THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE MEETING

November 2, 2018
Knoxville, Tennessee

The Finance and Administration Committee of The University of Tennessee Board of Trustees met at 11:00 a.m. EDT on Friday, November 2, 2018, in the Hollingsworth Auditorium on the campus of The University of Tennessee Institute of Agriculture campus in Knoxville.

I. CALL TO ORDER

Committee Chair Bill Rhodes called the meeting to order and noted that it was the first meeting of the new Finance and Administration Committee under the reconstituted Board of Trustees. He thanked Amy Miles and Kim White for serving on the Committee and said he was excited to work with them and with David Miller and his staff.

II. ROLL CALL

Chief Financial Officer David L. Miller called the roll, and the following members were present:

Bill Rhodes, Chair
John Compton
Joe DiPietro
Amy Miles
Kim White

Mr. Miller announced the presence of a quorum. Administrative staff, faculty, students, members of the public, and media representatives were also present.

III. REQUESTS TO ADDRESS THE BOARD

The Chair recognized Tom Anderson, an employee in with UT Knoxville Facilities Services and a member of United Campus Workers, who had requested to address the subject of campus/system relations. Mr. Anderson said he asked to speak in order to welcome the new Board and help the Trustees to understand the importance of the work done by UT Knoxville Facilities Services. To the employees in Facilities Services, he said, their work is a calling to public service and is important to creating a positive learning environment for the students, faculty, and staff and a positive image to the local community, state, nation, and world. He described the broad scope of work performed by Facilities Services staff and said they are loyal to the University and committed to serving its mission. He encouraged the Trustees to stop and talk with Facilities Services employees wherever they may come across them.

The Chair thanked Mr. Anderson for making time to speak to the Trustees and complemented the Facilities Services staff at all campuses for their work.

IV. CONSENT AGENDA

Calling the Committee's attention to the consent agenda, the Chair asked if any Trustee wanted to remove an item from the consent agenda. Hearing no request, the Chair said he would like to remove information items K and L simply to allow the Committee to learn more about differential tuition and how the campuses use the funds. He then recognized CFO Miller, who explained that differential tuition is an increase above the standard maintenance fee for students in a targeted program to fund specific initiatives and that upon approving the nine differential tuition programs (five at UTC and four at UTK), the former Board required the campuses to report annually on use of the funds. Mr. Miller called the Committee's attention to the five-year summary and fund balance for each program and added that the Chair had requested the summary so the Committee would see more than just a one-year snapshot. Noting the substantial fund balance in the business college at both institutions, he reported that UTC plans to use the unspent funds for upgrading classrooms and improvements in Fletcher Hall and advancing the new Entrepreneurial Center in the Mapp Building. At UTK, the Haslam College of Business has reserved $2.2 million for three-year's worth of compensation for newly recruited faculty members and $2.1 million for building renovations.

The Chair then called for any questions or discussion about differential tuition. Ms. Miles said she was familiar with the concept and purpose of differential tuition through serving on the UTK College of Business advisory board, and Ms. White said she has been a part of discussions about differential tuition at UTC. Mr. Compton said he understands that differential tuition is necessary to recruit exceptional faculty members but questioned whether the funds should be used for building renovations. Dr. DiPietro explained that the planned renovations are new delivery systems around educational platforms to help students learn more efficiently and effectively. Mr. Miller added that at UTK, the building renovation is for a student success center, including advising with respect to international programs and professional development. The Chair closed the discussion by saying that future annual reports on use of differential tuition should continue to provide a five-year summary so the committee can be informed of future plans for fund balances.

There being no other requests to remove an item from the consent agenda, the Chair asked whether a Trustee would make the following prepared motion:

> I move that the Committee recommend the Resolutions presented in the meeting materials relating to items on the Committee Consent Agenda for adoption by the Board of Trustees by unanimous consent.

Ms. Miles so moved, and Ms. White seconded. The Chair called for a voice vote, and the motion passed unanimously.

