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Office of the President Annual Report

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2011

# Annual Report of the President, the University of Tennessee to the Board of Trustees, 2010-2011

Joe DiPietro

*University of Tennessee - Knoxville*

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# FROM THE PRESIDENT

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**O**n Jan. 3, 2011, I was honored to go to work for the first time as president of the University of Tennessee. But it was not the first day I went to work thinking about how to make the University better, to facilitate its services and outreach, to improve the education it provides, to increase the research it produces, and to demonstrate the University's immense value to this great state and all of its citizens.

I spent four years thinking about all of that as chancellor of the UT Institute of Agriculture. That time convinced me I could have no job more satisfying than leading the most comprehensive public research institution in Tennessee.

Great land-grant institutions like the University of Tennessee tie back to every county and every town from Memphis to Mountain City. I've learned wonderful things about this great University and how it educates people, discovers solutions and connects with the state.

I want to tell you a little about what's happened since I took office and, more importantly, where the University of Tennessee is headed. There are challenges facing us and big goals to achieve, but I'm very proud of UT. I hope you feel the same way.



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# YEAR IN REVIEW



In 2011, the University of Tennessee finished preparations for an historic drop in state appropriations and entered a new era of academic accountability under the Complete College Tennessee Act.

I was privileged to assume the role of president of this great University on Jan. 3, and in my first few months in office, I traveled the state extensively.

I met with legislators, governor's staff, alumni, donors, business leaders, and faculty and staff with all our campuses and institutes.

These meetings helped me better understand issues facing the University and perspectives people have about UT. Likewise, these visits provided opportunities to retell the UT story and its value to the state and all our stakeholders.

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# FUNDING



On July 1, we began the fiscal year down \$112 million in state funding from 2008, a drop of about 22 percent. Federal stimulus funds filled the gap in state appropriations in our previous two budget years. When stimulus funding ran out at the end of FY 2011, we reached what was often described as "the cliff." I'm pleased to report we've made it down that cliff and are basically OK.

As the academic year began and almost 50,000 students returned to our campuses across the state, we were prepared to meet their needs and continue our pursuit of excellence in every aspect of our mission. But we are a good bit leaner.

Some classes are substantially larger with fewer faculty to teach them. Fewer course sections are available for several courses. The grass is cut less

often, and we are doing more with less on every front.

In response to the funding shortfall, the Board of Trustees launched a system-wide effectiveness and efficiency initiative in 2008 that has achieved more than \$52 million in savings to date. We have automated some services and replaced paper accounting with electronic bills and statements where appropriate. We have left positions unfilled and eliminated them.

Looking ahead, it is critical that we find a consistent funding mechanism for capital projects on our campuses. We're working jointly with the Tennessee Board of Regents, Tennessee Higher Education Commission and the Administration to explore realistic options, and this will be a lead priority in 2012.

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# COMPLETE COLLEGE TENNESSEE ACT



The Complete College Tennessee Act, which the University of Tennessee advocated and helped get approved in the Legislature, ties funding to outcomes. Now, instead of being evaluated by input numbers such as enrollment, public universities are held accountable via outputs like graduation rates and degree progression. UT does reasonably well in these areas, but we must do better. I'm confident the adjustments our campuses are making to help students pursue their degrees will create outstanding results.

Increasing the number of college graduates helps both the University and our state. It drives economic development and helps Tennessee better compete for new industry and business.

While I wholeheartedly favor this new outcomes-driven system, it must be noted that it does not resolve the issue of underfunding. This is a chronic problem. While we raise our standards to meet the goals of the formula measurements, we know the state can afford to provide only about 65 percent of the funding determined by the formula.

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# EMPLOYEE COMPENSATION



Fair compensation for our employees is a priority. Thanks to Gov. Haslam and the General Assembly, we provided across-the-board employee pay increases for the first time since 2007. Campuses and institutes were given flexibility to provide additional increases based on market, merit and equity.

The University also adopted a recommendation to increase the minimum starting pay rate for regular full- and part-time staff. The new rate of \$8.50 an hour was effective on July 1, 2011.

