

**MINUTES OF THE COMMITTEE ON
EFFECTIVENESS & EFFICIENCY FOR THE FUTURE (EEF)
THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES
SEPTEMBER 3, 2009**

The Committee on Effectiveness & Efficiency for the Future (EEF) of the Board of Trustees met at 10:00 a.m. CDT, Thursday, September 3, 2009 in the Student Alumni Center, 800 Madison Avenue (Room 305) in Memphis.

- I. **Call to Order**—Mr. Douglas Horne, Committee 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; so it is assumed there is none.
 4. Lastly, the name of the Trustee making any motion and the second will be announced to help in the preparation of minutes.

Chair Horne noted that the Committee has met in different locations around the state and it has been productive because all of the elements of the University--System, Campuses and Institutes--have an opportunity to demonstrate their work on the effectiveness and efficiency efforts. Once again, he reminded the group that the Committee is called Effectiveness and Efficiency because effectiveness means doing the right things and efficiency is doing things right. It is important to make sure we do the right things first for the University particularly during this troubled times of budget issues in the state. Tennessee has higher education funding and revenue issues and other states around the country have their own issues.

He thanked everyone for coming and expressed appreciation for the opportunity to visit the campuses around the state. He made mention that the Committee has met in Knoxville, Martin and now Memphis. He announced the next meeting would take place in Chattanooga.

He recognized Rich Rhoda, Executive Director, and David Wright, Director of Policy, from the Tennessee Higher Education Commission. Additionally, he recognized Ken Brown, UTHSC’s Executive Vice Chancellor, Pat Wall, outgoing Chancellor and Steve Schwab, incoming Interim Chancellor.

He recognized the new Student Trustee and noted his impressive resume and background; he then asked him to introduce himself to the Committee. Trustee Sumeet Sudhir Vaikunth addressed the Committee and stated that he was from Nashville, TN. He attended Vanderbilt University for his undergraduate studies and then joined Teach for America. He taught High School Science in South Central Los Angeles for three years and pursued a Master's in Education at UCLA. Currently, he is a second year medical student at UTHSC. He added that in view of his experience from Teach for America and his service activities he was really interested in a student trustee position. He applied and was selected to serve.

- II. **Roll Call**—Chair Horne asked Dr. Gary Rogers, Senior Vice President and CFO to call the roll. He did so and advised the Chair that a quorum was present.

Present

Douglas Horne, Committee Chair
Charles Anderson, Committee Member
William Carroll, Committee Member
Crawford Gallimore, Committee Member
Andrea Loughry, Committee Member
Jim Murphy, Vice Chair of Board
Jan Simek, Acting President

Absent

Charles Wharton, Committee Member

Other Trustees Present

Karl Schledwitz
Sumeet Sudhir Vaikunth

Also present was Senior Vice President and CFO Gary Rogers, and other members of staff.

- III. **Approval of Minutes**—Chair Horne called for consideration of the minutes of the June 1, 2009 meeting and any corrections or additions to the minutes. There were none. On a motion made by Trustee Gallimore, seconded by Trustee Anderson, the minutes were unanimously approved.

- IV. **President's Update**—Chair Horne asked Interim President Simek to address the Committee. He made mention that a lot of the issues that are in front of this Committee to be monitored came up at the recent Board retreat. At the last full Board meeting plans were presented showing the move of certain operations that were held at the System level to the Campuses. The plan was approved and it is moving forward with all expedition. There are four major units that have been divested from the System and moved to campuses. On July 1, the UT Motor Pool, most of which is located in Knoxville, was transferred from the System operations to the UT Knoxville campus given that is where it is located. The Business Officers from all the campuses and units have already met to discuss motor pool/vehicle operations and what might work best for them in their special circumstances scattered across the state. The design is to be as efficient and cost effective in their motor pool operations recognizing that all of the units need these operations. A motor pool committee has been formed to work out the services that will be handled centrally by campuses and what services will be administered out on location. The committee will also seek collaboration among units to realize economies and cost savings. Motor vehicles may be better purchased in number lots but each location will seek the best solutions to those costs.

The System also formerly provided graphic arts services primarily to Knoxville area units. On July 1, that operation was transferred to the UT Knoxville campus. A committee which includes the Knoxville's Vice Chancellor for Communications, folks from the Institute of Agriculture and others is looking at the services performed by Graphic Arts. The business model for charging departments for those services will be developed to determine whether central or campus provision of graphic arts services will be more cost effective than outsourcing. We will do what is less expensive in-house and whatever is most cost efficient with outside vendors. Cost effectiveness in that organization is a primary interest.

Records Management which was formerly administered by the System prior to July 1 has been transferred to UT Knoxville. The Records Management that was held centrally was mainly the Knoxville records management. The Bursar is analyzing the financial aspect particularly the imaging operation. We have already begun to shift some of the data entry into electronic form so that there is less imaging to be done but there is a certain amount of paperwork that is required. A business model will be created to best serve the people who use these services.

Finally, UT Knoxville area has maintained a Warehouse/Surplus Operation on campus. It was managed centrally and has now been

transferred to the UT Knoxville campus. They are investigating better ways of doing business. In many respects the determination is how to recover the most resources from the surplus materials and should we auction more materials than in the past. There are questions as to how to recover the money most effectively.

