

**MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE
THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES
JUNE 20, 2006**

The meeting of the Finance and Administration Committee of the Board of Trustees was held at 2:30 p.m. EDT, Tuesday, June 20, 2006 in the UT Plant Biotech Building, Rooms 156-157, in Knoxville, Tennessee.

- I. **Call to Order** - Mr. Bill Stokely, Chair called the meeting to order.
- II. **Roll Call** - Dr. Gary Rogers called the roll and advised the Chair that a quorum was present.

Present

Bill Stokely, Chair
William Carroll, Member
Jim Haslam, II, Member
Jerry Jackson, Member
John Petersen, Member
Don Stansberry, Member
Bucky Wolford, Member

Absent

Johnnie Amonette

- III. **Approval of Minutes of Last Meeting** – Mr. Stokely called for consideration of the last meeting’s minutes. On a motion made by Mr. Haslam and seconded by Mr. Jackson, the minutes were unanimously approved as distributed.
- IV. **Report of Endowment Investment Performance** – Information Item – The Chair asked Mr. Butch Peccolo, Treasurer, to give the Endowment Investment Performance Report.

Mr. Peccolo noted that as of March 31, 2006, on a 1, 3, and 5-year rolling basis, investment values were up 18.3%, 18.6%, and 8.0% respectively. April was about even, May was down about 3%, and the results are not complete for June. For fiscal year-to-date through May (eleven months) the pool is up 14.2%. Barring an adverse June performance, the fiscal year return should be in double digits.

Ten (10) endowments were “under water” as of 3/31/2006. The total amount for the ten (10) is approximately \$70,000. The measurement date for determining next year’s pool income distribution is December 31, 2006. Hopefully, with continued improvement in the capital markets, all endowments will be above their historic gift value.

Portfolio changes underway include trimming back in public markets, adding to natural resources, and more private equity. Overall, the pool return exceeds its broad policy benchmark (6.5% and 18.3% versus 4.6% and 13.9% for the quarter and twelve months respectively). Big performers for the pool included international equity (both core and emerging markets), real estate, and natural resources. Underperformance was evidenced in the mid and small cap domestic allocations due to the pool's relative "value" tilt.

The committee noted the improvement in investment performance and reduction of endowments below gift value.

- V. **Ratification of Quasi-Endowments** – Consent Item – Mr. Stokely stated that item IV was a consent item and asked Mr. Peccolo to present the ratification of quasi-endowments.

The materials provided to the Board indicated that there were fifteen quasi-endowments created during the fiscal year totaling \$17,161,294.68. These quasi-endowments were established in accordance with Board policy adopted in 1995 that requires the Board to ratify the establishment of the quasi-endowment.

Mr. Haslam moved approval and Mr. Jackson seconded the motion. The motion was approved unanimously.

- VI. **FY 2007 Distribution of UC Foundation Funds** – Consent Item – Mr. Stokely asked Gary Rogers to report on the UC Foundation Funds distribution. Dr. Rogers reported that the UC Foundation operates separately and that the documentation reflects the University's plans to use the funds received from the Foundation.

Mr. Haslam asked about the Foundation's payout formula. Dr. Rogers noted that the formula used by the UC Foundation differs from that of the UT Foundation. The UTC Foundation has adopted a total return spending policy whereby a portion of the Foundation's cumulative investment return is used for support of current operations. The payout formula is based on 4.5% of the average market values over the prior twelve rolling quarters of the realized earnings of the main endowment.

Mr. Stokely asked about the investment portfolio and performance. Trustees John Thornton and Bucky Wolford briefly discussed the Foundation's operations and it was noted that Richard Brown, Vice Chancellor for Finance and Operations at UTC is working with the Foundation and its investment advisor to improve the return. Mr. Don Stansberry asked if Mr. Peccolo consults with the UC Foundation. Mr. Peccolo replied no, that Foundation is handled separately. Mr. Stokely stated that the University would be willing to share information with the UC Foundation.

Motion was made by Mr. Haslam to approve distribution of the Chattanooga Foundation funds for FY 2007. Mr. Stansberry seconded the motion and it passed unanimously.

- VII. **Review of UT Foundation FY 2007 Operating Budget** – Information Item – Mr. Stokely asked Dr. Rogers to report on the UT Foundation’s FY 2007 Operating Budget. Dr. Rogers noted an increase in net assets and contribution receipts. Knoxville Place is operated through the Foundation and shows positive financial operating results. Mr. Wolford asked who oversees Knoxville Place; Mr. Haslam stated that Cecil Phillips of Place Properties manages Knoxville Place and the operation appears well run.

Mr. Haslam also informed the group that Dr. Rogers had recently been added as a board member of the UT Foundation.

