

THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE JOINT MEETING OF THE FINANCE AND ADMINISTRATION COMMITTEE
AND SUBCOMMITTEE ON EFFICIENCY AND COST SAVINGS

November 3, 2017
Knoxville, Tennessee

A joint meeting of the Subcommittee on Efficiency and Cost Savings and the Finance and Administration Committee of The University of Tennessee Board of Trustees was held at 10:15 a.m. EDT on Friday, November 3, 2017 in Hollingsworth Auditorium on the UT Institute of Agriculture campus in Knoxville.

I. CALL TO ORDER

Charles C. Anderson, Chair of the Finance and Administration Committee, called the meeting to order.

II. ROLL CALLS

Chair Anderson asked David L. Miller, Chief Financial Officer, to call the roll for the Subcommittee on Efficiency and Cost Savings and the following members of the Subcommittee were present:

John D. Tickle, Chair
John Foy

Absent:
George Cates

Mr. Miller announced the presence of a quorum of the Subcommittee on Efficiency and Cost Savings.

Chair Anderson asked Mr. Miller to call the roll for the Finance and Administration Committee, and the following members of the Committee were present:

Charles C. Anderson, Committee Chair
Joseph A. DiPietro
John N. Foy
Raja J. Jubran, Vice Chair
John D. Tickle
Absent:
Shannon A. Brown

Mr. Miller announced the presence of a quorum for the Finance and Administration Committee. Other Trustees, administrative staff, members of the public, and representatives of the media were also present.

III. SUBCOMMITTEE ITEMS

A. Minutes of the Last Meeting

Chair Anderson called for any additions or corrections to the minutes of the May 25, 2017 meeting of the Subcommittee. Hearing none, adoption of the following Resolution was moved by Trustee Tickle, seconded by Trustee Foy, and carried:

RESOLVED: The reading of the minutes of the May 25, 2017 meeting of the Subcommittee on Efficiency and Cost Savings is omitted, and the minutes are approved as presented in the meeting materials, provided that the Secretary is authorized to make any necessary edits to correct spelling errors, grammatical errors, format errors, or other technical errors subsequently identified.

B. Presentation on Efficiency and Cost Saving Action

Dr. Richard Brown, UTC Executive Vice Chancellor, described a variety of cost savings measures being implemented at UTC (Exhibit 1).

C. 2017 Report of Efficiencies and Cost Savings for Inclusion in the Board's Annual Report to the General Assembly

Mr. Miller gave background on the Subcommittee's history and presented the 2017 Report of Efficiencies and Cost Savings (Exhibit 2). Trustee Tickle moved adoption of the following Resolution:

RESOLVED: The 2017 Report of Efficiencies and Cost Savings is approved and recommended to the Board of Trustees for inclusion in the Annual Report to the General Assembly.

The motion was seconded by Trustee Foy and carried.

IV. COMMITTEE CONSENT AGENDA

Chair Anderson directed the Committee's attention to the Finance and Administration Consent Agenda and called for any requests to remove an item. Hearing none, Chair Anderson called for any additions or corrections to the minutes of the June 22, 2017 meeting. Hearing none, Vice Chair Jubran made the following motion:

I move approval of the Minutes of the Last Meeting of the Finance and Administration Committee as presented in the meeting materials and further move that the following action items be recommended to the Board of Trustees for approval by unanimous consent:

- 1. 2017 Report of Efficiencies and Cost Savings for Inclusion in the Board's Annual Report to the General Assembly (Exhibit 3)**
- 2. FY 2017 Annual Flight Operations Report (Exhibit 4)**
- 3. Revised UAPA Parking Rule, UTC (Exhibit 5).**

Trustee Foy seconded, and the motion carried. The following information items were also included on the Consent Agenda:

1. Report on Use of Differential Tuition Funds at UTC (Exhibit 6)
2. Report on Use of Differential Tuition Funds at UT Knoxville (Exhibit 7)
3. HR/Compensation Advisory Board Report (Exhibit 8)
4. Disclosure of Additional Revenue/Institutionally Funded Capital Projects for FY 2017-18 (Exhibit 9).

