

**MINUTES OF THE COMMITTEE ON
EFFECTIVENESS & EFFICIENCY FOR THE FUTURE (EEF)
THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES
SEPTEMBER 17, 2010**

The Committee on Effectiveness & Efficiency for the Future (EEF) of the Board of Trustees met at 11:00 a.m. EDT, Friday, September 17, 2010 in the conference room on the 8th floor of Andy Holt Tower on the Knoxville campus.

- I. **Call to Order**—Mr. Douglas Horne, Committee Chair, called the meeting to order.
- II. **Roll Call**—Chair Horne asked Mr. Charles Peccolo, Treasurer, Chief Investment Officer and Interim CFO to call the roll. He did so and advised the Chair that a quorum was present.

Present

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

Absent

Crawford Gallimore, Committee Member

Also present was Charles Peccolo, Treasurer, Chief Investment Officer and Interim Chief Financial Offer, and other members of staff.

Chair Horne made the following 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.

- III. **Approval of Minutes of Last Meeting**—Chair Horne asked if there were any additions or corrections to the minutes of May 19, 2010. With no corrections or additions noted, on a motion made by Trustee Anderson, and seconded by Trustee Carroll, the minutes were unanimously approved as presented.

He then went on to say that the Committee works on the effective and efficient things to do for the University with each meeting. He realizes how hard it is to meet as often as the Committee has to but the Committee is determined because of the economy and the shape the state is in to assist the University in doing the right things the right way. President Simek, Vice Chair Murphy, Trustee Loughry, Trustee Anderson, Trustee Carroll, Trustee Gallimore and Trustee Wharton all work on this common goal. We have gone to other Universities and looked at their programs like this and there are only a few that have them. We hope that the new President of the University will work with the Committee as effectively as Jan Simek and John Peterson did.

- IV. **Facilities Planning/Capital Maintenance Review**—Chair Horne advised the Committee that the first item on the agenda was to discuss facilities planning. He then asked Interim CFO Peccolo to present the item. Interim CFO Peccolo began by saying that a Capital Projects Management Review completed by Audit and Consulting Services was in the Committee's material. The review initiative rose from comments made by Chancellors at the Board of Trustees Retreat in 2009 about the process and amount of time it takes to get capital projects going and the communication for this issue. President Simek had asked a faculty member, Professor Matthew Murray from the Center for Business and Economic Research to review it also. It was a different kind of review where they talked to people at the various campuses to determine how their processes work, what their processes were and the deficiencies. Not surprisingly the outcomes were similar from Professor Murray's review and the one from Audit and Consulting Services. Basically, there are four items of concern in the report:

1. The insufficient staffing levels and the huge increase in projects under construction.
2. There was a lag time for facilities statements.
3. The master plans for all UT campuses except UT Martin are old.
4. Lack of communication and coordination.

Those are the four common elements of both reports and recommendations have been made. I wanted to update this Committee on what the plans are going forward. Now, we have not announced this to the media but as a result of that report we have two task forces as work. Both of these taskforces will have broad

representation. One will address the financial reporting and communications aspect. While our current ERP System has a number of accounting reports, they are not necessarily reports that campus administrators use to manage projects. I liken this to the sponsored projects ledger initiative that we just completed and have received favorable comments on. We had a task force that designed a sponsored projects ledger and it is now possible for the Principal Investigator to click on an icon that has all their sponsored projects and get a precise summary of where they are in the process. It has been very well received. The initiative is to create something like that only on the capital projects side where campus administrators can easily track the projects.

Vice Chair Murphy stated that he realizes all project managers' tasks are comparable to what happens in the private sector and there is a great deal of available project management software. We might want to think about including some people on the committee from the private sector to help ensure that we don't reinvent the wheel when there might be something on the shelf that could be bought and would be 99% of what we need. We could get it up and running quicker from the standpoint that it has been tested by others. I and Chairman Horne know people who run very large projects. Trustee Wharton commented that he thought this was going to go in a different direction due to the insufficient staffing. There are people at Oak Ridge that might be available. Vice Chair Murphy added that they might bring a brand new perspective to the committee. Trustee Wharton made the comment that we have been homegrown for too long. Vice Chair Murphy went on to say that is another piece. I know that as long as I have been on the Board that it has been the complaint. Projects were a mess and this shows that the program managers are overloaded. Obviously, there are two different costs here. You have the actual costs from hiring people and the other costs are that those projects go on multiple years longer than they need to and that tends to run the costs up much more than the costs of hiring one or two additional employees. The delay in getting construction started timely can add construction costs in the range of millions.

The other task force will address how best we need to structure the entire facilities area; addressing staffing levels, what does campus need to do versus system and working with the state. There is a long process that has to be followed to get requisite approvals. Coincidentally, the State Building Commission is studying how designers and architects are selected and the process followed for the selection. Earlier, they were uncomfortable just following the process of assigning someone versus doing a competitive request for proposal (RFP) for the larger projects of \$20 million or more. Trustee Wharton

interjected that he cannot imagine the University doing a \$10 million job without a request for proposal (RFP). Interim CFO Peccolo explained that the design pricing is formula driven and a set percentage of construction costs. There is no financial bidding necessary so we try to identify the designer or architect that has the capabilities of doing the project. We identify who is capable and present a list of those to the State Building Commission (SBC) with a recommendation. All construction projects are competitively bid. Interim CFO Peccolo went on to say that review is ongoing with a potential of adding another step in the process for our bigger projects. We mentioned to the State Building Commission that it had been a long time since they reviewed the \$100,000 threshold and maybe it is now time to increase that. It would really help us on the smaller projects as far as not requiring all SBC approvals. They in part asked what we thought was reasonable and I said that \$5 million would be a good start. I don't know if that passed the "giggle" test but it was noted. Vice Chair Murphy asked if the Committee could get an analysis of how many projects they have. I suspect they have a huge number of projects that are \$100,000 - \$1 million and then above that number. One of the things we need to look at is reverse engineering in their office. Obviously, if there are bottlenecks and they don't have enough people, then let's say reduce your workload by taking a bulk of these nickel and dime projects away allowing you to focus on the big ones. That would help everyone and you ought to do that on the number of projects in those categories. Trustee Loughry added to approach it from their standpoint and not what we want is a logical way to do it. Vice Chair Murphy said it widens their eyes and it relieves them of the least important projects so they can focus their attention on the bigger projects. What we need to be looking at is workloads because what we are really trying to accomplish here as much as anything is reducing their workloads so they can process our projects on a timely basis. The only real way to do that is to let them focus on segmenting those projects and not spending time on the ones that are the least important. Interim CFO Peccolo noted they would ask them but it is their rules. Vice Chair Murphy said again if you go in and say to them I want you to do \$1 million – they are not going to know why you picked \$1 million over \$5 million. If you go in and say we picked this number and here is why – it is really to get rid of a significant amount of small projects so that you can focus on the large ones they are going to be more likely to say yes. That is a good approach opposed to just throwing out a number. If you say \$5 million then they will say \$250,000 then will you barter back and forth? If you give them a number that talks about making their process more efficient you have a better chance of getting it. Trustee Wharton added that if you give them some facts like 60 of these projects that we did last year – 20 of

them would qualify. Interim CFO Peccolo said they probably have these statistics and we can get those.

The second group will be looking at the overall structure, what campuses need to be responsible for versus the system and the process going forward. This committee will also have broad representation and there is good buy in from the Chief Business Officers. I commit to this Committee that I will continue to update you on the progress of these two groups as they move forward.

