

**MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE  
THE UNIVERSITY OF TENNESSEE  
BOARD OF TRUSTEES  
MARCH 12, 2008**

The meeting of the Finance and Administration Committee of the Board of Trustees was held at 10:15 a.m. EDT, Wednesday, March 12, 2008 in the Lookout Mountain Room of the University Center in Chattanooga, Tennessee.

- I. **Call to Order** - Mr. William Carroll, Chair called the meeting to order.
- II. **Roll Call** – Chairman Carroll asked Dr. Gary Rogers, Senior Vice President and CFO to call the roll. He did so and advised the Chair that a quorum was present.

**Present**

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

**Other Trustees Present**

Anne Holt Blackburn, Trustee  
Barbara Castleman, Trustee  
George Cates, Trustee  
Spruell Driver, Trustee  
Commissioner Ken Givens, Trustee  
Jim Hall, Trustee  
Doug Horne, Trustee  
Rhynette Hurd, Trustee  
Brittany McGruder, Student Trustee  
Jim Murphy, Trustee  
Karl Schledwitz, Trustee  
John Schommer, Faculty Trustee  
Candace White, Faculty Trustee  
James “Bucky” Wolford, Trustee  
Anna York, Student Trustee

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

III. **Approval of Minutes of Last Meeting**—Mr. Carroll called for consideration of the last meeting's minutes. Ms. Loughry called the Committee's attention to page 7, section XI of the November 9, 2007 minutes regarding Trustee representatives on related foundation boards. She stated that there was a discussion as to whether the Trustee representatives would be the President and an appointed Trustee or two appointed Trustees. She asked that the minutes be corrected to reflect that the consensus of the committee was two appointed Trustees. Mr. Wolford stated that he made a representation to the UC Foundation regarding a second appointed Trustee member on the UCF board of directors. Mr. Stansberry asked that the administration also review Trustee representation to the UT Research Foundation board of directors. Mr. Cates also asked for a review of faculty and staff representation on the UTRF board of directors and asked that consideration be given to the amount of research contributed by the various campuses and units. Ms. Loughry stated that clarification of representation on foundation boards would be addressed further at the June meeting. Mr. Talbott moved approval of the minutes as amended at this meeting. Mr. Jackson seconded the motion, and the minutes were unanimously approved as amended.

IV. **Treasurer's Report of Endowment Investment Performance**—Information Item —Mr. Carroll asked Mr. Butch Peccolo, Vice President and Treasurer to give a report of the Endowment Investment Performance. Mr. Peccolo noted that the fourth quarter of calendar 2007 was a difficult time in the capital markets. Negative returns were consistently reported across all markets except fixed income, some alternatives (directional hedge funds), and private equity. The investment performance of the University's consolidated investment pool for the quarter, was -1.7% while the one-year, three year, and five-year time periods ended December 31, 2007 were 8.1%, 11.7% and 13.9 respectively. The fourth quarter trailed the broad policy benchmark of -0.7% due primarily to the pool's underweighting in fixed income vis-à-vis the broad policy benchmark. Longer term returns are positive and exceed the long-term goal of 9.0%.

Trustee Wharton inquired about any needed changes in investment strategy. Mr. Peccolo explained the current asset allocation model and noted that it is regularly reviewed and approved by the Investment Advisory Committee as provided for in the investment policies approved by the Finance and Administration Committee and adopted by the Board.

The Committee discussed a range of investment approaches and the necessary frequency of reviewing the investment model and asset allocation, as well as any sub-prime exposure. Mr. Peccolo advised the Committee that the investments are reviewed constantly by the advisors who meet quarterly with the Investment Advisory Committee

and that sub-prime exposure would be very limited and exist only in a small portion of alternative investments.

- V. **Report of the Treasurer—Information Item—**Mr. Carroll asked Mr. Peccolo to address the group regarding the University's financial report. Mr. Peccolo noted that the University's June 30, 2007 Financial Statements were presented in draft form to the Board at its November 9, 2007 meeting. The statements have now been completed and issued. The State Auditor has issued a clean opinion on the statements. No adjustments were made to the draft financial statements.

