aspects of that change including presidential oversight, budget, accounting provisions, development, and accommodations for athletic events. He stated that the President of the University still has the ultimate oversight over intercollegiate athletics for all campuses.

Dr. Simek reported that of the other specific tasks the Board gave to him at their workshop last August, there are two remaining to be completed. The first is the determination of how to best structure our diversity program. He stated that there is a task force working on that with the assistance of a consultant and there will be a recommendation in October. The second remaining task was addressing purchasing and capital projects. He stated that Butch Peccolo is heading up our study of both areas, and he will have a recommendation about reorganizing both.

Dr. Simek stated that he continues to believe the University today is the best that it has ever been in its history. He stated that he attributes that to the talented employees who work here and their loyalty, dedication, determination to do more with less when

necessary, and tremendous ability they bring to the practice of their job. He stated that it is truly an honor for him to lead this great University. He discussed the success of the recently completed \$1 billion Campaign for Tennessee. He noted that those funds are almost always restrictive in how they can be used, and therefore development does not tend to be a solution to the problem of how to fund the general operation of the University. Nevertheless, more and more, it will be a critical part of how we operate into the future as that efficient top-25 research institution the Governor talked about. He stated that he looks forward to turning over a more stable University to the new President and going back to the faculty and help to make the UTK's quest to be a top-25 institution a reality. He introduced Chancellor Jimmy Cheek to share his bold plan to move UTK to a top-25 institution.

VIII. REPORT ON UT KNOXVILLE QUEST FOR TOP-25 STATUS

Dr. Cheek began by expressing his appreciation to Governor Bredesen for issuing the challenge to UT Knoxville to become a top-25 university. He reported that as an immediate response to the Governor's challenge, he put together a task force to assemble a plan, including a gap analysis comparing UTK against the top-25 target institutions. Dr. Cheek explained that UTK will become a top-25 university for two fundamental reasons: first, it will make UTK a better institution for the students, and second, it will allow UTK to be a better institution to serve the people of Tennessee.

Referring to charts included in the meeting materials (Exhibit 3), Dr. Cheek discussed areas the campus must focus on in seeking to achieve top-25 status. In undergraduate education, the challenge is to increase freshman retention and graduation rates. In graduate education, he noted that UTK awarded 209 fewer PhD degrees than the target group of institutions and would need to increase PhD's awarded by 80%. He stated that plans already in place for an interdisciplinary PhD between UTK and ORNL will have a significant impact. Discussing federal research expenditures and total research expenditures, Dr. Cheek reported that the gap is in the \$100s of millions. Concerning faculty salaries, he noted that the salary range for top 25 peers is \$6,000 to \$12,000 and for the aspirational group the range is approximately \$10,000 to \$24,000. Addressing financial resources and infrastructure, he noted that UTK is approximately \$24,000 less than the target group for endowment per student.

Dr. Cheek noted that the Board has been extremely helpful to him in the year and half he has served as Chancellor, and he will need even more of its help to achieve this ambitious goal. He stated that the journey will be more important than achieving the goal, explaining that, if, in two years, he can report progress in the graduation rate and other areas that will significantly impact our students and the State of Tennessee, pursuit of this goal will be well justified. He stated that UTK will pursue this goal with abandon, and with the Board's help, we will be successful, we will create a better University.

Governor Bredesen asked Dr. Cheek if there is an agreed upon list of metrics for measuring universities. Dr. Cheek stated that there is no exact list or exact criteria for top-25 status, but the task force looked at about 74 different metrics and narrowed it down to these twelve and determined that these are the barometers we need to be monitoring. Governor Bredesen asked for an example of some of the metrics that almost made the cut. Dr. Cheek responded that diversity of faculty and students is a metric the University is working hard on, but is not included as a top-25 metric. Dean Bruce Bernstein from the College of Arts and Sciences also provided examples of other metrics that the task force reviewed.

Governor Bredesen stated that when he issued the challenge, he was certainly very aware that there was no agreed upon check list to score the University and he invites the administration over time to reconsider some of those metrics because it appears there is a significant gap in some cases.