Chair Horne voiced that Professor Matt Murray and his colleague came up with specific ideas. President Simek said we focus here on the issues of the state government but the second Committee will focus on how we formulate projects upfront and how we manage projects on the backend. It takes way too long. There are some things we need to do and there are things that the state needs to do. We have identified areas. Chair Horne said in private work we make a concerted effort on what we are trying to do. Whether it is building a house, stadium, office building, Eiffel Tower or whatever you are doing and then try not to change it too much. It is a good idea to have more project management. President Simek said that there are ways that we can shorten the timeline and then there are certain ways we can shorten the timeline vis-a-vis the time it takes to get it through the state. Chair Horne said that once you go into a project there needs to be minimal changes. Contractors love changes. George Criss, Director of Facilities Planning needs to be tough. He needs to let them know once they agree it can't be changed. Interim CFO Peccolo said that we have already implemented some of that with Chris Cimino, Vice Chancellor of Finance and Administration on the UTK campus and some of the other business officers. The contractors need to hear that from the campuses. Chair Horne asked if George Criss reported to Interim CFO Peccolo and the answer was yes. Vice Chair Murphy said that you can change people's responsibilities but the other part of that is that you also have to change the culture from the standpoint of historically the departments viewed this as I have to wait to the last minute to make changes and won't have to worry about it because they will just change it. Part of what needs to be communicated is that there is a window in which you can give your comments and after that it's too late because we are too far down the road to make significant changes. That again, was a luxury we could afford at one point in the past but we can't any more. President Simek said that has never worked very well and there are several issues in the whole planning process. One is we do the program and then fix it. We also did it in sequence that meant we were going to do a preliminary program and then go to the SBC and the state to get the money based on complete representation of what we wanted to do. That is the part that started

going back and forth. Research is good as one of these goals but it takes a long time to get it. Vice Chair Murphy added that realistically one of our challenges is, unlike in the private sector where you don't have to get the State Building Commission to hire your architect, it makes it hard to do your programming when you don't have the staff to do that. Then when you hire your architect, a lot of what you are hiring them to do is programming. One of the challenges is how do we get enough information to the State Building Commission to get them to go ahead approve so we can move forward but not spend a whole lot of money. We need to figure out how to program it one time without having to do it multiple times. President Simek said we typically lose one year and a half in that process that we don't need to lose – if we were able to get that back it would make us a whole lot more efficient. The flip side of that is we are understaffed to accomplish all of this. Both at the campus level where a lot of this management has to go on and at the system level where we have to interface with the state. This in terms of personnel is going to cost more but it will work better. I agree that it will save money in the long run as we achieve better pricing and spend less money out. Chair Horne suggested put the price of the project manager in the project's budget. That would help relieve some of the issues. Trustee Wharton address President Simek and advised that he has a friend that builds buildings for the state. He has on his staff a part-time position – a person that previously worked for the state. It pays huge dividends because that person knows everyone at the state level and gets somewhat expedited treatment. We might want to have someone on staff that is retired from the State Building Commission that might want a part-time job and we might save some time off the process. President Simek stated that he did not disagree with that. We have actually done pretty well because one of the things that Alvin Payne, Retired AVP, Capital Projects and George Criss, Director of Facilities Planning did was to have very good relations with that Committee. They are almost that type of person. The problem that we have is that their responsibilities also extend to all of these others and it is hard for them to focus on that piece of it. Trustee Wharton said I understood you to say that it takes one year and a half to get approvals. Vice Chair Murphy interjected that President Simek meant internally. President Simek added that it is a combination between internal and the State Building Commission. A big part of that is what we do. Vice Chair Murphy stated that once we go to the State Building Commission we are very efficient. President Simek said it is responsive to programs and that is something that we can fix and that is nothing to do with the SBC that is how we handle the process. Vice Chair Murphy added it is how we deal internally with the system and campuses. Interim CFO Peccolo commented that by the time we put in a capital project and we have the preliminary program statement done then by the time it gets through all the priorities and it

becomes a viable funded project with the state it is probably 8-10 years. We necessarily have not touched that program statement in that period of time so when it gets through and does become a project we are scurrying to go back and update the program and that takes time. We can do a better job in programming and I hope this group is going to look at it and recommend.

Chancellor of UTK, Jimmy Cheek said that the point person on the campus is Chris Cimino, Vice Chancellor, Finance and Administration. We have to have sign-off on all change orders because we are responsible for the costs. Currently, we do not sign off on change orders and so we get the bill at the end and we were not aware of the changes. Vice Chancellor Cimino is in charge now and he has to sign-off on that change order to make sure that we know about and have money for it. President Simek added that he would observe that the faculty does not get those and it is up to the system to make sure they are approved. Vice Chair Murphy noted that the reality is that you shouldn't be finding out when it is time to sign-off. The discussion about whether or not the changes need to be done is what the campus needs to be involved in or to initiate. Vice Chair Murphy went on to say there should be at least a sign-off on anything before the scope is changed. President Simek said there are two areas that we can do better in. One is upfront in this process of planning and then the execution. The execution of a program should systematically be construction managers in our estimation of costs. I think those construction managers ought to be reporting to those that are actually carrying it out on the campuses. They are the ones that are going to be dealing on a daily basis with the issues of change orders and the absolute execution of the programming. The construction project that we have had recently had that probably worked the best was the Haslam Business Building with the College of Business actually had one of its people to fill in that role for years to get it done. Because it was informal there were still bumps going through all that but a formula assisted approach to that is having people on the ground, not just Knoxville but at all campuses and becomes part of the budget. Vice Chair Murphy made the comment that if we are going to build a building we need to build it right. It sounds as though what we have been doing is half-way managing these projects. If you look at the way the private sector manages big construction projects. We are not talking about roof repairs but about building new buildings or making major renovations. There is a team of persons that meet weekly and their job is to review the project, where it is and what changes need to be made. If those people are not empowered to approve and change they are one step down from the person that can. That happens on a weekly basis so that everyone knows what is going on. Interim Chief Peccolo said that process does go on. Vice Chair Murphy said the

problem with having it out at Facilities Planning is that you just have one player of a group that needs to be involved. You need a user person that is there like the College of Business person you mentioned earlier. There needs to be a finance person who can say that is nice but we don't have the money to do that. Those are two critical pieces that from the owner's side of it. You have a user that says yes this is something we want and someone that can pay for it that says it is nice but we cannot afford it. Like Chancellor Cheek said it is coming out of his budget so it ought to be his people saying yes we can pay for it. It does not need to be coming from a system's person. The system person needs and should be there because they are coordinating the overall picture. Trustee Wharton took it one step further by saying these types of people you defined before they undertake the design or any building should go and visit a business school somewhere that has been successful such as the recent large animal clinic build out. The more thought that is put into a project upfront the less change orders and hoops there are to go through. The cheapest money we spend is to figure out the design.

Interim CFO Peccolo said that he did not want to preempt but what he envisions is a core group on every campus with a finance representative, facilities representative and a rotating person from the particular college. Again, they have those meetings all the time with the cards on the table. President Simek added that the discipline needs to be upfront in the design process. Vice Chair Murphy agreed and went on to say that there are two issues. The first issue is Trustee Wharton's point that we need to get a handle on what is wanted on the front end. Part of where you go down the slippery slope is you have an idea what you want but you don't design it. Then when it is designed it doesn't exactly match what you really want. There is always constant pressure but we need to be a lot more disciplined about having them identify the program, doing that design and then build that design. That is where you get caught in all of this when you are trying to build and design at the same time. Chair Horne stated that another thing that could be done is to decentralize it and remove it from the system and have groups on each campus. Trustee Wharton noted that you need someone from the system to know that we aren't ordering gold inlay wastebaskets.

Interim CFO Peccolo said that Alvin Payne, former AVP of Capital Projects has retired and before replacing him I want this group to look at all areas and give recommendations. More than likely they will say we need someone to coordinate the real property and the capital construction. Rather than presume that and hire someone I want it to be part of the analysis.

President Simek said that in the end planning needs to be at campuses where they are doing that program but it needs to be laid out so that we don't keep going back on it and changing it because it takes too much time. The execution phase needs to be at the campuses. What really needs to be at the System is the interaction with the State Building Commission because I can tell you that they want the President. I go to every meeting and I present the programs and that is how they want it to be. Planning and execution are our weakest points because there is just not enough people at the System level to do it. Each one of our operations officers in the building program has approximately 20 projects each and the projects could be between \$30-\$50 million projects. There is absolutely no way that they can carry that. Our problem has been that we have tried to do it with small groups.

Trustee Loughry added that I think we can give these ideas to the Task Force dealing with this. Interim CFO Peccolo said he is hoping the campuses will share information from the users. He committed to keep the Committee apprised of the committees' progress. Trustee Horne asked if Matt Murray had given his report and President Simek said yes. He then asked if there would be follow-up with him. Interim CFO said yes there will be updates in a couple of months.