The increase in minimum starting pay was a recommendation from our Compensation Advisory Board and is the first step in a long-term process to

address University pay. The Compensation Advisory Board, guided by Chief Human Resources Officer Linda Hendricks, is creating UT's first-ever strategic compensation plan.

Those efforts have begun with a study to compare UT pay and benefits with other universities and industry. It came as no surprise that average salaries for both faculty and staff are a little below the market medians. On the other hand, when you consider benefits such as health insurance, retirement, tuition assistance, time off and long-term disability, we offer a competitive benefits program that is stronger than many employers. We will continue to evaluate this data to determine how to address deficiencies.

# LEGISLATIVE AGENDA



With about 50,000 students, 14,000 employees and more than 325,000 alumni, the University of Tennessee makes up a very large constituency.

In 2011, the General Assembly debated several measures impacting UT. We worked hard to inform legislators about the effects of these proposals, and I am pleased we achieved favorable results.

## UT FOUNDATION

The University required legislative approval to move all our development and alumni affairs operation to the UT Foundation, a not-for-profit organization started in 2001. In this interdependent model, our foundation remains affiliated with the University but has the ability to be more dynamic in its fundraising efforts.

## GUNS ON CAMPUS

We will continue to fight policy that would allow anyone other than law enforcement to carry guns on campus. First and foremost, this is a safety issue. We share the opposition of law enforcement agencies across the state and nation to guns on campus.

## HEARING AIDS

The University won approval to sell hearing aid devices through our hearing and speech training centers. We believe this is an important service we offer to the public and a critical means of helping fund these programs for indigent patients.

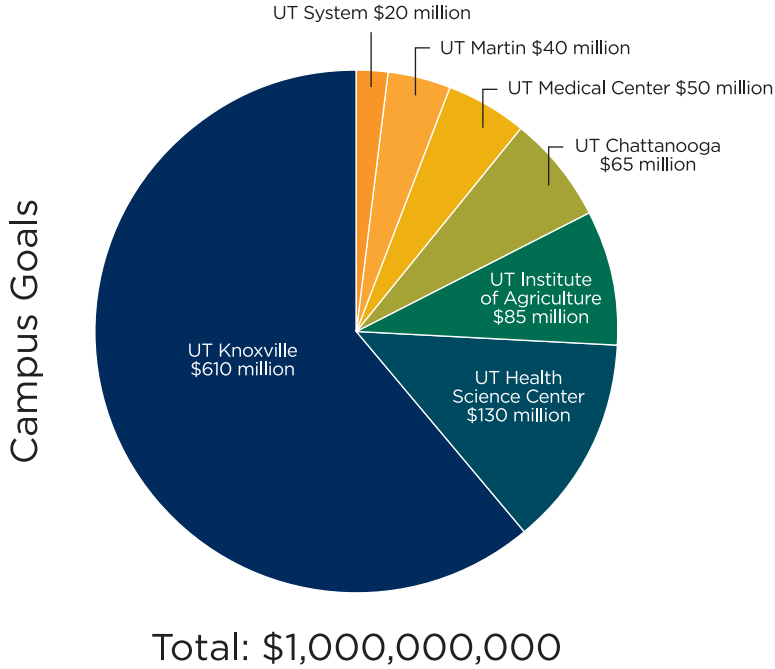
## SUMMER LOTTERY SCHOLARSHIPS

Allowing HOPE scholarship funding to pay for summer classes is a big win for our students, the University and the state. Taking summer classes helps students stay on track toward graduation and ultimately save money by not having to pay tuition after the scholarship runs out.

# CAMPAIGN FOR TENNESSEE

I don't know if there is a greater example of the admiration and support people have for the University of Tennessee and its impact than the result of our largest fundraising campaign ever.

Despite the hard economic times of the last few years, we achieved our \$1 billion goal more than a year in advance. The campaign started in 2005 and ends in December 2011.