> [Note: Prior to the meeting, the administration withdrew the item titled "Transfer of Jurisdiction of Property at Alcoa Highway and Cherokee Trail Interchange to TDOT (UTK/UTIA/Cherokee Farm/UHS)."]

V. FINANCE AND ADMINISTRATION COMMITTEE CHARTER

The Chair recognized CFO Miller to present the proposed Finance and Administration Committee charter. Mr. Miller explained that the Bylaws of the Board adopted on August 1, 2018 require each standing committee to submit for Board approval a charter detailing committee responsibilities. He said that with the assistance of the Secretary and in consultation with the Committee Chair, he developed the proposed charter detailing 19 specific responsibilities but added that the charter is broad enough to allow the Committee to address any University financial matter. He explained that one specific responsibility is derived from the UT FOCUS Act and involves creation of a process for the new campus advisory boards to make budget recommendations to the President.

The Chair called for any questions or concerns about the charter. Ms. Miles asked that a mechanism be created to track the Committee's responsibilities to ensure they are carried out. The Chair concurred, stating there should be an annual calendar listing each matter and the meeting at which it will be on the agenda. Hearing no other questions or discussion, the Chair asked whether a member of the Committee would make the following prepared motion:

> I move that the Finance and Administration Committee approve and recommend the committee charter to the Board of Trustees for approval by adoption of the Resolution presented in the meeting materials.

Ms. White so moved, and Ms. Miles seconded. Hearing no request for further discussion, the Chair called for a voice vote, and the motion passed unanimously.

VI. FY 2019-20 OPERATING BUDGET APPROPRIATIONS REQUEST FOR NON-FORMULA UNITS

The Chair recognized CFO Miller to present the FY 2019-20 Operating Budget Appropriations Request for Non-Formula Units and asked him to define a non-formula unit. Mr. Miller explained that the state provides incremental funding to the campuses at Knoxville, Chattanooga, and Martin through a competitive performance-based funding formula under the Complete College Tennessee Act, which, together with state appropriations for salary increases, is the primary funding mechanism for those traditional academic campuses.

The non-formula units—Institute of Agriculture, Institute of Public Service, and the Health Science Center—are not included in performance-based funding process, he explained, but may request improvement funding through the normal budget process. He added that the Tennessee Higher Education Commission is transitioning to referring to these units as "specialized units," a term used more frequently across the nation. Funding requests by these units are submitted to the President, who reviews the programmatic and financial need, discusses the request with the unit and government relations staff, and then makes recommendations to the Finance and Administration Committee in a priority order. This year's list of the prioritized requests totals $13.3 million. The total THEC recommendation for all specialized units for all universities will likely be about $10 million.

Dr. DiPietro added that requests must be in the realm of reasonableness and that being on the list allows the units, if not included in the Governor's budget, to lobby the legislature for them as long as the respective governing boards have endorsed the requests. The first priority is the Health Science Center program for addiction medicine, which is a repeat request from last year when $2 million of non-recurring funding was appropriated. The current request is for recurring funding.

The Chair asked for an example of an item that was brought forward to the Committee last year, and Mr. Miller mention a request of $12 million for IT infrastructure at the Health Science Center. He added that although the infrastructure improvement is a genuine need, it is not the kind of request typically funded through this process because it is an operating expense. The Chair asked whether that means Chancellor Schwab and his team would have to find savings in their operating budget to pay for it, and Mr. Miller said it does.

The Chair asked that next year the Committee receive a list of the requests that are funded for FY 2019-20. Mr. Miller agreed to do so and added that the President has pressed to obtain operating budget increases for these specialized units because they currently do not have a mechanism to request general operating increases. Dr. DiPietro noted there might be good news in the recommendation from THEC to include some operating money for the specialized units this year.

Hearing no other questions or discussion, the Chair asked whether a member of the Committee would make the following prepared motion:

> I move that the Finance and Administration Committee recommend Board approval of the FY 2019-20 operating budget appropriations request for non-formula units by adoption of the Resolution presented in the meeting materials.

Ms. Miles so moved, and Ms. White seconded. The Chair called for a voice vote, and the motion passed unanimously.

