

**MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE
THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES
OCTOBER 9, 2009**

The meeting of the Finance and Administration Committee of the Board of Trustees was held at 10:15 a.m. EDT, Friday, October 9, 2009 in the Hollingsworth Auditorium, on the Agriculture Campus at the University of Tennessee in Knoxville, Tennessee.

- I. **Call to Order** - Mr. Robert Talbott, Chair, called the meeting to order and made the following introductory remarks:
 1. While the public is invited and welcome at all Board meetings, our meetings are ~~—in~~ “the public” but not ~~—p~~ “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 ~~—ow~~ “business” has been brought to the Chair’s attention prior to the meeting except for the two items that will be added at the end.
 4. Lastly, the name of the Trustee making the motion and the second will be announced to help in the preparation of minutes.
- II. **Roll Call** – Chair Talbott asked Mr. Butch Peccolo, Treasurer and Chief Investment Officer to call the roll. He did so and advised the Chair that a quorum was present.

Present

Robert Talbott, Chair
Charles Anderson, Member
Bill Carroll, Member
John Foy, Member
Jim Murphy, Vice Chair of the Board
Jan Simek, Member
Charles Wharton, Member

Other Trustees Present

Anne Holt Blackburn, Trustee
George Cates, Trustee
Spruell Driver, Trustee
Tyler Forrest, Student Trustee
Crawford Gallimore, Trustee
Monice Moore Hagler, Trustee
Jim Hall, Trustee

Doug Horne, Trustee
Karen Johnson, Faculty Trustee
Andrea Loughry, Trustee
Verbie Prevost, Faculty Trustee
Richard Rhoda, Trustee
Karl Schledwitz, Trustee
Don Stansberry, Trustee
Betty Ann Tanner, Trustee
Sumeet Sudhir Vaikunth, Student Trustee

Also present was Treasurer and Chief Investment Officer, Butch Peccolo, other members of staff, and media representatives.

- III. **Approval of Minutes of Last Meeting**—Consent Item—Chair Talbott called for consideration of the last meeting’s minutes. On a motion made by Trustee Carroll and seconded by Trustee Foy, the minutes were unanimously approved as distributed with no amendments necessary.
- IV. **Treasurer’s Report of Endowment Investment Performance**—Information Item—Chair Talbott asked Treasurer and Chief Investment Officer, Butch Peccolo to present the report on Endowment Investment Performance. Mr. Peccolo informed the Committee that for the decade ending June 30, 2009 the S & P 500 was down 2.2% (total return)--the worst decade return since the 1930’s when the return was 0.0%. The good news is the September 30 ten-year rolling was only down .15%. One quarter is left to escape the dubious honor of having the worst decade ever in history. The S & P coming out of a bear market has an average first year return of 35.8%. Coincidentally, as of June 30th the S & P was up by that amount since the bear market low point of March 9th. It has been up over 15% since then. The annual federal deficit is 10% of Gross Domestic Product; of more concern, it could be much higher going forward. All that creates a very difficult environment for endowment investing.

He then discussed total funds invested for the benefit of the University of Tennessee. In 2007, the University celebrated when it pushed past the \$1 billion mark. Unfortunately, because of the two down years, the total funds are \$707 million as of June 30, 2009. (That includes the University of Chattanooga Foundation at \$93 million and the Chairs of Excellence at \$87 million.) Last year, \$41.4 million was distributed throughout the University from the total funds. The vast majority is for scholarships, instruction and academic support. Most of these funds are targeted for specific purposes and not for the general operation of the University.

The Consolidated Investment Pool tracks the ten-year growth; it ended June 30, 2009 at \$475 million from a 2007 high of \$697 million. This past year with market value declines, \$30 plus million of distributions for programs support, and the net of \$20 million in new gifts, a decline

of \$176 million occurred in the value of the pool. The amount benefiting the University over the recent ten-year period was \$270 million.

The long-term compound return over the ten-year period (which includes the recent down years) on the Consolidated Investment Pool was 2.7% and is well off the long term target of 9%. The Pool has three goals:

1. —Bal” portfolio returns compared to inflation
2. Asset class returns compared to market indices
3. Nominal total returns compared to other similar endowments

When the portfolio was restructured in 1983 the long term goal was 9.0% and the University is off that goal; however, over longer periods (e.g. 20+ years), the return rate is 10.3%. This impacts what is distributed for programs. Over the long term, the University has preserved the real purchasing power of those distributions.

A five-year rolling average is used for the Asset Class Comparative Returns. The objective is the ambitious long-term goal of 5.5%, which is the spending plan and the administrative costs, plus CPI (that is the intergenerational equity calculation). It fell far short of the goal during this five-year period. Global Equity has matched the world index. Global Fixed Income fell a bit short during the period because of distressed debt exposure that wasn't part of the aggregate. The Real Assets performed very well. The Diversifying Strategies lagged the T-bill plus three but again that is an absolute return. Given the past couple of years, that is to be expected.

The University of Tennessee participates in the National Association of Colleges and Universities Business Officers Annual Survey (NACUBO) along with over 500 other institutions. The year 2008 was the start of the down market. The varied portfolio characteristics that helped get top quartile and top decile before that affected last year. The portfolio has a value orientation and value investing got hammered. In addition, the portfolio also had an overweighting in small caps stock. Because of those issues the University did not compare favorably in the survey. The equal weighted returns were: one year -6.6%, three year 8.7% and 5 year 10.7%. The 2009 study will not be out until January 2010 because the data is just now being collected.

Since last year, the thirty year US Treasury bonds are yielding around 4% while short term treasury bills continue to be about 0.10%. The last time the Federal Reserve raised interest rates was in 2006. It is unlikely that rates will be raised within the next 12-18 months. The S & P 500 has gained 15.6% for the third quarter but still has to be up over 45% additionally to reach the October 2007 highs; most likely, it will not happen by December 31, 2009.