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## ANNIVERSARIES / THE UNIVERSITY MARKS SEVERAL MILESTONE ANNIVERSARIES IN 2011

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### THE UNIVERSITY of TENNESSEE **UT** CHATTANOOGA 125 years

From its establishment as a private college 125 years ago, UT Chattanooga has grown to be an integral part of the local community and region. Enrollment has grown to more than 10,000 at the campus that is building on its success as an engaged metropolitan university. Among other distinctions, UTC is home to the SimCenter: National Center for Computational Engineering, which provides educational, research and outreach opportunities for students and faculty.

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### THE UNIVERSITY of TENNESSEE **UT** HEALTH SCIENCE CENTER 100 years

Since its founding 100 years ago, UTHSC has educated and trained more than 53,000 healthcare professionals on campuses and in healthcare facilities statewide. That's 70 percent of Tennessee's physicians when including residents and fellows mentored in the College of Medicine, 75 percent of dentists, and 40 percent of pharmacists working in Tennessee. The Health Science Center and its affiliated teaching hospitals provide more than 1 million days of inpatient services and more than 2 million outpatient visits annually.



### 50 years

Each UT campus held commemorations in 2011, marking 50 years since the first African American undergraduates enrolled. The landmark celebration across the state honored all individuals involved in desegregation of the University.

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### THE UNIVERSITY of TENNESSEE **UT** INSTITUTE for PUBLIC SERVICE 40 years

The UT Board of Trustees voted in 1971 to establish the UT Institute for Public Service to fulfill UT's land-grant mission of extending the University to the people of Tennessee. Forty years later, IPS continues to provide training, consulting and analysis to government agencies and private industry with a presence in all 95 counties and 346 cities in the state. In 2010, IPS services contributed about \$360 million to Tennessee's economy and enabled employers to create or retain nearly 4,000 jobs for Tennesseans.



# STRATEGIC PLAN



Aspiring to greater excellence in a time of limited resources makes strategic decision-making critical. To ensure good stewardship and purposeful use of resources toward clearly defined goals, my office has launched a strategic planning process for the UT System with help from the Board of Trustees. Called “Defining the Future,” it will provide a roadmap for the University’s next decade. In a time of scarce resources, I believe you must plan for the future you want to have. This is the single-most important activity my office and the System are undertaking in the coming year.

Foremost, the plan will advance the educational, discovery, creative and outreach programs of the UT campuses and institutes. Every day, the University touches the lives of citizens in all 95 counties. This message must be told over and over.

At this pivotal time for higher education in Tennessee and around the country, it is no longer enough to enroll students on our campuses. The University seeks students who are prepared for college coursework, and



once those students enroll, we are held accountable for helping them earn their degrees – preferably in four years.

When I came into office, the Board and Interim President Jan Simek already had done much work to better define the role of the UT System. Often, it has been confusing for segments of the public – and sometimes even within the University – to understand the difference between System and campus roles.

We have already adopted a mission statement that defines the role of the System Administration:

*The mission of the University of Tennessee System Administration is to advance the educational, discovery, creative and outreach programs of the campuses and institutes through leadership that removes obstacles, understands needs, provides advocacy, secures resources, promotes accountability, fosters diversity, promotes innovation, coordinates campus efforts, and delivers efficient and effective central services.*

The strategic plan will further refine the role of the System, its long-term goals, and means of achieving them.

The planning process will engage our internal and external audiences, and I look forward to sharing our progress with you.

I am grateful for the support received during my first year and look forward to another time of progress as we continue to serve our statewide mission at the University of Tennessee.

All the best,

Joe DiPietro

# FINANCIALS / SOURCES OF CURRENT FUNDS FOR THE YEAR ENDED JUNE 30, 2011

## FEDERAL AND LOCAL APPROPRIATIONS \$19,144,003.48

Appropriations received in support of the University's land-grant missions, used primarily by the Agricultural Experiment Station and Tennessee Extension.

## INDEPENDENT OPERATIONS \$66,479,050.79

Revenues collected from the UT Medical Center in Knoxville and the Methodist Hospital in Memphis for leased employees.

## OTHER \$98,045,404.36

Revenues generated from sources not included in other classifications, such as sales and services by University departments and investment income.