At the Board's Workshop one of the Trustees recommended using our Faculty resources to conduct some of our functions effectively and efficiently or at least look into how it is to be done. There is a unit within our Industrial and Information Engineering Department, the Center for Productivity Innovation that is led by Dr. Rupy Sawhney who is an associate professor. His expertise is in Lean Management processes and has served the Oak Ridge National Laboratory and a number of businesses within the Knoxville area. The President said he got to know Professor Sawhney while serving as the Interim Chancellor for Knoxville and used him to look at a couple of operations. In a very effective fashion he found cost savings in those operations. He and his graduate students are working in three areas now on campus to improve efficiency. They are working with the UT Knoxville Police Department to determine the best types of vehicles to use on different parts of campus. The real question is should we use motored vehicles in all areas where bicycles might be more cost effective to maintain security. This comes back to the way the UT Motor Pool operated in the past by imposing certain decisions on our police departments and that is the case here in Memphis as well. It may not have been the most effective way to deliver police protection, effectively use financial resources, or select most effective routes for officers and procedures in providing services. All of these are being looked at in the Police Department. They have worked with Facilities Services and determined that UT will actually save money and get better service if we don't outsource our lawn care. This is something that was initiated a long time ago and once it was outsourced the costs began to rise; now, it can be done in-house. In that case, that may be an instance where it is more cost effective to bring those activities back on to campus. They are looking at the cumbersome operation of Sponsored Projects management. It has always been quite a bit slower and less effective than it should be. They are going to determine how that can be streamlined to be more effective. We anticipate that Dr. Sawhney and his Lean Management Team will also help with the Motor Pool decisions as they go forward. Review of Research is particularly important because if we can redesign our research to be more effective in the way that it helps our Faculty and Researchers perform we can translate that information to the UT Health Science Center as we build a research support structure here. This is a particular important element among all the campuses. All is going well and the units are very receptive and have rolled up their

sleeves and are moving. I am very optimistic about the outcomes from this first stage of reorganization. As you know, at the Board's Workshop there were other areas that were pointed out that we will look at for the reorganization. We are not finished with this and the first stage has proved to be fruitful.

The dashboard measures that this Committee has been interested in having brought before them are included in today's materials. The Committee identified a number of measures and there is a document in your materials that has the most up-to-date version. Staff has continued to refine those metrics to bring them in alignment with the Tennessee Higher Education Commission's metrics and with issues that were raised by this Committee. This is being guided in the Office of Academic Affairs where I believe these sorts of data should reside. The measures have been vetted through and endorsed unanimously by the campuses' academic leaders and will be provided in their final form along with the score card itself at the October Board meeting. Dr. Simek said he has seen the preliminary data and it is consistent and good and is out at the campuses where they are being accumulated. He is very optimistic the Committee will receive the information they wanted as it moves forward.

Dr. Simek said publicly that he appreciated all the Trustees that participated in the Board's Workshop. He found it to be a very useful activity. He learned a lot and is hopeful that all who attended learned something. We have a blueprint to move forward in order to get a great deal more work accomplished during these difficult times.

Trustee Horne asked Dr. Simek to discuss some of the issues that came up at the Board's Workshop at Fall Creek Falls. The meeting involved the Board of Trustees, the President, the Chancellors and the Vice President for the Institute of Agriculture—campus leadership from across the System. President Simek noted that basically, the meeting was to talk about the System/Campus organizational relationship and how it would best serve the University of Tennessee. In anticipation of that, the campus leadership was asked to meet with their staffs and to come up with a set of issues they wanted raised during this Workshop. In his mind, what was gratifying and interesting was the issues that were brought up were consistent across all of the campuses. None of the issues were things that can't be done. They were neither hostile-nor polemical and they spoke to real aspects of the relationship and organization between System and campuses. The issues were about how the System provides services to the campuses that are actionable and action will be taken on them. They go all the way from decision making about how budgets are put together and the involvement and engagement of the campuses to how certain activities are done and

whether those might be better carried out at the campus or System level. All was by consensus and had remarkable uniformity and perspective. In the end, no one believes that a System is not needed but agrees that it needs to be leaner and devoted to serve the campus enterprises. He stated that he is totally in line with that idea and believes there is a blueprint to readily move forward and effectively. These are not instant changes because the campuses may not be prepared for everything. It will require working together to come to the conclusions and Dr. Simek promised he will work as expediently as possible to get the University there. The changes might not all save money because what is being looked for is effectiveness in addition to efficiency and it may require adding money to the budget in certain places in order to do it the best way. Dr. Simek believes all are on the same page and was satisfied with how it went and encouraged on how to move forward.

Chair Horne asked for any other comments on the Workshop. Trustee Gallimore said that he particularly enjoyed the discussions on succession planning and Chair Horne noted that all enterprises need a succession plan. President Simek said that he agreed one hundred percent. Good business practices were established that all can agree on and there was no argumentation at all. Chair Horne noted that the large focus of the meeting was to make the System leaner and faster. The discussion was held about the mere appearance and the effectiveness of the situation of the President's office being in the same building as the Chancellor's office. Chair Horne noted that the President's office in North Carolina is down the street from the campus and he personally believes that it is a good idea.

Trustee Anderson asked if the Board will be able to review the implemented changes before the search is conducted for the next President regarding the System changes. The incoming President will have to understand the more efficient System. He asked if there was a timeline and an agreement and Dr. Simek responded yes. Dr. Simek added that he hoped to have all the changes implemented. He then promised to work hard not to leave unfinished business behind for the new President. That person will need to understand the landscape that he/she will be operating on and need not to have to create it. There has been a certain tension in how the System and campuses related to each other specifically because of this. We were all in between where we wanted or thought we should be. The opportunity for an interim is to actually do that. Dr. Simek noted that he had a year and a half left and that the organization can get a long way in that time period. He thinks that Presidential candidates can be spoken to with the understanding that this is where it is going to be not simply where we would like it to be.