V. FY 2018-19 OPERATING BUDGET APPROPRIATIONS IMPROVEMENT REQUEST FOR NON-FORMULA UNITS

Mr. Miller presented the University's FY 2018-19 State Appropriations Requests and Special Initiatives (Exhibit 10).

Vice Chair Jubran moved that the Finance and Administration Committee recommend adoption of the following Resolution by the Board of Trustees, Trustee Foy seconded, and the motion carried:

RESOLVED: The University's FY 2018-19 operating budget appropriations improvement request for the non-formula units is approved, with authorization for the President and Chief Financial Officer to revise or add to these requests in response to (1) developments related to state funding priorities that may arise during the upcoming legislative session or (2) modified requests by the Chancellor/Vice President of a non-formula unit.

VI. USE OF PROCEEDS FROM LEASE AND TRANSFER AGREEMENT WITH UNIVERSITY HELATH SYSTEM TO FUND PURCHASE OF EQUIPMENT FOR SIMULATION CENTER

Mr. Miller provided history of the agreement to transfer management and operation of the UT Memorial Research Center and Hospital (Hospital) in Knoxville to a non-profit entity,

University Health System, Inc. (UHS). He also explained that the Board of Trustees determines how proceeds from the transaction will be used for the benefit of the University, noting that use of the proceeds is not limited to any particular campus or unit. Mr. Miller also presented documentation on previous Board-approved uses and the current balance of the UHS proceeds account (Exhibit 11). Mr. Miller then explained the request by the Health Science Center to use \$6,000,000 of the UHS proceeds to supplement funding for simulation and medical equipment needed to open and operate the Center for Health Improvement and Patient Simulation on the UTHSC campus in Memphis (Exhibit 12).

Trustee Foy moved that the Finance and Administration Committee recommend adoption of the following Resolution by the Board of Trustees, Vice Chair Jubran seconded, and the motion carried:

RESOLVED: The administration is authorized to allocate \$6,000,000 of proceeds received from University Health System, Inc. to purchase simulation and medical equipment necessary to open and operate the Simulation Center on the campus of the UT Health Science Center in Memphis.

VII. USE OF PROCEEDS FROM LEASE AND TRANSFER AGREEMENT WITH UNIVERSITY HEALTH SYSTEM TO FUND CLINICAL TRIAL NETWORK INFRASTRUCTURE

Mr. Miller presented the request by the Health Science Center to use \$3,000,000 of UHS proceeds to establish a multi-site clinical trial network to be known as "Clinical Trials Network of Tennessee" or CTN2 (Exhibit 13). He explained that funding will be used over a three-year period while growing participation among the Health Science Center's core teaching hospitals and developing the appropriate infrastructure organization in partnership with the UT Research Foundation. Following the start-up period, the campus will establish permanent funding mechanisms to support the long-term viability of the organization.

Mr. Miller said the administration proposes release of \$1,000,000 for the first year of the project upon the Board's approval of this request. He explained that \$1,000,000 for the second year and for the third year will be released after a finding by the President that satisfactory progress has been made on the project during the previous year.

Trustee Foy moved that the Finance and Administration Committee recommend adoption of the following Resolution by the Board of Trustees, Vice Chair Jubran seconded, and the motion carried:

RESOLVED: The administration is authorized to allocate \$3,000,000 of proceeds received from University Health System, Inc. to the Health

Science Center to establish a statewide multi-site clinical trial network, with \$1,000,000 to be released to the Health Science Center after adoption of this Resolution, and \$1,000,000 to be released for the second year and the third year after a finding by the President that satisfactory progress has been made on the project during the previous year.

VIII. FY 2018-19 CAPITAL OUTLAY AND CAPITAL MAINTENANCE PROJECTS

Dr. Tonja Johnson, Executive Vice President and Chief Operating Officer, presented the proposed FY 2018-19 funding requests for Capital Outlay and Capital Maintenance Projects. She explained that the five-year schedule for Capital Outlay (Exhibit 14) reflects \$795,027,000, which is net of the requisite institutional funding match for new construction (10% for UTK, 5% for UTC and UTM, and 2% for all others). She noted that the five-year schedule for Capital Maintenance (Exhibit 15) reflects \$251,270,000. She called the Committee's attention to the narrative description of projects included in the meeting materials (Exhibit 16).