## AUXILIARY ENTERPRISES \$197,856,790.76

Revenues from operations of auxiliary activities such as housing, dining halls, bookstores, parking and UT Knoxville athletics.

## TUITION AND FEES \$448,985,458.12

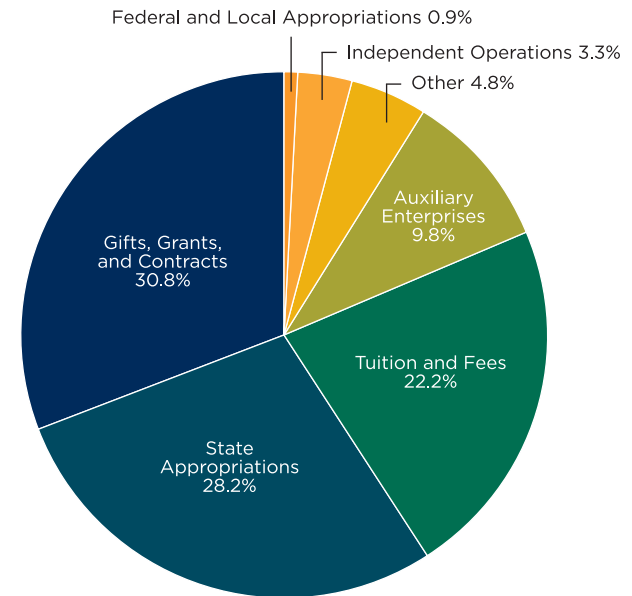
Revenues collected from students; includes resident enrollment fees, program and service fees, extension enrollment fees and other fees.

## STATE APPROPRIATIONS \$570,707,011.49

Legislative appropriations from the Tennessee General Assembly for current operations of the University.

## GIFTS, GRANTS, AND CONTRACTS \$621,719,103.45

Revenues from federal and non-federal granting entities and gifts restricted for specific purposes, primarily for sponsored research and training activities.



Total: \$2,022,936,822.45

# FINANCIALS / USES OF CURRENT FUNDS FOR THE YEAR ENDED JUNE 30, 2011

## LONG TERM DEBT & OTHER TRANSFERS \$137,782,295.34

Mandatory transfers for debt service and other transfers.

## STUDENT SERVICES \$80,479,554.79

Expenditures for student services including admissions, registrar, student activities, counseling, career guidance, student aid administration and health services.

## INDEPENDENT OPERATIONS \$66,479,050.79

Expenditures for leased employees for the UT Medical Center in Knoxville and Methodist Hospital in Memphis.

## PHYSICAL PLANT \$119,808,204.01

Expenditures for the operation and maintenance of physical plant including utilities and service related to grounds and facilities.

## INSTITUTIONAL SUPPORT \$110,764,587.46

Expenditures for executive management, financial operations, personnel services, security, public relations, development activities and alumni relations.

## ACADEMIC SUPPORT \$142,606,513.98

Expenditures for libraries, computing support and academic administration.

## AUXILIARY ENTERPRISES \$142,425,238.19

Activities that furnish goods and services to students, faculty and staff. Includes mandatory transfers for debt service.

## PUBLIC SERVICE \$159,832,223.32

Expenditures for non-instructional programs beneficial to individuals and groups external to the University.

## STUDENT AID \$236,377,019.27

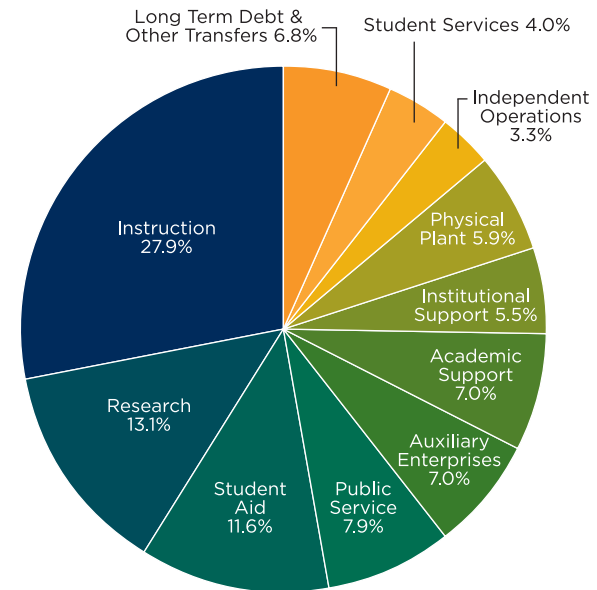
Scholarships and Fellowships awarded to students.

