

THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE

June 24, 2015
Knoxville, Tennessee

The Finance and Administration Committee of The University of Tennessee Board of Trustees met at 3:00 p.m. EDT on Wednesday, June 24, 2015, in the Hollingsworth Auditorium on the campus of the UT Institute of Agriculture in Knoxville, Tennessee.

I. CALL TO ORDER

Charles C. Anderson, Chair, called the meeting to order.

II. ROLL CALL

Charles M. Peccolo, Treasurer and Chief Financial Officer, called the roll, and the following members of the Finance and Administration Committee were present:

Charles C. Anderson, Chair
Joseph A. DiPietro
William Evans
John N. Foy
James L. Murphy
Sharon J. Miller Pryse

Mr. Peccolo announced the presence of a quorum of the Committee. Trustee Jubran was unable to attend the meeting. Other Trustees, administrative staff, members of the public, and representatives of the media were present.

III. CONSENT AGENDA

Chair Anderson directed the Committee's attention to the Consent Agenda and called for requests to remove any items. Hearing none, the Chair called for a motion to approve the Consent Agenda, consisting of the following items:

- A. Minutes of the Last Meeting (Committee Action Only)
- B. Ratification of Quasi-Endowments (Exhibit 1)

- C. FY 2016 Distribution of UC Foundation Unrestricted Endowment Funds (Exhibit 2)
- D. Cherokee Woodlot Easement (UTIA) (Exhibit 3)
- E. Chi Phi Street Transfer from City of Knoxville (UTK) (Exhibit 4)
- F. Annual Report of Sale of Gift Property (Exhibit 5)
- G. Disclosure of Additional Revenue/Institutionally Funded Capital Projects for FY 2014-2015 (For Information Only) (Exhibit 6)
- H. Disclosure of Additional Revenue/Institutionally Funded Capital Projects for FY 2015-2016 (For Information Only) (Exhibit 7)
- I. President Emeritus Agreement with Dr. Joseph E. Johnson (Exhibit 8)
- J. Resolution on Corporate Authorization to Transfer Securities (Exhibit 9)

Trustee Pryse moved approval of the Consent Agenda. The motion was seconded and carried unanimously.

IV. UTHSC Long Range Master Plan

Chair Anderson called on Dr. Ken Brown to present the next item of business. Dr. Brown stated that UTHSC is engaged in an ambitious and aggressive master plan. After successful work with UTC, UTHSC engaged Perkins and Will to assist UTHSC in the development of its master plan. They have done a masterful job of capturing and quantifying our vision over the next ten to fifteen years. Dr. Brown introduced Ms. Krisan Osterby from Perkins and Will. Ms. Osterby presented a power point presentation included in the meeting materials noting that meetings were held with all of the medical partners, city planners, county planner and others. She discussed existing conditions of UTHSC space (properties), future space needs analysis, future space priorities, and proposed facilities (Exhibit 10). Ms. Osterby discussed implementation for the first five years (phase 1), next five to ten years (phase 2) and beyond (phase 3).

Trustee Pryse moved approval of the Long Range Master Plan for the University of Tennessee Health Science Center in Memphis. The motion was seconded and it carried unanimously.

V. Converting Course Fees to Differential Tuition for UT, Knoxville College of Architecture and Design (Exhibit 11)

Chair Anderson called on Chancellor Cheek to present the next item of business to the Committee. He introduced Dr. Scott Poole, the Dean of the College of Architecture and Design. Chancellor Cheek stated that in the President's Boundaries Document presented to the Board in February 2015,

the President challenged the Chancellors to consider expanding and increasing differential tuition. He stated that he was bringing forward two proposals today. The first is for the College of Architecture and Design. He stated that the FY 2015-16 proposed changes will transition the College from "course fees" to differential tuition and the proposed tuition will be \$105 per credit hour. He noted that the reasons for the changes and reported that the costs to students would remain the same for the first year, next year it would go up at the rate of tuition (only at Higher Education Cost of Living Rate). This would provide more transparency on the cost of education and allow for growth. He discussed some of the potential uses of the incremental funds. Trustee Wharton asked Chancellor Cheek to describe the vetting process for this proposal with students and faculty. Chancellor Cheek and Dean Poole described the discussions held with students and faculty. Dean Poole stated that the students were supportive of the proposal. Trustee Pryse commented that she was in favor of rolling the tuition and fees into one number and felt it was very beneficial to students who have to pay all of the expenses as a whole for their coursework. Trustee Wells asked about the placement rates of the College's graduates and whether their salaries are higher than other colleges. Chancellor Cheek responded that the College has very good placement rates and their starting salaries are in the mid to upper forty thousands. He added that there are strong job demands in the College of Business as well.