Trustee Foy moved that the Finance and Administration Committee recommend adoption of the following Resolution by the Board of Trustees, Vice Chair Jubran seconded, and the motion carried:

RESOLVED: The Capital Outlay and Capital Maintenance Funding Requests for FY 2018-19 and subsequent years are approved, with authorization to enter into contracts for design and construction for these projects within available funds.

IX. FY 2018-19 REVENUE/INSTITUTIONALLY FUNDED PROJECTS

Dr. Johnson presented the administration's list of revenue/institutionally funded projects for FY 2018-19 (Exhibit 17), totaling \$73,630,000, proposed for inclusion in the FY 2018-19 State of Tennessee Budget Document. She explained that although no state funds are requested for these projects, legislative approval of the projects is required. Board approval of these projects is requested prior to submitting them to the Tennessee Higher Education Commission to begin the legislative approval process. She added that the administration seeks authorization to enter into contracts for design and construction for these projects within available funds and authorization for any subsequently identified projects to be approved by the President and reported to the Board of Trustees at its next regularly scheduled meeting.

Trusted Foy moved that the Finance and Administration Committee recommend adoption of the following Resolution by the Board of Trustees, Vice Chair Jubran seconded, and the motion carried:

RESOLVED: The Revenue/Institutionally Funded Projects for FY 2018-19 are approved, with authorization to enter into contracts for design and construction of these projects, within available funds, and, with the approval of the President, for design and construction of other revenue/institutionally funded projects identified during the fiscal year within available funds, provided that any other projects approved by the President shall be reported to the Board of Trustees at its next regularly scheduled meeting.

X. FACILITIES MASTER PLAN FOR LONE OAKS FARM (UTIA)

Dr. Tim Cross, Chancellor of the Institute of Agriculture, introduced Chris Woods with the landscape architectural firm of Nelson Byrd Woltz. Mr. Woods presented the Facilities Master Plan for Lone Oaks Farm (Exhibit 18), which was acquired 2015 for use as the West Tennessee 4-H Camp to teach youth about agriculture, natural resources, and other STEM-related subjects; equine events and activities; conferences and retreats; and adult educational workshops, conferences, and meetings by industry and agri-business groups.

Trustee Foy moved that the Finance and Administration Committee recommend adoption of the following Resolution by the Board of Trustees, Vice Chair Jubran seconded, and the motion carried:

RESOLVED: The facilities master plan for Lone Oaks Farm is approved as presented in the meeting materials.

XI. BOARD POLICY ON SMOKING

General Counsel Matthew Scoggins presented the Board Policy on Smoking (Exhibit 19), which arises out of a new state law, Public Chapter 161 (2017), granting the Board of Trustees authority to adopt a policy regulating smoking on property owned or operated by the University as long as the policy does not permit smoking in any location where smoking is otherwise prohibited by law. Mr. Scoggins said that prior to enactment of Public Chapter 161, state law prohibited the University from having a smoking policy more restrictive than state law.

Mr. Scoggins explained that the proposed policy delegates to the campuses and institutes the authority to adopt written procedures to regulate or prohibit smoking. As a result, he said, campuses and institute have the discretion to adopt a complete ban on smoking or to allow for designated smoking areas (provided that any such designated smoking area does not permit smoking in any location where smoking is otherwise prohibited by law). He added that because Public Chapter 161 does not define the term "smoking," the definition in the proposed policy is based on the definition of "smoking" in the state's Non-Smoker Protection Act.

In response to a Trustee question, Mr. Scoggins said the policy does not include chewing tobacco and that another legislative change would be required to prohibit use of chewing tobacco.

Trustee Foy moved that the Finance and Administration Committee recommend the following Resolution for adoption by the Board of Trustees, Chair Anderson seconded, and the motion carried:

RESOLVED: The Board of Trustees adopts the Policy on Smoking as presented in the meeting materials to be effective November 3, 2017.

