

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE MEETING
BOARD OF TRUSTEES

THE UNIVERSITY OF TENNESSEE

March 6, 2007
Martin, Tennessee

The Finance and Administration Committee of the Board of Trustees of the University of Tennessee met at 2:30 p.m., CST, Tuesday, March 6, 2007 in Room 206A of the Boling University Center, Martin, Tennessee.

I. CALL TO ORDER

Mr. Bill Stokely, Chair, called the meeting to order.

II. ROLL CALL

Dr. Gary Rogers called the roll, and the following members were present:

Mrs. Johnnie Amonette
Mr. Jim Haslam
Mr. Jerry Jackson
Mrs. Andrea Loughry
Dr. John Petersen
Mr. Bill Stokely
Mr. Charles Wharton

A quorum was present. No members were absent.

III. APPROVAL OF MINUTES OF LAST MEETING

The Chair called for any corrections or additions to the minutes of the November 2, 2006 Finance and Administration Committee as presented at the meeting. Mr. Haslam moved approval of the minutes as amended. The motion was duly seconded and carried unanimously.

IV. TREASURER'S REPORT OF ENDOWMENT INVESTMENT PERFORMANCE

Informational Item. The Chair asked Mr. Peccolo to update the Committee on the Endowment's investment performance. Mr. Peccolo noted that each Trustee received a copy of the final audited 2006 Treasurer's Report in the front pocket of their notebooks. The report was discussed at the November meeting and the final report is included in for your information. Mr. Peccolo referred the Committee to the investment report for the period ended December 31, 2006 included in the meeting materials. He stated that the University's pooled endowments, Consolidate Investment Pool (CIP), returned 6.6% for the quarter versus 6.3% for the benchmark. He stated that for the rolling one year, three year and five year the

performance for the Consolidated Investment Pool was 15.2%, 13.2% and 9.6%, respectively. The benchmark returned 15.0%, 11.5% and 9.1% for the same one year, three year and five year periods. He noted that it was a strong year for domestic equities, the CIP's large cap holding returned 17.5% for the year, mid cap returned 13.9% and small cap returned 15.5%. He stated that international equity and real estate were two other asset classes with strong returns for the year. He added that January was another good month and the CIP picked up an additional 1% return. Mr. Jackson asked Mr. Peccolo what percentage of the CIP was invested in international equities. Mr. Peccolo stated that international equities had a 20% allocation. He further asked about the percentage invested in India. Mr. Peccolo responded that he would have to get back to him with the exact figure.

The Chair stated that the year-to-date performance for the CIP was excellent and he wished to commend the investment committee for their work. He stated that a lot of work has gone into asset allocation revisions and further scrutiny continues. He noted that the investment committee has added two new members to provide further diversification across the state, Fred Cosimo from Chattanooga and George Cates from Memphis.

V. APPROVAL OF USE OF CM GOOCH QUASI-ENDOWMENT FUNDS FOR SCHOLARSHIPS AT UT MARTIN

Consent Item. The Chair called on Mr. Peccolo to discuss the next item of business. Mr. Peccolo stated that the Committee was being asked to approve the transfer of \$42,200 from the CM Gooch Quasi-Endowment to fund previously awarded scholarships that did not receive the projected annual funding from affinity card payments and other sources. He stated that the CM Gooch Scholarship Quasi-Endowment Fund was established in September 1995 with funding from excess scholarship payments provided through a third party trust. He further stated that the quasi-endowment were funds that the University determined to administer as an endowment even though there is no third party requirement. The market value of this quasi-endowment fund was \$974,900 as of December 31, 2006.

Mrs. Amonette moved approval of the use of CM Gooch Quasi-Endowment Funds for Scholarships at UT Martin. The motion was duly seconded and unanimously approved.

VI. APPROVAL OF DESIGNATION OF UNIVERSITY DEPOSITORY—COMMUNITY SOUTH BANK IN PARSONS, TENNESSEE

Consent Item. Mr. Peccolo discussed the next item of business, designation of University depository. He stated that UT Martin is operating the UT Martin Parsons Center and deposits are currently being driven to a depository in a neighboring county. He stated that establishing a new depository in the city of Parsons will

greatly improve both efficiencies and security for processing monies collected from the Parsons Center. He stated that UT has no existing relationship with Community South Bank in Parsons, a local community bank. He stated that Parsons is south of UT Martin in Decatur County. He stated that the educational programs at the UT Martin Parsons Center benefit Decatur County. In response to a question from the Committee, Mr. Peccolo stated that he anticipated deposits of approximately \$100,000. Mr. Haslam moved approval of designating Community South Bank, Parsons, Tennessee as a University Depository. The motion was duly seconded and unanimously carried.