Mr. Peccolo mentioned that the Investment Advisory Committee meets quarterly and is an engaged group. Trustee Cates, a member of that Committee, added to Mr. Peccolo's remarks. He expressed that he is a believer in value stocks over long periods of time. They have not done well for the last ten years but data shows that this year they are beginning to go up very strongly. The position of the portfolio will now be quite strong because they account for 23% of the total which is the largest single holding. The area that has done the poorest for the last ten years is Private Equity and the exposure has been lessened to 11%. It has been down -4.6% per year for ten years and is the single reason the portfolio has been hurt. International Equity, Hedged Equity, Real Estate and Natural Resources have all been very good performers for the last ten years. The portfolio is balanced very well and is now being rewarded in 2009.

Trustee Gallimore noted that Mr. Peccolo indicated that there was no leverage in this current reporting period. He then asked if the operating procedures for the Consolidated Investment Pool allow for or use any leverage. Mr. Peccolo said yes and looking at the portfolio as a whole, including all of the diversifying strategies and hedge funds, 1.4% leverage exists for those strategies—meaning that for every dollar there is \$1.40 exposed. It is watched very carefully.

- V. **Treasurer's Financial Report**—Information Item—Chair Talbott asked Treasurer and Chief Investment Officer, Butch Peccolo to move on to the Financial Report. He advised the Committee that a draft of the University's financial statements for the year ended June 30, 2009 was in the Board materials. The financial statements consist of five parts; Management Discussion Analysis, Statement of Net Assets, Statement of Revenues and Expenditures, Statement of Cash Flow and Footnotes. These are draft statements and the final statements will be distributed sometime before the next Board meeting. Changes, if any, will only be minimal editing or formatting changes. The Audit Division of the State Comptroller's office is in the field now doing their work. As of this date, no findings have been brought to our attention. He took a moment to recognize Ron Maples, the Controller for the University. He has done a stellar job working with the University's business officers and the auditors. He helps resolve questions early on so they don't become issues. Additionally, he prepares these statements and his efforts are appreciated.

The final statements will also include two component units which are the University of Chattanooga Foundation and the University of Tennessee Foundation. Those entities have not sent their audited statements as of yet. The auditors have notified us that next year the UT Research Foundation will have to be included as a component unit because of the material activity.

Total assets grew to \$3.015 billion in FY 2009 compared to \$2.942 billion in FY 2008. Net assets declined as the liabilities increased. The

composition of the assets included a cash increase of \$100 million due to reclassification. The cash management portfolio composition transitioned out of fixed income securities of Treasuries, Agencies, etc. into Tennessee Bank CDs as the yields were higher for collateral investments. CDs are considered cash equivalents not investments. The fair value of investments decreased by \$197 million as discussed in the Investment Report. Capital Assets increased by \$158 million and receivables, inventories and pre-pays increased by \$13 million. That accounted for the increase in total assets.

The composition of liabilities increased 11.6% primarily due to a bond issuance for the capital construction program--an increase of \$99.5 million in bond indebtedness is reflected. Total revenues were down. Gifts, grants and contracts increased \$32 million but appropriations went down \$36 million. Student fees increased \$12 million and investment income decreased \$123.5 million. Year over year reflects a decline in total revenue.

Expenditures for the year increased from \$1.614 billion in FY 2008 to \$1.638 billion in FY 2009. The commitment to salaries and benefits is still over 70% of the University's expenditures. It increased 1.2% or \$14 million. The other increase of .5% or \$1.7 million was primarily due to utilities, supplies and other services.

The final audited financial report will be delivered between now and the next Board meeting and will include the Auditor's Opinion Letter as well as any findings.

Vice Chair Murphy asked what caused the difference in salaries between FY 2008 and 2009 since no general pay raises occurred and if benefits account for some of it or is it something else. Mr. Peccolo said that while appropriations decreased, one-time funds from the State allowed the University to maintain part-time and temporary instructors. Vice Chair Murphy interjected that it was stimulus funds (make up money) that was taken into account. Mr. Peccolo said yes and noted that some salary increases did occur, particularly in the auxiliary and athletics areas.

Trustee Horne asked with a debt of \$518 million and the interest rates so low whether short-term commercial paper is an option. Mr. Peccolo replied that all commercial paper and bonds go through the Tennessee State School Bond Authority (TSSBA). They issue the commercial paper as a funding gap until bonds are issued. A number of projects will not be bonded. If the period is only a five-year financing, it is kept under commercial paper. Trustee Horne then asked about the non-current bonds and whether or not they have fixed long term rates. Mr. Peccolo said yes, and by statute the University has to use TSSBA for every debt issue. Trustee Horne then asked about the terms of the debt. Mr. Peccolo stated that on a new construction the term is as long as thirty years and twenty years for a renovation. It is project by

project but then TSSBA compiles all of the University's and Tennessee Board of Regents' debt needs and then a bond issue is structured. The University can have as short as ten years depending on the project in a bond issue. Trustee Horne confirmed that all debt terms were ten years or longer and Mr. Peccolo said that is correct. In fact, TSSBA watches that very closely and has initiated many re-financings in the last two years. They look at what they can take out and put in a new bond issue to reduce overall cost.

Chair Talbott noted that Trustee Horne had asked a really good question and stated that he is responding to the Armageddon of a year ago. He added that it is always incumbent on us to have those longer term issues on debt. He assumed the bonds do not have any call provisions. Mr. Peccolo said bonds only have refunding options which favor the University. TSSBA can decide to refund but the bonds are not callable.