XII. REVISED BOARD INVESTMENT POLICIES AND PROCEDURES

CFO David Miller presented the proposed revisions to the Board Investment Policies and Procedures ("Policy") (Exhibit 20), which provides effective oversight of University assets subject to long-term investment (Endowment Funds, Quasi-Endowment Funds, and Life Income Funds). Mr. Miller summarized the proposed revisions as follows:

Certain revisions to the policy were presented for the Committee's consideration:

- Article II, narrowing the Policy scope to investment parameters for long-term funds.
- Article III, Section C. 1: aligning the Policy with and adjusted budgetary calendar.
- Article III, Section C. 2: updating the Policy to more accurately reflect available liquidity management options and investment vehicle categories.

Mr. Miller also called the Committee's attention to the Investment Advisory Committee Charter and Operating Policy, which is referenced in the Policy and included in the meeting materials (Exhibit 21). Mr. Miller explained that necessary revisions to the Charter resulting from the proposed Policy revisions will be voted on at the next Investment Advisory Committee meeting.

Trustee Foy moved that the Finance and Administration Committee recommend adoption of the following Resolution by the Board of Trustees, Vice Chair Jubran seconded, and the motion carried:

RESOLVED: The proposed revisions to the Board's Investment Policies and Procedures are approved as presented in the meeting materials.

XIII. REVISED UAPA RULE ON CONTESTED CASE PROCEDURES

General Counsel Scoggins presented the proposed revisions to the University's contested case procedures (Exhibit 22). He explained that the a state law, the Uniform Administrative Procedures Act (UAPA), establishes procedural requirements the University must follow in

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a "contested case," which is defined as "a proceeding . . . in which the legal rights, duties or privileges of a party are required by any statute or constitutional provision to be determined by an agency after an opportunity for a hearing." Tenn. Code Ann. § 4-5-102(3). Mr. Scoggins said the most common types of contested cases conducted by the University are student disciplinary proceedings involving suspension or expulsion and certain types of employee disciplinary proceedings (e.g., an employee's challenge to termination of employment for gross misconduct). The University currently conducts contested cases in accordance with procedures last adopted by the Board in 1998. The procedures are tailored to the University's context but are substantially similar to the uniform procedural rules promulgated by the Tennessee Secretary of State. When applicable, the University's contested case procedures are offered to an aggrieved party as an alternative to other University hearing procedures.

Mr. Scoggins said the proposed revisions to the contested case procedures are based on a comprehensive review by the Office of the General Counsel. He added that many of the proposed revisions align the procedures more closely with the statutory language of the UAPA, and some fill gaps where the UAPA is silent on an issue. He summarized the proposed revisions as follows:

- Adding definitions for "notice" and "Agency Head;"
- Adding language clarifying who may serve as an administrative judge;
- Adding examples of issues that may be discussed at a pre-hearing conference;
- Adding a requirement that the administrative judge issue an order following the prehearing conference addressing various issues;
- Adding language concerning the substitution of the Agency Head or administrative judge due to recusal, disqualification, or other reasons;
- Adding language concerning the filing and service of pleadings, motions, and other papers;
- Adding language clarifying that any party may file any motion allowed by the Tennessee Rules of Civil Procedure;
- Revising language relating to petitions for intervention;
- Adding language clarifying which party has the burden of proof;
- Revising language concerning the time for appealing initial orders and filing requests for reconsideration;
- Adding language explaining judicial review of a final order; and
- Adding language clarifying requirements relating to ex parte communications.

Vice Chair Jubran moved that the Finance and Administration Committee recommend adoption of the following Resolution by the Board of Trustees, Trustee Foy seconded, and the motion carried.

RESOLVED: The University of Tennessee's revised rule on procedures for conducting hearings in accordance with the contested case provisions of the Uniform Administrative Procedures Act, Chapter 1720-01-05 of the Rules of The University of Tennessee, is approved as presented in the meeting materials and shall supersede the current Chapter 1720-01-05 of the Rules of The University of Tennessee after completion of the rulemaking procedures under the Uniform Administrative Procedures Act.

XIV. REPORT ON ENDOWMENT INVESTMENT PERFORMANCE

Chief Investment Officer Rip Mecherle presented the report on endowment investment performance (Exhibit 23).

XV. OTHER BUSINESS

No other business was brought to the attention of the Chair before or during the meeting.

XVI. ADJOURNMENT

There being no further business, the meeting was adjourned.

Respectfully Submitted,



David L. Miller
Chief Financial Officer