Trustee Stansberry stated that he is greatly concerned about starting on this journey, which has several measures directly related to resources and yet we are proposing a tuition increase that basically pays the inflationary increases for fixed costs. Dr. Cheek responded that as we go down this path and maintain the quality of education to serve the students, we will need to have discussions about resources. He stated that he will start discussions with the President after this meeting about UTK's efficiency and effectiveness task force. He stated that the task force looked at our academic enterprise and asked how we could become more academically efficient--how can we control the amount of courses students drop, control the number of courses students can preregister for and control whether enough sections are offered for students to graduate on time--all of which have some financial implications. He stated that he would be speaking to the Board about those and some possible opportunities that really would not cost the student more money in the long run.

Governor Bredesen stated that improving education is not necessarily directly related to increasing costs. He stated that having a really crisp specific strategy as opposed to a general request for more money will attract more resources.

Dr. Cheek stated that the faculty is the real driver for the University. He stated that when we compete for assistant professors we have to compete at the market place levels.

The first three metrics discussed today are the most critical for UTK, the quality of students coming in, how are we retaining them and how are we graduating them. Those are the three things that UTK must do better, and he stated, some of that is resource based but most of that is management.

Trustee Hall complimented Dr. Cheek on his report and stated that he felt that the University and all its campuses should move together on this challenge. Dr. Simek stated that the same consultant that assisted UTK with its plan is now meeting with UTC and UTM. He noted that their target group and aspirational group would be based on their peers, different from those used for UTK.

Trustee Schledwitz noted that when Dr. Steve Schwab was Dean at UTHSC he started a similar process for the medical school to be in the top quartile. He stated that UTHSC is two years into that process and has a road map in place to achieve its goal. He noted that, unfortunately, like UTK, UTHSC has a long way to go to get there, but we have made progress.

Trustee Cates commented on Trustee Stansberry's discussion of resources and stated that our hands are tied in one important respect, our development and research expenses are essentially the same as they were ten years ago, putting an ever larger burden on tuition. He suggested that the Board, at the August workshop, focus on perhaps putting a policy limit on tuition increases to force the fundamental review of the business model and also force us to focus on how to fund development officers to fill that ever growing gap.

Trustee Wharton stated that our average development officer here raises \$3 million per person and nationally that average is \$2 million per person. He stated that the fundamental reason for our huge improvement is that we have great staff, but the problem is that we do not have enough staff. He stated that there is a proposal being discussed to add 70 more development officers over the next ten years. He stated that there is not a single development officer in the UT Research Foundation therefore we have never approached the Gates Foundation to do something with us in Memphis. He added that our dilemma is that there is a wind up period, and we will not wind up the development office fast enough to solve the interim budget shortfall. He stated that what is left is what Trustee Stansberry brought up, tuition increases. Trustee Wharton stated that we have also gone four years without a raise to faculty and staff. He stated that everyone who leaves is replaced by an employee at a higher compensation rate, which brings all kinds of compression issues. Trustee Wharton stated that he believes tuition increases must continue to be viewed as a resource for now.

Trustee Stansberry observed that the net tuition for an incoming student, net of the Hope Scholarship, is approximately \$2,500. He stated that we do ourselves a disservice by saying that we cannot keep raising tuition because that is an incredible value, and if we are going to maintain quality according to the goals we are seeking we are going to have to pay for it.

Trustee Cates commented that the business models of all-inclusive, low-cost online universities are coming. He stated that we can rationalize as we wish, but for the long

term we are going to have to figure out a fundamental way strategically to fix the budget.

Trustee Talbott noted that a very small percentage of development funds are allocated to operations. Trustee Wharton stated that donors need to be encouraged to give unrestricted gifts.

The Vice Chair thanked Dr. Cheek for his presentation and stated that the Board looks forward to a further report on this topic.

At this time the Board took a short recess, and Governor Bredesen left the meeting due to another commitment.

