

**MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE
THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES
JUNE 19, 2008**

The meeting of the Finance and Administration Committee of the Board of Trustees was held at 2:30 p.m. EDT, Thursday, June 19, 2008 in Room 156-157 of the Plant Biotech Building on the Institute of Agriculture's campus in Knoxville, Tennessee.

- I. **Call to Order** - Mr. William Carroll, 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. There is a set agenda and prepared materials for that agenda. No "new business" has been brought to the Chair's attention prior to the meeting, and so it is assumed there is none.
 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** – Chairman Carroll 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

William Carroll, Chair
Charles Anderson, Member
Jerry Jackson, Member
Andrea Loughry, Vice-Chair
John Petersen, Member
Robert Talbott, Member
Charles Wharton, Member

Other Trustees Present

Anne Blackburn, Trustee
Barbara Castleman, Trustee
George Cates, Trustee
Spruell Driver, Trustee
Commissioner Ken Givens, Trustee
Jim Hall, Trustee
Doug Horne, Trustee
Rhynette Hurd, Trustee
Brittany McGruder, Student Trustee
Jim Murphy, Trustee

Karl Schledwitz, Trustee
John Schommer, Faculty Trustee
Don Stansberry, Trustee
James “Bucky” Wolford, Trustee

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

- III. **Approval of Minutes of Last Meeting**— Mr. Carroll called for consideration of the last meeting’s minutes. On a motion made by Trustee Jackson and seconded by Trustee Talbott, the minutes were unanimously approved as distributed with no amendments necessary.
- IV. **Progress Report on Cost Project**— Chair Carroll asked Dr. Gary Rogers to give a report on the progress of the Cost Project.

Dr. Rogers explained that the Executive and Compensation Committee had requested a cost study be performed and to be monitored by the Finance and Administration Committee. He advised the group that an Accounting and Budget Terminology sheet had been handed out for their reference and proceeded with the Cost Study Report presentation.

Dr. Rogers explained that one goal is to identify ways to contain costs while providing quality programs. The productivity of expenses will be monitored with assistance from BearingPoint Management and Technology Consultants. Even though measures can look good against peer averages, that doesn’t mean we have done everything we need to do in the area of cost management. Vice Chair, Andrea Loughry circulated a timely article from the Chronicle of Higher Education (“Minnesota Colleges Seek Accountability by the Dashboard Light”).

Dr. Rogers told the Committee that Instruction and Research are core focus areas for the University and that is where most resources are applied. However, all areas will be reviewed for improvement and efficiency. The matter to consider is doing the best with the resources we have. We need to find ways to improve our roles as stewards and demonstrate prudent management.

After reviewing historical cost comparison information, the approach and the desired outcomes, Dr. Rogers then introduced and turned the presentation over to Geoff Harkness, Managing Director of Education and Healthcare for BearingPoint Management and Technology Consultants. Mr. Harkness then introduced the two other members of his team, Alicia Karam, Vice President and Gautam Tulsian, Senior Manager. Mr. Harkness discussed what other Boards are doing to address costs and the relative distribution of education and general costs across functional areas. He also noted sources of cost

containment and actions being taken. Mr. Harkness then reviewed a project time line and next steps.

- V. **Treasurer's Report of Endowment Investment Performance—**Information Item —Mr. Carroll asked Mr. Butch Peccolo, Vice President and Treasurer to give a report of the Endowment Investment Performance. Mr. Peccolo advised that investment performance reflects some negative returns for the quarter and the year, for the University of Tennessee. Negative returns were consistent across most capital markets. Although the current quarter combined with the previous quarter brought the rolling one-year return to negative territory, the longer term 3-year and 5-year totals are positive and exceed the long-term goal of 9.0%.

Mr. Peccolo stated that there was some improvement shown for April and May that recovered some of the decline from the previous quarter.

Mr. Peccolo informed the group that the Investment Advisory group met and agreed to shift funds from current managers to new managers in the international equity, absolute return and hedged equity allocations.

- VI. **Ratification of Quasi-Endowments—**Consent Item—Mr. Peccolo informed the Committee that a Board of Trustee resolution dated September 22, 1995 authorizes the University, with the approval of the President and Treasurer, to establish quasi-endowments without waiting for official governing board action, provided the Board of Trustees receives an annual report of the names and amounts of such quasi-endowments during the previous fiscal year and ratifies the action. In accordance with that resolution, a schedule of the quasi-endowments established from July 2007 to July 2008 was presented. Ten (10) quasi-endowments were established in the past 12 months totaling over 5 ½ million dollars.

Motion was made by Trustee Jackson to approve the ratification of quasi-endowments and was seconded by Trustee Anderson; the motion was approved unanimously.

- VII. **Approval of Use of Quasi-Endowments for Transition Expenses on Volunteer Hall—**Consent Item—Mr. Peccolo referenced information regarding the University of Tennessee's establishment of the Knoxville Campus Quasi-Endowment Fund in the amount of \$4.0 million to support costs associated with Volunteer Hall (formerly Knoxville Place). The Campus requests the use of \$1.5 million of this quasi-endowment balance as one time funding to be used for transition and start-up expenses related to Volunteer Hall.