Trustee Pryse moved that The University of Tennessee, Knoxville be authorized to implement a differential tuition plan for the College of Architecture and Design, beginning with the 2015-16 academic year; and that the proposed FY 2016 operating budget for UT Knoxville be developed and presented to the Board of Trustees incorporating a \$105.00 per student credit hour differential tuition for course in the College of Architecture and Design; and that the differential tuition will increase in future years at the same rate as any future increases in the maintenance fee at UT Knoxville. The motion was seconded and carried unanimously.

VI. Revised Differential Tuition for UT, Knoxville Haslam College of Business

Chancellor Cheek introduced Dean Mangum, Dean of the Haslam College of Business and Stokely Leadership Chair. Chancellor Cheek stated that this is a proposal to increase the differential tuition within the College of Business (Exhibit 12). This will change the credit hour charge from \$68 per credit hour to \$95. He noted that the \$95 includes the proposed 3% tuition increase. He stated that the reasons for this proposal is that it addresses overall funding gaps relative to Top 25 peers and assists in funding strategic elements of the College's undergraduate program. He reviewed the proposed uses of the

incremental funds. He reported that Dean Mangum met with five different sets of students within the College to discuss this proposal. Dean Mangum stated that once the students understood what the fees would be used for and how that would enhance their educational experience, they were supportive of the fee and wanted to be involved in the decisions of how to use the incremental fees within the College.

Chancellor Cheek discussed the three colleges that have differential tuition, he reported that those enrollments have increased significantly over the time we have had differential tuition and the quality of students have increased. Trustee Wharton noted that when differential tuition was instituted for the College of Engineering, a portion of that was allocated to help students who have financial difficulties. He asked if that would be the case for this proposal. Chancellor Cheek responded that it is and 10% of the incremental fee would go towards need based scholarships. Trustee Pryse asked what percentage of the students in the College of Business have scholarships. Chancellor Cheek responded that totally about 90% have some type of scholarship.

Trustee Evans moved that the Board action of February 25, 2010 authorizing a differential tuition plan for the UT, Knoxville College of Business be amended to set the differential tuition at \$95.00/credit hour, effective July 1, 2015, with authorization for future increases to be set at the same rate as any future increase in the maintenance fee at UT, Knoxville. The motion was seconded and carried unanimously.

VII. REVISED DIFFERENTIAL TUITION FOR UTC COLLEGE OF BUSINESS

CFO Peccolo presented the next item of business. He stated that two years ago, when the Board met in Chattanooga the Board approved differential tuition for the colleges of nursing, engineering and business at UTC. He stated that this proposal is essentially a housekeeping item to assess differential tuition for the department of Economics, all courses with ECON prefix, since the department moved from the College of Arts and Sciences to the College of Business (Exhibit 13). This proposal will amend the UT Chattanooga differential tuition model to include all courses offered by the UTC College of Business regardless of departmental prefix.

Trustee Foy moved that the Board action of March 1, 2013 authorizing the UT Chattanooga differential tuition model be amended to include all courses offered by the UTC College of Business regardless of departmental prefix. The motion was seconded and carried unanimously

VIII. STANDARD BUSINESS PRACTICE FOR CALCULATING INCREASES TO DIFFERENTIAL TUITION RATES

CFO Peccolo stated that the next item is also a housekeeping item. This proposal is to inform the Committee of the process the University follows when setting fees and it basically amounts to rounding up or rounding down to the next whole dollar and over time it should average out (Exhibit 14).