IX. FY 2011 OPERATING BUDGET, STUDENT TUITION AND FEES, AND COMPENSATION GUIDELINES

The Vice Chair recognized Charles M. Peccolo, Treasurer and Acting Chief Financial Officer, to present the FY 2011 operating budget, student tuition and fees, and compensation guidelines (Exhibit 4). Mr. Peccolo specifically thanked members of his staff for their efforts in preparing the budget document and meeting materials. He began by discussing the total revenues budgeted for 2011, reporting a projected \$118 million increase over probable 2010. He discussed the components of the increase and noted that the \$55 million attributed to other revenues is predominately restricted funds for the Solar Institute. He discussed the FY 2011 Unrestricted E&G Revenues Summary noting that there will be a reduction of approximately \$110 million in state appropriations over this past three-year period. He discussed the specific procedure for the flow of ARRA and MOE funds through the state appropriations to the University. He discussed the addition of a non-recurring one-time longevity bonus for employees. He reported on Unrestricted E&G Expenditures and Transfers for 2011 with a \$79.7 million increase over last year. He stated that expenditures exceed revenues and approximately \$3 to \$4 million will come from the University's unrestricted unallocated fund balance ("rainy day funds") to cover expenditures. He stated that the remaining amount of the fund will be approximately 3% of our average expenditures at the end of the fiscal year. The Vice Chair noted that this amount was 4% three or four years ago and there is not much flexibility to take more out of the rainy day fund going forward. Mr. Peccolo then presented the state-funded capital maintenance projects approved for 2011 for each campus.

Mr. Peccolo next discussed the FY 2011 proposed tuition and fee increases. He stated that the administration is recommending an 8.5% fee increase for most of the campuses and units. He noted the recommendation for the College of Law increase is 12%, College of Veterinary Medicine is 5%, and the UTHSC increases are 10%.

Finally, Mr. Peccolo called the Board's attention to the FY 2011 compensation guidelines included in the meeting materials.

The Vice Chair stated that there is a Resolution included in the meeting materials to approve the FY 2011 Proposed Budget, Recommended Tuition and Fees, Balanced Budget Modifications, FY 2011 Compensation Guidelines and Reserve for Contingency.

Trustee Talbott moved approval of the Resolution included in the meeting materials and attached to these minutes (Exhibit 5). Trustee Loughry seconded the motion.

Trustee Wharton stated that he would like Dr. Cheek to comment on a proposed increase of 9% instead of 8.5%. Trustee Wharton stated that he is concerned by the excessive deferred maintenance amounts carried by UTK and that this proposed tuition increase will only add to that problem. He also stated that he believed it was important to start taking smaller incremental increases to achieve UTK's quest to be a top-25 university rather than being in a position that requires a large increase. Dr. Cheek addressed two potential important and necessary uses for the additional funds that would be generated from a 9% increase and stated that in his opinion it would be a wise decision.

Trustee Wharton moved to amend the recommended tuition and fees increase to 9% for UTK. Trustees Stansberry seconded the motion.

Trustee Horne discussed the proposed budget for the year, specifically the revenues with the ARRA and MOE funds that are available for the 2011 year. He emphasized that raising tuition is not something that the Board or administration prefers to do. He stated that a tuition increase puts a heavy burden on the students and their families and that he is not in favor of increasing to 9%.

Trustee Driver discussed the additional burden to students in the Nursing, Business and Engineering programs that recently added a differential tuition fee per course. Vice Chair Murphy noted that the per course fee coupled with the 8.5% tuition increase would result in a significant increase to the student of over 40%. He noted that the amount was mostly attributable to the differential tuition fees. Trustee Driver noted that one component of the differential tuition approved earlier in the year was a plan to assist students with financial need. Dr. Cheek stated that students with actual financial need in those differential tuition programs would be assisted by funds that have been set aside for that purpose.

Trustee Blackburn stated that she remains very concerned that there is a lack of effective communication to parents and students adequately explaining the necessity for tuition increases.

Trustee Anderson asked Dr. Simek to comment on whether he would be supportive of a 9% tuition increase.

Dr. Simek responded that he would support an increase of 9% because of the significant drop in appropriations over the last three years. He added that the tuition proposed today still do not come anywhere near the budget reductions over the past years. He stated that it becomes a question of whether Chancellors will be able to fill critical holes that open up after the ARRA funds are gone. He stated that the administration has tried to be very mindful of the students and families that have to pay these bills. He stated that 8.5% was the lowest increase we could propose without doing more damage to the University. He stated that 9% would allow us a little more flexibility.