Dr. Simek then asked if he could acknowledge Pat Wall. He noted that he and Dr. Wall had met in Memphis the day before not to announce Dr. Wall's retirement but rather his rechanneling of energy from the Chancellor's position that he has held for the last two years, always with the understanding that a search would be conducted for a new Chancellor. Unfortunately, the search has not progressed. As a fellow interim he has been asked to go beyond the call of duty on numerous occasions. Dr. Wall is stepping down as Chancellor and going back into the Faculty and will serve in the President's office as a Special Assistant to work on development for the Health Science Center. It is something that he has flourished in and it needs to be pursued with vigor in these very difficult times. Chair Horne asked if it was development in the sense of raising money. Dr. Simek replied it would be Foundation work and relationships with the community. Dr. Simek thinks possibilities exist for this in a couple of directions in the Memphis community because of the relationship that the Health Science Center has with the healthcare community and the focus of the City of Memphis on healthcare. These are opportunities beyond what we would normally consider development but Pat is wonderful at it and has agreed to help with it. The Institution owes him a debt of gratitude for his service. Trustee Schledwitz echoed Dr. Simek's comments. He went on to say that Pat Wall has done more in the last two years than has been done on campus for many years regarding fundraising and reengaging the alumni. It is great that he will be able to focus more time on that because his work in that area has been a tremendous asset. Dr. Simek noted that Steve Schwab has agreed to step into the Interim Chancellor position at the Health Science Center. He is currently the Executive Dean and Dean of the College of Medicine which is the largest unit of the Health Science Center and has done a wonderful job in that regard. Dr. Simek promised Steve as the Board had promised him to be as quick as possible in finding his successor. The search will be launched right away. He has agreed to serve for a maximum of two years and hopefully the national search to produce the permanent Chancellor won't take that long. Chair Horne asked if Dr. Schwab would be a candidate and he said that he would compete for the position.

Chair Horne noted that Dr. Simek is doing a great job as a change agent in all that he is doing.

- V. **UTHSC Presentation Regarding Effectiveness and Efficiency—**
Chair Horne asked Pat Wall to introduce Executive Vice Chancellor Ken Brown and noted that Ken has done an excellent job in preparing the presentation on the Health Science Center's efforts for

effectiveness and efficiency. Dr. Wall expressed appreciation for the recognition afforded him and welcomed the new Student Trustee Sumeet Sudhir Vaikunth. He then introduced Dr. Ken Brown and noted that he is indispensable as Executive Vice Chancellor and is committed to the Health Science Center.

Dr. Brown extended his thanks to Chair Horne for having the Committee meeting on campus. He also thanked President Simek for spending a few days at the Health Science Center.

Dr. Brown told the Committee that he wanted to talk about some of the things the Health Science Center is doing to deal with the ongoing budget situation and appropriation reductions. The burden for the Health Science Center is different than the burden the other campuses are facing because it has 2,000 students not 30,000. Modest tuition increases do not amount to large dollars. Tuition is a small piece when considering a possible \$20-25 million cut within the next two years. He expressed appreciation to the Committee for sharing in the burden and acknowledged that members are not only in-tune with the Health Science Center but all locations. Major businesses and corporations that the members are involved in and manage everyday are also experiencing the same cost and revenue issues.

Dr. Brown began his presentation by noting the topics for discussion; budget trends over the last couple of years, cost control strategies, how to manage the huge reduction within the UTHSC budget, and how the stimulus resources will be used. In two years the stimulus money will be gone and ways must be found to maximize this one-time funding.

When looking at the budget trends from 2005-2010 the total operating budget has had some increases but it has been up and down. These trends give a variable for the past and what is projected for FY 2012. State appropriations will be going down and hopefully there will be modest tuition and fee increases. Facilities and administration cost recoveries will be up if research increases but the general operating budget overall will decline significantly as the stimulus money goes away. The most important thing to note is the decline in state resources and unless something happens dramatically that decline will continue and may be more dramatic than what is being projected. He then presented UTHSC's plan for managing through the situation of reduced budgets. The most important initiative is to continue to grow. The luxury of waiting on the state to turn around and fund capital projects doesn't exist for the Health Science Center. We are competing with other institutions for the best and brightest research faculty out there. UTHSC loses by not having research facilities like

other universities. The foremost priority is the impact of our students and the academic programs—that is why we are here. UTHSC is prepared almost at any cost—except to the detriment of the students—to continue their momentum. The infrastructure needs to be managed better than it has been over the past decades and that is not to be critical of the previous administration. Times have changed and energy costs are different. We live in a different world than the previous administration and must do things differently. During the first discussions regarding budget reductions UTHSC had a three pronged approach of eliminating vacant positions, instituting a reduction in force, and increasing tuition and that pretty much covered the shortfall. The deficit projection continued to grow and the scope had to be expanded. Additionally we started looking at cost savings, strategic reallocations of resources, identifying ways to avoid spending money and increasing revenue. Not having a hospital at UTHSC presents a difficulty because it leaves UTHSC without a discretionary income stream. UTMG is the faculty practice and they pay approximately \$2 million Dean's tax into the College of Medicine and those revenue dollars do not come into the campus. Plans for bringing in new revenue have to be found.

Approximately \$4 million in vacant positions have been eliminated throughout the colleges and primarily the eliminations were faculty positions because we continually recruit faculty. Over the next three years the recruitment of 20 basic scientists will be needed to populate the new research facility. The College of Dentistry had such a deficit of faculty that positions are being added there because of the poor faculty to student ratios. The turnover rate anticipated over the next three years will continue to be a problem in the College of Dentistry so it is being ramped up for the upcoming accreditation. The remaining vacant positions are still under review.

He then presented the tuition numbers and noted that the increase impacts the students but \$5 million raised from the increase seems insignificant considering the reductions that the University is facing.