VII. FISCAL YEAR 2018 REPORT ON YEAR-END FUND BALANCES

CFO Miller explained that each annual budget assumes some carry-forward reserves from current year funds, but the budgeting process does not include carry-forward funds from prior years. He then presented the following table showing carry-forward, year-end funds divided into (1) current year funds included in the Board-approved annual operating budget and (2) carry-forward funds from prior years reported in the annual financial statements and included in the annual Treasurer's Report:

Balances budgeted in the annual operating budget (year-end actuals)				
Fund	FY 2015	FY 2016	FY2017	FY2018
Working Capital	$37,378,371	$33,663,961	$30,269,859	$29,104,516
Revolving Fund	19,839,529	13,095,645	14,434,335	24,571,945
Encumbrances	5,662,983	5,097,097	4,427,733	3,436,957
Reappropriations	54,206,226	12,257,820	12,232,441	11,890,693
Unallocated Auxiliaries	11,382,335	10,361,765	9,871,218	10,324,635
Unallocated E&G	45,369,579	45,898,716	46,926,158	56,306,804
Subtotal	$173,839,023	$120,375,004	$118,161,744	$135,635,551

[table continued on next page]

Balances reported in annual financial statements

Fund	FY 2015	FY 2016	FY2017	FY2018
Renewal and Replacement	$384,753,461	$478,984,943	$553,567,335	$515,054,687
Unexpended Plant Funds	41,070,884	46,309,851	54,607,375	138,317,754
Debt Service	19,864,359	29,752,074	32,630,910	44,346,627
Quasi-Endowments	14,469,639	13,380,327	13,964,620	14,107,006
Subtotal	$460,158,343	$568,427,195	$654,770,240	$711,826,074
Total Year-end	$633,997,366	$688,802,199	$772,931,984	$847,461,625
Less Investment in Plant and Interest Payable	(6,448,107)	(6,682,846)	(6,161,641)	(8,381,080)
Less Benefits Liability	(324,487,517)	(288,343,738)	(314,847,503)	(420,261,497)
Total	$303,061,742	$393,775,615	$451,922,840	$418,819,048

Concerning carry-forward funds from prior years, Mr. Miller explained that Unexpended Plant Funds, Debt Service Payments, and Quasi-Endowments are encumbered funds, while Renewal and Replacement are funds held from year to year for long-range obligations, planning, and reserves. He noted that Renewal and Replacement is a significant dollar amount at each institution and is broken down into a variety of accounts determined by the campus or institute for the purpose for which it is carried forward. The fund totals for all ten accounts in the table are reported to the legislature every year during the budget making process. The legislature's finance staff accumulates totals for all the universities and provides it to the House and Senate finance committees. Legislators routinely ask questions about the sources and uses of carry-forward funds. While the four-year trend shows the total has been growing each year, the balance as a percentage of total expenses has remained constant at about 24%.

Mr. Miller announced that a better process to describe and account for Renewal and Replacement funds is now in place. The new process categorizes the funds according to the level of commitment supporting each account—obligated, planned, reserved, or discretionary—and definitions for each category have been established. Over the past year, the chief business officers have led an initiative to follow these definitions and categorize these funds. He asked the Committee to consider this first report as a trial, adding that he will be working with the auditors, through sampling, to review the obligations and test the process. The report will be on the Committee's agenda for the fall meeting each year.

Mr. Miller then directed the Committee's attention to the following summary table:

Fiscal Year 2017-18 Renewal and Replacement Fund Balance Report

Summary of All Units

UNIVERSITY OF TENNESSEE

Campus / Institute	Obligated	Planned	Reserved	Discretionary	Total
	Educational and General Funds Level of Commitment				
UT Chattanooga	21,561,701.07	5,185,068.51	2,448,667.75	17,628,856.08	46,824,293.41
UT Knoxville & Tullahoma	60,349,924.33	168,079,384.19	93,906,759.39	33,076,569.62	355,412,637.53
UT Martin	494,825.86	6,248,897.90	13,739,759.11	633,539.47	21,117,022.34
UT Health Science Center	3,048,156.00	1,684,121.78	4,312,341.40	1,287,273.79	10,331,892.97
Institute of Agriculture	16,099,255.85	12,792,073.91	10,761,628.93		39,652,958.69
Institute for Public Service		6,090,766.38			6,090,766.38
UT System Administration	3,160,000.00	19,730,134.42	12,734,981.00		35,625,115.42
TOTAL	$ 104,713,863.11	$ 219,810,447.09	$ 137,904,137.58	$ 52,626,238.96	$ 515,054,686.74
	20.3%	42.7%	26.8%	10.2%	100.0%

Mr. Miller noted that of E&G Renewal and Replacement funds across all units, 20% is obligated, 43% is planned, 27% is in reserves, and approximately 10% is discretionary. In 2017, the total renewal and replacement fund was about 25% of expenditures in 2018 it came down to about 22% of expenditures.

The Chair commended Mr. Miller and all involved for the tremendous effort to create the report, noting that it brings clarity and explains that approximately $330 million of the total in carry-forward funds is committed, either obligated or planned for the future. Looking forward, he suggested consideration should be given to aggregating funds in larger buckets and reducing the amount in the Reserved category.

Ms. White agreed that the report provides a great deal of transparency and asked whether there is a typical reserve amount for an institution of UT's size and whether other institutions are reporting this way. Mr. Miller said this way of reporting is not widespread in higher education, but THEC staff has asked him to present the reporting method to a statewide meeting of higher education CFOs. He added that primary reserves are 35% overall in the University's Composition Financial Index (CFI) and that falling below 25% in that category would hurt the financial health of the institution. This begs the question, he said, of whether there be targeted numbers for the categories, but further study is needed before that determination can be made. According to the National Association of College and University Business Officers, which is the preeminent guidance for universities, the reserve target for public and private institutions is 40% but somewhat lower for public institutions.

The Chair asked whether the University would be able to manage resources if another great recession occurred. Mr. Miller responded that the 26% Reserved category would be the first draw, and then each campus would reprioritize the Planned category, but restricted or designated accounts could not be repurposed. Mr. Compton said he sees the Obligated and Planned categories as shovels in the ground and the Reserved and Discretionary as about $180 million, which on a total budget of $2.4 billion is approximately 7-8%. He cautioned that the nine-year expansion economy will eventually slow or end, and the University needs to maintain at least that amount in reserve. He acknowledged that the former Board was concerned about the expenditure of funds in the Discretionary category without Board approval but said in his view receiving an annual report from the CFO with an assessment of whether the funds are being spent properly should be sufficient. The Chair added that the next item of business is a policy on expenditure of carry-forward funds that will provide visibility and required approval to shift funds above a certain level.

VIII. NEW POLICY ON EXPENDITURE OF YEAR-END CARRY FORWARD UNRESTRICTED FUNDS

CFO Miller informed the Committee that the Resolution adopted by the Board of Trustees in June 2018 approving the 2018-19 operating budget includes the following language:

> The Chief Financial Officer is directed to develop and submit to the Board of Trustees at the fall 2018 meeting a proposed Board policy to govern the approval of expenditures from year-end carry forward unrestricted funds.

Mr. Miller noted that the Chief Audit and Compliance Officer, Sandy Jansen, worked with former Board leadership to clarify Board questions and concerns on this subject and then conducted an audit based on a sampling of expenditures. He went on to explain that the former Board's primary concern was to ensure that funds were being used for the intended purpose and not being reallocated for other purposes without review and approval. Mr. Miller said the proposed policy would require each institution to obtain approval from the Chief Financial Officer before executing the following transactions:

A. Transferring Renewal and Replacement monies from one account to another which thereby changes the purpose for which the monies were accrued; or

B. Making a transfer from a Renewal and Replacement account to fund expenditures other than those for which the monies in the account were accrued; or