- V. **UTK Initiatives**—Chair Horne asked Chancellor Cheek to present UT Knoxville's initiatives. Chancellor Cheek began by saying he would be talking about effectiveness and efficiency and would first put it into context. UTK has the largest class that it has had in a five-year period of time. It is pretty much on target with 27,523 students and that is about where we need to stay. I want to point out that our business has not declined as the consequence of budget cuts. We still have the same business going. Actually, the number of graduate students has increased significantly this year primarily due to grants and contracts during this time when there are budget cuts have actually increased expenditures by about \$40 million annually on the campus. We have had a significant revenue stream that is not depicted in the presentation.

Grants and contracts are something that you want us to continue to grow because bringing money from other places to UTK gets work done. Last year the most student credit hours were taught within the last five years. At the undergraduate level 306,139 student credit hours have been taught and 59,200 at the graduate level. Quite frankly we need to teach more student credit hours or change the mix of credit hours so we can get more students graduated. Trustee Wharton asked Dr. Cheek since the student population has stayed

constant are students taking more credit hours now? Chancellor Cheek replied that students are taking more credit hours now than they did three years ago. They are about 14.8 now and were 14.6 when I first started looking at them so they are gradually inching up. Trustee Wharton then noted that if the population is even and the students are only marginally taking more credit hours how are the student credit hours are growing what is driving that. Chancellor Cheek stated that students are taking more credit hours, particularly freshman, trying to graduate with more time than that. He thinks there is an increase in the number of credits that students have to take. Trustee Wharton mentioned that the freshman may be driving those student credit hours up. There are 6,345 more volunteer graduates than we had this time last year. Our graduation statistics are going up. This is the context in which we will be discussing effectiveness and efficiency and how we will be handling the budget cuts.

The 2009 state appropriation reductions were \$11,277,000; 2010 state appropriation reductions were \$34,081,000 for a cumulative total of \$45,358,000 and 2011 were \$11,358,300 for a total cumulative cut for a three-year period of time of \$56,716,300. That amount is the total budget allocated to us by the state. In 2008 the state appropriations were \$195.4 million and ending this year will be \$139.8 million and project them at \$139.8 million next year. There could be an additional cut next year but the \$139.8 million assumes no additional cut. The difference is approximately 30% less in resources from the state than we had when the budget cutting started. People ask how we have accomplished the cuts. We have eliminated (some of this elimination will occur July 1, 2011) 327 positions at the University of Tennessee at Knoxville. The positions are gone and are never coming back. We have also taken other budget reductions of about \$30 million. We saved money on operating budgets, \$1 million on utilities and cut graduate assistantships, Maintenance and repair on this campus has been cut significantly. It shouldn't have been but had to be cut. Service contracts have been eliminated from campus equipment. Equipment and supplies have not been purchased. Those are the kinds of things that we have taken as cost reductions for a total of \$47,683,874 and have to get to \$56,716,300 million. There were also tuition increases during this time for additional revenue of \$40,403,000. There were new fixed costs that came in for a total of \$33,886,235. There was also an increase of student fees that we added during that period of time in the amount of \$2,515,661 so the net additional revenue was \$9,032,426. These dollars were used to bring the campus up to the \$56,716,300 in state appropriations reductions. There were additional revenues, cuts of \$47,683,874 and that is how we got to the \$56 million.

Trustee Wharton asked about the composition of these positions. Chancellor Cheek answered by saying the 327 positions cut equated to almost \$17 million in payroll. A reduction of 11.5% in total faculty FTE so as of July 1, 2011 UTK will have about 12% fewer faculty members than when the process was started. Additionally, there was a reduction of 7.2% reduction in total staff FTE for a total workforce reduction of 8.9%. There are 9% fewer people working for UTK as of July 1, 2011 on E & G money. As I said earlier, there are grants and contracts. Sometimes when you had to eliminate a position in one area because it is state funded a grant and contract comes along so that person is now eliminated from state payroll but the grant and contract may pick them up in their employ. The employee might still actually be here but another source may be paying them and that source is temporary. You may have the grant for ten years and then one day it might be gone. Some of that shift is actually keeping the same person employed on the campus but we have eliminated them from the state E & G line.

Trustee Anderson began by saying he thought the sacred cow was faculty, teaching and instruction and it appears they got cut more than other areas. Chancellor Cheek said that is true. The difference is when we put together the cuts we took about a third out of colleges. We handled two thirds of the cuts from central operations. We cut the least out of colleges because that is where we needed activity. When you give a college a cut – their most extensive resource is their faculty. So the only way that they can get to the cut is to cut faculty positions. They cannot do it any other way. The good news is if two thirds of the cuts had not been taken centrally there would be more faculty cuts. Instead of a cut of 11.5% it would have been an approximate 34% cut in faculty. You can't keep operating with the students you have. In the tuition model that was approved by the Board this year, we received \$1.7 million to reinvest in this. Also, the approved differential tuition will go against some of this for these three colleges. So there will actually be some revenue redistributed as a result of that \$1.7 million that will be invested in the academic enterprise. President Simek added that this does not necessarily equate to a reduction in teaching capability. The Chancellor asked the colleges to develop models for increased teaching capacity with fewer people and got models from across the arts and sciences that add 15% capacity with the faculty that exists. I expect when I go back to being a faculty member I will teach more because you have to fill in behind it. Just because we cut the some faculty out doesn't mean there will be less classes. Trustee Anderson then commented that faculty/student ratios were being reviewed. From then till now will the ratios be changed? Chancellor Cheek said yes and that on the top 25 the ratios were 1to 20 and a few years ago it was 1 to 16. The way arts and sciences is dealing with

this is to have their faculty teach more courses. There is another side to that. You can't have as many graduate students, have as many scholarships and apply for as many grants. There was a business example that was given by Matt Murray about one of the centers at the College of Business. He said one of our problems is that our faculty is declining and the work is increasing but we are having to teach more. Long term that cannot keep going – you cannot keep doing more on this side and keep teaching and still accomplish the same thing. Vice Chair Murphy said the challenge is if you try to reduce faculty there is not enough money in the other lines to do that. President Simek said we are still investing in people everywhere.

Chancellor Cheek said what has happened is tuition is increasing as a percentage of E & G revenues and state resources are declining. There are other resources such as sales and services, grand and contract overhead and others. That is what is happening to us and unfortunately, this trend is not just at Tennessee but a U.S. trend. The trend with tuition is also a U.S. trend. The budget impact is a loss of faculty and staff. Examples were given as a picture of what is happening. In Arts and Sciences they lost 38 tenure-line faculty and that is 9% of the tenure-line faculty they have. Additionally, they have lost 35 (or 22%) regular lecturer positions. They are asking their faculty to teach more and President Simek was in place when this happened and he will have to teach 15% more than what he had been teaching. That has some consequences. Arts and Sciences took out 13.5 academic support positions. Faculty will have to work harder. The College of Engineering is only going to cut 5% of their faculty and the way they will make up the difference is to require faculty to pay \$10K of their base salary through grants and contracts. These are two things we are dealing with at these two colleges but if we went to other colleges you would see the same thing. Trustee Anderson asked how you handle that with tenured faculty. What if a faculty member says I am not going to do it? Can we require them to raise the \$10K? Chancellor Cheek said yes we can but there will be some you can't. In this case, the department head would have to sit down with the faculty member and say well you are going to have to teach more because other faculty members have to get more grants and contracts. It is not an easy situation. There are different ways that these are handled across campus. College of Engineering has always required the faculty to pay \$5,000 of their salary from grants and contracts and now it has doubled. Vice Chair Murphy noted that as he remembered that was from discussions held in the College as to whether it would be better to cut staff or raise more grants and contracts money. I am sure there are a few that are not happy with that. They would be the ones that we would be cutting if we were cutting faculty. President Simek added that faculty in certain sorts of disciplines, even in Engineering,

have a harder time raising grants and contract because of what they do. So it is a department head or dean's responsibility to adjust all that out. Fair is fair. You can't do what you can't do. I am an archaeologist and not what an engineer is. I am going to go out and do what I can and work a little harder at it and that is the bottom line under these circumstances.