In addition to the University's statements, the Report of the Treasurer includes the discreetly presented statements of the UT Foundation, Inc. and the UC Foundation. It was noted that financial statements of the University present a strong balance sheet and good debt ratings and investment gains.

- VI. **Approval of Use of Glocker Renovation Quasi-Endowment Funds for Equipment and Technology Needs—Consent Item—**Chair Carroll asked Mr. Peccolo to present the request for the use of the Glocker Renovation Quasi-Endowment funds. He explained that the University established the Glocker Renovation Quasi-Endowment in January 2005 (ratified by the Board of Trustees in June 2005) with initial funding of \$790,000 from gifts for the Glocker Business Building renovation project. Subsequent gifts for the Glocker renovation have been added to the quasi-endowment. The quasi-endowment balance as of December 31, 2007 totaled \$1,756,956 comprised of gifts totaling \$1,521,641 and an investment return of \$235,315. It is the University's desire to now use \$1,350,000 of this quasi-endowment balance to pay for a portion of the \$5.5 million equipment and technology needs in the newly renovated Glocker Business Building.

Trustee Jackson asked if such use would be in accord with donor wishes and Trustee Wharton inquired as to whether any legal issues needed to be addressed. Mr. Peccolo advised that the donor wishes would be met with this proposed use of funds and that legal matters had been addressed.

Upon a motion by Trustee Anderson, seconded by Trustee Jackson, the request was approved by the Committee.

- VII. **Approval of Revised Budget for FY 2007-08—Consent Item—**Chairman Bill Carroll noted that he had reviewed the Revised Budget with Dr. Rogers and that the additional revenues reflected increased appropriations and tuition; further, the expenditures were applied to employee compensation, instruction and research. In addition to new revenues, carryforward funds and encumbrances cleared from FY 2007 were applied to FY 2008. Chairman Carroll then asked Dr. Gary

Dr. Rogers reviewed the summary and noted that the University of Tennessee operating budget is revised each year to update revenue and expenditure projections for the remainder of the fiscal year. The revised budget takes into consideration final fall enrollments (which are estimated at the time the original budget is prepared in the spring), the impact of the prior year's activities carried forward into the current year, and adjustments in state appropriations occurring since the FY 2007-08 budget was approved in June 2007.

Trustee Wharton inquired as to the array of choices that could be made in utilizing new revenue, especially in dealing with compensation issues, and the broad-based priorities of the University. Dr. Petersen noted that the State had provided additional appropriations related to salaries for the fiscal year. Trustee Horne asked if the new funds could be added to the "Rainy Day" fund for the University and Trustee Talbott asked if such funds could be used for capital items.

Dr. Rogers noted that unspent operating funds could be added to reserves at the end of the fiscal year. He also noted that appropriations are made in two basic categories—operating and capital. Such funds must be spent as appropriated. Unspent operating dollars put into reserve at year-end can later be applied to capital projects that are proposed as "self-funded" and approved by the State Building Commission. Operating appropriations may not be spent on capital outlay in the year of appropriation; capital appropriations must be applied to capital items – those funds cannot be used for operations.

Trustee Anderson commented that much of the revised budget spending had already been implemented before actual Board approval occurs. He suggested that changes above a predetermined threshold may need to be approved by the Board earlier in the budget cycle. Trustee Talbott suggested that early notification of changes be given to the Board and that the Committee approve changes before spending occurs. Trustee Anderson asked that a review be done to identify a potential threshold; Trustee Wharton suggested that any such threshold needed to be adequate to permit routine decisions and that only "material" matters be subject to the threshold.

Upon motion by Trustee Wharton, seconded by Trustee Anderson, the Committee voted to approve the revised budget with Trustee Talbott voting no.

- VIII. **Revised FY 2008-09 Capital Outlay Budget**—Consent Item—Mr. William Carroll, Chair, asked President Petersen to present the request to modify the capital outlay priority list for FY 2008-2009. Dr. Petersen advised that the University administration desires to revise the capital outlay priority list for FY 2008-2009, as indicated in the letter to the Tennessee Higher Education Commission (THEC) and the revised priority list. The complete list of capital outlay priorities for FY 2008-09

through FY 2012-13, as approved by the Board in November 2007, has been provided for the Board's information.