Trustee Murphy moved that the administration be authorized to set Differential Tuition rates at whole dollar amounts such that annual percentage increases are as close as possible to percentage increases approved for the Maintenance Fee when rounded to the nearest whole dollar, resulting in percentages that may be lower or higher than those approved for the Maintenance Fee. Trustee Pryse seconded the motion, and it carried unanimously.

IX. UTC REGIONAL TUITION RATE PROGRAM FOR UNDERGRADUATES

Chancellor Angle presented the next item of business (Exhibit 15). He stated that this proposal was approved in 2007 for undergrads and 2009 for graduates. The proposal at the time was based on existing resources. Financially enrollment and revenue analysis on that the base year level for undergraduates showed that it was profitable. On the graduate side there has been a decrease in masters programs in North Georgia. Trustee Murphy commented that when this was approved in 2007 one of the issues was the concern of whether we continue to have the capacity in the upper level courses to make this a financially viable program. Each year we have seen a report that shows that they have. He stated that given those reports, it makes sense that we continue doing this. Going forward, with today's approval, we will not need to see reports each year. Trustee Murphy stated that he is fine with that after seven years of positive reports, but we do want the Board to get some kind of update on the same analysis so that we know things have not gone off track. He added that all of the analysis would be captured by the Boundaries Document.

Trustee Foy moved that the UTC regional tuition rate program that assesses the in-state maintenance fee plus 25% of the out-of-state tuition fee for undergraduate students residing in seven contiguous counties in Georgia and Alabama be approved on an ongoing basis without the necessity for an

annual review and extension, with the caveat that the Board receive a written annual report presenting the same enrollment and revenue analysis the Board has received in the past when considering the request to extend the program for another year. The motion was seconded and carried unanimously.

X. UTC REGIONAL TUITION RATE PROGRAM FOR GRADUATE STUDENTS (Exhibit 16)

Trustee Foy moved the UTC regional tuition rate program that assesses the in-state maintenance fee plus 25% of the out-of-state tuition fee for graduate students residing in seven contiguous counties in Georgia and Alabama be approved on an ongoing basis without the necessity for an annual review and extension, with the caveat that the Board receive a written annual report presenting the same enrollment and revenue analysis the Board has received in the past when considering the request to extend the program for another year. The motion was seconded, and it carried unanimously.

XI. PRESIDENT'S ANNUAL REPORT ON USE OF STUDENT PROGRAMS AND SERVICES FEE (SPSF) FUNDS AT EACH CAMPUS (Exhibit 17)

President DiPietro explained that the Board policy, a copy of which is included in the meeting materials, requires the President to submit an annual written report to this Committee detailing the use of SPSF funds at each Campus for the previous academic year and disclosing the activities, services, programs, and facilities funded by the Student Programming Allocation. He reviewed the report with the Committee. The report shows fees used for capital projects, fees used for health/infirmarary, and fees used for programs. The Committee discussed the reserves for capital for facilities uses.

XII. REPORT OF STUDENT FEE CHANGES

CFO Peccolo stated that included in the Board materials are three schedules that we report every year (Exhibit 18). The first report of fee changes require the Board's approval, the second require the President's approval and the third require Chancellors' approval. This is an information item for this Committee because the first schedule will be considered during the FY 2015-2016 Budget proposal to the Board tomorrow. He called the Committee's attention to the first schedule, noting that there are a number of fee changes, two of which Chancellor Cheek presented to you today. There are perhaps a dozen other changes that collectively amount to about \$9.9 million. They range from differential fees to specific fees related to library, facilities, technology fee, etc. The second schedule includes course fees, lab fees,

application fees, etc. that collectively amount to about \$900,000. The last schedule includes room rates, meal plans, etc., which amount to about \$3.5 million.

XIII. DISTRIBUTION FROM JULIAN G. FLEMING M.D. SCHOLARSHIP QUASI-ENDOWMENT (UTHSC)

CFO Peccolo presented the next item of business for the Committee. He stated that this is a request to use \$200,000 from a quasi-endowment this next year for scholarships (Exhibit 19). Since the Board approved the creation of the quasi-endowment, it must also approve any distribution from the quasi endowment.