C. Making a single transfer out of any Renewal and Replacement account greater than $1,000,000.

The Chair noted that the proposed policy does not provide a threshold amount for CFO approval of transfers between accounts. Mr. Compton noted that the former Board requested a much more granular approach than is recommended in the proposed policy. The Chair voiced concern about wasting the CFO's time on minimal amounts and said there should be some reasonable threshold amount so that every dollar transferred does not require CFO approval. Mr. Miller recommended the amount of $500,000 be set for transfers under items A and B of the proposed policy. The Chair said he was willing to start with that threshold and look at examples above and below the threshold. Dr. DiPietro agreed with that approach. The Chair then asked Chris Cimino, Vice Chancellor for Finance and Administration at UTK, for his opinion. Mr. Cimino said on some projects, larger amounts are routinely transferred in short timeframes to meet project demands. He added that although he understands the need for some oversight, expenditures already go through a workflow process in the System accounting office. Mr. Miller explained, however, that review by the System accounting office is only for proper accounting and not an evaluation of judgment or purpose. Mr. Cimino said requiring approval prior to transfer could cause delays, but the Chair responded that the approval must be prior to transfer to be of any value. Mr. Cimino suggested that the threshold be set at $1.0 million for UTK, but noted that for the other campus, expenditures might be much lower. Mr. Cimino also argued that when projects have already been approved by the Board and the State Building Commission, merely moving money out of a reserve fund back to a plant fund to pay for the approved project should not need further approval.

Ms. White suggested that the Committee should receive a report of expenditures for a while before adopting a policy requiring an approval process that delays campus activity. Chair Compton reiterated that former Board wanted to go much deeper than is now being proposed. Mr. Smith suggested lowering the threshold if only a report would be required, adding that a lower threshold would provide better information on which to base a decision about the need for a policy.

Mr. Wiseman said the Committee seems to be trying to solve a problem without knowing exactly what it is. Chief Audit and Compliance Officer Sandy Jansen explained that the former Board had questions and concerns because in the past, information was not been presented using the categories of Obligated, Planned, Reserved, and Discretionary. The Chair then suggested the Committee should ask the CFO and chief business officers to brainstorm to figure out best practices to ensure unnecessary work is not being imposed, but he added that the Committee needs to see some examples of these transactions. The Chair then directed Mr. Miller to place this item on the agenda for the next Committee meeting and to present some clarity on current campus practices, what may be best practices, and possible thresholds varying by institution. He emphasized that the Board needs to ensure there are ample eyes on usage of $180 million and to ensure there are proper controls.

The Chair called for a motion to defer action on the proposed New Policy on Expenditure of Year-end Carry Forward Unrestricted Funds. Chair Compton asked that deferral be specified to the March 1, 2019 meeting. Ms. Miles so moved, and Ms. White seconded. Hearing no further questions or discussion, the Chair called for a voice vote, and the motion passed unanimously.

IX. REVISED POLICY ON APPROVAL OF STUDENT FEES TO INCLUDE FACTORS TO BE CONSIDERED WHEN DEVELOPING RECOMMENDATIONS TO INCREASE TUITION AND MANDATORY FEES

CFO Miller informed the Committee that a new state law, the Tuition Transparency and Accountability Act, requires each university governing board to determine factors to be considered when increasing tuition and mandatory fees and to submit the factors to the legislature by January 1, 2019. The Chair said the new law seems to be aimed at providing greater control and visibility with respect to tuition and other mandatory fee increases. Mr. Miller agreed and directed the Committee's attention to the following factors proposed for approval:

a. Tennessee Higher Education Commission (THEC) binding tuition and mandatory fee increase ranges;
b. Level of state support;
c. Total cost of attendance;
d. Efforts to mitigate the financial effect on students; and
e. Other factors deemed appropriate by University administration such as student demand; campus enrollment goals; market factors; and cost factors related to general campus operations, programs of study, or individual courses.

The Chair asked whether a member of the Committee would make the following prepared motion:

> I move that the Finance and Administration Committee recommend that the Board of Trustees approve the Revised Policy on Approval of Student Fees by adoption of the Resolution presented in the meeting materials.