Motion was made by Trustee Anderson and seconded by Vice Chair Loughry to approve the one time funding of \$1.5 million for Volunteer Hall start-up; the motion carried unanimously.

- VIII. **Review of UT Foundation Operating Budget for FY 2009—**Information Item—Mr. Peccolo addressed the Committee regarding the Memorandum of Understanding between the University of Tennessee and The University of Tennessee Foundation, Inc. (UTFI) approved by the Board in October 2005, requiring UTFI to make an annual report to the Board.

The Advancement and Public Affairs Committee receives a copy of the Foundation's annual report, but the 2009 operating budget along with figures for 2008 is presented to the Finance and Administration Committee separately.

Mr. Peccolo presented the budget proposal and pointed out the \$350,000 transfer to the Gift Annuity Reserve. The UTFI Board takes a conservative approach by keeping \$500,000 in reserve. Vice Chair Loughry asked about the \$150,000 and Mr. Peccolo explained that it had been transferred at a prior time.

- IX. **Review of UT Research Foundation Operating Budget for FY 2009—**Information Item—Mr. Peccolo informed the Committee that the Agreement of Understanding between the University of Tennessee Research Foundation (UTRF) and the University of Tennessee provides for an allocation of University resources and staff expertise in recognition of the advantages to UT and its research mission resulting from an active technology transfer and commercialization enterprise. UTRF is funded by two sources, licensing/royalty payments and the University of Tennessee subsidy.

The schedule for the 2009 UTRF operating budget was presented; Mr. Peccolo noted that it will be part of the budget that the Board will consider at the full Board Meeting on June 20.

Trustee Stansberry suggested that UTRF ought to make money and questioned why they lost money. Dr. Petersen stated that start-up of capital investments take a considerable amount of money but that he expects profit within two years and informed the Committee that the GTX lawsuit had been settled.

Dr. Petersen also mentioned the history of the UTRF and its beginnings in 1936 as the UT Research Corporation. Trustee Horne commented that the University needs to focus on making the UTRF self-sufficient in the future.

Trustee Stansberry asked how many employees that UTRF has and Dr. Petersen stated that there were nine or ten. Trustee Stansberry asked if there was a business or payout model. Dr. Petersen informed the group that there is a royalty sharing plan that has just been amended which will increase the campus participation in royalties. Dr. Petersen also mentioned that disclosures are up by about 100 over the prior year.

- X. **Approval of FY 2009 Distribution of UC Foundation Funds—**Consent Item—Mr. Peccolo presented a schedule to the Committee detailing the UC Foundation proposed distribution of funds. He also noted that in addition to the \$1,845,622 listed, the UC Foundation contributes \$2.7 million to the Campus for a total support amount of \$4.5 million.

Motion was made by Trustee Talbott and seconded by Trustee Jackson for approval of the distribution of UC Foundation funds as listed; the motion carried unanimously.

- XI. **Approval of FY 2009 Operating and Capital Plans for President and Chancellor Residences—**Consent Item—Chair Carroll asked Dr. Rogers to report on the FY 2009 Operating and Capital Plans for President and Chancellor Residences. Dr. Rogers presented the respective proposed budgets.

He explained that the Martin residence has been converted for use as an Alumni and Visitor Center. The residence in Memphis is for sale but requires maintenance until sold. The State Department of Finance & Administration attempted to sell the house through a bid process; it is now listed with a Real Estate Agent. The carrying value is approximately \$1.4 million; but with the current market conditions it may not be possible to recover the entire amount. An offer of \$680,000 was declined. Trustee Horne suggested consideration of alternative measures until the property is sold.

Dr. Rogers explained to the Committee that the UTC Foundation owns the residence in Chattanooga but the University pays for the operating expenses. There will be no capital improvements so the budget for FY 2009 will be the same as FY 2008. The University has a lease agreement with the Foundation at \$1.00 per year.

Trustee Schledwitz stated that he did not understand why there was not a different agreement with the UC Foundation regarding the house. He stated that it was his understanding that the University was trying to get out of the housing business and that the Finance and Administration Committee was going to look at this issue from year to year. Trustee Wolford informed the group that the UC Foundation offered to give the house to the University. Dr. Petersen stated that either you have a residence or you don't and that the expenses for the residence are a direct wash. Dr. Rogers stated that the University also pays the tax on the residence in the amount of \$14,000 per year.

Dr. Rogers then discussed the Presidential residence in Knoxville. He informed the Committee that the proposed operating cost for FY 2009 is \$15,000 more than the prior year. The difference is the maintenance and repair costs for fixing retaining walls and replacing deteriorating windows.

Dr. Rogers presented to the Committee a Capital Improvement project to add a lawn sprinkler system to the remainder of the backyard of the residence. He noted that if the Board approves this project estimated at \$10,421 the President will pay for it with personal funds. The total FY 2009 proposed budget for 940 Cherokee would be an estimated \$202,672. The source of funds for \$192,251 will be paid by General Funds; the source of funds for the capital project estimated at \$10,421 would be Gift Funds from the President.

