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2012

Annual Report of the President, the University of Tennessee to the Board of Trustees, 2011-2012

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Recommended Citation

DiPietro, Joe, "Annual Report of the President, the University of Tennessee to the Board of Trustees, 2011-2012" (2012). *Office of the President Annual Report*.

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FROM THE PRESIDENT

Challenges and pressures are not new to higher education, but today's concerns about funding, access and alternate means of delivery present new levels of complexity to those of us seeking solutions. We do this against a backdrop of debate of higher education's value by presidential candidates, state and national leaders, local elected officials and families sitting around the kitchen table. We will find solutions to overcome our challenges so that the University of Tennessee continues to fulfill its mission: providing high-quality education, conducting research to solve problems and improve lives, and engaging in public service.

While effects of the recession lingered, the University's fiscal 2013 appropriations included partial funding for a 2.5 percent salary increase (\$12.1 million) and a \$10.6 million operating increase to reflect greater institutional productivity in student progression, degree production, research and service, efficiency metrics, and other outcomes-based measures. Another \$100 million in state support enables crucial construction projects to move forward. Combined, this funding made it possible for us to give employees across the state a modest pay increase for the second consecutive year, and to improve the quality of education and on-campus experience for our students.

One example of our success in outcomes-based measures: We awarded 7,208 bachelor's degrees in fiscal year 2011-12, a 7 percent increase over the previous year and exceeding the number called for in the State's higher education master plan. Increases in both enrollments and graduation rates contributed to this achievement.

The UT System Strategic Plan is a critical tool in our ongoing success. Approved by our Board of Trustees in June, the plan is a roadmap to



navigate the next five years and help us make decisions that will impact the University for years to come. The goals of the plan, which you will read about in the following pages, specify how UT continues to expand its role while providing degrees that will prepare students for careers and lives beyond college.

I believe the best way to monitor progress on our strategic plan and keep abreast of other needs and developments is by sitting down, in-person with faculty, staff, students, alumni and friends. That's also one of the best parts of my job. I'm privileged to travel across the state and see that every day, in a multitude of ways, our University touches and transforms lives throughout Tennessee.

All the Best,

defining the FUTURE

THE SYSTEM STRATEGIC PLAN

The UT System Strategic Plan is the product of a highly collaborative, year-long process that involved hundreds of stakeholders. Discussions about the plan determined the five main goals, and the discussions also revealed interest in better defining the UT System and the UT System Administration. Plan implementation began in fall 2012. Progress for each goal will be tracked using an online dashboard.

THE FIVE STRATEGIC GOALS

- 1 Enhancing Education Excellence
- 2 Expanding Research Capacity
- 3 Fostering Outreach and Engagement
- 4 Ensuring Effectiveness and Efficiency
- 5 Advocating for the University of Tennessee System

New definitions and mission statements set forth in the strategic plan:

UT SYSTEM

The entire University of Tennessee, the common portfolio and collective assets of all parts of the statewide institution.

UT SYSTEM MISSION STATEMENT

The University of Tennessee System, through its multiple campuses and institutes, serves the people of Tennessee and beyond through the discovery, communication and application of knowledge. The System is committed to providing undergraduate, graduate and professional education programs in a diverse learning environment that prepares students to be leaders in a global society. The UT System's delivery of education, discovery, outreach and public service contributes to the economic, social and environmental well-being of all Tennesseans.

UT SYSTEM ADMINISTRATION

The president's office and the administrative offices reporting directly to the president.

UT SYSTEM ADMINISTRATION MISSION STATEMENT

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.

OUR MISSION

“The UT System’s delivery of education, discovery, outreach and public service contributes to the economic, social and environmental well-being of all Tennesseans.”

- University of Tennessee System Mission Statement



EDUCATE DISCOVER CONNECT

More than 10,000 students graduated from campuses across the state, and the University enrolled nearly 50,000 undergraduate and graduate students in fall 2012. After graduation, students entered a divergent number of fields including medicine, engineering, business, education, communication and public administration.

Students learn in a variety of settings, from classrooms to online, from internships to study-abroad programs. Across the state, our faculty members are engaging and mentoring this “digital generation” and embracing technology and innovation to enhance their teaching.

The University is taking part in the national and state conversation about the value and importance of a college degree. The economic downturn has created more accountability for cost, completion of degrees and career preparation. The University remains committed to the principles of the state’s Complete College Tennessee Act, which rewards appropriations based on criteria such as progress toward degrees and graduation, instead of headcount. UT Knoxville (70 percent) and UT Martin (59 percent) lead all public institutions in Tennessee in the six-year graduation rate, and UTC (51 percent) is tied at fourth.