Dr. Cheek continued to go over the impact of the budget cuts. Budget cuts have restricted our ability to attract and retain faculty. There are more and more raids on our best faculty and is a struggle to keep them. Our critical challenge is that we are hiring these very talented young assistant professors and we have to make sure that we keep them. People look other places and say we would like to have that person. If we want to stay on the projectory that we are on we have to be able to retain the very best people. As of July 1, 2011 there have not been merit or cost of living raises given to faculty and staff in four years.

Delayed graduation is one of my major concerns because we are not going to have as much teaching capacity. Additional impacts of budget reductions are reductions to department operating budgets, staff development and training, facility repair and maintenance and custodial service. The current deferred maintenance is over \$200 million on this campus and that figure is growing because we simply had to cut money that would be used to do the maintenance. These are some of the impacts and there are probably many others.

One thing we have been working on is how we make the academic enterprise more efficient. The Provost has revised freshman orientation to spend more time talking about academics. Also, communicating the message that we want the students to graduate in four years. We haven't pressed that real hard in the past but we have to do it now. In 2012, we will have a device called UTrack and will come after Banner implementation. Banner is a new student information system that deals with transcripts, fee payments, scholarships and all those types of things. All of the campuses in the system will be using it. UTrack is going to say tell us what your major is or at least the area you are interested in studying. Example, if you say that you are going to be an engineer UTrack would then tell you what all you need to take and will explain why you need to take the subject and when so that you will be ready for your major courses. If you do not take the needed course in the first semester it will not let you register. If you took the course and failed or dropped it would not let you register. The student would then sit down with an advisor and if the student is not willing to take the course there would be discussions about changing the major. UTrack is a much more intrusive advising

system that is done electronically. Vice Chair Murphy noted that the reason UTrack will not be up until 2012 is because Banner must be up and running first. He then asked if there was an interim to accomplish the same thing that UTrack does. Dr. Cheek said one thing that has been done is the restructure of advising in Arts and Sciences. That is the largest college and it needed the most work. Some of the other colleges have better advising systems in place. This will help us be better across the board. Vice Chair Murphy said so the advising is what you are going to do until the electronic piece is in place. President Simek explained that Banner will do some of it but not to this detail. Dr. Cheek continued by saying the other thing that needs to be done is to promote the use of summer school for more graduations. We need to encourage students to attend summer school. There needs to be an objective on this campus to have summer school more like a regular semester. We need to have more students attending in the summertime and pass them. We are not using our physical facility. We have a huge infrastructure here that is only used approximately 25% of the time during the summer and so it needs to be used 50-70% of the time. Trustee Carroll asked how faculty feels about working in the summer – can you get them. Provost Martin said yes and Dr. Cheek agreed and replied because we pay them. President Simek said it is a culture change. Trustee Wharton asked if they have started thinking about the impact of summer classes on how you schedule fall, winter and spring classes. Bottlenecks can really snakebite you if you go to summer school. Dr. Cheek said what we want to make sure of is that they have the opportunity to catch up. If you have key courses that students may have missed during the fall or spring they could make up in the summer. We are going to have to use summer to get people back toward tracking where they need to be. Vice Chair Murphy then commented that there has been much discussion regarding the deficiency the Lottery causes that. Let's be realistic that is not going to get fixed because they don't have enough money. It needs to be looked at as far as what we can do. We have alumni scholarships and others but maybe we should look at creating summer school scholarships to give to students as a way to encourage them to go in the summer. I hope they fix the Lottery but I read the stories in the paper that talk about there not being enough money for this and that. Let's don't wait and put all of our hope on the Lottery Scholarship and look at something that we could create internally to encourage students to go to summer school. President Simek agreed but added that the task force meeting that wasn't so much about the notion of summer school but the notion of giving 120 hours of credit whenever and that is where we are going to hammer. Vice Chair Murphy said really that is not an additional financial impact and helps the students graduate quicker. Chancellor Cheek added that it helps the students get out of school quicker and pay less tuition. Vice Chair Murphy

reinforced what Dr. Cheek said that it allows the students to catch up and get a little ahead so if they have an upset during the third or fourth year it is not the end of the world. He then said let's don't wait on the Lottery Scholarship and the thing about it is political and the issues tied to that. Even though it makes a lot of sense does not mean that it will get fixed. Chancellor Cheek said another thing being tightened is the drop policy. At UT Martin it is four to six drops over a four-year period of time. Trustee Loughry asked if this was UTK's policy and when it would be implemented. Provost Martin explained that they are discussing this through the processes this fall. Trustee Carroll asked what the average is and Provost Martin said we don't have the data. We do have the data of the drops through the semester. Chancellor Cheek added that it was in the thousands. Vice Chair Murphy stated that he thinks Trustee Loughry's question is getting at that UTK needs to get the drop policy implemented sooner than later. We all recognize that is a huge inefficiency on the academic side. Chancellor Cheek said we should get that done this semester. Vice Chair Murphy stated the other thing about that is the disconnect between when you can drop and when you can add. If you let people have a long extended period to drop and then it is too late for someone else to add that is a huge capacity lost. Chancellor Cheek agreed that it was a huge capacity lost and needed to be taken care of. Vice Chair Murphy added that you can tell students that they can drop up until this period and at the same time a student can add then you have provided a little bit of flexibility. I understand it has an impact on Grade Point Averages for some students but you will change their pattern of behavior if you tell them they can't play that game. Chancellor Cheek said what we are trying to get to is when you sign up for something then be serious and plan to finish. There are reasons you should drop a class during a term but there are also limits. Currently, we do not have any limits. We are moving the limits and should have that approved this fall. Another issue to help the academic effectiveness and efficiency is to utilize classrooms more effectively. We have done a very good analysis of this and Provost Martin is moving forward with a better utilization of classrooms. Sometimes faculty has a classroom they use for a long period of time and they like it but they don't fill it up. They may have to move their classes simply because they don't need that much space but someone else does. The faculty member may have to walk across campus a little further. This is an efficiency advantage that allows us to teach larger classes. We all know that advising is critical and that it needs improvement. This is an area where we are working hard. Banner implementation will help us be more effective and efficient in monitoring everything that goes on in the academic enterprise.

Chancellor Cheek explained that there are ways they are trying to save money such as implementing Switch Your Thinking. This initiative has saved about \$1million per year on the utilities bill. The utilities bill at this university is \$40 million dollars per year. We have taken stimulus money and applied it against major things that will save us money in the long run term such as HVAC updates. So we are moving to a much more efficient HVAC system. Electrical upgrades, exterior and interior lighting and making sure that lights are not on when they don't have to be on. Putting monitors where lights go off when no one is in the room. Trustee Wharton asked if they were savings or costs of the projects. Chancellor Cheek said those are the costs of the projects. This is stimulus money being used for costs of the projects for an approximate total of \$27 million. We did not put all of our stimulus money back into the academic enterprise to keep it operating. We pulled our \$27 million and put it against projects that we think will help us be more efficient in the long-term. Trustee Wharton asked if Chancellor Cheek had any idea what we might save annually as a result of these improvements. Chancellor Cheek said maybe a million per year. Vice Chancellor Cimino said that it would be a lot more than that because with the electricity alone it is an approximate savings of \$1.5-\$2 million. Some of these we are just starting on now. The first year was planning and design and the second year is implementation of the project. They are looking at that as they go out for bid on these projects that they estimate the actual savings and we will have that information soon. Trustee Loughry said that this Committee would like to see that information on a regular basis regarding sustainability. Chair Horne asked about the Tennessee Valley Authority (TVA) initiative. Chancellor Cheek asked if he was talking about getting the rates reduced. Chair Horne said no that he doesn't think the rates can be reduced. President Simek added that TVA suggested that we work with the local delivery people and that was TVA's goal to help us with that. Trustee Loughry asked if we had done that. President Simek answered that he thinks some of the ones Dr. Cheek went over are a result of TVA's help. Utility meters – we can't implement local optimal performance initiatives building by building until we have a meter. That was part of the conversation with TVA – what do we do to be able to let them help us. Most of our buildings were on single metering systems and under those circumstances you cannot find where you are losing and this will allow us to. We will keep pushing forward on it. As you all know, TVA is not in too good of shape and they are raising their rates.