- VI. **Revision of Board of Trustees Policy Statement on Travel—**Consent Item—Chair Talbott called on Treasurer and Chief Investment Officer Peccolo to continue. Mr. Peccolo explained that a number of years ago the Board adopted a travel policy that acknowledged the University's ability to direct bill certain travel expenses but it also incorporated the current practice of a corporate travel card. It was an American Express card that was part of a corporate program and was a personal liability and not a University liability. The University allowed any employees that traveled and qualified to apply for an American Express card. The reason it was done in the 1980's was to get out of doing travel advances to assist employees as they traveled on University business. The advances were given before they traveled and the employee had to clear the advance upon return. The program worked well but over the period of time it declined. At the height of that program over 8,000 cards were in use. The 8,000 card holders dropped down to 1,000. The payment schedules weren't good and American Express solicited the University's help to collect some of those personal liabilities, which was never the intention. Additionally the individual who oversaw the program retired. In the midst of budget cutting that was one position that was not filled. For those reasons it was decided to get out of the corporate card program. A number of employees still need help with their travel. Rather than to get into big exposure of travel advances the request is to modify the previous Board action allowing authorized employees to direct bill airfare. In order to do that the employee would have to use the University's official travel agency, World Travel, which was awarded through a competitive bid. Through that agency a number of contracts are in place with airlines for discounted airfare. The proposal is to modify the previously adopted Board Travel Policy to include the changes mentioned. Chair Talbott explained that the adoption is included in the materials and shows the requested changes. The new policy would delete subsection two and add new subsections two and three.

On a motion made by Trustee Wharton and seconded by Trustee Anderson, the Board Travel Policy was approved as amended.

- VII. **Annual Flight Operations Report**—Consent Item—Chair Talbott requested that Dr. Katie High present the Report. She advised that the expenses of the UT plane were down \$118,000 from one year ago. A number of factors contributed to that lower cost.

First, the new King Air is faster than the previous plane so it takes less time to fly to places like Nashville and allows for savings. Nashville constitutes a great deal of the usage of the plane.

Second, now with an on-site mechanic, the plane does not have to go to Nashville or Atlanta for service and use deadhead flights. The savings on that item is \$24,000.

Third, when the budget situation became critical last fall the University Administration curtailed the use of the plane except for extremely necessary travel. In short, when it was possible to drive that was the method of transportation taken. The plane has been used judiciously and prudently since that time. Every effort is used to make sure the plane is full each time it flies. Each trip is looked at carefully in efforts to combine trips and use the plane in an effective way.

Fourth, last year the plane was down for 2 ½ weeks for repairs. The repairs were taken care of and caused downtime.

The plane flew 324 hours last year. The cost to fly is \$1,929 per hour. Departments that use the plane pay \$950 per hour. The rest of the cost is paid by the UT System and an annual contribution of \$155,000 from UT Athletics.

Administration and Athletics uses it 2/3 of the time and other academic units use it 1/3 of the time. The breakdown of last year's usage is:

Athletics - 20%

President's Office - 14%,

UT Knoxville Chancellor's Office - 5%

Combined System Administration Offices – 28%

Other Academic Departments – 33%

Charter services are still being used primarily for Athletics – 71%. It usually happens starting this time of year through the recruiting season. The average cost for using a charter is \$3,025 per hour compared to the University's plane cost of \$1,929. The charter is only used when necessary.

The UT plane flew 377 legs last year. Of those, 289 were in-state and 95% of those in-state flights were either to Nashville or another UT campus. The out-of-state flights were primarily in the Southeast and two flights went west of the Mississippi River.

Charters were contracted for 273 legs. Of those, 138 were in-state flights and the bulk of the rest were in the Southeast. Ten trips were made west of the Mississippi River and three of those were to California.

The plane is used as a necessity; the University works diligently to use it effectively and efficiently. All measures are being used to reduce cost. The plane provides a safe and an important service to the University. This Report is submitted for the Board's approval.

Trustee Horne asked if Athletics pays for their charter hours. Athletics pays \$155,000 upfront to defray the cost of the UT plane and they pay the \$950 per hour when they use the plane. In addition, if they or anybody else uses charters they pay the full cost.

Trustee Horne cautioned about the safety on charters and noted that these companies are struggling and cutting back on the maintenance of these planes. He stressed that safety for all passengers is a top priority. Chief of Staff High responded by saying the new pilot, Michael Dilulio works very closely with the charters and is very cautious in that area. He is cautious also when it is necessary to hire a temporary pilot and knows the best ones to use. Safety is first.

On a motion made by Trustee Anderson and seconded by Trustee Carroll, the Annual Flight Report was approved.

- VIII. **FY 2009-10 Budget Update**—Information Item—Chair Talbott asked Treasurer and Chief Investment Officer, Butch Peccolo for an update on the FY 2009-10 budget. The original FY 2010 appropriations were \$513,928,600. Recurring adjustments of \$2,642,100 and one-time adjustments of \$25,709,700 made by the State totaled \$28,351,800. The current FY 2010 appropriations total \$542,280,400. The most significant change was the appropriation of the 2009 American Recovery and Reinvestment Act (ARRA) funds to the current year in the amount of \$32,179,500. After the award was made the Federal Government revised some of the guidelines on how the funds are awarded and allowed the State to reallocate some of the funds originally awarded to Higher Education. When the funds for Higher Education were reduced the Maintenance of Efforts (MOE) funds were reduced as well which accounts for \$8,281,200 in reductions. All other changes were normal variations that occur during the year such as benefit rate, additional funding for professional privilege tax, and one-time change in the 401k match and claims and property rate adjustments. Additionally, a Legislative amendment for improvements to the College of Dentistry program at the UT Health Science Center provided \$1,000,000. Funds will be spent primarily in Instruction and Academic Support. THEC has changed some of the guidelines and some renovation costs will be allowed using ARRA funds. Campuses are reevaluating their initial plans now to see if projects at their campus

qualify for the use of the ARRA funds. These funds come to the University on a cost reimbursement basis. The expenditures are incurred per the plan and once a month they are submitted to the State and they are reimbursed. The total amount of ARRA funds is \$92,516,000 and a total of \$4,749,462.24 has been spent to date.