Due to the fact tuition cannot be increased enough to cover the entire shortfall, we are forced to eliminate staff positions. These reductions are significant and total approximately \$4.1 million. This issue has been raised and discussed several times. The reductions will be done in the proper manner by working with HR and Legal but there is no way to handle a \$25 million reduction without a reduction-in-force. There is a blueprint of what it will look like and perhaps between 220-250 positions will be slated to eliminate as part of the reduction-in-force. The latitude to keep these positions on campus in the next two years and spend stimulus money on them exists; however, UTHSC would

not be able to meet the \$25 million budget deficit without eliminating these positions. This is painful and personal but it's not unlike what other Universities are going through. Again, it is our last choice but it is a necessity. Over the next two years in order to bring back some of these positions in our growth strategy this must be done now. It will be done in the most humane way as the President said. Trustee Gallimore asked how the work would get accomplished without these 250 staff members. Dr. Brown answered by saying he would be presenting this information shortly. Chair Horne asked if the \$4 million in savings was for one year and that it totals roughly to \$17,000 per person. Dr. Brown added that these are staff positions and that not one faculty position is being considered. Tenure and non-tenured faculty have been taken out of the equation. Chair Horne asked what kinds of positions are being cut and Dr. Brown said that they are administrative assistants making \$20,000 to business managers making \$25,000. Trustee Horne asked what the average savings per person for this reduction would be and Dr. Brown replied approximately \$25,000. Trustee Anderson asked what the percentage of the 250 reduction is. Dr. Brown said for the staff workforce it could be as much as 30-40%. Trustee Carroll asked if the 250 positions were filled. Dr. Brown said there are very few vacant staff positions. Dr. Brown takes a personal look at every position that is hired on the UTHSC campus and is very leery about hiring anyone else because it is not fair to the person on the outside to take a job and then lose it in a month or two. When UTHSC is ready to start hiring it will bring back those that were affected by the reduction-in-force. Those that were part of the reduction can apply for any vacant staff position on campus before anyone is hired off the street. Hiring has been limited to internal applicants only. Investigators hiring for grants usually hire Postdoctoral Fellows and researchers so they are given latitude to hire externally. Faculty hiring has continued but we are very deliberate and judicious.

Purchasing is a prime example and each purchase is scrutinized by finance and operations. We have implemented a new purchasing strategy by using reverse auction on E-bay and vendors bid and lower their price to achieve the sale. That strategy is starting to work out very well and have saved \$50,000. Trustee Schledwitz noted that the facilitator at the retreat asked if our medical school was part of a national purchasing alliance. Tony Ferrara, Vice Chancellor for Finance and Operations said that alliances are mostly affiliated with hospitals and there is minimal opportunity with a national purchasing alliance. Charlie Mann, a member of the Tennessee Higher Education Commission, made a gift to the Dental School and the University of Tennessee at Chattanooga. This enabled us to give donations of surgical equipment.

A great deal of money is spent on facilities upkeep and we are changing the approach. At one time, facilities were contracted out to an external company. The first action taken was the services of the external company were cancelled and most of the work was brought back in-house. Facilities will probably not be as affected in the reduction-in-force like some other units because the project managers need to be kept. We can manage a lot of the work on the infrastructure in-house and are starting to do that. There are new software programs to help manage space, track work orders and reduce internal transactions. The motor pool expenses were huge and the vehicles were leased from the System. Now that UTHSC is managing and purchasing their vehicles they are being kept longer and are able to get the models needed.

Information about the strategic reallocation of resources answers one of the questions asked earlier—how the work gets done with a reduction-in-force of approximately 200 people. One of the first things talked about was the centralizing of information technology. Historically, every college has their own information technology operation and that luxury is gone. Those IT positions at the colleges will be targeted when implementing the reduction-in-force. The centralized information technology organization will be charged with the responsibility of providing those IT services to the colleges. The deans will not have the latitude to hop in or out of a centralized IT management structure because it will be the only one at the campus. The responsibility that IT will be charged with is providing all of those kinds of services for the entire campus and it will be properly funded in order to accomplish its mission. Computer and software purchases must be controlled so that we are aware of what employees are buying. No one goes out and buys a computer without the centralized IT knowing it. The network has been locked up for security reasons. If someone goes out and buys a computer and plugs it into the UTHSC network it will not work. Software purchases are being controlled to manage the licensing and other issues. A significant investment has been made in Banner and support from the system is needed to manage the academic administration piece because it has always been a problem for this campus. Admissions and Financial Aid have struggled and hired a lot of people and it may be the answer to the question. We have reallocated resources to the technology and hopefully in the future won't need as many people as at present to manage that operation. The campus can spend an untallied amount of utility costs but we have now hired a utilities manager. This qualified engineer will undertake an analysis on every single building on campus. A number of the buildings are too old to be converted green and in a few instances some are actually "turning green."

In order to avoid costs by doing so many internal transactions the campus has taken control of the infrastructure. If someone's office needs painting they send in a request. The painters are sent over to look at it and it will be painted if it needs it and it is the campus' responsibility. If it doesn't need painting they are told no. It can be painted in any color as long as it is one that is offered. If an employee buys the paint and comes in over the weekend and paints the office a different color they will be charged for defacing the property and the office will be repainted in the proper color. If you put a dean in the position of whether to hire a faculty member or paint offices he is going to choose to hire. So there are offices across campus with paint peeling off the wall because the dean decided to put his resources elsewhere. We have taken this responsibility away from the deans and have properly planned a facilities budget. The infrastructure is not the dean's problem any longer. The approval process is another issue on campus. Depending on the cost threshold, the employee should be trusted unless they continually make bad decisions. It will save a lot of time because of redundant processes.

The campus has revenue enhancement opportunities and is trying to figure out how to make money. Everything is on the table. A new restaurant was built in the Madison Complex and a café was added in the General Education Building. Both have exceeded financial expectations. The campus has expanded and taken control of the catering service. If you want to book an event with a meal you must go through the catering department; that keeps the revenue on campus. Mixed emotions exist regarding the bookstore. The campus negotiated a three-year contract with Barnes and Noble and has some revenue coming in as a result of the contract. Students can go online and order their books through Amazon and places that are cheaper but this was a reasonable proposition that has been taken and at the end of the day it is a good contract. We are looking at some financing agreements and joint ventures with UT Medical Group. UT Medical Group does not have the resources to go out and spend \$5 million dollars on imaging equipment (MRI, Radiology, etc.) for the Germantown facility. So as a joint venture the University will consider buying the equipment and owning it. Because UTMG does not have that equipment patients are referred to the hospitals and the revenue made from the patients for the equipment is lost to UTMG and UTHSC. The revenue could be generated for the University if UTMG had the equipment to use. As a joint venture partner we would potentially establish a discretionary income stream to the University. It would pay for itself within less than a year. Regardless of the amount, the University would have the income stream that would outlive the stimulus money over the next two years.