Dr. Stansberry commented on Chancellor Cheek's report and stated that if we are seriously going to pursue top-25 status, the University needs more money. He noted that Dr. Cheek's presentation demonstrated that UT fell below the median versus its peers for tuition costs. He stated that when a student nets out the Hope Scholarship, UT is an incredibly good value. He added that he has total confidence in Dr. Cheek and others to spend the additional money wisely to improve the quality of what UT offers.

Trustee Foy asked Chancellor Brown and Chancellor Rakes to comment on increasing tuition at UTC and UTM by 9%. Chancellor Rakes discussed the approximate amount that would be generated by an additional .5% tuition increase and critical areas at UTM that he could allocate those funds. Chancellor Brown stated that the increase would be absolutely needed and would be allocated to high need instruction areas.

At this time Trustees Johnson, Vaikunth, Hagler, Cates and Rhoda exited the meeting due to travel arrangements.

In response to a question from Trustee Schledwitz, Dr. Cheek discussed the approximate amount that a .5% increase would generate for UTK and stated that the money could provide additional class sections. Trustee Stansberry noted that an extra \$14 per student per semester could potentially result in a student graduating sooner because he or she was able to get the classes needed.

Trustee Wharton withdrew his motion for a 9% tuition increase for UTK and moved to amend the recommended Tuition and Fees to 9% for each campus for which an 8.5 % increase was originally proposed. Trustee Stansberry seconded the motion. The motion carried by majority vote.

The Vice Chair then called for a vote on Trustee Talbott's motion, seconded by Trustee Loughry, as amended by Trustee Wharton's motion. The motion carried by majority vote.

X. REPORT ON PLANNING FOR FY2012 OPERATION BUDGET (POST-ARRA)

Dr. Simek stated that the next presentations will give the Board some specifics, campus by campus, of how we have undertaken the post-ARRA reductions at each campus and the effect of those reductions on our operations (Exhibit 6). Dr. Simek provided a brief overview, presenting state appropriation reductions over the last three fiscal years, which cumulatively add up to \$110 million, or \$112 million with the effect on restricted funds. He stated that state appropriations in absolute dollars will be significantly reduced from the 2008 level of \$505.8 million to \$403 million. He then presented the overall plan for reductions for the UT System, discussing cost reduction efforts in two primary areas, position reduction and cuts in operation. With respect to position reduction, he stated that there will be nearly 700 fewer positions, and the actual reduction-in-force will be approximately 55 individuals for the cumulative period.

He stated that this is the result of a long hard process of eliminating positions as they become vacant and by moving employees to critical positions as they become vacant. He discussed cuts in operations and savings achieved through the EEF efforts. He then discussed additional net revenues from tuition and other fees and revenues, noting that tuition revenues reflect increases as well as significant enrollment growth. He stated that replacement costs will increase and also fixed costs such as electricity, gas, etc. He stated that for the most part, revenue increases are needed to cover cost increases, and \$18 million will be applied to the reduction in appropriations for the cumulative period.

Dr. Simek then discussed plans for reduction in the system administration. He stated that because the system administration could not receive ARRA funds, it had to account for state appropriation reductions as they occurred. He stated that in the end, we reduced system administration costs by over \$6 million, including the elimination of 37 positions. He stated that the system administration actually contributed to more than its share of reductions. He reported that prior to system administration reorganization and EEF efforts, the system administration had 677.87 FTE's and as of June 2010 only 513.63 FTE's, with additional reductions possible with the finalization of the OIT reorganization.

Chancellor Brown presented the state appropriation reductions for UTC over the past three fiscal years. He stated that UTC had \$46.0 million of direct state appropriations in 2008 and \$33.5 projected for 2012. He stated that this illustrates why the increase in tuition and fees just approved are so critical for UTC. He stated that he joins the Board in saying that it is a regrettable situation, and we really hate seeing more of the burden placed on students and students' families, but there is really no other way to continue to offer the excellent education expected. He stated that about 72.5 FTE

positions have been eliminated at UTC with most coming from attrition and retirement. Of that amount, roughly 20 were faculty positions. He stated that \$28 million of cost savings have been achieved at UTC over the past ten years. He stated that he is so grateful for the capital maintenance for UTC due to the efforts of the Board and state legislators. He noted that the capital maintenance has allowed UTC to increase cost savings. He stated that food service, printing, and the bookstore have all been outsourced as well as 35% of the work of the physical plant. He then reviewed the list of unit impacts to UTC and stated that UTC has worked hard to keep the quality of instruction high and to make it hard for students to observe the budget reductions in their experience at UTC.

