FULL BOARD MEETING

Friday, November 17, 2017
9:30 a.m. EST

Holiday Inn Downtown
Knoxville, Tennessee

The Board of Directors held their 27th meeting at 9:30 a.m. EST on Friday, November 17, 2017 in Park Pavilion at Holiday Inn Downtown Knoxville.

I. WELCOME and OPENING REMARKS

Chair Ron Turner welcomed everyone and called for the roll.

II. CALL TO ORDER AND ROLL CALL

The Secretary called roll, and the following members of the Board of Directors were present:

Mr. Ronald L. Turner, Chair
Mr. Michael K. Littlejohn, Vice Chair
Mr. Rickey N. McCurry, President and CEO
Dr. Joseph A. DiPietro, University President
Mr. Hans N. Airee
Mr. J. Jonathan Ayers
Ms. Alexis G. Bogo
Mr. Christopher B. Bollinger
Chancellor Keith S. Carver (non-voting)
Mr. Phillip A. Clendenin
Mr. Gregory E. Cox
Mr. Robert F. Decosimo
Dean Robert S. Dooley
Mr. Kimbrough L. Dunlap, III
Mr. Ronald E. Frieson
Mr. James L. Herbert Jr
Mr. Joseph LaPorte III
Ms. Kathy W. Ledybetter
Mr. Charles E. Moore
Trustee Sharon J. Pryse
Mr. Richard H. Sain
Ms. Betty Ann Tanner
Mr. Charles A. Wagner III
Dr. Philip A. Wenk (via conference call)

Board of Directors not present:
Ms. Kimberly W. Cross  
Trustee Charles E. Wharton  

Ms. LeBlanc announced the presence of a quorum.  

Officers of the foundation and vice chancellors for development were also present, as well as counsel Ed Smith, additional foundation and university leadership, and Rachel Ohm reporting for the Knoxville News Sentinel.  

III. UNIVERSITY PRESIDENT’S REPORT  

UT President Joe DiPietro opened with a moment of silence in memory of past Director Bucky Wolford.  

He went on with comments on enrollment growth:  
- Martin’s freshmen enrollment has grown by eleven percent, and transfer students have increased thirteen percent; credit given to Chancellors Carver and Smith.  
- Chattanooga also saw growth in transfer students, with a sixteen percent increase.  
- The growth in transfer students is tied to the first class of Tennessee Promise students moving to four-year institutions.  
- Knoxville set a new record, 6,000 new students this fall – 4,800 incoming freshmen and ~1,200 upper division transfers. This is so important now that families provide 70% of the dollars needed to educate students.  

The President gave leadership updates on his staff. Stacey Patterson had been named Vice President for Research, Outreach and Economic Development. She previously led UT Research Foundation under David Millhorn. Linda Martin has begun her role as Vice President for Academic Affairs and Student Success. She comes with several years’ experience in student success at Ohio State.  

Dr. DiPietro stated he had presented budget requests for capital projects to state leadership, and the top two are an Energy and Environmental Science Research Building ($84 million), and Veterinary Medicine Teaching and Learning Center ($9 million), both for UT Institute of Agriculture. Other budget requests included a fully-funded Complete College of Tennessee Act formula at $55 million, funding for Chattanooga Smart Cities Initiative ($6 million), $3 million for the Center for Addiction Science at UTHSC, three more Governor’s Chairs at $1 million, and ~$48 million in recommended capital maintenance priorities across the system.  

The President asked Tiffany Carpenter to give a marketing update. 160 over 90 was engaged to assist with developing a platform to tell the UT story, research is being conducted across the state, and a system-wide branding and marketing campaign will be launched at the State of the University address on February 28, 2018. It is critical that we show our statewide impact and explain how our unique mission makes life better for every Tennessean. Private funds are being raised rather than using operational funds to support this initiative.
IV. FOUNDATION PRESIDENT’S REPORT

Rickey McCurry started by welcoming the new board members and thanking all members for their volunteer service. His report (Exhibit 1) recapped the fiscal year 2017 development successes and shortfalls with regards to dollars raised, cash received, and number of donors. He introduced UT Foundation Honor Roll and UTAA Affinity Cards, and also commented on proposed tax reform and its potential impact on higher education and philanthropy.

V. COMMITTEE REPORTS

a. Executive Committee

Chair Ron Turner reported that the committee had focused efforts on the Foundation Funding Model, which would be covered later in the agenda.

b. Audit Committee

Committee Chair Charlie Wagner stated he had not yet met with the committee, but Lisa Taylor had informed him that she has a clean audit in hand with no exceptions. The committee will be meeting to review the report this afternoon with auditor Brown, Jake, and McDaniel.

c. Development Committee

Committee Chair Phil Wenk indicated his plans to have the committee meet with the vice chancellors individually, either in Nashville this winter, or in conjunction with the spring meeting in Chattanooga. The 6/30/17 quarterly development report (Exhibit 2) was included as information in the material.

d. Directorship Committee

Committee Chair Charlie Moore stated the committee had not met since the June meeting. He noted that the committee and administration had discussed that the current size of the board is optimal, and all current members whose terms end in 2018 are eligible for re-election. Therefore any new members proposed for election in June should be selected based on diversity in ethnicity and gender. The nomination form is in Diligent.