Chancellor Cheek continued with the last item in his presentation the future budget allocations. We are taking the \$1.7 million in tuition that we received this year and focus on department budget and staffing based on student demand. In other words, we have to shift resources from where they have traditional been allocated to where they should

be allocated. For example, that is the closure of the Memphis Social Work Program. The numbers were going down and we had faculty in place there and are eliminating that program as of July 1, 2011. We will re-deploy that for other purposes. We will allocate new resources where the student demand is. In other words, we have to make sure that we are meeting students' needs. It shifts from one year to the next. We do not admit students by majors. We admit students to the University based on their academic qualifications. If all of them came and wanted to study English there would not be enough capacity. We have to look at those needs over time and shift resources toward that. We also have to re-deploy resources against bottleneck courses. The Provost and the Associate Provost have a pretty good analysis now in place on where the bottleneck courses are and are working on a plan to implement the elimination, or at least significant reduction, of those courses. Part of the \$1.7 million from tuition will go towards academic advising. Academic advising is critical if we are going to make progress towards graduation rates. We will focus our attention on retention of students, graduation and student success. That is what we are looking at as far as how to reallocate future pledges and resources on the campus. Trustee Wharton stated that Chancellor Cheek has focused a lot on the programs, faculty and staff but is there a focus on making the train run on time. Are we focusing on clean run time and conducting our internal operations - all of the nuts and bolts where we have huge resources. Do we really go after the cost savings in those areas? Chancellor Cheek replied that most of our money is spent on the academic enterprise so we have to tighten it up. If we do these things that I have mentioned we will be much more effective and much more efficient. We are conducting a study now in facilities to find out what we should be doing in facilities. How should we be doing it? Should we outsource or run things that have previously been outsourced? We have a request for proposal out for an external group to come in and it will take about 10-12 weeks to get that done and then it is our challenge to implement it. We think there will be changes made in that process. We have a request for proposal out on our steam plant. We partially have coal and natural gas and we want to know if there is anything that we can do, from an external perspective, to make that plant more efficient and effective for the campus. It is not in the best location. Chair Horne said that is a big part of how Tennessee Valley Authority can help. Chancellor Cheek said it may be better to use natural gas. We have to have someone analyze that because it is a big operation. Chair Horne said Knoxville Utility Board (KUB) distributor ought to be asked about that. Trustee Wharton asked if we could hedge on the natural gas purchases. Chancellor Cheek said we purchase the natural gas from a supplier, KUB. Trustee Wharton said he could hedge on his propane at his home. Vice Chancellor Cimino said that the steam plant burns whatever is

cheaper at the time. There are five boilers and they all burn multiple fuel sources. Chancellor Cheek this plant is important to us and as I said we spent \$40 million on utilities. Anything we can do to reduce the cost of utilities will be significant. One of our problems is the price has went up. Chair Horne said TVA provides electricity and we use coal and gas. Chancellor Cheek replied if we could buy electricity cheap enough there could be savings. Chair Horne said so if they will replace it at their cost then we might use electricity. Any more, electricity is cheaper than natural gas. President Simek said bear in mind what we are ultimately working with here is steam. Within that sort of condition we can't route things out unless we replace the entire infrastructure. We are hampered on what we can do. That plant is the largest single out cost on campus. Chancellor Cheek said we would like to go through and renovate more of the older buildings like what is being done with Ayres Hall. I hope all of you will attend the dedication of it. It will be a LEED certified building that has changed single paned glass to double paned glass for a whole host of energy efficiencies.

Trustee Loughry then complimented Chancellor Cheek on the breadth that he has given to the Committee. I hope that we are communicating this information to the public. I am interested to see if we will get reports such as this from other campuses.

Chair Horne noted that the Web site was updated. Interim CFO Peccolo stated that the Web site has the updated information on the campuses and it actually has a Board of Trustees item on it. So the Board can take pride in being a part of this.

Chair Horne then went on to talk about communications. After these EEF meetings, we can make our faculty teach more courses and focus on more productivity and research. We are pressing the faculty to do more. What if we came out of this committee and said we won't raise tuition for three years if you give us our money back from the Legislature and press everyone to do more. Vice Chair Murphy noted that we would have to get the Legislatures' approval before we do anything. We have a new Governor coming in and we can say that we won't raise tuition for three years if we can get money back from the Legislature. President Simek said we have talked about this and I understand the principle you are speaking of. The problem is politically neither the Legislature nor the Governor is going to commit to three years for anything. They work literally on a year to year basis. Chair Horne said that we could commit for one year and let's put our best foot forward. Let's don't have a tuition increase next year. President Simek questioned what if the Legislature continues its cutting process. Chair Horne stated that pressure should be put on them. President Simek said he would argue that we are not putting pressure on them

we are actually taking pressure off them. We don't want that. Trustee Loughry said when you think about how Maryland did it and was successful in it – they proved they had an efficient organization first, one of which they had control over. Then the Legislature said we and the public are comfortable with what you are doing and we are going to find a way. Chair Horne expressed that he personally does not feel Tennessee's Legislature will ever say that. I truly believe if you tell our Legislature that we have cut all this money (\$112 million) and we are not going to raise tuition again but want you to replace our appropriation money it will put heat on them. Trustee Loughry said we do not want to give them the idea that we are in control of tuition and we should control our own ship. It scares me when we start bartering that. Trustee Carroll said we need to find a way to give pay increases next year. Trustee Carroll said that is exactly right. He went on to say that we cannot ask faculty and staff to do more and more with less and less. Vice Chair Murphy told the Committee that there is something that needs to be recognized. You are assuming that when we make that proposal that they are going to have the same amount of money next year as they have this year. That is not a safe assumption to make. The last two or three years the Legislature has showed us that you can make all of these nice promises but higher education is not their number one priority and will never be. K-12 will always be more important to the Legislature than higher education. The next priority would be healthcare and after that corrections leaving higher education at around the fourth priority. That is not a situation that is going to be easy to change. I, personally, think that all of the Legislators would like to give higher education more money if it were there. We can talk all day about things the State shouldn't be doing and just give us the appropriations. What one person thinks they should be doing versus another person's view of what they should be doing are probably two totally different things. It is going to be hard to reduce the level of services significantly that we provide the state because guess what we don't provide much of the services. Even if you cut out a lot of what the State does there isn't a lot there. Chair Horne added remember that there is a new Missouri Governor coming in and he is very focused on the University of Tennessee. Vice Chair Murphy commented that he understands that but they worked on their efforts under a different economic time. The problem is if we went to the Legislature and told them that we will not raise tuition or whatever it is but if you will continue to give us the amount of money as normal. They would say yes we will do that but we are not really committed in giving you the same kind of money as in the past and then you get at these issues that we have. So then what does that mean? If we are going to tap our two basic revenue streams then what are we going to do when utilities go up 7%. What functions are we going to cut 7% to make it up? We have gone through all of this and there are not a lot of options