Chancellor Cheek stated that UTK has lost almost \$57 million for the cumulative period, or 27% of direct state appropriations since 2008, and approximately 275 FTE's, including tenure-line faculty. As an example, he stated that the College of Arts and Sciences lost 39 tenure-line faculty or 9% of its teaching capacity and 35 of its lecturers or 22% of its teaching capacity, and 13.5 academic support staff positions. He stated that this will have a major impact on undergraduate education and that the institution's ability to retrain and attract faculty has been compromised. He noted that employee salaries are also a major issue as we move into a fourth year without raises for faculty and staff. He also noted that deferred maintenance at UTK is currently over \$200 million and rising.

Chancellor Rakes stated that UTM will have lost roughly \$10 million over the three year period, or approximately a 30% drop in state funding since 2008. He noted that the campus started planning for this in 2008, and the campus efficiency task force brought forward 52 recommendations for cost savings, 42 of which have been implemented. He also noted that adding a summer semester resulted in increased revenues. He stated that 28 positions will be eliminated, of which eight are faculty and the remaining 20 are staff positions. He added that in most of these cases, the campus has been able to reallocate employees to non-eliminated positions.

Dr. Schwab reported that UTHSC will have reductions of roughly \$19.5 million cumulatively. He explained that professional schools are different, with most revenues generated from clinical practices, graduate medical education, and research and lesser amounts from state appropriations and tuition. He stated that 125 FTE positions will be eliminated at UTHSC, the majority of which are vacant positions. He stated that there will be additional net revenue of approximately \$16 million coming almost exclusively from an expansion of UTHSC professional programs. Dr. Schwab discussed continued planned investments in Dentistry and support of the research programs to continuing moving UTHSC forward with increased revenues. He stated that there may be some reductions-in-force required, but they will be a small fraction of the RIF's anticipated over a year ago.

The Vice Chair requested that the Trustees receive a copy of the PowerPoint presentation for each campus.

XI. ACTION ITEM FROM THE TRUSTEESHIP COMMITTEE

The Vice Chair recognized Trustee Loughry, Chair of the Trusteeship Committee, to report to the Board.

A. Bylaw Amendment Changing Title of Vice President for Agriculture to Chancellor of The University of Tennessee Institute of Agriculture

Trustee Loughry stated that the Trusteeship Committee approved a Bylaw amendment changing the title of Vice President for Agriculture to Chancellor of The University of Tennessee Institute of Agriculture at the committee meeting in May for the purpose of better expressing the role of the leader of the Institute (Exhibit 7). She referred the Board to the proposed amendment in the meeting materials.

Trustee Loughry moved approval to amend Article IV, Section 1, Section 2(b), and Section 3(c) of the Bylaws changing the title of the Vice President for Agriculture to Chancellor of The University of Tennessee Institute of Agriculture. Trustee Stansberry seconded the motion. The Vice Chair called for a roll call vote, and the motion carried unanimously.

B. Bylaw Amendment Revising Responsibilities of the President with respect to Intercollegiate Athletics

Trustee Loughry stated that in the fall of 2009, Dr. Simek appointed a broad based task force on athletic reporting that included Trustees, UTK administration, system administration, faculty, student athletes, alumni, and the Athletic Directors, with a charge to consider the appropriate reporting structure and placement for the Department of Intercollegiate Athletics (Exhibit 8). In May, the Trusteeship Committee reviewed the proposal of the task force proposal and approved a Bylaw amendment revising the responsibilities of the President with respect to intercollegiate athletics. Trustee Loughry stated that the President will remain responsible for the general oversight of intercollegiate athletics on each of the campuses. Trustee Loughry moved approval to amend Article IV, Section 3(a)(2)(viii) of the Bylaws, with the amendment to be effective July 1, 2010, as presented in the meeting materials. Trustee Talbott seconded the motion. The Vice Chair called for a roll call vote, and the motion carried unanimously.

Trustee Loughry noted that the articulation agreement between the system and the campus was provided on the meeting table.