- IX. **FY 2010-11 Operating Budget Appropriations Request**—Consent Item—Chair Talbott then asked Mr. Peccolo to present the next agenda item. He informed the Committee that the University is allowed to put together a special appropriations funding budget request for the new fiscal year for non-formula units. A list of the items submitted totaling \$22 million is in the Board materials. The likelihood of getting these funds is slim to none in light of the State’s financial situation. Due to THEC timing requirements, the list has already been submitted to THEC; however understands that if this Committee or the Board of Trustees wants to modify this request in any way an amended one can be submitted.

On a motion made by Vice Chair Murphy, seconded by Trustee Foy, the FY 2010-11 Operating Budget Appropriations Request was approved.

- X. **FY 2010-11 Capital Outlay and Capital Maintenance Projects**—Consent Item—Chair Talbott asked Treasurer and Chief Investment Officer Peccolo to present the next item. He informed the Committee that three schedules are included in the Board materials. The first one is the Capital Outlay Request for the coming year and four years out. The University received no capital outlay funding in FY 2010. Over the last ten years the University has averaged just under \$42 million in capital outlay. The University has not received any funds in four out of ten years. When funds are received they are usually substantial but the University does not anticipate receiving capital outlay money next year. The priorities have been discussed with all of the campuses and a consensus reached with the rankings. The list is submitted to THEC and the State to be part of the Governor’s budget for next year.

Trustee Wharton asked why a \$31 million building for the Audiology and Speech Pathology was on the list and noted that it was a program being considered for elimination a year ago. He commented that it is only a master’s program or evolving into one. President Simek noted that the Ph.D. program is still intact but has moved to Memphis and is almost entirely a graduate program. He also explained that it is in the same building with new psychology clinics that are still part of UT Knoxville. The building itself divides that space into two entities. Audiology and Speech Pathology programs were always primarily graduate programs so it has not shrunk much in the transfer to Memphis.

Trustee Horne stated that he was aware that the University would not receive any capital monies but asked if maintenance needs were at a

dismal amount. President Simek replied that a little relief of \$4.6 million was received this year in capital maintenance that was used for some of the most critical issues. Alvin Payne, Associate Vice President, Capital Projects told the Committee that the request is for \$181 million over the next five years. Trustee Wharton asked if that included everything. Mr. Payne explained that consultants are evaluating all of the facilities. The first phase has been completed. Part of the capital budget proposal is to continue the study and move to Phase II. He noted that the information will be shared when it is available. Trustee Horne made mention that stimulus money cannot be used for maintenance. Mr. Payne reiterated that the University has just been advised in the last 2-3 weeks from THEC that ARRA funds will be allowed for capital maintenance purposes. The Knoxville campus provided approximately 40 projects totaling around \$40 million. The other campuses are working on their lists now. The stimulus funds cannot be used for new construction but can be used for renovations and modernization.

Chair Talbott noted that at least two buildings needed roof replacements and asked if the priority was based on how long the project has been in the queue. Mr. Payne said the priorities are submitted to the System based on the need determined by the campuses. The list deals with the high priorities such as roofs. An electrical systems issue exists in Knoxville that is being addressed. The most critical, life safety, leaking roofs, and HVAC problems are being identified on the capital maintenance list prioritization. All of the number one priority requests from each campus are merged and then worked through. Chair Talbott acknowledged that maintenance is a ticking time bomb and urged President Simek and others to focus on how to handle in light of declining appropriations.

Trustee Cates added that Trustees needed a better understanding of setting these priorities. He stated that it gets into these inter-fraternity battles that are regrettable. At the UT Health Science Center, the only clinical services is the privately funded Hamilton Eye Institute and it is small. He then mentioned that in FY 2010-11 that \$31 million for the Audiology and Speech Pathology and Psychology clinic could be an overwhelming need but he doesn't know. He then said he is not attacking it but is asking what method is used for evaluation of these relative needs. He knows that the needs of the UT Health Science Center are acute but he doesn't know about the one he just mentioned. President Simek told him that the Administration follows very closely what the campuses submit in setting the priorities. The list is projects bubbling up. If the campus does not propose clinics then it cannot be included on the list. It is not an assessment of the needs of clinics in two different places. It is what the campuses submit as their highest priorities. Trustee Cates said he was sad to hear that. President Simek added that what that suggests is a needed conversation about what those priorities are on the campuses and bring them forward. He committed at the Board retreat to be responsive to what the campuses

believe their needs are. The priorities need to be set and maintained so that the prioritizing structure makes sense to the State Legislature as projects are brought forward.

Trustee Driver said he understood that all of the campuses were in consensus with the overall priorities. He wanted to be clear on who arbiters it at the system level on sorting the prioritization from the various campuses to take a macro view from the system level. President Simek explained how this one came about because it was due right after the August Board retreat. The list has existed for a long time. The Chancellors were asked if they had changes in their priorities or in the order. Basically, they all said that it was good as it was; it was a conversation among all of us. He agreed that input is needed at every stage.