each year so let's assume that the University's costs are going up. I don't remember what the percentage was this past year but every year if the revenues are held constant. We are not increasing the number of students because we don't have the capacity. Chair Horne said if we push everyone on research and grants then we are not going to raise tuition for a certain amount of years – it would be great if the Legislature would give some of the appropriations back. Parents and students would say that they are happy that the University is not raising tuition and would ask the Legislature to replace the appropriations. I think the politics would work better coming from the parents and students. Vice Chair Murphy stated that he was more cynical than Chair Horne and said if we don't do those things we will not be able to keep the money we have. He went on to say what we are doing has to be done in order to maintain the status quo. Chair Horne interjected that the University may get cut more. Trustee Loughry said that one thing we do have control over is talking to our Development Council. Vice Chair Murphy said the risk that we run is yes we could get less money. Chair Horne said some of the people in Nashville are anxious to cut even more. Chair Wharton said that Tennessee Higher Education Commission has agreed with the middle Tennessee Senators that are squawking now because MTSU took a hit on the new formula and that is going to cause a little bit of a shuffle. Vice Chair Murphy said it might. Those two are going to find out that it is easy to come in and complain about one institution but when you start talking about reshuffling the deck it is a whole lot more people. Those other people are not necessarily worried about that one institution. Chair Horne commented that we are public Trustees too. We should speak our minds according to what we want done as well as what other public officials say. Vice Chair Murphy replied that he doesn't necessarily disagree with that. We just sat through Chancellor Cheek's presentation speaking on capital projects, capital maintenance, efficiencies and capital funding. We talked about the issues about needing to accommodate more pay for the faculty or lose them. All of those things are out there in front of us and basically if we want to do those things we need to do them and cap our two revenue sources. What we are going to have to do is talk about what we are going to get rid of. That means are we going to teach less students because we are going to have to reduce the size of our operation to be able to provide the same quality of service with cap funding. Because the costs that we are have to pay isn't staying constant. That is the problem with your saying you are going to give what stays constant and the costs is not constant. Chair Horne then said that it is easy for the Legislature to keep cutting our funding and not say anything and us raising tuition on parents and students. I voted against it last time because it was 9%. Vice Chair Murphy went on to say it is just not the Legislature telling us this - this is a national phenomenon. People do

not want to pay taxes for anything. If you do not want to pay taxes you have to pay user fees. Tuition is a user fee for higher education and people need to understand that. Chair Horne said that can change. Vice Chair Murphy said yes it can change but it isn't going to change because the Board of Trustees at the University of Tennessee wants to change it. It will change when the people of this country recognize that they have to pay taxes if they want to get public service. They don't believe that right now. Chair Horne stated that we're raising taxes on students. Vice Chair Murphy said no, we are raising user fees. If you want to use it you have to pay for it. That is where people are driving the government. They are saying we don't want to pay taxes. If you don't want to pay taxes but you want to have service then you are going to have to pay user fees. Chair Horne agreed that he was right and said that we all know our taxation system is highly regressive. Vice Chair Murphy stated that it has nothing to do with the tax system. People across the country, regardless of tax system, do not want to pay taxes. When the proposal came up in the State of Tennessee to erect an income tax the people that were opposed to it were the people that were hurt the most by a regressive tax system. It has no connection and is not connected to regressiveness. It is connected to the idea that people don't trust the government and so they don't want to pay taxes. We are not changing that because we are going to come in and say we are doing a good job at the University of Tennessee. We have to do a good job at the University of Tennessee to convince people to pay higher user fees. That is the path this country is on and we are not going to get off of it until people start to realize that they are going to get what they pay for. If they are not going to pay taxes - they are not going to get very much. Chair Horne added that the poor people of this state are sending less of their children to higher education because they can't afford it. Vice Chair Murphy said that is right and I do not disagree with you. The sad part of that is it is a whole lot cheaper to educate through public education than it is to support them their entire life because they are not capable of holding a job. It is whole lot cheaper to do it that way. It is really stupid to say that we do not want to educate those people. That is what the public is saying. They are not going to do differently because we are saving money in being efficient. They are going to do differently when they realize that as a society it is stupid to say we are going to create this class of people who can't hold a job because we don't educate them and that the only way we are going to fix that is have those people who can't get a job say wait a minute – I need higher education. This is a state issue. We as a state do not value higher education. We as a University are not going to be able to convince them that they need to change that. We can help but the people that are going to convince them that they need education are employers when they try to get a job. When the employer looks at the person and says sorry you have

a high school degree and we don't take anyone that does not have a college degree. That is starting to change but we are not there yet.

Interim President Simek commented that it is critically important that we be as efficient and effective as we can. It is critically important that we keep tuition increases as low as we can because it is the flexibility that will get us forward. We've talked as we have designed the presidential search that the goal we would like to see in the next president is to be a spokesman because in this state we have never done a good job of it. It is critical to be good with the people and to be a face for higher education. To get out there and talk about why it is so important at every level even those who parents never went to college. There is a culture change that has to occur. It will not happen immediately and there is no quick fix. You have to work at it and work at it. He went on to say that he agreed with a lot of what had been said but that we have to have flexibility on one hand to make sure this wonderful Institution continues, is restored and progresses and keep up with the world. It is a complicated matter that we face in the next decade.

Vice Chair Murphy said he was encouraged a little bit yesterday when he attended the Governor's Conference on Economic Development Luncheon. Michael Cohen, president of the nationally recognized education reform organization Achieve, spoke to the economic development group and government officials that attended the conference. There are a lot of county officials that attend such as county mayors, city commissioners and city mayors. What he talked about in a very understandable way was what we have been talking about, the benefits of higher education. He discussed where jobs in the state are going to be in the future and that they are not low-skilled but high-skilled jobs. Those jobs require at least two years. Chair Horne interjected that the unemployment rate for college graduates is 5%. Vice Chair Murphy said that Mr. Cohen did an excellent job of talking about that and then he talked about the second piece which is the difficulty we have in this state with K-12 education producing students that are not prepared for college and how so many of the students that are being admitted have to go through remedial education in higher education to do what high schools should have done. Now we are having these new tests that are going to start coming out that are going to start telling people that the K-12 system is not performing and that it has to be fixed. I think that it would help considerably. Chair Horne interjected that part of that problem is because they don't know their failing. Vice Chair Murphy said that don't know their failing because the state hasn't been telling them and that will change this year. When it happens, like President Simek was saying, folks will need to be prepared because it will be an incredible

pressure put on the politicians and say we will reduce the standards so there won't be all these people complaining about the fact that my student is failing. The problem of that is it doesn't deal with the reality in the workforce. The reality in the workforce is that those students failing in the high school are not going to be able to get in or perform in college. They are not going to be able to hold those mid and high skilled jobs and they are the only ones that will be available. It really is a state-wide problem and we are just one very small part of that. President Simek is correct one of the most critical tasks at the present is to convince people that one of the ways out of this problem is to have a better higher education system. It is unfortunate but right now we do not have that. Chair Horne added and to be a Top 25 University at UTK. Vice Chair Murphy added that this Committee has done a great job but we are not going to be able to make up with efficiencies the things that we have lost. Chair Horne stated that he thought the full Board was going to have to help by selecting a great president. Vice Chair Murphy added and doing what Chancellor Cheek is doing in Knoxville by getting more grants and contracts. Grants and contracts will not solve all the problems. They get you more graduate students but they don't really help you with the undergraduate students. We have to deal with this issue. The mission for this state is to provide a public education system or are we going to revert to a private education system.

- VI. **University Employee Performance Review Procedures**—Mr. Peccolo commented that he appreciated CHRO, Linda Hendricks perseverance of the discussion and noted that the Committee asked that this agenda item be presented. HR has an aggressive initiative to ensure a 100% of the Employee Performance Reviews are completed for each entity. Our Chancellors have committed to stress the importance of annual reviews and to monitor their entity's progress. The Trustees on this Committee want to make sure that performance evaluations are done each year on every employee. Chair Horne stated that Chancellor Cheek did say that you could get rid of a tenured professor.

CHRO Hendricks expressed appreciation for being able to present and told the group the handouts were behind Tab 3. She then stated that she would condense the presentation because of the shortage of time. She would give an overview rather than go slide by slide and would be happy to answer any questions but it would be more efficient to do a summary. She then introduced Dr. Linda Francisco, Executive Director of Talent Management. Linda has been at the University 28 years and has the background in our current performance process and can answer questions. She then introduced Dr. Sarah Gardial, the Associate Provost for the Knoxville campus and she can answer any

questions you may have about faculty evaluations on the Knoxville campus.

She then went on to say let me summarize our current process by saying we have a performance evaluation process for faculty and staff. We have tools, and automated tools in place to record the results of the reviews into IRIS/SAP. When asked what tools we have for termination, she stated that we have policies for both disciplinary actions and terminations. She shared that our HROs and employee relations staff will work with departments to create performance improvements plans for low performers. The bottom line is all the tools are there now. What's missing is training for supervisors and accountability. As part of the redesign of performance management, we are going to rework the tools so that they are easier for supervisors to utilize. What is not there is the culture change that every employee deserves an honest performance review. That is where you have to start and that is where we are starting – with supervisor accountability.