Dr. Brown mentioned that he met with Commissioner Goetz to talk about the stimulus money that the State is anticipating from the Government's eHealth initiative and the recent restructuring that has been done with Tele-health enterprise has poised UTHSC again to subcontract with UTMG which is the largest faculty physician subspecialty practice within the State of Tennessee. We believe that the University can contract with the State with Tele-health and subcontract with UTMG for the Tennessee Tele-health network. The fundamental question is going to be what services you can provide on the network. We will have the emergency room personnel at the Trauma Center. We have the market on any hospital in the state of Tennessee that is not a level-one trauma center; at this time, Tennessee has three level-one trauma centers. The University of Arkansas for Medical Sciences has a program called ANGELS (Antenatal and Neonatal Guidelines, Education and Learning System). If stressed mothers show up at a hospital the physician can talk to the internal medicine specialist at the University regarding how to handle the complicated pregnancy. UTHC has internal medicine doctors that have international standing. Any physician in the state of Tennessee can be talking face-to-face with these doctors once the Tele-health network is worked out. We believe being able to contract with the State and subcontract with UTMG will potentially allow Tele-health to generate additional revenue for the faculty group and the University. We do continuing education at hospitals right now so Tele-health network can broadcast continuing education courses to all the hospitals within the state. Physicians must have continuing education so we want to be the premier source of that education in the state.

Dr. Rogers asked Dr. Brown to go back and talk a little about the ambulatory suite and the good ideas surrounding it. Dr. Brown told the Committee that there are two things going on with UTMG. One is the radiology suite and it is proprietary to the practice. The practice's main need for the radiology suite is finance and we have discussed it as a joint venture. Hopefully with Dr. Rogers' help a way to use the resources can be found to generate interest, revenue and have a return on investment within the next couple of years.

The ambulatory suite is a different endeavor in that the practice group is prepared to include us as partners. We will sit down with Dr. Schwab and the leadership of UTMG and the University joins the enterprise as a full partner in a joint venture. Hypothetically, we will put up \$2-3 million and the practice group puts up the same amount and as a joint venture we would purchase the equipment. They would build out the ambulatory suite and would not have to refer patients to Methodist and Baptist. The University and the practice group would

share in the proceeds of that patient population. We have the subspecialists and we see the patients and that is money that UTMG is leaving on the table. It was pointed out by the ECG Consultants' report that it was unfortunate that the UTMG group was letting so much money walk out the door. The problem with the practice group is they don't have those kinds of reserves to go out and spend \$5 million on equipment for the ambulatory suite. We see it as a wise use of relatively significant resources over an extended period that UTHSC could benefit from. We will be getting back with Dr. Rogers to discuss this in detail and get help in structuring the business plan and additionally, assist with the affiliation agreement between UTHSC and UTMG. A contract should be written separate from the affiliation agreement. Both of these plans may benefit from the use of stimulus resources.

Again, we will work with the UTMG group to gain a discretionary income stream. The issue for us is not just the budget cut but how we gain revenue as a result of these stimulus resources.

Clinical trials, unlike the basic sciences do not have large start-up packages and have a different return on investment. We are making some inroads in trying to grow the clinical trials enterprise. UTHSC has made an investment in the academic program infrastructure such as the Banner program, computer labs and IT strategies have been put in place. The modernization of energy efficiency over the long haul will help keep the utilities cost from running away with us. Those costs have never been handled properly. For example, there was not a ceiling put in the General Education Building when it was built. It was probably a great cost saving measure at the time but it is an energy hog now as the result of not having a ceiling. So the decision has been made to put one in now and manage the temperature control. We have \$2.2 million for capital maintenance that will be spent on the water system in that building but if a ceiling is not put in that building energy will continually be wasted. Every building on campus is subject to microscopic scrutiny to figure out how to get our arms around the energy efficiency issue.

The debt service on the new Translational Science Research Building is approximately \$4 million a year. New investigators need to be hired to generate enough revenue to recover the debt service. Our resources are going down given the state appropriations reductions that have occurred and additional cuts expected. Latitude is needed for investigators to bring in the revenue to recover the debt service so that state appropriations won't have to be used. UTHSC does have a strategy and with Dr. Schwab's help hopefully all colleges will be able to make that margin. Work is being done on the anatomy labs in the

Wittenborg building and it is about a \$2 million investment. Again, we believe revenue can be generated from the Tele-health program. We are bringing in some external consultants because the sooner we get the program statements done for the research and clinical buildings the sooner we can get the design people involved and get the buildings up and running. At that point, the recruitment process for investigators can be started. By getting the laboratories finished it will be possible to recruit scientists that might not otherwise have considered UTHSC. Basic science people are concerned about their laboratory space. For the UTHSC this is possibly the best and worst of times.

The video surveillance and dispatch system for the Campus Police has been upgraded. There are 200 sites around campus that will be monitored 24 hours a day. Digital equipment upgrade has been made to enhance the quality for work done internally. Once again, energy efficiency is key due to the significant cost of utilities. Lighting retrofits are being done on every building on campus.