## RESEARCH \$266,231,579.18

Direct expenditures for sponsored research activities funded from federal, state, local and private sources.

## INSTRUCTION \$566,259,050.46

Includes all expenditures, including faculty and staff salaries incurred in connection with instruction programs for credit and non-credit courses.



Total: \$2,029,045,316.79

## FINANCIALS / INVESTMENTS BENEFITING THE UNIVERSITY

At the end of fiscal year 2011, the amount of total funds invested for the benefit of the University of Tennessee stood at \$889 million. This increase of \$121 million over the prior fiscal year was largely driven by solid 12-month returns in virtually every investable asset class. Net asset growth for the period, after accounting for distributions, was 15.8 percent. The chart on the following page shows total funds available to UT at fiscal year-end each of the past 10 years and the gradual recovery of those funds from the effects of the credit crisis, which began in 2007.

Four separate components make up the \$889 million available to the University system. Endowments account for \$630 million, or nearly 71 percent. Chairs of Excellence and the University of Chattanooga Foundation are the next largest categories at \$113 million and \$103 million, respectively. Finally, Life Income Trusts account for \$42 million.

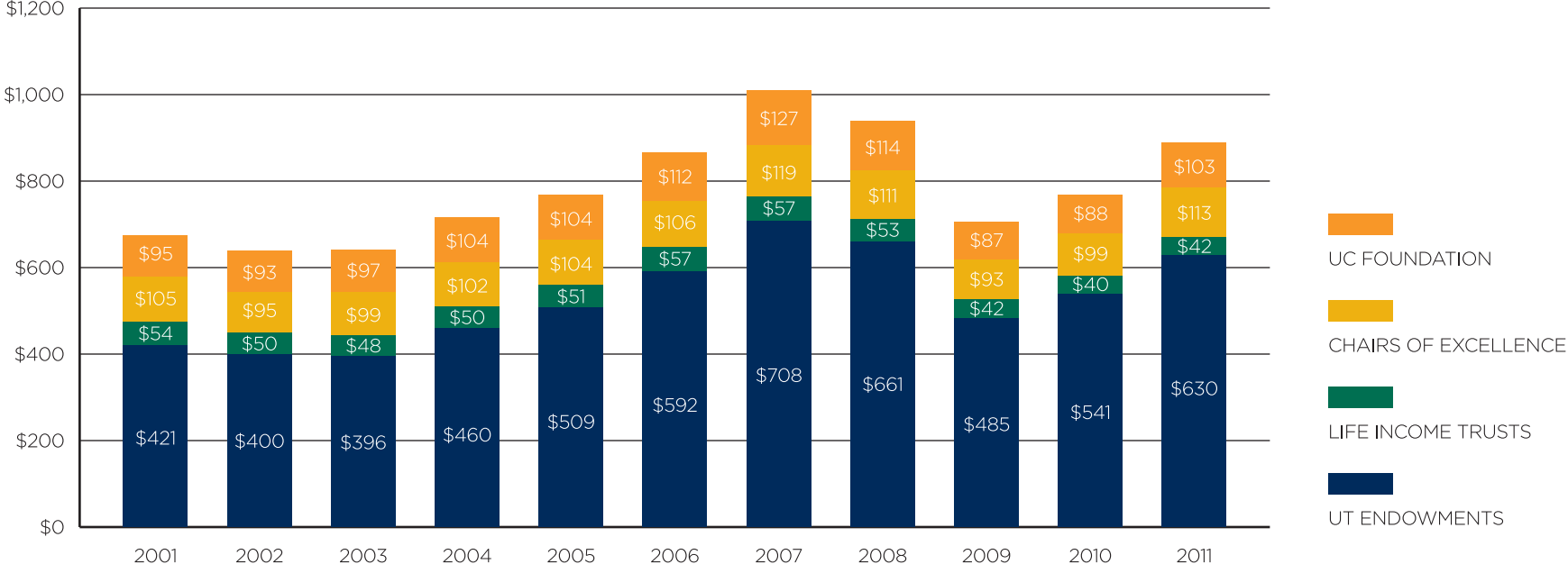
The majority of University endowments, \$619 million, are invested through the University's Consolidated Investment Pool. This vehicle was established in 1954 to allow for diversification and efficient investment of any endowment, irrespective of size. As of June 30, 2011, the Pool