One thing that is not there is the accountability for supervisors and the second is the ability to differentiate performance. There are some supervisors that give everyone an Exceeds Expectations or Meets Expectations. You can never go to pay for performance or a merit system until you can differentiate performance. That is a de-motivator for the employees who are really performing at an “exceeds level” when all employees receive the same. I would like to share with you what the Knoxville campus has done for faculty evaluations - it is an excellent model. That is why I invited Dr. Gardial to be here. They have done a lot of work and are far ahead of where we are with staff. The tools are there but the culture change and accountability is not there for staff. While we have performance review training now, supervisors don't take advantage of it and really do not know how to manage performance. There is training in place but only a small number participate. She then asked Dr. Francisco if there was anything she wanted to add.

Dr. Francisco said that more managers and employees are taking it seriously. We do training for those supervisors and also training for employees on how to participate in a performance review. Chair Horne asked if that is done every year. Dr. Francisco replied yes, and we suggest that the managers get back with the employees a couple of times a year and not make it just a once a year event. Chair Horne asked if it was a formal process once a year, and Dr. Francisco said yes but we encourage evaluation of performance every single day. Again, the tools are in place. We have a disciplinary policy and employee improvements plans for employees that want help with their performance. We are in a pretty good place right now but are looking

at changing all of our tools, streamlining and making it more efficient. There should be a lot accomplished by the end of 2012. Chair Horne asked if this process was in place at all campuses, and CHRO Hendricks replied yes.

Chair Horne went on to say that one of the things he has always admired are coaches have a performance evaluation every day. They know real quickly what their strengths and weaknesses are. You don't have to be mean about it but you owe it to the employee to let them know if they are not doing a good job. These coaches get a performance evaluation on television. Dr. Francisco said that is a great point that in their training they emphasize how to have that interview or conversation. Chair Horne said it is not an easy thing to do. Dr. Francisco said if you don't do employee performance evaluations you are doing your employees a disservice. Chair Horne agreed and made note that sometimes the employee doesn't even know that there is a problem. Vice Chair Murphy said if I am a manager and not doing employee reviews then my manager should be telling me that I am deficient.

CHRO Hendricks informed the group that one of the things she would be sharing with the Committee is what she calls pieces of a performance management process. We don't have an integrated process that goes through the foundation which begins with competency based job descriptions. You can use it to hire people because you know what you are looking for and the employee knows what he/she is going to be held accountable for.

The performance management process goes all the way up through succession planning. A yearly performance evaluation is just one piece of a whole process that needs to be in place. She then asked the Committee to look at a slide that looks like a pyramid. She began by saying this is what is on the Human Resource Strategic Plan for the redesign and implementation of performance management. You will see on the bottom that it is competency-based job descriptions that every employee has. There are two elements to performance. One is results and the other is behavior. We haven't paid too much attention to performance but it needs to be embedded in the performance review. You can have great results and leave a bloody path behind you – where the end results are negative (lower performance and low morale). It are not just what you do but how you do it. The other thing is compliance. We have to be sure for all our positions where you have annual compliance or license it must be adhered to as well. If there is someone that is not up-to-date on any compliance they cannot get a Meets Expectations. That is step one that the employee must be compliant. One thing that I am going to recommend that we do is that

any supervisor who has supervisory responsibilities that wasn't at 100% of performance reviews and they have employees that need a performance review cannot get a Meets Expectations or an increase. That is the most important thing that a supervisor can do is give clear indicators of performance and real-time feedback. We measure them on those. At Duke, if you didn't complete 100% performance reviews for your direct reports and you did well on everything else, you got a No Meets and no increase. It takes only a year to make believers out of people. That is a cultural change that says as an institution that performance reviews are critical, and we are going to stand behind that. The Knoxville campus has already done that, and we are really proud of the work they have done and I will share that with you shortly.

The second thing up the pyramid is the clear distinction between unsatisfactory, meeting and exceeding expectations. Our supervisors do not understand what the differences are. Showing up every day and doing a good job is not exceeding. It is an expectation on your job. Vice Chair Murphy asked if showing up every day and doing a good job was not exceeds and CHRO Hendricks said it should be a condition of employment. Vice Chair Murphy added that showing up every day should be the starting point and CHRO Hendricks said that is correct. He went on to say that we are not here to provide a place for people to socialize – we are here to get work out. CHRO Hendricks said that she could not agree with him more but if you look at some of the performance reviews now – what they will say is good attendance, does everything I ask and that is the point that I am making. That is not meets. We have to do a better job of training our supervisors. President Simek added this is not necessarily a reflection of what people are doing – it is far more the culture evaluation that is the issue here. You have never done a systematic job with high expectations to distinguish meritorious behavior from what the basic expectations are. Chair Horne asked if there was a performance evaluation form and Vice Chair Murphy said yes but you have to train people to recognize the conduct. When they see on the form that it is the expectation that they understand what the expectation is and they have a way to know whether or not you are meeting it rather than just checking boxes. CHRO Hendricks said there is a form and I will be glad to share it, but I would say it is something that I am not particularly proud of – and that is why we are redesigning the form. It was updated about three years ago but it does not account for the difference of results and behaviors. Chair Horne said that he did that years ago for the Tennessee Valley Authority and asked if management succession is tied in with the performance review. CHRO Hendricks said absolutely. As one example, when you put performance review results in IRIS, you are able to run reports and see people at certain levels that are strong performers. You can use that as part of your succession planning. We

may have trouble recruiting in certain areas and it can assist with that as well. In recruiting one of the things that have not been done well is looking at our high performers in our own organization. They may need training to get them there but we have a resource internally to fill what we can't recruit. Performance ties into recruitment, internal development and your succession planning. While we have the tools and pieces – we don't have the fundamentals. That is what we need to do -- putting it all together. We have to set the expectation for accountability, and this is important. One of our campuses has taken the lead on that this year and will share that with you later on.

She went on to explain the next piece of the pyramid. There has to be a way that high performers are awarded and that low performers have performance improvement plans and a specific time and if they don't improve they are gone. You will hear supervisors say that they can't terminate an employee and when I go to pull the file there will be a meets or exceeds expectations on performance and no disciplinary actions or documentation. With records like that, HR's response is no, you cannot terminate them. Vice Chair Murphy added and whose fault is that. If a supervisor is saying an employee is inferior, and they evaluated them and gave them meets expectations they need to look in the mirror to see where the problem is. CHRO Hendricks said what you hear is Human Resource won't let us terminate, but if you really get down to it the tools are there and the managers are not willing to use them.

The term in IRIS is resigned instead of terminated so it is misleading. The majority of people who we would terminate, unless it is for a cause, we give the option of resigning. We have not captured it that way in our system. That is another change that I am making because we need to know that. I can tell you a number of people that have been terminated but it will be less than the truth because some have been allowed to resign. That data we have to fix. Trustee Wharton asked if the University has the ability to give severance packages for employees that we want to terminate and is there a length to the severance packages. CHRO Hendricks said yes to both parts of the question. We work very closely with the General Counsel's staff but we can do a separation agreement and they do have to sign a legal document. The packages that I have seen since I have been at the University are usually for high-level positions. If more supervisors would manage performance correctly, it would not be hard to terminate those employees from the organization. If they have been given true evaluation of their performance and use the disciplinary process you can terminate employees for poor performance. Trustee Wharton added that a terminated employee should not be surprised. CHRO Hendricks added that the first defense that they have is if you

terminate me for poor performance – I can show you that all my reviews are meets and above and I have never been on disciplinary action. The University is not in a very good position in this case. President Simek commented that he would argue that now that we are doing high working of performance evaluations which can be contributed to Linda's activity in revamping our Human Resource process. A lot of times the real reason that it is difficult to terminate an employee is because employees can argue I didn't know that I was in jeopardy because there was no evaluation at all. Looking back twenty years, the fact that we have this kind of forced participation over the last two years doesn't reflect what the conditions were before. There has been a great job done in changing the culture at the University recently as part of HR's strategic plan, and there is more to do. Trustee Wharton asked if a clerical person was not performing does the University have the ability to give them a couple of weeks of severance so it is not a complete disaster for them. CHRO Hendricks explained that she has always been a proponent of giving an employee time to improve because sometimes people don't do well because you have the wrong person for the wrong job that didn't have the competencies to begin with. They maybe a great person but the job is not a good fit and sometimes it is the supervisor. The best outcomes of performance management are helping the employee get where they need to be. If they are not able to then you do have to manage them out of the organization. You have to have the tools and support to do that. I have had cases where employees could not perform in a job at all and we had to place them in a job where they could. They are committed and want to do well, but they were in the wrong job and did not have the competencies to even do the work and should have not been hired in the first place. If you have a competency--based job description, you should be hiring for what it takes to do that job. Sometimes, we promote employees and make them supervisors based on their years of service. That is not a supervisory quality and then they don't do well supervising. The actual performance review is just one piece of a big process.