C. Bylaw Amendment to Authorize Extending the Term of Committee and

Committee Chair Appointments

Trustee Loughry began by noting that she personally agrees with Trustee Wharton that leadership should rotate on a regular basis, but at this time, on advice from the Governor and in consultation with staff, the Trusteeship Committee recommends the Board approve the proposed Bylaw amendment to authorize extending the term of committee and committee chair appointments. She stated that the Bylaw amendment would allow for an extension of up to one year for good cause such as the present circumstances (Exhibit 9). Trustee Loughry moved approval to amend Article III, Section 2(b)(2) of the Bylaws as presented in the meeting materials. Trustee Carroll seconded the motion.

Trustee Wharton stated that he was concerned with setting a precedent for leadership being extended beyond the regular term. He stated that he was concerned that the Bylaw amendment would allow the Vice Chair to propose an extension at any time he or she deems there to be unusual circumstances. He asked for a clarification of whether the Bylaw amendment creates an ongoing option or a one-time exception. Vice Chair read the proposed amendment and stated that the Board on an affirmative vote could make the determination to extend a two-year term for up to one year. He stated that the Vice Chair could not act unilaterally in this regard. Trustee Wharton discussed his concern about the possibility of not getting votes against the recommendation of a Vice Chair and stated that he would support the proposed amendment if it expired in a year.

Trustee Wharton proposed an amendment to the proposed Bylaw amendment that it only be effective through May 31, 2011. The motion to amend the proposed Bylaw amendment was seconded by Trustee Horne and carried unanimously.

The Vice Chair called for a roll call vote to adopt the proposed Bylaw amendment to authorize extending the term of committee and committee chair appointments, as amended, and the motion carried unanimously.

D. Revised Organizational Chart for the System Administration

Trustee Loughry stated that this organizational chart was requested by the Board and has been reviewed by the Trusteeship Committee and is recommended for approval (Exhibit 10). Trustee Loughry moved approval of the revised organization chart for the system administration as presented in the meeting materials. Trustee Schledwitz seconded the motion and it carried unanimously.

XII. VICE CHAIR'S RECOMENDATION CONCERNING COMMITTEE AND COMMITTEE CHAIR APPOINTMENTS

The Vice Chair stated that his recommendation concerning Committee and Committee Chair appointments is consistent with the Bylaw amendment adopted at this meeting. Mr. Wharton moved approval of the Vice Chair's recommendation concerning committee and committee chair appointments. Trustee Talbott seconded the motion, and it carried unanimously.

XIII. ACTION ITEMS FROM THE EXECUTIVE AND COMPENSATION COMMITTEE

The Vice Chair stated that the following action items were discussed at prior meetings of the Executive and Compensation Committee and the committee recommended their approval.

- A. Approval of a Resolution Appointing a Managerial Group for U.S. Government Contracts (Exhibit 11)**
- B. Approval of 2011 Regular Meeting Dates (Exhibit 12)**
- C. President's Recommendation of an Appointment to the Board of Directors of University Health Systems, Inc. (Exhibit 13).**

Trustee Carroll moved approval of the Resolution Appointing a Managerial Group for U.S. Government Contracts, 2011 Regular Meeting Dates, and the President's Recommendation of an Appointment to the Board of Directors of University Health Systems, Inc. as presented at this meeting. Trustee Talbott seconded the motion, and it carried unanimously.

- D. President's Recommendation for Election and Compensation of the Chancellor of The University of Tennessee Health Science Center**

Dr. Simek stated that most of the Trustees were present at the meeting of the Executive and Compensation Committee when the Committee reviewed and recommended the approval of the Election and Compensation of Dr. Steven Schwab as Chancellor of the University of Tennessee Health Science Center (Exhibit 14). Dr. Simek recommended approval Dr. Schwab's election as Chancellor of UTHSC with the compensation presented at the meeting. Trustee Schledwitz moved approval of the election and compensation of the Chancellor of UTHSC as presented in the meeting materials. Trustee Talbott seconded the motion, and it carried unanimously.

- E. Approval of a Resolution for Election and Compensation of University Officers**

Trustee Stansberry moved approval of the Resolution for Election and Compensation of University Officers as included in the meeting materials with the compensation

provided during the Committee meeting (Exhibit 15). Trustee Loughry seconded the motion, and it carried unanimously.