Trustee Hall asked if the consultant's report was being done on all campuses for all facilities, if priorities are being set and if it is possible for the Board members to get a copy of the report. Mr. Payne replied yes upon completion a copy would be given to Board members. The process includes asking each campus to identify what they deem to be their worst buildings based on their evaluation. Two consultant firms were engaged as a joint venture, the Pickering firm out of Memphis and the Michael Brady firm out of Knoxville. They are evaluating all of the worst buildings initially and then will review another group in Phase II that will be started in this current fiscal year. Phase III funding is part of the capital maintenance request that was presented today. Trustee Hall asked if it was being done on all of the campuses or just Knoxville and Memphis. Mr. Payne said that it is being done on all the campuses. A Request for Proposals process was done and those two firms were selected to be the best evaluated joint venture to do the work. They have actually been onsite at all campuses and reviewed the worst buildings at each campus. They will do another review in Phase II, funded in FY 2009-10, and a third phase is being proposed for FY 2010-11.

Trustee Hall then asked what the purpose of the report was. Mr. Payne answered it was to identify maintenance needs in a consistent manner across the System. This is information that we can provide the Board, THEC and State Building Commission. This process has not occurred for a number of years. Up until the 1990s a consistent process was used by a number of the entities (THEC, State Finance and Administration, Board of Regents). Subsequent to that the work did not continue due to various reasons. This has been restarted in the last year.

Vice Chair Murphy added that it is to come up with a comprehensive inventory of what is in Phase I, which is the worst, and then Phase II, which is the second group, and then Phase III, which is the third group. Mr. Murphy asked if a dollar amount will be presented or will it just describe what needs to be done. Mr. Payne said it will identify the

need. The budget process is what associates dollars with those needs. As far as the capital budget submission process for next year, each campus will use the report as justification to present particular projects. The projects will actually have numerical rankings and identify the various components that have problems with them and be submitted to the System. That information will then be provided to THEC, State Finance & Administration, Governor's Office, Legislature, etc. to justify the capital maintenance needs in future years. Vice Chair Murphy said this gives you a way to compare across the campuses on which projects have the most needs versus which one might not. Mr. Payne answered that is correct because some inconsistencies related to internal evaluation between campuses. We have the campuses' information on how they evaluated their buildings but overlaying it with two consultants that are working statewide will give us consistency in deciding what the largest problems are across the System.

On a motion made by Trustee Carroll, seconded by Trustee Anderson, the FY 2010-11 Capital Outlay and Capital Maintenance Projects were approved.

- XI. **FY 2010-11 Revenue/Institutionally Funded Projects**—Consent Item—Chair Talbott asked Treasurer and Chief Investment Officer Peccolo to continue with the next agenda item. Mr. Peccolo explained that it is a listing of all the University projects that will be revenue funded by the University, any bonds will be issued by the Tennessee School Bond Authority (TSSBA). The list is broken down by campus and the total is \$127.7 million. These projects will go through the budget process via the Governor and the General Assembly. Of this total, about \$67 million is contemplated to involve TSSBA bonds, \$17 million are ARRA funds, and the remaining amount is institutional/gift funds and a variety of sources. This item is to authorize the University to enter into contracts for design and construction with these projects during the fiscal year with available sources.

Trustee Wharton asked about the energy performance contracts. Mr. Peccolo explained that a number of the campuses are considering utilizing firms to look at utility usage on the campus and to design systems to reduce their utilities costs. UT Martin had a program a number of years ago. The Board of Regents has a number of schools that have entered into these types of agreements. The utilities savings is used to repay the bonded indebtedness.

Trustee Loughry commented that energy brings to mind the Board's request for University staff to examine its contract with the Tennessee Valley Authority in terms of purchasing energy. She then asked if that had been done. Dr. Simek said no but that he and Trustee Horne are making plans to go meet with them. Trustee Horne said that it needs to be done. It may not work but we need to try to have a one source deal with TVA. Large industries have deals with them and the

University is large so we need to try to get a deal to improve our energy costs.

Trustee Carroll asked how the priorities are determined on the Revenue/Institutionally Funded Projects. Mr. Peccolo explained that the projects are determined by the campuses. The list consists of what the campuses have revenue to support. Vice Chair Murphy interjected that this list is based on the priorities that the campuses will pay for from revenue sources so if they can pay for it they can do it. Mr. Peccolo stated that is correct.

Chair Talbott made note that the Intramural Fields are on the list. Hopefully, the campus has adequate revenue to support it.

On a motion made by Trustee Wharton, seconded by Vice Chair Murphy, the FY 2010-11 Revenue/Institutionally Funded Projects were approved.

- XII. **Cherokee Farm Campus Development Guidelines**—Consent Item—Chair Talbott asked Treasurer and Chief Investment Officer Peccolo to continue with the next agenda item. Mr. Peccolo stated that at the June Board Meeting the Cherokee Master Plan was approved. The Tennessee Higher Education Commission and the State Building Commission subsequently reviewed and approved it. The Development Guidelines have been expanded and are included in the meeting materials. The Board was interested in how these Guidelines addressed energy conservation. A new section (2.2) captures all of the energy efficiency and savings guidelines listed throughout the book into one section. Additionally, section 3 was added to deal with the process the University will follow when involving third-party developers on this property. John Haughton and Craig Parker from Gresham Smith and Partners presented the Development Guidelines.

Mr. Haughton began by saying that Gresham Smith and Partners presented the Master Plan for the Cherokee Campus at the June Board Meeting. The expanded Development Guidelines provide more information to address the two questions raised in June: energy conservation and the review process for projects proposed for the Campus. The document located in the Board materials briefly highlights the Master Plan and issues related to that. It establishes a strong foundation or basis for future development when covering architecture, energy conservation, parking, access and utilities, signage, landscape and streetscape design and design review process.

The mission of the Campus is to be a state-of-the-art science and technology research campus solving problems of national significance. The Master Plan shows seventeen (17) buildings roughly, 1.6 million square feet of development. The planning principles are reiterated in the Development Guidelines so that as future projects are considered

they will be tested against them. The sustainable design is a key component of the Master Plan. Both the Master Plan and the Development Guidelines will follow the State of Tennessee's Sustainable Design Guideline. The State Building Commission uses these Guidelines and covers land management, water efficiency, energy efficiency and atmospheric protection, material and resource use, indoor environmental quality and innovation.