In lieu of items 1 and 5 submitted originally (renovation of the Nash Building on the Health Science Center campus in Memphis at a cost of \$28.0M and renovation of the Crowe Building on the Health Science Center campus in Memphis at a cost of \$20.1M), the University seeks to establish a new priority item 1, construction of a new Research Building on the Health Science Center campus in Memphis at a cost of \$80.0M. The building would contain approximately 200K gross square feet (50% wet labs and 50% office space).

The University is also considering an alternative model of privatized delivery and financing of this project that would be in the form of a design-build with a lease from a third party, including a purchase option. The University would anticipate State appropriations to provide funding for lease payments, including O&M costs, until such time as F&A recovery generated from research grants conducted in the building and revenue from clinical operations and gifts become adequate to cover such expenditures.

Trustee Wharton inquired about accreditation and fund raising matters related to HSC, especially Dentistry. He also asked about projects needed at Veterinary Medicine to address accreditation issues. Dr. Petersen noted a plan was being developed to improve Dentistry facilities and add faculty; further, he noted efforts underway to address veterinary medicine facilities. Capital outlay requires state appropriations or fundraising.

Trustee Wolford inquired if Nash and Crowe buildings would be demolished under the revised request. Dr. Petersen advised that those buildings would be slated for conversion to classrooms and faculty office space versus research.

Trustees Wharton and Schledwitz discussed the need to demolish certain buildings on the HSC campus. Trustee Schledwitz suggested innovative and novel ways should be considered to fund capital and operating needs at HSC in light of the needs exceeding state funding availability. Dr. Petersen noted that planning money might be requested from the state for HSC.

On a motion by Trustee Talbott, seconded by Trustee Anderson, the Committee approved the Revised Capital Outlay Budget request for FY 2008-09.

- IX. **Update on FY 2008-09 Budget**—Information Item—Chair Carroll called upon President Petersen to provide an update on the FY 2008-09 Budget. Dr. Petersen stated that the state's revenues had been lagging behind the FY 2007-08 estimate. That, in turn, had affected the available state funds and the proposed state budget for FY 2008-

09—both capital and operating. Limited new operating dollars and virtually no capital money can be expected for the University in FY 2008-09. The Governor's current proposed budget includes

- \$10.3 million (\$4.7M for formula units and \$5.6M for non-formulas) for a 2% across-the-board pay increase for faculty and staff. Formula units will fund 40%, or \$3.1 million; non-formulas will receive 100% funding
- \$5.6 million in operating funds for Biofuels
- \$1.0 million recurring for Mouse Genome project at UTHSC to provide operational support for analysis of multiple genetic diseases through a unique mice pool
- \$3.0 million in non-recurring funds for equipment at the Regional Biocontainment Laboratory (RBL) scheduled for completion in 2008 as one of nine national sites for research on bioterrorism threats
- \$21.5 million for capital maintenance projects
- No capital outlay funding

Trustee Murphy stressed that options, other than tuition increases needed to be considered. Potential plans for cutting costs and services should be developed. The University needs to be sensitive to constituent groups and the State. Trustee Wharton and others expressed concern related to unmet needs. Dr. Petersen indicated that the University would address funding issues in light of its strategic plan. He noted that more discussion would occur at the full Board meeting.

- X. **Progress Report on Cost Project**—Information Item—Mr. Carroll, Chair, called on Dr. Gary Rogers to update the group on the Cost Project. Dr. Rogers reported that at the request of the Executive and Compensation Committee, the Finance and Administration Committee has embarked on a project to review administrative costs, including services, charges, and costs with a view toward cost-containment. Further, the Audit Committee will participate in the project from a risk management perspective concerning operations and regulatory issues. Upon completion of these reviews, the Study will be provided to the Board for a comprehensive examination of the findings. The Chair asked, and the Committee concurred, that the Sr. Vice President and Chief Financial Officer be charged with providing the study for the Finance and Administration Committee and that the Executive Director of Audit and Consulting be charged with staffing the work of the Audit Committee.