F. Approval of a Compensation Package for the Next President

The Vice Chair stated that this item was discussed and acted on in the Executive and Compensation Committee the day before. He asked for a motion to approve the compensation package for the next President as approved by the Executive and Compensation Committee (Exhibit 16). Trustee Stansberry moved approval of the Resolution for the compensation package for the next President as included in the meeting materials. Trustee Wharton seconded the motion, and the Resolution was adopted unanimously.

XIV. VICE CHAIR'S RECOMMENDATIONS CONCERNING THE PRESIDENTIAL SEARCH

A. Appointment of the Presidential Search Committee and Committee Chair

The Vice Chair referred the Board to a memorandum included in the meeting materials listing the proposed members of the Presidential Search Committee and the Committee Chair (Exhibit 17).

Trustee Stansberry moved approval of the appointment of the Presidential Search Committee and the Committee Chair. Trustee Carroll seconded the motion, and it carried unanimously.

B. Approval of a Budget for the Presidential Search (Exhibit 18)

C. Authorization for the Executive and Compensation Committee to Determine, upon the Recommendation of the Presidential Search Committee, the Number of Nominees to be Presented to the Board (Exhibit 19)

Mr. Hall moved approval of a budget for the Presidential Search as presented at the meeting, and authorization for the Executive and Compensation Committee to determine, upon the recommendation of the Presidential Search Committee, the number of nominees to be presented to the Board. Mr. Wharton seconded, and the motion carried unanimously.

XV. REPORT OF THE COMMITTEE ON EFFECTIVENESS AND EFFICENCY FOR THE FUTURE

The Vice Chair recognized Trustee Horne, Chair of the Committee on Effectiveness and Efficiency for the Future, to report to the Board. Trustee Horne provided a brief update, noting that the Committee continues to meet every couple of months at campuses and institutes across the state. He reported that the Committee has reviewed various areas of the University such as IT, Athletics expenditures, energy management, and online education. In summary, he stated that the Committee continues to work hard and is taking a closer look at these functions to be sure that, first, we are doing the right thing and then to be sure they are being done the right way.

XVI. REPORT OF THE FOUNDATIONS STUDY COMMITTEE

The Vice Chair recognized Trustee Wharton, Chair of the Foundations Study Committee, to report to the Board. Trustee Wharton stated that the Committee has made significant progress and will have its work completed this year. He briefly updated the Board on the final steps and stated that the UT Foundation Chair is reviewing the affiliation agreement.

XVII. REPORT OF THE AUDIT COMMITTEE

The Vice Chair recognized Trustee Hall, Chair of the Audit Committee, to report to the Board. Trustee Hall noted that the minutes from the April 30, 2010 meeting were included in the materials (Exhibit 20). He stated that there were four items that he wished to mention briefly. Mr. Bill Myers, CFO for Knoxville Athletics, provided an overview of the department's financial statements and indicated that the department generated a surplus of approximately \$3 million. He noted that amount would have been higher except that coaches' buyouts totaling \$6.5 million have to be recorded this year even though they will be paid out over the next several years. Trustee Hall then noted that Brian Gard, Director of Special Events, has been coordinating an update on the campuses emergency management plans. He found that progress has been made, but more needs to be done. Trustee Hall reported that both UTC and UTK are hiring full time emergency preparedness specialists. The campuses are updating their plans and Mr. Gard will continue to oversee that progress and report back at a future committee meeting. Trustee Hall stated that Dr. Ken Brown, UTHSC Executive Vice Chancellor and Chief of Staff, reported that the campus has begun to systematically restructure UT Medical Group. Trustee Hall noted that the Committee received an update on the Physician Practice Plans and the oversight is being transferred to the new Health Affairs Advisory Board from the Audit Committee. Trustee Hall stated that he has requested that Internal Audit benchmark the duties performed by the University system offices and have that available in October for the new President.

XVIII. CONSENT ITEMS

The Vice Chair reminded the Trustees that each Trustee is invited to all Board committee meetings. He noted that each item on the consent agenda was reviewed

fully by the appropriate committee. All items were recommended by the committees for approval as consent items. He stated that the following two items that were revised during respective Committee meetings, and the Board will be acting on them as amended: (1) Item M, Approval of Pilot Regional Tuition Rate Program for Contiguous Out-of-State Counties (UT Martin)--the Finance and Administration Committee recommended an increase in the out-of-state differential rate from 20% to 25%; and (2) Item was item S, Approval of Revised Vision and Mission Statement for UTIA--the Academic Affairs and Student Success Committee recommended editorial revisions to the Vision and Mission statement for the Institute of Agriculture.