The annual Ethics and Responsibility assent forms were placed at members’ seats who needed to sign them for the year.

e. Finance Committee

Committee Chair Gregory Cox reported that the committee had a conference call last week and asked CFO Lisa Taylor to present the financial reports. Regarding the June 30, 2017 reports (Exhibit 3) Ms. Taylor stated the budget to actual revenue surplus of $3.6 million was due to revenue volume and rate being above budget, as well as campaign deferment leaving expenses well below budget. About $2 million was carried forward into the FY’18 budget and $1 million was put into reserve. She explained for the new members that investments are non-endowed cash balances which UT Foundation has invested separately from the UT endowment.
Ms. Taylor presented the proposed FY 2018 budget, summarizing changes since the June presentation. Telefund operations were moved from central services to the Knoxville campus budget; direct support decreased ~$1.8 due to carryover funding; and interest earnings projection was increased by $600,000. In summary, the overall budget decreased by $1.4 million.

Committee Chair Cox moved approval of the fiscal year 2018 budget (Exhibit 4). Trustee Pryse seconded the motion, and the budget was approved as submitted.

Ms. Taylor went on to present the quarter ended September 30, 2017 operating results (Exhibit 5) indicating revenue is near budget and expenses are under as expected. UT Chattanooga operations were included. Investment rates on short term money continue to climb with the University. General reserve is currently $6.7 million. Total reserve is at $7.8 million and $2 million is on deposit as guarantee for the promissory note on the SC warehouse property.

f. Real Estate Committee

Committee Chair Mike Littlejohn commented that one gift had been received since the June meeting, a lot in Jacksboro estimated to appraise for ~$90,000. Proceeds will benefit Knoxville library, WUOT, McClung Museum, and UT Gardens.

Mr. Littlejohn gave an update on the aforementioned South Carolina warehouse, which UT Foundation is financing. Woody Henderson visited the property and has seen the upgrades which the purchaser has made to the property. It is expected that a tenant will be confirmed by first quarter 2018.

VI. CONSENT AGENDA
a. Approval of the November 11, 2016 Minutes
b. Approval of Proposed 2018 Board Meeting Dates (Exhibit 6)

Chair Ron Turner presented the consent agenda. Hearing no request for any item to be removed for discussion, Trustee Pryse moved that consent agenda items be approved. Ms. Bogo seconded, and the motion was approved.

VII. PROPOSED FUNDING MODEL

Mr. Turner asked Mr. McCurry to walk through the proposed funding model. Prior to doing so, he gave a bit of historical perspective on how the Foundation reached the current funding model. The initial funding model included a charge against the endowment of 150 basis points into the central foundation. However, in 2014, the endowment assessment was reduced to 100 basis points and redirected back to the campuses. At that time, credit card revenue ended, and the annual fund central operation and alumni chapter programming moved to the campuses as well. Therefore flexible resources were no longer available to the central foundation for operations or reserve.

The proposed funding model has been presented to and endorsed by the Executive Committee. It has also been shared with campus chancellors and vice chancellors for buy-in. President McCurry noted the assumptions made and looked at redistribution of the
endowment assessment and bequests as means of generating resources for central foundation operations.

In the proposed model, the endowment assessment is allocated to the campuses in FY18, the base year. Beginning FY19, a percentage would be redistributed to the Foundation, to reach fifty percent each (campus and foundation) at the end of five years. UTFI Percentage indicates the amounts Foundation administration anticipates would be allocated to the central budget in each of the five years. The majority of the assessment would be used to reduce the amounts of campus subsidies to the foundation. Trustee Pryse inquired as to the appropriateness of the foundation budgeting for five percent increases on endowment expenses when the university is keeping tuition increases below three percent. Mr. McCurry stated this is only a model and that he and staff will work with the UT CFO and Treasurer’s offices to keep expenses at a minimum. Ms. Taylor pointed out that endowment expenses are mandated by UT, out of the foundation’s control.

Mr. McCurry also discussed funds from realized bequests. Unrestricted bequests going forward would be put into a central foundation quasi-endowment or reserves during the first five years. Additionally, a five percent assessment would be charged against restricted bequests. Chair Turner reiterated that the essence of this proposed funding model is to give the foundation some flexibility in assisting the university as a whole, to react to opportunities for assisting campuses, and to fund operations in time of discretionary spending cuts. The goal is to get to about $15 million over the five years.

Chancellor Carver was asked to comment and commended the board for taking on the funding issue. He stated the chancellors did realize the need to review the model which represents a big paradigm shift for them. They understand the need for central flexibility and look forward to discussing future opportunities with UT Foundation Board as needs arise.

Discussion ensued regarding donor willingness to accept (or not) the five percent fee assessment and how the change in unrestricted bequest allocation might be perceived.

Chair Turner moved approval of the Proposed Funding Model Design A (Exhibit 7). Trustee Pryse seconded the motion, and it was approved unanimously.

VIII. FOUNDATION STRATEGIC PLAN

Rickey McCurry stated that the first draft of the strategic plan had been brought before the board at the June meeting and feedback was given. Chancellors and staff members have also reviewed the plan and commented. Mr. McCurry thanked the steering committee, who have added strategic outcomes for each goal as well as a timeline and responsible parties. Mr. McCurry asked for the board’s endorsement to move forward with implementation teams for each goal and implementing the plan. Mr. Turner asked that the dates be accelerated where possible in order to see results sooner than later.

Mr. Frieson moved to endorse the Foundation Strategic Plan (Exhibit 8). Mr. Moore seconded the motion, and it was approved.
IX. INFORMATION

Committee chairs and membership list (Exhibit 9) was included in the material, as well as the 2018 meeting dates (Exhibit 10).

X. ADJOURNMENT

With no other business, the meeting was adjourned and Board members had lunch with masters-level investment students and Dr. Deborah Harrell.

Rachael LeBlanc, Secretary