At the top of the pyramid is succession planning and we have to do that. If you look at our demographics and how many employees we have that are retirement eligible, it is frightening that we do not have succession planning. All of this is leading to a formal succession planning program.

She then presented a chart illustrating how you tie succession planning and a leader/manager/supervisor development cascade. It consists of very basic supervisory training all the way up to executive development. This training cascade will support the development of succession planning of the University's top performers. It also gives

the core skills for supervisory staff on how to do their job day-to-day. Vice Chair Murphy asked how you make sure that the employees that need these training classes get them. If you are in a certain position do you have to go through these particular courses? CHRO Hendricks responded by saying one of the things that will be recommended is if you are a supervisor that you have to go through supervisory training. Today you don't, so that is why you have people in those positions who don't take advantage of training that we have. On some of the training as employees move on up – you have to be nominated to go through the program. In other words, Chancellor Cheek will pick employees as he does succession planning that he is preparing for future roles and advancement. He will select them to go into these programs, and it will be based on their performance results. Some training classes will have open enrollment and some will be required. One class that will be required for some supervisors is HR 101. When we look at turnover, employee satisfaction and grievances we can tell you the top areas where there are supervisory problems. In the defense of the supervisors, in many cases they have not been trained and were promoted with no training. The patterns are there. That is when we will go and train every supervisor in that area. Chair Horne asked if we have not previously had traditional supervisory and management training here at the University? CHRO Hendricks replied by saying we have had it but it has not been mandatory. The reason that it is a culture change is because there are a lot of supervisors that say they don't have time to release employees to go to training. What we have to say to those supervisors is that you cannot afford not to send them to training because you are spending so much time dealing with personnel issues and a lack of productivity because your supervisors don't know how to manage. It really is a culture shift that the University is making. It will take the support of the Trustees and the leadership from all of our campuses to make it happen. Chair Horne said we need to require it, and CRHO Hendricks said yes that is part of the recommendation that we will make when rolling out the revised performance management program. If you are a supervisor, it should be mandatory that you attend the supervisory training.

Trustee Carroll asked if there were certain groups that CHRO Hendricks was not getting support from, and she said not at all. We have had tremendous support from every single campus and institute. What we are trying to do is build infrastructure in the programs and get them in place. The President and all the Chancellors have been incredibly supportive and really have wanted this for a long time. We are anxious for it to roll out. On any campus, you have pockets of areas where you have supervisory issues. Human Resource has not done a good job of tracking data. If you look at grievances and turnover - you can pinpoint where those areas are. We have not done

a good job of that in the past. We are doing that now. To get to the end result, there is still a great deal to do. I do not want to make it sound like it is easy or a quick fix.

Chair Horne confirmed that HR employees have been redistributed in the regional service centers and campuses, and she said yes. We have the two regional service centers that went up in January 2010 and every campus has a dedicated HR team. Some are a one-person team and are supported by the regional service centers.

She then presented a slide that shows where accountability starts. UT Knoxville's Chancellor, Dr. Jimmy Cheek, made a commitment earlier this year that all the employees on the Knoxville campus would have a performance evaluation. He said that publicly to employees and is monitoring monthly at the Chancellor's Cabinet meeting. The faculty is at 100% - every faculty member has had a performance review. They do a much better job of differentiating levels of performance as I said earlier. They are further ahead than we are with staff. Vice Provost, Sarah Gardial said let me interject that we did a training event last fall that all department heads were required to go through and brought in a performance evaluator to help train them how to do more thoughtful evaluations, provide feedback and do a better job distinguishing. They all went through that prior to the evaluation cycle last year. CHRO Hendricks said that the Knoxville campus for staff is at 87%. They will get to 100% and percentage completion is monitored monthly. All of the Vice Chancellors in the Cabinet know the line of accountability and who has not had one. If you had run the numbers prior to starting this, probably none of our campuses had more than 20% for staff. In the past, a lot of employees that received performance reviews did their own by filling out the self assessment. Now, Dr. Cheek is holding supervisors accountable. Chair Horne asked if we do assessments of supervisors and she said that some areas do. There are some areas that do very well and do 360° feedback for peers, supervisors and subordinates. You have some that just have the employees fill out a form and that is their review.

Part of the redesign too is that performance is measured from many ways but first you have to make people understand that every employee has to have a performance review. You must start by every Chancellor holding people accountable. It should be 360° feedback, but we are not there yet. Chair Horne added that employees that are trained and managed are the University's greatest asset. He then invited CHRO Hendricks to come back and present at a later meeting of the Effectiveness and Efficiency for the Future Committee to follow through on this topic. Vice Chair Murphy said that he thinks where the University is inefficient is managing employees. It sounds like we have

started well on the faculty side and need to continue on the staff side. There is a perception out there that says all you have to do is show up for work, and if that is the case it is an unjustified position. It is clear that one of the things that needs to be done is to train people on how you evaluate employees and how you determine they are meeting their core job requirements. Most of all, we need to hold people accountable. If there is an employee that needs to be terminated because of poor performance and the documentation is not there, then the supervisor needs to be fired or disciplined because they have not done their job. Trustee Wharton said that where he worked previously that they had a problem with attorneys giving their assistants fair evaluations because they would make their lives miserable working with them every day. We would ask every attorney and administrative supervisor to not do a performance review for his or her assistant if they could not be truthful. Chair Horne said that he liked Vice Chair Murphy's approach to fire the supervisor if performance reviews are completed correctly. Vice Chair Murphy commented that it goes back to what Linda says we need to require training for supervisors and if we don't that is our fault. We have to do a better job of training people supervisors/management and understand that supervisors are promoting people in lieu of giving them pay increases and again that is not a good thing to do. The thing evaluations need to be tracking is do you have the job skills to perform the job and if you are performing it and you are not capable we need to use that process to terminate. CHRO Hendricks said there are two other ways that you deal with a supervisor who won't give honest feedback. One, is if you do not receive a performance review that is meets or exceeds it bumps up one level and the supervisor's management does a review as well. If you are not accurately reflecting performance you had that competency called to your attention because it went up a level. Two, when you get into pay for performance and you have limited funding you will find other supervisors don't like it if you are giving all your folks exceeds. Just because they want to be the nice supervisor it is taking away the other supervisor's ability to award their top performers and you will see pressure from supervisor to supervisor for those who don't manage well. Again, that is part of the infrastructure that we have to build. Chair Horne added that we also want the President to evaluate his people as well because those are important positions within in the organization. CHRO Hendricks stated that the President does do evaluations. Vice Chair Murphy said that the Board has not evaluated Dr. Simek because he is a short-termer.

- VII. **Update on State Revenues and Appropriations**—Chair Horne asked Acting CFO Peccolo to update the Committee on the State Revenues and Appropriations. Mr. Peccolo told the Committee that behind Tab 4 was a chart that showed what the state's revenue looks like. He

mentioned that it was improving. What is included is the difference between the projected and the actual. The difference is growing smaller. Vice Chair Murphy added that the good news is it is not as bad but the bad news it is still bad.

- VIII. **Summary of Appropriations Reductions and E & E Savings**—The latest schedule of Effectiveness and Efficiency savings by campus/institute was distributed for the Committee's information and it was noted that the updated schedule was on the web site.
- IX. **Other Business**—Committee Chair Horne asked if anyone had any other business to discuss; none was noted.
- X. **Adjournment**—Committee Chair Horne adjourned the meeting.



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