The Vice Chair then asked for any requests to remove items from the consent agenda. There were none. The following items were submitted for approval by unanimous consent:

- A. Approval of a Resolution Honoring Henry Nemcik (Exhibit 21)
- B. Approval of the Naming of the UT Martin Alumni Center (Exhibit 22)
- C. Approval of the Naming of the Center for Entrepreneurship and Innovation at UT Knoxville (Exhibit 23)
- D. Ratification of 2009-10 Quasi-Endowments (Exhibit 24)
- E. Approval of Establishment of Haslam Torch Investment Fund (Exhibit 25)
- F. Authorization to File a Petition in Knox County Chancery Court to Modify the Purpose of an Endowment Fund Established for the Benefit of the School of Architecture *and* Approval to Use the Fund To Establish an Endowed Visiting Professorship in the School of Architecture (Exhibit 26)
- G. Approval of Real Property Transactions (Exhibit 27)
 - 1. Grant of a Water Line Easement (UTIA, Greeneville 4-H Center)
 - 2. Grant of a Water Line Easement (UTIA, Plateau Research and Education Center)
 - 3. Acquisition of an Easement by Gift from Bioworks Foundation (UTHSC, College of Pharmacy)
- H. Approval of Annual Report of Sale of Gift Property (2009-10) (Exhibit 28)
- I. Approval of FY 2011 Operating and Capital Plans for Senior University

Administrator Residences

- J. Approval of FY 2011 Distribution of UC Foundation Funds (Exhibit 29)
- K. Approval of President Emeritus Agreements (Exhibit 30)
- L. Approval of Amendment of Lease and Transfer Agreement with University Health System, Inc., and Approval of Fee Owner Recognition Agreement (Exhibit 31)
- M. Approval of Pilot Regional Tuition Rate Program for Contiguous Out-of-State Counties (as amended) (UT Martin)(Exhibit 32)
- N. Approval of Extension of Regional Tuition Rate Program for Undergraduate Students from Contiguous Out-of-State Counties (UTC) (Exhibit 33)
- O. Approval of Academic Program Consolidations at UTC (Exhibit 34)
- P. Approval of DNP Program at UTC (Exhibit 35)
- Q. Approval of DNP Program at UTK (Exhibit 36)
- R. Approval of Creation of the Department of Public Health at UTK (Exhibit 37)
- S. Approval of Revised Vision and Mission Statement for UTIA (as amended) (Exhibit 38)
- T. Approval of a Resolution Affirming Commitment to the Continued Success of the Frank H. McClung Museum (Exhibit 39)
- U. Approval of Tenure Recommendations (Exhibit 40)
- V. Approval of Comprehensive Listing of Academic Programs (Exhibit 41)
- W. Authorization to Confer Degrees (Exhibit 42)

The Vice Chair asked for a motion to approve the consent agenda. Trustee Stansberry moved approval of the consent agenda. The motion was duly seconded by Trustee Loughry and carried unanimously.

XIX. OTHER BUSINESS

The Vice Chair stated that there was no other business brought to his attention.

XX. ANNOUNCEMENTS

The Vice Chair made the following announcements:

First Meeting of Presidential Search Committee, Room 160,
Plant Biotech Building (*immediately after full Board meeting*)

Joint Meeting of Presidential Search Committee and Search
Advisory Council in Knoxville, 12:00 p.m. EDT, Executive Dining
Room, University Center on June 28, 2010

Summer Workshop at Fall Creek Falls State Park on August 24, 2010

Meeting of the Executive and Compensation Committee on September 10,
2010 in Nashville

Fall Meeting of the Board and its standing Committees on October 21-22,
2010 in Knoxville

XXI. ADJOURNMENT

With no further business to come before the Board, Trustee Stansberry moved adjournment of the meeting. Trustee Carroll seconded the motion, and the motion carried unanimously.

Respectfully Submitted,

Catherine S. Mizell, Secretary