A strong emphasis is placed on excellence in design and expressing the innovative and creative spirit of the campus. Over time, materials and programs will change but a desire exists for the Campus to always be on the cutting edge in terms of its design and planning process.

Throughout the Development Guidelines a number of energy conservation recommendations or standards appear across the spectrum of the Campus development. Energy conservation is not just simply the buildings, it will be accomplished throughout all facets of the Campus. Minimizing embodied energy means using renewable materials or locally sourced materials. Energy that buildings use is considered but the product and how much energy was used to manufacture it is also included. Landscape plans can do a lot in terms of heat islands (how much heat the landscape absorbs). Another important part is providing convenient and cost effective transportation alternatives.

The Guidelines touch on parking, access and utilities trying to make sure that as individual projects are proposed that they all tie together in a unified manner to make the Campus inviting.

The signage is to convey a clear identity of the Campus. Having people participating from all around the world is the ultimate goal so having a real clear identity is important. The durability of materials and minimizing the amount of clutter is included. Typically benches and trees relate to streetscape but it goes beyond that in terms of sustainable design to tie in energy conservation related to the land as well.

Since June, the project review process has been refined. Five (5) members have been identified that will participate as the Project Review Committee. Any project that moves forward according to the Development Guidelines would have to be approved by four of the five committee members. Accordingly, the University's Division of Facilities Planning will staff that Committee and at the three key phases of design, development and process schematic design, design development and construction documents the Staff and the Committee will approve each of those phases. It is a very thorough process in terms of how a project will advance to be built on the Campus.

Trustee Hall asked if the use of the UT School of Architecture was used in the review process. Mr. Houghton replied that they had not

identified anyone on the Review Committee and went on to say that the Dean has participated on the Campus Master Plan Steering Committee.

Chair Talbott asked about an architectural theme and covenants and restrictions. He recalled a discussion at the last meeting about making sure that covenants and restrictions be recorded and binding on the property so it is not subject to people's whims as to what looks good architecturally. He then asked if that was still the plan. Mr. Houghton said that it is and that the covenants and restrictions will reference the Development Guidelines so the two will work together. Chair Talbott then asked if a dominant architectural theme would be in place as far as the look of the buildings. Mr. Houghton replied that it doesn't reference a specific style because the materials could be so different but it speaks of being compatible. It is going to be incumbent on the Review Committee to ensure that occurs. The idea of being a state-of-the-art science and technology campus is that the buildings will also reflect that research. For instance, the Joint Institute of Advanced Materials may have some materials development as part of a building itself. A correlation of the program and the architecture is to be achieved.

Chair Talbott said that he is not totally against it but what is being said is that some buildings on the campus may look radically different. Mr. Houghton answered yes but within a range. Materials and colors are specified within the Development Guidelines. The compatibility will be within a family of materials and colors. Chair Talbott noted further that the University wants to be on the cutting edge and the way he understands that is that maximum flexibility will be available to the Review Committee which he believes is alright but the campus may not have an architectural theme which he personally would like for aesthetic purposes. He wanted to make sure that all the Committee Members were aware of that because approving the Development Guidelines will give a lot of flexibility to the Review Committee.

Mr. Houghton then said if you look at the Master Plan and the strong quadrangles that it has, the Campus should be a unifying design and the buildings can have individual differences but be captured in the strength of the Campus itself. Trustee Carroll noted that the Committee will change from time to time over the next few years so does that mean there will be differing opinions of what was originally planned. Chair Talbott replied yes and you could end up with a building that we all think is ugly because someone on the Committee thinks it's pretty. That is the potential problem with the Review Committee having so much flexibility. Vice Chair Murphy said that unless you limit the building types in a theme there is going to be that risk. Chair Talbott said that is the risk we are running here and that he is not opposed to it but wanted the Committee to understand that it is what is being voted on.

Trustee Foy commented that what was heard yesterday was the importance of getting this building underway and that is what needs to be emphasized to the architects, engineers and all involved that time is crucial and we jeopardize losing these funds. He doesn't care what the design is as long as the buildings are built and the money is spent and regardless of what is designed that it is able to get built.

Trustee Horne added that he does believe a general concept design is necessary and asked for Houghton's view. Mr. Houghton said that someone during the process mentioned that regardless if it is Frank Gary or Frank Lloyd Wright the Campus will ultimately be defined and identified in terms of its public spaces. If you go to the University of Virginia it is the Law and Academic Village that people remember. The public space that is immediately around them is what people experience. He noted that he thinks the flexibility is good because building technology is changing so rapidly.

Chair Talbott noted that he thinks having solar panels on the roof would be ugly but because it is a research building they may be needed. He then said he comes down to giving the Review Committee flexibility and trusting them to do it. Vice Chair Murphy said another thing is that we are talking about it being a state-of-the-art in sustainability and energy conservation so we need to be careful in limiting what more and more people say is becoming more important. Dr. Simek noted that is what is being looked at in the Master Plan and the Design Guidelines. Because of the way the State works each building itself has to go through a design and approval process.

Chair Talbott then asked for the slide to be shown of the five members of the Review Committee that will decide. Trustee Hall then asked if anyone knew what the process was at the Research Triangle. Dr. Millhorn said that he lived there during the time that they were building and he said there is not a common architectural motif as you go through the Research Triangle Park.