Trustee Loughry complimented Dr. Brown and noted that the work being done at UTHSC is very impressive. She then commented that it is her understanding particularly in Life Sciences, that the industry is questioning the percent of F & A in higher education attached to research grants. How do we know if we are in the market for what is being projected for the earnings from F & A if the industry is out there looking for other places besides higher education for research. Dr. Brown said the NIH determines what the F & A rate is. What we based our estimate on is how many investigators and what revenues are generated based on the NIH R01 Research Grant. Certainly industry would question the formula we used. Our formula is predicated on NIH's awards. Trustee Loughry added that UTHSC has no control over that. Vice Chair Murphy asked if there was a possible way to offer non-NIH funding with a better deal on the F & A rate and lower costs to attract others. We have focused a lot of attention on the traditional educational idea but the other side of that is there a way to become leaner in our research operations and use that as a marketing tool. Dr. Brown commented that F & A is the overhead cost that NIH pays UTHSC for the research. We do have investigators that are not NIH funded that have research that does not come with overhead or comes with a lower rate. The problem with those investigators is that it costs us money; if we don't generate that overhead off that research then those are resources that must come from somewhere else. We do actively recruit those investigators due to their research in some instances. Vice Chair Murphy noted you can't lose money and still make it a go but the other side of that is how aggressive have we been in looking at how we staff to make a lean operation. Dr. Brown noted that his point is taken. UTHSC's portfolio is wide open in the kinds of

people that are recruited and they do understand that money can't be lost on the research. Trustee Schledwitz made the point that money is lost on research and the dilemma is that we say we can't lose but we do. It is the chicken and egg thing and he asked Dr. Brown if that was correct. Dr. Brown said that is correct and again some of these investigators do very good research so we are absolutely interested because of the collective research interests of the faculty. You might find some of these people that are not NIH funded that fit in the equation and maybe it will lend itself to greater NIH funding down the road. Dr. Simek made the point that F & A rates are negotiated especially with federal agencies. These federal agencies come to campus and look at what you are bringing to the table and will base the F & A rate on that. We are already very inexpensive from that point of view compared to other institutions. Some institutions have rates of 75% or more. The state of Tennessee won't contract at anything over 15%. That does not mean we don't lean down our research operation; if we can do research for less, then it allows us greater F & A recovery. I agree with Trustee Schledwitz that we are never going to approach where we make money but you don't do research to make money. You do research and your hope is that it pays for itself but you do it for reputation, prestige and to involve your students as part of the teaching and learning experience. Vice Chair Murphy said it creates the tension between the idea that we are going to raise money through research to pay for everything when in reality we are not. Dr. Brown said to just get it to where it pays for itself, with the investigators recovering the \$4 million for debt service, is good enough. He just wants research to support itself instead of consuming state appropriations and tuition revenue. Dr. Rogers then expanded on the comments by saying we negotiate the rate with the Department of Health and Human Service (DHHS). That is the cognizant agency for the University of Tennessee. Universities either negotiate with DHHS or the Department of Defense depending upon the mix of funded research. Tennessee has DHHS; plus the "F" part stands for Facilities and the "A" part stands for Administration. Administration is capped at 26% no matter what you spend. The University has ten (10) different rates; rates are in place for each campus and for both Agriculture and the Health Science Center. Every one of those is capped at 26% for the administrative part. The facilities part is the depreciation of buildings, equipment and fortunately utility costs and libraries. When that rate is calculated there is not a limit on the facilities part; so in the high-end examples the President gave, their new research facilities drive their facilities costs and that adds to their total rate. We negotiate the rate with DHHS and it is in the 46-48% percent range now. Except for NIH and NSF we get very few grants that are at the full rate. For instance, the State will only pay 15%, Department of Education was at 8% but has increased to 12% and USDA is 18%. The different federal agencies have different

rates. We have not discussed contracts and that is where you can often have business with the private sector by doing it on a contract instead of a grant. Then you still have to negotiate what your price is and build in direct and indirect costs for your facilities and administrative rate. Sometimes you cut a deal where you make money and sometimes you cut a deal where you still have cost sharing going on to the extent that you don't recover all of your indirect expenditures. That is treated as cost share. Even with many federal agencies there will be a required percentage cost share on a grant. We will give you X dollars direct costs and will allow Y percentage on cost recovery and by the way you spend some more money on direct costs and you have cost share that cuts into your recovery. All kinds of mixes exist but to Vice Chair Murphy's point; pursuing some of these opportunities under contract with the private sector may in fact give us a chance to generate revenue. Dr. Brown said the problem on the UTHSC campus with contracts is they have faculty that want to go out and create these entities for us to contract with. Then it ends up with another conundrum but contracting is good when you can afford them.

Chair Horne asked how UTHSC has done in the last few months on fund raising. Dr. Wall noted that he is just now getting involved in it but most of what we are doing is delayed giving. Essentially we're not getting any money on the table. We have contacted folks for \$4-\$6 million dollars and they say come back in a few years and we'll consider giving. Trustee Horne asked if we are being put off and Dr. Wall said no, the groundwork is being laid. Chair Horne said that is very important so that when the economy does come back sooner or later hopefully we have potential donors.

Dr. Brown said that when Linda Garceau-Luis came there wasn't any development organization. Linda has started to recruit people so now we have a functioning development enterprise. To have a development organization in place and up and running in these economic times is critical. Chair Horne asked how many people are in the development group. Dr. Wall answered that there are three (3) open positions that are being recruited for right now. Linda Garceau-Luis replied that including herself there are five (5) to cover all of the colleges and added that they have a thin staff. Chair Horne asked if there were any additional development personnel in the colleges or were all her staff and she answered that they are all in the development group. Chair Horne reminded her that employees that don't perform need to be eliminated. Dr. Brown said that we are mindful of that. We have made every faculty member a resource for the endowment enterprise so if someone has a particular interest or particular area of emphasis we try to identify resources to be able to go out and talk to that person and tell them how their gift can be used.