VII. APPROVAL OF REVISED BUDGET FOR FY 2006-07

Action item. The Chair called on Dr. Petersen to discuss the Revised Budget for FY 2006-07. Dr. Petersen stated that the University 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, the impact of the prior year's activities carried forward into the current year, and adjustments in state appropriations occurring since the FY 2006-07 budget was approved in June. He referred the Committee to the Revised Budget document included in the meeting materials. He stated that the Revised Budget represents a 1.5 percent increase over the FY 2007 Original (proposed) Budget. Ms. Davis stated that unrestricted education and general operating funds increased 1.4 percent, which largely reflects updated state appropriations allocations based on information received from the Department of Finance and Administration. She stated that there is very little in the Revised Budget that was not presented in the Operating Budget.

The Chair stated that he reviewed the Revised Budget with Dr. Rogers and the additional revenues and expenses do leave a difference in the bottom line from the original budget, however those differences are funded by unspent funds carried forward out of 2006 and encumbrances on funds that were cleared from 2006. In total, we are back to the same budget as proposed.

Mr. Jackson moved approval of the Revised Budget. The motion was duly seconded and unanimously carried.

VIII. UPDATE ON FY 2007-08 BUDGET

Informational item. The Chair asked Dr. Petersen to provide an update on the 2007-08 Budget. Dr. Petersen stated that he would comment more on this tomorrow during his report to the Board. He discussed the Governor's recommended budget.

He stated that there was a base increase proposed by the Governor that was higher than the base increase proposed by the Legislature. He stated that of the 4.1% the Governor allocated to higher education, UT received 3.2%. He discussed the GAP model funding analysis applied by THEC which allocates a larger

percentage to institutions based on a formula that assigns an average support level and considers enrollment levels. Any available funds after the base level are applied to those institutions with GAPS that are the most egregious. He stated that THEC sets all capital priorities from the lists provided by UT and the Board of Regents. He discussed the list provided by THEC and stated that two of the capital projects on the list were transitional projects that benefited the State more than UT. He stated that he planned to work with the Governor's office and the legislature to include additional capital projects.

Mr. Schledwitz asked if UT had any coordinated campaigns with the legislature with the Board of Regents to increase faculty salaries. Dr. Petersen stated that all of Tennessee's higher education institutions recruit faculty from different applicant pools and from different parts of the country. He added that UT's faculty retention issues are greater in Memphis and in Knoxville. He stated that on issues where priorities for both institutions are in line he would work with the Board of Regents. An example of this is our joint approach to re-enroll "stop out" students. He added that anytime UT puts together a budget proposal, we do speak with the Board of Regents and the legislature will act across the Board for higher education.

Mr. Wolford discussed the capital project priorities for UT, specifically the library on the UTC campus which was third on UT's list. He stated that if the transitional projects are included in UT's capital project priorities, then he would ask that the President and the administration make a specific effort to work with the legislature to get the necessary funding to continue the progress on the UTC library. Dr. Petersen responded that he hoped to find a way to rectify the transitional projects inclusion in UT's capital project priorities.

Mr. Stokely asked that the Committee receive a report outlining the faculty lost from each campus due to salary and benefits.

IX. APPROVAL OF POLICY ON STUDENT FEE APPROVALS

The Chair called on Sylvia Davis to discuss the next item of business. Ms. Davis referred the Committee the proposed policy on student fee approvals. She stated that a recent audit reviewed the University's internal controls for assessing and implementing student fees. She stated that the report found that the fees were appropriately approved but recommended the development of a policy governing the student fee approval process. She stated that a statewide task force was formed and charged with drafting a policy defining approval authority for the various student fees. This Committee reviewed a draft of the policy at its November meeting. She stated that the policy recommended for approval at this meeting includes revisions from the earlier draft to clarify student involvement in recommending student fee changes and to incorporate guidelines governing student fee refund process. She added that the many policies on fee waiver and fee discounts were deleted from the draft and will be incorporated into a new policy currently under development. She

stated that the policy delegates authority to the administration to make necessary changes to ensure compliance with applicable federal and state laws, rules, and regulations. She noted that the policy includes a matrix that quickly illustrates the approval levels required for student fees. She discussed the fees that would require Board approval, student course fees and dedicated student fees, such as technology or transportation fees that all students would have to pay. She stated that campus approved fees would be reported to the President by each campus or institute annually on July 1. Mr. Haslam moved approval of the Policy on Student Fees. The motion was duly seconded and unanimously approved.

X. APPROVAL OF RETIREMENT INCENTIVE PROGRAM FOR EXTENSION EMPLOYEES IN FEDERAL RETIREMENT PROGRAMS

The Chair stated that the next item has been removed from the agenda.