produced a 12-month total return of 20.6 percent, and 5.0 percent for the last 10 years. It also distributed \$32 million in fiscal 2011, a decrease of approximately \$1.4 million from last year's amount. The funds distributed in any given year equal five percent of the three-year rolling average of the Pool's market value at calendar year-end (Dec. 31), and, consequently, fiscal 2011 continued to feel the effects of the contraction in the capital markets in 2008. The long-term goal of the pooled endowment investment program is to provide a sustainable and increasing level of support for University programs, while preserving the real purchasing power of the endowments for the future in perpetuity.

Finally, funds provided by the Tennessee Chairs of Excellence and the University of Chattanooga Foundation were \$3.4 million and \$6.2 million, respectively, for the fiscal 12 months. Both of these categories are managed outside the Pool. The Chairs of Excellence are administered by the treasurer of the state of Tennessee for the benefit of all UT campuses. The University of Chattanooga Foundation is managed by its foundation board and supports programs at UT Chattanooga only.



**TOTAL FUNDS** (1=\$1,000,000)



## FALL ENROLLMENT 2008 - 2011 (HEADCOUNT)

<i>UT SYSTEM</i>	2007	2008	2009	2010	2011	5-Year Change
<b>Undergraduate</b>	36,280	37,249	37,807	38,573	38,605	6.4%
<b>Graduate</b>	10,389	10,546	10,764	10,992	10,940	5.3%
<b>Total</b>	46,669	47,795	48,571	49,565	49,545	6.2%

<i>UT KNOXVILLE</i>	2007	2008	2009	2010	2011	5-Year Change
<b>Undergraduate</b>	21,133	21,475	21,006	21,308	21,126	0.0%
<b>Graduate</b>	6,150	6,264	6,101	6,215	6,253	1.7%
<b>Total</b>	27,283	27,739	27,107	27,523	27,379	0.4%

<i>UT CHATTANOOGA</i>	2007	2008	2009	2010	2011	5-Year Change
<b>Undergraduate</b>	8,194	8,405	9,039	9,229	9,891	20.7%
<b>Graduate</b>	1,364	1,402	1,487	1,552	1,547	13.4%
<b>Total</b>	9,558	9,807	10,526	10,781	11,438	19.7%



<b>UT MARTIN</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>5-Year Change</b>
<b>Undergraduate</b>	6,717	7,127	7,586	7,947	7,500	11.7%
<b>Graduate</b>	456	451	515	522	413	-9.4%
<b>Total</b>	7,173	7,578	8,101	8,469	7,913	10.3%

<b>UT HEALTH SCIENCE CENTER</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>5-Year Change</b>
<b>Undergraduate</b>	236	242	176	89	88	-62.7%
<b>Graduate</b>	2,419	2,429	2,661	2,703	2,727	12.7%
<b>Total</b>	2,655	2,671	2,837	2,792	2,815	6.0%

- Includes non-degree seeking and dual enrollment (high school) students
- UTK includes Space Institute and Vet Med
- UTHSC excludes Residents in Health Sciences





THE UNIVERSITY *of* TENNESSEE  
KNOXVILLE, CHATTANOOGA, MARTIN, TULLAHOMA, MEMPHIS