The study was occasioned by

- The Board's Role in Overseeing Costs
- Continuing Funding Issues of Higher Education – Rising Tuition Rates and Appropriations Affected by Inflation
- Prudent Management

The scope of the study will cover all parts of the University and assistance will be provided by the national education practice group at BearingPoint Management and Technology Consultants. Trends and key indicators will be examined and interpreted with the help of the consultants to identify areas of the University where opportunity exists to improve cost management and further the strategic plan. Savings outcomes will be measured, monitored and captured for application to the strategic plan. Options for outsourcing may also be identified.

An additional update with BearingPoint will be provided at the June meeting.

XI. **Approval of Real Property Transactions**—Consent Item—Mr. Carroll, Chair, asked Dr. Rogers to present the real property transactions for the Committee's consideration. He presented the following

- Grant of Water Line Easement (UTC)

The University of Tennessee at Chattanooga and Tennessee American Water Company propose a permanent utility easement located on the northwestern corner of UTC's Wellness Center property for authorization to enter upon and excavate, construct, and maintain a new 12" water main. The proposed easement is approximately 20' in length, irregular in shape and does not lie within open public right-of-way or an abandoned right-of-way in which utility easements have been reserved per City Ordinances. The proposed easement contains approximately 628 square feet or .01 + acres.

- Grant of Sewer Easement (UTC)

The University of Tennessee at Chattanooga and the City of Chattanooga propose to expand a permanent sanitary sewer easement for authorization to enter upon and excavate, construct, and maintain said sanitary sewer line. The proposed easement runs north of Oak Street and adjoins property known as Engel Stadium to the north. It is approximately ten feet (10') in width and approximately two-hundred eighty-seven feet (287') in length, containing approximately 2,862+ square feet or .06 acres. The easement area would have no negative impact on the University.

- Conveyance to Memphis Bioworks Foundation (UTHSC)

The University Administration seeks authorization to convey approximately 0.17 acres of property located north of Union Avenue and on the east side of the University's Nash Research Building at the Health Science Center to Memphis Bioworks Foundation (Bioworks). Bioworks proposes to use this parcel and their adjacent properties to construct a building.

In consideration of the conveyance, Bioworks proposes to construct a new direct access, secured loading dock that the University will jointly use to service multiple University buildings. The University will retain a temporary and permanent easement interest for the joint-use loading dock.

- Acquisition of Easement from Memphis Bioworks Foundation (UTHSC)

The University of Tennessee Health Science Center proposes to accept a permanent easement from Memphis Bioworks Foundation that shall provide underground service access to the University's Nash, Pharmacy, and Regional Biocontainment Lab (RBL) facilities. The easement will improve the existing service access to the Nash facility and provide the most efficient and secured option for service access to the University's new Pharmacy and RBL facilities.

In consideration of the easement, the University proposes to dispose of 0.17 acres in a separate transaction for the constructing of a new direct access, secured loading dock that the University will jointly use to service multiple University buildings.

The proposed easement is bounded on the north by Madison Avenue, to the east by property owned by Memphis Bioworks Foundation, to the south by Monroe Avenue, and to the west by University property.

- Authorization to Sell Gift Properties

The University Administration seeks authorization to dispose of two (2) gift properties at or above their appraised value, described as follows

- Hickory Hollow Estates (Lot #3), Knoxville, TN  
10.98 +/- acres residential lots  
Donated by William L. & Elaine Jenkins for the  
William L. Jenkins Charitable Remainder Trust

- 1801 Downtown West Boulevard  
43,420 +/-sq. ft. commercial office building  
Donated by Donna M. Cobble for the Donna M.  
Cobble Charitable Remainder Unitrust

Upon a motion by Trustee Anderson, seconded by Trustee Jackson, the Committee approved all the items.

- XII. **Status of Sustainable Design Guidelines**—Information Item—Chair Carroll asked Dr. Rogers to present the status of the Sustainable Design Guidelines. Dr. Rogers reviewed the documents briefly and indicated that the University was employing many of the measures called for in the proposed state guidelines. The State anticipates having the guidelines effective later in 2008. He invited to Committee to forward inquiries to him if they had any questions.
- XIII. **Other Business**—Mr. Carroll called for any other business to be brought before the committee. Hearing none, the Chair moved to the next item on the agenda.
- XIV. **Adjournment**—With no further business brought before the committee, Mr. Carroll adjourned the meeting.

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Gary W. Rogers,  
Sr. VP and Chief Financial Officer