We have made novel approaches to potential donors. It is true that deferred giving is a big part of what we do in any economy. That is about 40% giving. Chair Horne then asked if training is provided for the development personnel. Linda Garceau-Luis replied absolutely and mentioned that her background was in planned giving at Vanderbilt for ten years. I require that my staff take training in planned giving so that they can make the initial presentation about it. My theory is that you don't walk away empty handed because you have given them so many opportunities. Chair Horne noted that when they visited the University of Virginia it surprised them that only 8% of their money is state money. They have 27 Foundations and they get their money from giving and tuition. Linda Garceau-Luis added with that said about planned giving we do have a number of million \$+ proposals that are out. She noted that Dr. Wall is a great fundraiser. Chair Horne said that is a great use for Dr. Wall and that he is a seasoned effective spokesman. A lot of fundraisers are told no and a lot of people can't accept that and they don't keep calling. No is just one step closer to yes.

Trustee Anderson then asked about classroom instruction that was mentioned in the presentation and wanted to know if the student/faculty ratio is getting to a critical point. Dr. Brown said it almost got to a critical point with the College of Dentistry. Trustee Anderson then asked if that was the only area that had a problem and Dr. Brown said that it was limited to that college. The college lost a lot of their faculty and just got down too low. Timothy Hottel, the new dean is doing a good job with recruiting and has made a significant difference in the relatively short time he has been here. Dr. Wall noted that Dentistry has been held harmless during these cuts. Trustee Anderson asked if we were beyond the scary stage that was mentioned earlier and Dr. Wall said yes. He added that part of the problem was the 37 year old building. We have \$5 million in the bank that we didn't have a year ago to start renovating the building and get it back up to standards before the site visit next March. Dr. Brown said there are approximately ten (10) construction projects underway on the building. Dr. Hottel has a number of faculty hires in the pipeline. The commitment of \$5 million is well on its way to being spent. Linda Garceau-Luis said that we should be able to convince them that we are pretty far along on the recovery curve.

Dr. Shwab thanked Dr. Brown for the presentation and stated that what we've learned and what Ken has done is aggressively looked at what can be done when the state's budget shrinks. We have made aggressive plans as to how to find additional lines of income. This group is probably more aware of our clinical practice groups that have ever been in its history. We have large very successful clinical practice

groups. They are also having substantial downturns and we are dealing those within our clinical practice groups. We are looking at mechanisms by which substantial dollars can be raised independent of the state-funded business. Dr. Brown has talked about how to raise dollars in our research endeavor and make it approach profitability even though no one has ever made research profitable. Substantial infrastructure investment opportunities await us as we create a larger market share with the clinical practice groups. As we have grown our practice plans we can model the volume of business we push through in the ambulatory service facility. We know how many ambulatory cases we do in various hospitals, how many CT Scans and MRIs are in our practice and Dr. Brown knows the profit margin on each and every one of those tests. It is an opportunity for the University to create a downstream business cash flow if that is allowable to the context of the University. It is very attractive to us and to the practice plan. The practice plan is going to go out and seek other partners to joint venture on CT Scanners, MRIs and inventory operating suites. Who better than the University of Tennessee to be the practice plan's partner? We are excited because we are trying to look for ways to create downstream revenue over many years to make up for the loss from the State and support the total mission. These ideas are innovative and we hope they are reviewed favorably. Chair Horne stated like the Governor said two years ago you manage better in tough times. You manage things you didn't know you could. Dr. Brown's presentation is a great example and it is appreciated.

- VI. **System Measures Regarding Effective and Efficient Operations—**
Dr. Rogers reviewed the efforts the Treasurer's Office over the past several months in order to be more efficient. One of the goals was to free up more time for Butch Peccolo to spend in his role as Chief Investment Officer rather than managing some of the day-to-day operations. As we do more fundraising and try to build the endowment there is more to manage there and it will need more concentrated effort. We have restructured his area so that he has more time to function as the Chief Investment Officer. The material includes the before and after organizational charts of the entire Treasury function. It is one of the larger groups within central administration. There is slightly over 100 people altogether and that is why this area was selected for fine tuning and the potential to save.

Butch Peccolo was unable to attend today because of the death of his father-in-law last night. His replacement was ill and since Chris Cimino has been involved in all of this we have pressed him into service today as one last item of help. He knows this material and can talk to you about it very quickly. It is measures that have been taken in order to

streamline and make things more efficient by cutting out paper and bureaucracy that Dr. Brown was talking about earlier. Chris Cimino, Vice Chancellor of Finance and Administration, UT Knoxville informed the Committee that ten years ago a new administrative system was implemented; it is called IRIS internally. It is an integrated in real time information system from SAP that businesses and higher education institutions use around the world. This system's two components are financial and payroll (which includes human resource functions). The University went live with the financial part of the system in April 2001 and the payroll portion went live in January 2002. A great deal has been done with this system; today will provide an update on where we've been and where we're going.

We need to budget and leverage more of the system in order to reduce administrative processes that eliminate paper. More than 450,000 transactions actually flow through the system. More than 28,000 purchases are put through on purchasing cards. For every single transaction that is put on a p-card it enables us to actually stop an invoice process in workflow. Industry says that you can spend anywhere from \$5-\$8 per invoice to push it through the system because everyone has to touch and bless it all the way through to cutting a check. In 2008 it was estimated that 61,000 transactions went through our system to support 27,000 active employees. That is a lot of paper and transactions. Over 75% of that now is done through the workflow process to limit paperwork. Every time an employee works on a contract or grant you have to certify the effort. It used to be a very labor intensive process and had to all be done on paper and it is now put into the SAP system. It is totally automated and goes through workflow. Direct deposit is now done on employee travel reimbursements. Contract administration is something that took place this summer and is continuing. A lot more imaging is being done in the system and doing away with a lot of paper. This is eliminating the cost of tracking paper. Tenure reporting is something that is currently being worked on with campus administration and faculty. Online employee pay statements were implemented this summer.