- VIII. **Acquisition of Term Easement, TVA Test Track (UTC)** – Consent Item – Mr. Stokely asked Dr. Rogers to discuss the TVA Test Track at The University of Tennessee Chattanooga. Dr. Rogers explained that TVA owns the track in Chattanooga and that The University of Tennessee Chattanooga (UTC) Engineering College would like to do testing on alternative fuel vehicles. The easement term would be for ten (10) years with renewal options.

A total of \$139,000 easement payment would be made to TVA. Up to an additional \$320,000 could be spent on the property for improvements. Funding will be from grants and contracts related to fuel testing projects.

Motion to approve was made by Mr. Haslam, seconded by Mr. William Carroll and passed unanimously.

- IX. **Annual Report of Sales of Gift Properties** – Consent Item – Mr. Stokely asked Dr. Rogers to present the annual report of sales of gift properties. Dr. Rogers informed the Committee that gift properties sold are those donated to the University that do not fit an operational need. The Board has authorized the sales of these properties throughout the year. The total for gift sales during the current year is \$1,200,000. Proceeds are allocated to units according to donor directions.

Mr. Stansberry made a motion to accept the annual report, Mr. Haslam seconded the motion and it passed unanimously.

- X. **Promulgation of UT Martin Traffic and Parking Rules Under Tennessee Uniform Administrative Procedures** – Consent Item – Mr. Stokely asked Dr. Nick Dunagan, Chancellor of UT Martin to report. Dr. Dunagan reported that UTM is changing the name of its Safety and Security Office to UTM Department of Public Safety. Additionally, the proposal changes the fine amount from \$5.00 to \$10.00 if the fine is not paid within 14 days. Lastly, UTM is revising its towing policy. These new regulations must be submitted to the State for approval.

A motion to approve the changes in UT Martin Traffic and Parking Rules was made by Mr. Haslam, seconded by Mr. Jackson and approved unanimously.

XI. **Approval of President Emeritus Agreements** – Consent Item – Mr. Stokely asked Dr. John Petersen, President, to speak on behalf of the approval of President Emeritus Agreements. Dr. Petersen commented that when you are a past President of The University of Tennessee there is no such thing as retirement. He pointed out that Dr. Joe Johnson and Dr. Ed Boling, both President Emeritus, were at the meeting. Dr. Petersen stated that both continue to do great things for the Institution and referred to their reports. He proposed to go forward in the same manner on behalf of the current agreements with the current Presidents Emeritus.

A motion for approval of President Emeritus agreements was made by Mr. Haslam, seconded by Mr. Jackson and approved unanimously.

Other Business – The Chair, Mr. Stokely, advised the Committee that two (2) additional items needed to be considered under other business. The first item related to Revision of Repayment on Morningside property and the second item was Review of Budgets for University Housing for Senior-Level Administrators. Adding items to the agenda needed to be approved by the Committee.

A motion to consider the items under other business was made by Mr. Haslam, seconded by Mr. Jackson and passed unanimously.

Dr. Rogers explained to the Committee that the Morningside property was purchased with advanced funds that were to be repaid upon the sale of the Goodwyn property. Initially, the repayment was to be made by June 30, 2006; however, the Goodwyn property has not been sold. Rogers reported that an appraisal was done on the Goodwyn property in 1999 and another appraisal was made in 2005 when the Morningside Property was purchased.

Ms. Loughry asked what the projection was on the Goodwyn property once it was sold. Dr. Rogers said that the appraisal is at \$1,000,000. The bids that come in must be at least \$1,000,000. If the bid is lower then it has to be approved by the State and accepted by the University. Karl Schledwitz confirmed with Dr. Rogers that the University does not handle this process and that the bid process is a state process. Dr. Rogers noted that the process is being handled by the state.

The recommendation is that the repayment be made from the Goodwyn Street property sale proceeds, upon closing, and from such other funds as they become available and that the completed transaction be reviewed by the Audit Committee.

The motion to revise the repayment on the Morningside property was made by Mr. Stansberry, seconded by Mr. Haslam and passed unanimously.

Mr. Stokely asked for a review of the proposed budgets for University Housing for Senior-Level Administrators. Dr. Rogers reviewed each budget and noted the following:

- The President's residence in Knoxville still has some previously budgeted items to be completed that will extend into FY 2007.
- The Chancellor's residence in Chattanooga requires repairs to the tile roof. Additionally, this residence does not have a central air system; that is budgeted for FY 2007 using gift funds.
- The Chancellor's residence in Memphis has items that were not completed in FY 2006 that will be rolled to FY 2007. Rogers explained that Memphis would have multiple pages due to two (2) residences currently owned. (The Goodwyn property will be sold as noted earlier.)
- The budget for the Chancellor's residence in Martin had no items of note.
- Dr. Rogers referred to the narrative in the budget materials explaining the different residences and an expense breakdown for each.

XII. **Adjournment** – With no further business to come before the committee Mr. Stokely adjourned the meeting.

William B. Stokely, III
Chair, Finance & Administration Committee