Mr. Houghton said that they looked at a range of existing science tech campuses like this and they do vary across ones that are very restrictive to others that have the flexibility. Trustee Hall said that he did think it would be useful to have the Dean of the School of Architecture as part of this review process and Trustee Horne agreed. Dr. Simek said that the State has its own process of selecting architects and we need to be careful. Trustee Hall said that he is very well aware of that and has seen what it has produced. Dr. Simek said that maybe the Dean of Architecture could be a part of that staff so that the information is there. Architects can also use creativity to a point that we might not want to see. The balance is what we are after here. Trustee Hall said that he appreciates that and thinks we can do a better job now than has been done in the past.

Trustee Tanner asked if all of the buildings will be under LEED (Leadership in Energy and Environmental Design) compliance. Mr. Houghton replied that the way the State of Tennessee's sustainable guidelines are written you have to reach a certain number of points. Those points equate to LEED standards so the answer is yes.

On a motion made by Trustee Wharton, seconded by Trustee Foy, the Cherokee Farm Campus Development Guidelines were approved.

XIII. **Real Property Transactions**—Consent Items—Chair Talbott called on Butch Peccolo, Treasurer and Chief Investment Officer to present the Real Property Transactions. He explained that each one must be approved separately.

A. **Proposal to Sell Residence, 940 Cherokee Boulevard, Knoxville**—Mr. Peccolo explained that this proposal is consistent with the decision that Trustees made in 2007 to provide housing allowances rather than housing for Chancellors. The Administration will seek the necessary State approvals, get the required appraisals and will seek to sell at or above the appraised value.

Trustee Wharton stated that he personally did not want to see the residence sold since it has been a part of the University's history and would like for it to continue. He noted that not many other Trustees have the same feeling regarding the residence but wondered if all Trustees could vote and not just the Finance and Administration Committee. Chair Talbott asked if Trustee Wharton was advocating the movement of the item from the consent agenda to discussion. Trustee Wharton said only if another Trustee present supports it. Vice Chair Murphy said that under the rules if a Trustee asks for an item to be put on the full Board agenda it can be put on there. This Committee would make a recommendation but then the full Board would vote on it as a non-consent item. He told him if that is what he wanted to do that the item could be moved to the non-consent but this Committee would still vote and make a recommendation. It would not be on the consent agenda. Trustee Wharton said he would like to get the advice of the full Board. A motion was made by Trustee Wharton to move the Proposal to Sell Residence to the full Board non-consent agenda.

Trustee Hagler said that she understood that an appraisal was done on this property and asked for the amount. Chair Talbott said two (2) appraisals were done. One appraisal was \$3 million and the other was \$3.75 million. Trustee Hagler asked that given the market conditions if the property is not able to be sold at the appraised value is there an opportunity to go back to the authorities to sell it for less or will the University end up holding the property and continuing to do what is being done

now. Chair Talbott told the Committee that he did not think that the appraisals should be accepted because the value should be much higher. Mr. Peccolo said that a sale below appraised value must be approved by the State Building Commission. The option the University would have would be to substantiate the offer and then submit it to the State Building Commission for consideration.

Chair Talbott then noted that this Committee can also say that the residence should not be sold unless we can get a designated amount. The appraisal is the low end of the spectrum. Vice Chair Murphy said that one of the issues discussed at the last meeting was setting a floor on selling this property. An appraisal does not have to be used as the floor and so one of the things that can be done is if a certain amount is not received the property is held until a buyer comes along that will pay the amount established. It would require coming back to the full Board for approval in order to sell it below the amount established.

Trustee Wharton asked how long the University has had the residence. Mr. Payne stated that the residence has belonged to the University since 1961.

Trustee Schledwitz asked where the proceeds go upon the sale of the residence and any other real estate properties. Mr. Peccolo said that it would go to whatever designated purpose the Board directs. Trustee Schledwitz noted that he did not recall this practice in the past. Many times the real estate is gift properties that have designations on the monies after it has been sold. Trustee Schledwitz asked when property such as the residence in discussion is sold and there is no debt on it and it is not gift restricted do the proceeds go into the General Fund? President Simek said that is what typically happens and in this case some uses for the proceeds have been identified, such as the Veterinary School Large Animal Clinic renovation. Several projects exist that the University would like to help with or fund otherwise.

Trustee Horne said if we sell the residence it will gain national publicity because the University is selling its President's residence. Consider how that will look in acquiring a new President. Trustee Wharton added and it will never be able to be replaced. He then said the residence could be a place for events because of the character.

Trustee Foy asked if a cost comparison had been done for the housing allowance that would be given to the new President versus the cost of the maintenance on the residence in that respect. Vice Chair Murphy said a nice housing allowance

could be given for what is being paid every year in maintenance costs on the residence. Chair Talbott stated that the yearly maintenance amount is a large number. Trustee Stansberry said that a housing allowance would never equal to the maintenance costs of this place. Vice Chair Murphy said that you could give two or three people housing allowances for what is being paid every year. Chair Talbott said the operating and maintenance budget for the residence for 2007/2008 was \$155,000 and 2008/2009 was \$192,300. Due to not using the residence, the budget is \$50,000 so far for 2009/2010.

Trustee Horne commented that one of the biggest needs the University has is private fund raising. The new President and spouse will be required to do more entertaining, fund raising and visiting. More money will be raised if a private house is available that requires them to entertain. Vice Chair Murphy said that the University has had experience with President and spouse entertainment and that will be looked at real closely upon the arrival of a new President.

Trustee Loughry asked the Committee to consider the national trends of Presidents, be they male or female, particularly not wanting to live in public housing in today's world. Dr. Simek commented that if you give a housing allowance the expectation is that they will entertain in their house.

Vice Chair Murphy proposed a motion that the sale of this residence is approved subject to getting an offer of \$4 million; it was seconded by Trustee Anderson. Trustee Wharton opposed. The amended motion carried. Chair Talbott stated that discussion will be held at the full Board meeting.