Vice Chair Loughry questioned why there would be a line item for travel in the house budget. Chris Cimino stated that it was staff members' mileage for travel across town doing errands.

Upon a motion made by Trustee Wharton and seconded by Trustee Anderson the budgets and the capital project were approved. Trustee Talbott thanked the President for being willing to pay for the project with his personal funds.

XII. Approval of Real Property Transactions—Consent Item —

Two Land Acquisitions, Andy Holt Avenue (UT Knoxville)—

Dr. Rogers advised the group that the University Administration seeks approval to acquire two (2) properties located at 1811 & 1815 Andy Holt Drive in Knoxville through condemnation proceedings for the construction of a new residence hall. Maps for the locations were made available for review.

The University has been trying to acquire these two parcels for some time. The owner of the property at 1815 Andy Holt Avenue, Don Abercrombie has agreed to a tentative price of \$507,500. The other property owner, Lendall Roberts has not been amenable to an offer.

The University will pay fair market value as determined by the appraisals for the properties or amounts determined by the Court if condemnation is necessary. The University will seek all necessary State Government approvals upon approval by the Board.

Trustee Talbott asked whether or not these locations were historical. He was informed that they do not have historical backgrounds. Trustee Talbott made the motion and Trustee Jackson seconded; the motion was approved unanimously.

DOT Property Transfer, Sorority Houses (UT Knoxville)—

Dr. Rogers advised the group that the Department of Transportation (DOT) is willing to transfer a small piece of property on the east side of the location by the Highway 129 on-ramp at no charge. The additional

parcel would permit improved design and additional parking space for the sorority project.

Trustee Bob Talbott made the motion and the second was made by Vice Chair Loughry; the motion carried unanimously.

- XIII. **Approval of Annual Report of Sale of Gift Property**—Consent Item—Dr. Gary Rogers, informed the group that the University can sell gift property that is not designated for a specific use by the University. The University seeks approval to sell seven properties totaling almost \$500,000. The largest one represents \$245,000. Trustee Wharton asked if the proposed selling prices are close to the appraised value. Dr. Rogers stated that they are.

Trustee Anderson made the motion and Trustee Talbott seconded the approval of the annual report of sale of gift property; the motion carried unanimously.

- XIV. **Approval of President Emeritus Agreements**—Consent Item—Chair Carroll asked Dr. Petersen to speak to the Committee regarding Drs. Boling and Johnson's Emeritus Agreements.

Dr. Petersen noted the reports to the Committee from Drs. Boling and Johnson regarding the services they performed on behalf of the University during fiscal year 2007-08. Dr. Petersen praised both for their dedication and service to the University and recommended that both agreements be renewed for FY 2008-09.

Trustee Wharton made the motion and Trustee Talbott seconded the motion for renewal of agreements; the motion carried unanimously.

- XV. **Promulgation of UTC Library Fines under the Tennessee Uniform Administrative Procedures Act**—Consent Item—Dr. Rogers presented UTC's request to change the fines levied by the Lupton Library, as required by statute.

Trustee Talbott made the motion and Trustee Jackson seconded; the motion carried unanimously

- XVI. **Promulgation of Campus Regulations Concerning Disability Parking Violations under the Tennessee Uniform Administrative Procedures Act**—Consent Item—Dr. Rogers asked the Committee's approval to adopt the statutory increase in the fine amount for parking in a disabled parking space from \$150 to \$200.

Trustee Talbott made the motion; Trustee Wharton seconded the motion and the change was approved unanimously.

- XVII. **Approval of Reduced Tuition Rate at UTM for Department of Correction Students**—Consent Item—Dr. Rogers brought before the Committee UT Martin’s request to charge Department of Correction incarcerated students no more than in-state tuition.

Dr. Thomas Rakes informed the Committee that these students take their classes on-line and they do not pay additional fees. Enrollment is up 54% this summer.

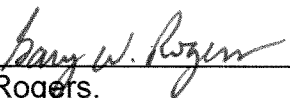
Trustee Wharton made the motion and Trustee Jackson seconded the reduced tuition rate approval for Department of Correction students; the motion carried unanimously.

- XVIII. **Review of Fee Changes Requiring President’s Approval**—Information Item—Dr. Rogers directed the Committee’s attention to the schedule detailing various special course, lab, application and other student fees that require approval of the President. These fees were submitted by management of the respective campuses and were approved by President Petersen.

- XIX. **Update on Knoxville Athletics Finance Matters**—Information Item—Mr. Bill Myers, Associate Athletics Director, reported on the Department’s financial status. He noted that Athletics anticipates a positive result for Fiscal Year 2008 and expects to increase its financial reserve. Operating costs have increased for new facilities that have come on line but the Department expects to have positive results in Fiscal Year 2009, also.

- XX. **Other Business**—Mr. Carroll stated that no “new business” had been brought to the Chair’s attention before the meeting and that unless there is an urgent matter requiring special attention, we will move on to Adjournment.

- XXI. **Adjournment**
There was no other business and Chair Carroll adjourned the meeting.



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