Trustee Pryse moved that the one-time distribution of \$200,000 from the corpus of the Julian G. Fleming M.D. Scholarship Quasi-Endowment be approved for need-based tuition assistance scholarships for medical students for the FY 2015-2016 academic year. The motion was seconded and carried unanimously.

XIV. DISTRIBUTION FROM UNRESTRICTED ANNUAL GIVING QUASI-ENDOWMENT FOR ALUMNI AND DEVELOPMENT

CFO Peccolo presented the next item of business for the Committee. He stated that this was a request for a distribution from quasi endowment for unrestricted annual giving from alumni (Exhibit 20). The Board created this quasi-endowment. Alumni Department would like to use \$200,000 from the quasi-endowment for equipment and to furnish their new office space on University Avenue.

Trustee Murphy moved that the one-time distribution of \$200,000 from the Alumni Affairs Unrestricted Gift Quasi-Endowment be approved for expenditures for the University Avenue Building in FY 2016. The motion was seconded and carried unanimously.

XV. 2015 AGRESEARCH VOLUNTARY RETIREMENT INCENTIVE PROGRAM FOR STAFF (Exhibit 21)

In Chancellor Arrington's absence, Dean Brown presented the next item of business to the Committee. He stated that the Institute of Agriculture is requesting permission to offer an incentivized retirement program for staff. He stated that this program would allow us an opportunity to address Dr. DiPietro's Boundaries Document where he has requested that each of the

campuses and institutes develop a plan for becoming more efficient, effective and entrepreneurial and we feel this program would allow us to do that. The proposed program would offer a lump sum incentive payment of four month's base salary to eligible employees, as defined in the plan document included in the meeting materials. We anticipate perhaps up to forty employees may participate. The funds are available from non-recurring sources as well as some salary savings from recurring sources. He stated that the anticipated cost is approximately \$1 million and funds generated would be used to develop modified staff positions, initiate some new faculty lines, some deferred maintenance issues, and realignment of resources to state wide needs. Trustee Wharton expressed concern about the impact on the Institute's research program. Dr. Brown clarified that this program would be targeted to staff only and not faculty. He added that we are actually in the process of trying to drive our faculty FTE up and this will provide an opportunity to do so. Dr. DiPietro added that faculty will be encouraged to be entrepreneurial and seek grant support to fund their lab and operations.

CFO Peccolo called on Vice Chancellor Richard Brown to comment on the success of a similar program instituted at UTC. He responded that UTC has savings of approximately \$3.2 million.

Trustee Murphy moved that the 2015 AgResearch Voluntary Retirement Incentive Program for Staff be approved as proposed, with authorization for the administration to take all steps necessary to implement the program. The motion was seconded and carried unanimously.

XVI. AMENDMENT OF THE TRAFFIC AND PARKING RULE FOR THE UNIVERSITY OF TENNESSEE AT CHATTANOOGA

CFO Peccolo stated that UTC requests approval to increase in fines. He stated that fines have not been raised for some time and the proposal outlining the increase and the implementation is included in the meeting materials (Exhibit 22). Trustee Wharton asked that the campuses review the fines charged for parking in handicap spaces.

Trustee Pryse moved that the Board of Trustees adopt the amendment of Chapter 1720-02-03 of the Rules of The University of Tennessee to incorporate increases in the fines for certain parking violations at UT Chattanooga. The motion was seconded, and the motion and carried unanimously.

XVII. TREASURER'S REPORT ON ENDOWMENT INVESTMENT PERFORMANCE

Rip Mecherle provided a report on endowment investment performance to the Committee. He reported that overall the investment pool continues to do well, outperforming inflation plus spend in most periods. Trustee Wharton commented that the US equity markets outperformed the investment pool for the FYTD. Mr. Mecherle stated that the investment pool did not fully participate in the up-swing in US equities due to its diversification for risk aversion, but the pool performed well against its benchmark. Trustee Wharton asked Mr. Mecherle to discuss the portfolio's fees. The report is included in the meeting materials. (Exhibit 23)

XVIII. OTHER BUSINESS

There was no further business to come before the Committee.

XIX. ADJOURNMENT

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

Respectfully Submitted,



Charles M. Peccolo
Treasurer and Chief Financial Officer