XI. APPROVAL OF FY 2007-08 INSTITUTIONALLY FUNDED/REVENUE PROJECTS

Consent Item. The Chair called on Dr. Rogers to discuss the next item of business for the Committee. Dr. Rogers referred the Committee to the list of institutionally funded/revenue projects included in the meeting materials. He stated that the projects total \$41, 885,000. He briefly described each project on the list. He discussed the \$30,000,000 research building that would be located on the Cherokee Campus that would be funded through the facilities and administrative costs generated off of research grants. He stated that the building would be expansion space as the Governor's Chairs begin to generate additional grants and contracts. He stated that the list of projects is in addition to the list of FY 2007-08 institutionally funded/revenue projects approved at the November 2006 meeting.

A Committee member asked whether the College of Veterinary Medicine would be a candidate to be included on the list. Dr. Rogers responded that each of these projects have an identified funding source. He stated that a self-funded project for the college was approved at a prior meeting.

Ms. Amonette moved approval of the 2007-08 Institutionally Funded/Revenue Projects. The motion was duly seconded and unanimously approved.

XII. APPROVAL OF REAL PROPERTY TRANSACTIONS

Consent item. The Chair called on Dr. Rogers to discuss the real property transactions. Dr. Rogers stated that there are four items that the Committee is being asked to approve.

A. Grant of Easement to University Residence-Knoxville, LLC

Dr. Rogers discussed the grant of easement to University Residences Knoxville (URK). He referred the Committee to the map included in the meeting materials that illustrates the proposed easement area. He stated that the property is located near the UT Medical Center. He explained that the easement was necessary for the purpose of constructing bank stabilization initiatives on University property. He added that they essentially need the right to enter onto our property to fix damage that their excavation has caused. Mr. Wolford asked if URK will restore the slope after their excavations. Dr. Rogers responded that they will restore it to the point that sloping off to our property will not occur. They will replant grass and restore the property.

B. Grant of Easement to BellSouth

Dr. Rogers discussed the proposal to grant a permanent easement to Bell South to relocate buried cable and certain other equipment for the construction of the Howard H. Baker, Jr. Center for Public Policy. He referred the Committee to the map and stated that the easement is located behind the center.

C. Property Acquisition at Lake Loudon Boulevard and Neyland Drive

Dr. Rogers discussed the proposal to acquire to small parcels of property located on the east and west side of the intersection of Lake Loudon Boulevard and Neyland Drive in Knoxville, Tennessee. He stated that each parcel contains less than one-half acre and the University will pay market value or less for the parcels. He stated a donor owns the property and he expects the cost to be in the range of approximately \$50,000.

D. Revised Use of Chancellor's Residence at UT Martin

Dr. Rogers stated that the last real property item is the revised use of the Chancellor's Residence at UT Martin. He stated that the University owns the Chancellor's residence located at 589 University Street. It is currently not used as a residence, however it is used for various UT Martin functions. He stated that the administration proposed to convert the facility to meet the needs of the Martin campus for various University functions such as an Alumni Center. He stated that the cost to renovate the facility for these purposes would be approximately \$35,000. The funding would come from exiting University money.

Mr. Haslam moved approval of the real property proposals presented to the Committee at this meeting. The motion was duly seconded and unanimously approved.

XIII. REPORT OF PROGRESS TOWARD STRATEGIC PLAN GOALS—SYSTEM ORGANIZATIONAL STRUCTURE

The Chair called on Dr. Petersen to discuss the next item of business. Dr. Petersen discussed the organization chart included in the meeting materials. He discussed the review in progress by the administration to examine the System's integration with the Campuses and to distribute to the Campuses those functions that should be handled at the Campus level. Dr. Petersen discussed the operational units reflected in the System Administration organizational chart. He discussed the recent organization changes to facilitate all financial Senior Staff reporting to the Chief Financial Officer. He stated that certain of the other Senior Staff, such as the Chancellors, the Vice President of Agriculture, Athletics Directors in Knoxville, the Vice President for Academic Affairs and the Vice President for Research and Economic Development would interact regularly with the Executive Vice President. He discussed potentially moving the Institute for Public Service from under the Vice President for Public and Government Relations and making IPS a separately reporting organization entity.

Mr. Halsam asked if the Chancellors would report to the Executive Vice President. Dr. President stated that there is no mandate for the Chancellors, Athletic Directors, and certain other Vice Presidents to report to the Executive Vice President, however historically there has been a precedent to interface with the Executive Vice President.

XIV. OTHER BUSINESS

The Chair stated that there is an item of business that has come before the Committee. He stated that as the President discussed, the biofuels pilot facility was included in the Governor's capital projects list. He asked for a motion to add the approximately \$40,000,000 for the biofuels project to the capital projects list. Mr. Haslam moved approval of the proposal. It was duly seconded and unanimously approved.

XV. ADJOURNMENT

There being no further business to come before the Finance and Administration Committee, the meeting was adjourned.

Catherine S. Mizell
Vice President, General Counsel and Secretary