Ms. White so moved, and Ms. Miles seconded. Hearing no questions or a request for discussion, the Chair called for a voice vote, and the motion passed unanimously.

X. REVISED INVESTMENT POLICIES AND PROCEDURES

CFO Miller called the Committee's attention to proposed revisions to the Investment Policies and Procedures detailed in the meeting materials. He explained that in the past, the policy delegated administration of the investment program to the Treasurer with support from an advisory group. The revised policy provides that the advisory group (to be known as the Investment Advisory Council) will advise the President and his staff; specifies that the Chair of the Finance and Administration Committee (or a member of the committee designated by the Committee Chair) will serve as Chair of the advisory group; and makes various changes in membership of the advisory group.

The Chair asked whether a member of the Committee would make the following prepared motion:

> I move that the Finance and Administration Committee recommend that the Board of Trustees approve the revised Investment Policies and Procedures by adoption of the Resolution presented in the meeting materials.

Ms. Miles so moved, and Ms. White seconded. Hearing no questions or a request for discussion, the Chair called for a voice vote, and the motion passed unanimously.

XI. SECOND AMENDMENT OF LEASE AND TRANSFER AGREEMENT WITH UNIVERSITY HEALTH SYSTEM, INC.

CFO Miller explained that in 1999, University Health System, Inc. (UHS) entered into a 50-year Lease and Transfer Agreement (LTA) with the University and the State of Tennessee for management and operation of the UT Medical Center in Knoxville. The agreement required UHS to defease University debt of approximately $149 million, make a $25 million cash payment at closing, and annual payments in years 2000-2020 determined by a formula, and a final payment by March 15, 2021 of $50 million less the cumulative annual payments made. He reported that the current balance due on the $50 million payment is approximately $14 million and is expected to be approximately $10 million by March 2021. He explained that the LTA required renegotiation of the annual lease payment in 2019 for the final 30 years of the original lease term.

Mr. Miller said Dr. DiPietro asked him to work with Joe Landsman, CEO of UHS, to carry out the required renegotiation. Mr. Landsman was present at the meeting, and Dr. DiPietro recognized him and thanked him for his cooperation in finding a path forward that is beneficial for both parties. Mr. Miller said the first element of the proposed amendment deals with the payment due on March 15, 2021. The proposed amendment allows UHS to pay a lump sum or amortize it over five years at the interest rate earned by the University's

Consolidated Investment Pool, which ensures there would be no loss to the University if the payment is amortized over five years. The second element requires UHS to make an annual payment equivalent to 20% of its net operating revenue after UHS achieves an A- bond rating or equivalent. Mr. Miller explained that this provision derives from language in the original LTA designed to ensure that any continued annual lease payment for the final 30 years of the original 50-year term would be based on the financial position and bond rating and debt obligations of UHS and would not result in withdrawal, suspension, or lowering of the UHS bond rating. The third element extends the LTA for a second 50-year term through 2099, which is consistent with the original agreement's provision for automatic extension absent notice to the contrary by either party. Mr. Miller explained that extending for a second 50-year term will allow UHS to engage in long-term debt beyond 2049.

The Chair noted that if UHS, Inc. does not achieve the bond rating of an A- for a calendar year of the term, future lease payment would not be due that year and asked whether the 20% payment is pushed out another year or would lapse in that event. Mr. Miller responded that the payment would lapse because the original agreement stipulated that making the payment should not worsen the financial condition of UHS. He added that it is in the University's interest for the UT Medical Center to be a strong and viable affiliate for graduate medical education. He added that the incentive for UHS to achieve the A- bond rating is financially greater than avoidance of the payment to the University. Dr. DiPietro added that the University has representation on the UHS board and Mr. Landsman has led UHS to a much more positive position than it was four year ago. In response to a question, Mr. Miller confirmed that the new payment is 20% of UHS net operating profit. He said the balance of the $50 million due in March 2021 is payable by UHS regardless of the annual payment thereafter but added that if making that payment would put UHS in a worse financial situation, the proposed amendment would allow the payment to be amortized at the University's Consolidated Investment Pool rate over five years.