- B. **UTK – KUB Easement**—Mr. Peccolo explained that it is a proposed permanent power Easement with poles, guy wires and anchors located on the east and west side of Estabrook Road at the intersection of Cumberland Avenue and Estabrook. The proposed Easement is approximately 290' +/- in length and 15' +/- in width. On a motion made by Vice Chair Murphy and seconded by Trustee Carroll, the UTK – KUB Easement was approved.
- C. **UTIA – Columbia Water and Power System Easement**—Mr. Peccolo informed the Committee that the item was a proposed permanent (Utility) Easement. It is for anchors and guy wires for three (3) poles which will be located along the western border of the UT Middle Tennessee (Dairy) Research and Education Center located along the eastern right-of-way of US 31 in Columbia, Tennessee.

On a motion made by Vice Chair Murphy and seconded by Trustee Foy, the UTIA – Columbia Water and Power System Easements were approved.

- D. **UTIA – Acquisition of Property**—Mr. Peccolo informed the Committee that the item is an authorization to acquire a facility on Downtown West Boulevard to be used by the Institute of Agriculture. This property is currently held in a Charitable Remainder Trust with the University being the largest residual beneficiary of the Trust. The Great Smoky Mountains Institute at Tremont is a beneficiary of \$100,000 as is the East Tennessee Historical Society. To avoid self dealing as per the Internal Revenue Code, the University would resign as Trustee of the Charitable Trust in order for the property to be purchased. Upon resignation, the Knoxville Trust Company would step in and get an appraisal and do all the fiduciary duties as Trustee. The University would then seek to acquire the property at the appraised value with the approval of the State Building Commission. Once the University owns the property, the Knoxville Trust Company will resign and the University will become the Trustee of the sale proceeds.

Dr. DiPietro stated that the Institute of Agriculture intends to relocate the Eastern Region Extension Office to the Downtown West property. Their current office is located at the East entrance near the East Tennessee Research Education Center in what is called the —Star House”. It is about 2,000 square feet and the location is difficult for ingress and egress to Alcoa Highway. Extension is committed to constituents around the state to serve rural and urban communities. UTIA believes that the location of the Downtown West property is well suited for access, parking and serving East Tennessee with a regional office. The facility will serve as a programming office and meeting place for regional and county directors. In its current facility, the Eastern Region Extension Office does not have adequate office space for their Extension operation.

On a motion made by Trustee Wharton and seconded by Trustee Anderson, the UTIA Acquisition of Property was approved.

- XIV. **Other Business**—Consent Items—Chair Talbott advised the Committee that two items had been submitted under Other Business. One is a UTK – KUB Easement along Third Creek and Neyland Drive; the second is the property that was discussed yesterday with respect to the West Tennessee Solar Farm. He then explained that he had to have a motion to add these items to the agenda.

On a motion made by Trustee Wharton and seconded by Trustee Foy, the two items were added to the agenda.

Vice Chair Murphy abstained from the vote.

Mr. Peccolo presented the UTK – Knoxville Utilities Board Easement to the Committee. He explained that it is a permanent Easement for Sanitary Sewer Utility. It is part of Knoxville Utilities Board's PACE 10 program mandated by the Environmental Protection Agency (EPA). It deals with a ten-year wastewater system improvement and the Easement goes from the intersection of Third Creek and Neyland Drive. Mr. Peccolo asked Craig Parker to address the Committee because of his work with KUB on this project.

Mr. Parker explained that the initial phase would go from the mouth of Third Creek and past the Joe Johnson Bridge to the Fulton Bottoms area. It is a replacement of the existing line which is about 60+ years old and in bad shape. Trustee Foy asked if it was just a replacement and not a new Easement. Mr. Parker replied yes and construction of a new siphon structure and line that connects with the one that comes down Neyland and takes both of the lines under Third Creek. A concrete structure will replace two existing concrete structures. Trustee Foy asked if the current Easement was on University property. Mr. Parker stated that no one can find the existing Easement. Trustee Foy then asked if KUB would abandon the current Easement when the University gives them this Easement. Mr. Parker explained that the new line is actually the initial phase that is going to be dug up and replaced in that same trench. Trustee Foy asked if KUB would abandon on record the existing Easement. Mr. Parker replied that one cannot be found on record and Trustee Foy said that a quick claim deed could be done. Vice Chair Murphy asked Mr. Parker if the University would give KUB the Easement over the area they have currently been using. Mr. Parker said yes.

On a motion made by Trustee Carroll and seconded by Vice Chair Murphy, the UTK – KUB Easement (Sanitary Sewer Utility) was approved.

Mr. Peccolo stated that the second item is a recommendation on the acquisition of the land for the West Tennessee Solar Farm. It was discussed in great detail in the Research, Outreach and Economic Development Committee the day before.

Vice Chair Murphy asked General Counsel and Secretary Mizell if the Committee is proposing this item be on the regular agenda and not on the Board's consent agenda. Ms. Mizell replied on the consent agenda. Vice Chair Murphy did not think that he could put it on the consent agenda without abstaining from the entire consent agenda. He asked that it be taken off the consent agenda because his law firm represents Haywood County, in case there is any potential of conflict. He asked that it be voted on the full Board and he would abstain at the Finance and Administration Committee and the full Board meetings.

Chair Talbott said that it needs to be moved from the consent agenda to the full Board agenda.

On a motion made by Trustee Wharton and seconded by Trustee Anderson the Acquisition of Land for West Tennessee Solar Farm was approved. Vice Chair Murphy abstained from the vote.

- XV. **Adjournment**—Information Item—Chair Talbott asked if any other business needed to be brought before the Committee; none was noted. The meeting was adjourned at approximately 12:15 EDT.

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