Things that are in the works are insurance annual transfer and raw materials. Insurance benefit statements are being considered for electronic distribution instead of mailing. We are trying to go to electronic forms as much as we can especially on the human resource/payroll side. E-recruitment and Performance Review Management, processes are being started, along with greater use of technology to push information electronically to our employees, and the automation of archiving all of the financial data. Imaging is going to be a significant opportunity for improved efficiency; it is estimated that 5 million pieces of paper containing employee related data may be

involved in human resources and business offices. Providing employee's the ability to go on-line and enter information such as addresses and so forth will also improve overall efficiency and accuracy of data. Plant maintenance and research reporting is something that is being expanded as well. This is just a brief update on how we are continuing to update the system and cut the administrative overhead. Chair Horne asked Dr. Rhoda if the Board of Regents had a committee like this. He replied they do not have a committee that involves board members just staff.

Vice Chair Murphy stated that obviously there is one challenge we face in implementation is funding. What are the other non-funding issues that we are facing in getting these things done. Is there resistance amongst employees or faculty in doing this or is it that we are doing as much as we can with the amount of people and funding resources we have. Dr. Rogers answered by saying it is a time and dollar restraint. We had a little bit of pushback on giving employees their pay statements electronically but overcame it very quickly. Any employee that does not have access to a computer can go to their department and get a print out if they want one. Electronic deposits are done for all employees and now they will have electronic notification that their pay is there. In just two months we have overcome most of that. Some of the things that we work on in areas that people are used to doing a particular procedure takes some selling to convince them that they are not going to lose but gain something. We have been able to achieve that so the people that work in this group have done a superb job. Dr. Simek added that there has been very little resistance because employees understand the rationale of what is being accomplished. Dr. Rogers then added that the contracts that Chris was mentioning were a good example. It is much easier for an employee to point and click to find what they need rather than digging an old contract out of a file. It also improves the compliance with those contracts because it is easy to get to and it is indexed versus just saying it is too much trouble and letting the transaction go. Trustee Loughry remarked that it is amazing the amount of paper that has been saved due to these changes. Dr. Rogers said there is a document in the Committee's materials that shows the time, dollars and so forth that might be helpful.

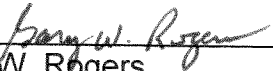
- VII. **Recent Budget Outlook for FY 2010 and FY 2011**—Chair Horne asked Dr. Rogers to go over the last item on the agenda. Dr. Rogers underscored the importance of what Dr. Brown had been talking about and asked the Committee to review the chart with nothing but red bars. He explained that it represents the shortfall that the State's General Fund has experienced over the eighteen months. January of 2008

was the last time that the State's actual revenue exceeded their budget. The last eighteen months the revenue has actually been below budget. With the tax structure in Tennessee the State revenues generally lag national revenues. As the national economy improves Tennessee's economic outlook will also improve but a little more slowly. We are in this for the long haul and the things that UTHSC is talking about are very important to measure to get us back to a more even keel. The materials also include a copy of a memorandum from Commissioner Goetz. It is instructions for all State agencies in the preparation of the budget for 2011 which we have to begin submitting to the State this fall and the Governor will present to the Legislature in January. All State agencies have been instructed to reduce their base budget by 6%. Higher Education stops at 6% and other State agencies have to go up to 9% with the second tier. We will get that 6% back for FY 2011 because of the maintenance of effort money (MOE) that the State is required to put into higher education under the federal stimulus act. In 2012 that 6% comes out of our base budget. Those reductions that we already knew about in the base, plus that, plus this next 6% (which is roughly \$26 million for the University of Tennessee) totals in the neighborhood of \$112 million in appropriation reductions that the University of Tennessee will incur when doing the budget for fiscal year 2012. The MOE and ARRA money will be gone as Dr. Brown said earlier we need to be cognizant of that and make good use of that money in the next two years while we do have it. When we get to 2012 compared to 2008 we will have gone from an appropriations base of some \$500 million to an appropriations base of less than \$400 million. Chair Horne asked how many positions/jobs that we think we will have to reduce now and mentioned that this had been discussed before the stimulus money. Dr. Rogers commented that this compounds it. As we go through the next two years and do these kinds of things that have been discussed today we might be able to mitigate some of that. It may not be as bad as we think and it is probably premature to project additional position reductions. Chair Horne mentioned that UTHSC had projected 200 or more staff positions to be reduced. Dr. Simek added that is just at UTHSC and that was only in response to the \$66 million. This may amplify that. We have just received this information and we haven't worked it through the campuses yet that have to respond. It is not getting better. Vice Chair Murphy said with 70% of expenditures reduced now there is not any way to reduce that significant amount of revenue without serious personnel cuts. We need to also make sure that we can continue to provide the services. At some point, you have to say what services can be eliminated because it is impossible to be the same organization in 2012 as in 2008 in light of revenues. Chair Horne mentioned that he was talking to Drs. Simek and Yegidis earlier about ideas on how to make the faculty more effective too. We must think of

everything. Dr. Rogers said that one other thing that has happened at the State as you recall last year was a mid-year rescission and we had to give money back. This occurred in the October/November timeframe. This year that occurred in August for all of the other State agencies but higher education as a collective group was not affected by that; however, from a future standpoint for 2012 other State agencies have taken higher cuts than higher education. So it is not out of the realm of possibility to expect that there may be some additional equity adjustments for all State agencies in 2012. This is real and it is serious and ongoing. Chair Horne said that there is a lot of influence in this room statewide. In the last two weeks he has asked Governor's candidates about what their plans are for higher education.

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

IX. **Adjournment**—Committee Chair Horne adjourned the meeting at 12:15 p.m. CST.



Gary W. Rogers,
Senior Vice President and Chief
Financial Officer