The Chair asked whether a member of the Committee would make the following prepared motion:

> I move that the Finance and Administration Committee recommend that the Board of Trustees approve the Second Amendment to the Lease and Transfer Agreement by adoption of the Resolution presented in the meeting materials.

Ms. Miles so moved, and Ms. White seconded. Hearing no further questions or discussion, the Chair called for a voice vote, and the motion passed unanimously.

XII. AUTHORIZATION FOR THE PRESIDENT TO APPROVE AN AFFILIATION AGREEMENT WITH WEST TENNESSEE MEDICAL GROUP, INC. RELATED TO THE FACULTY PRACTICE PLAN FOR FAMILY MEDICINE IN JACKSON, TENNESSEE

CFO Miller explained that the UT Health Science Center is changing its Family Medicine practice in Jackson, Tennessee, from an owned and operated clinic to a physician practice plan in affiliation with Jackson General Hospital. The former Board approved designation of the West Tennessee Medical Group as a faculty practice plan for Family Medicine in the Jackson service area, subject to final negotiation of an affiliation agreement. Negotiation of the agreement was not completed before the last meeting of the former Board in June 2018. Negotiation of the agreement has now been completed as outlined in the meeting materials, and the administration requests authorization for the President to approve the agreement after review and approval by the Chief Financial Officer and the General Counsel.

The Chair asked whether a member of the Committee would make the following prepared motion:

> I move that the Finance and Administration Committee recommend that the Board authorize the President to approve an affiliation agreement with the West Tennessee Medical Group, Inc., by adoption of the Resolution presented in the meeting materials.

Ms. White so moved, and Ms. Miles seconded. Hearing no questions or a request for discussion, the Chair called for a voice vote, and the motion passed unanimously.

XIII. FY 2018 REPORT ON ENDOWMENT AND INVESTMENT PERFORMANCE

CFO Miller informed the Committee that the investment advisory group receives detailed information on investment performance at each quarterly meeting and that the report in the meeting materials represents key highlights. He said the report is as of the end of FY 2018 (June 30) and that the benchmark is the annual payout of 4.5%, plus 1% administrative cost and the annual inflation rate. He introduced Rip Mecherle, the Chief Investment Officer, who said that the Consolidated Investment Pool is around $982 million currently after the market sell off over the last few weeks. Mr. Miller said a 60/40 strategy of stocks to bonds has been in effect, but when the Investment Advisory Council reconvenes in December, the new Fund Manager will advise on a possible change in that strategy to be more aggressive. In response to a question from Mr. Compton, Mr. Miller explained that the endowment held by the UC Foundation, for the benefit of UT Chattanooga, is not included in the report and its returns are not reviewed by the Investment Advisory Council because the UC Foundation is an independent foundation, and UT does not hold those funds. This report was provided for the Committee's information and no action was required.

XIV. BOARD-APPROVED PEER AND ASPIRATIONAL INSTITUTIONS/ COMPREHENSIVE SALARY STUDY

Mr. Miller noted that the former Board directed an initiative to establish peers by which to measure performance for all purposes and to be used in all studies reported to the Board. He explained that in June 2017, the Board approved the criteria that would be used to determine whether an institution is a peer. The criteria were then applied to determine two sets for each campus – a set of comparable peers and a set of aspirational institutions – which the former Executive and Compensation Committee, authorized to act on behalf of the Board, approved in August 2017. He directed the Committee's attention to the listing of comparable peers and aspirational institutions for each campus in the meeting materials. He explained that these institutions were used to conduct the first phase of a comprehensive salary study the Board requested to evaluate the competitiveness of compensation for all faculty and staff. He directed the Committee's attention to highlights of the salary study presented in the meeting materials. This item was presented for the Committee's information, and no action was required.

XV. OTHER BUSINESS

No other business was brought before the Committee.

XVI. ADJOURNMENT

There being no other business, the Chair adjourned the meeting.

Respectfully Submitted,

David L. Miller

David L. Miller
Chief Financial Officer