EDUCATE



A UT education helps students plan for the future. A new veterinary health technology option at UT Martin was first offered in spring 2012. Graduates will have a bachelor’s degree in animal science with a veterinary technology emphasis. The vet-tech job market is expected to grow by more than 20 percent in the next six years.



A UT education provides unique opportunities. Chris Tate, a physics doctoral student at UT Knoxville, got the chance of a lifetime to work the controls of an instrument on NASA’s Curiosity rover on Mars from NASA’s Jet Propulsion Laboratory in California.

EDUCATE DISCOVER CONNECT

Faculty and students on all our campuses are involved in research, developing new knowledge and providing solutions to problems of today and tomorrow. Our partnership with the Department of Energy's Oak Ridge National Laboratory (ORNL) sets UT apart from many public universities. The University is co-manager of the lab through UT-Battelle and is the lab's largest research partner. More than 100 UT faculty members have joint appointments at ORNL, and their discoveries result in the creation of intellectual property that is jointly owned by UT and ORNL. In addition, UT and ORNL have five joint institutes concentrating on advanced materials, heavy ion research, biological sciences, neutron sciences and computational sciences, and 10 distinguished scientists have been appointed as UT-ORNL Governor's Chairs.

Alternative energy is one of the main thrusts of UT System research efforts, and the University has established a history of work in this sector and in turning that research into gains for the state through economic development. In April 2012, the West Tennessee Solar Farm in

Haywood County officially began generating power. The solar farm, owned and operated by UT, is one of the largest solar arrays in the Southeast. It is capable of producing 5 megawatts of electricity, which is enough to power 500 homes for a month. The farm is located off Interstate 40, and a public information center is to open in the next year.

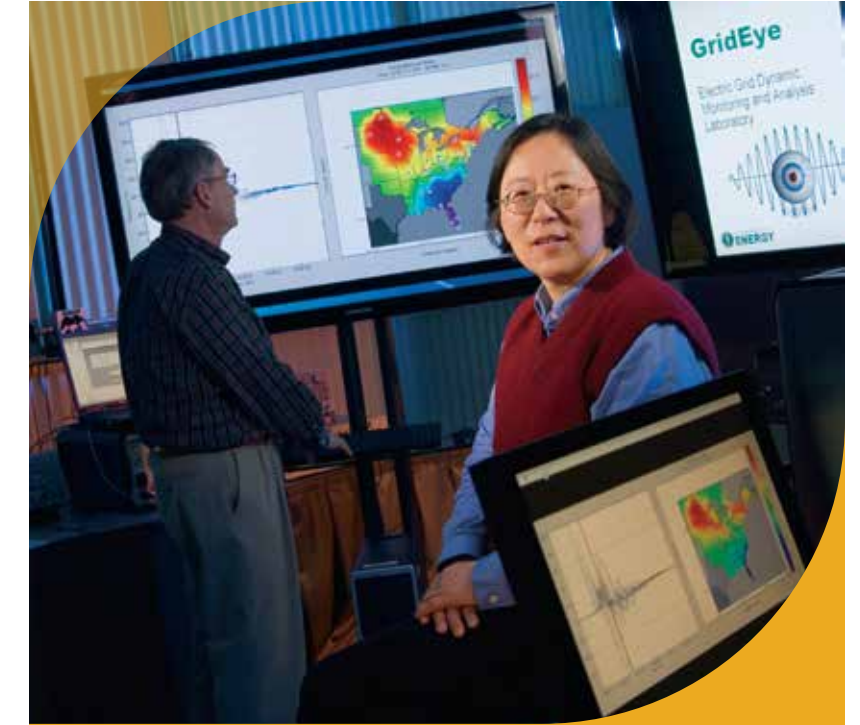
The UT Biofuels Initiative, jointly funded by the state of Tennessee and DuPont Cellulosic Ethanol, continues to move toward the production of liquid transportation fuel from biomass, including switchgrass. In addition, the University is moving forward with research through the Center for Renewable Carbon (CRC) and TennEra, a new company created through the University to focus on the use of biomass and other products at the CRC. The Biofuels Initiative resulted in the nation's first demonstration-scale biorefinery for ethanol and the Biomass Innovation Park, owned by TennEra, and operated by a new spinoff company called Genera Energy.

The UT Research Foundation (UTRF), the not-for-profit organization responsible for commercializing and licensing technology by researchers across the UT System, helped establish nine startup companies in fiscal year 2012 including Genera Energy. UTRF also received 141 new invention disclosures during the same period, a record high.

Construction began in 2012 on the first building at UT's innovation campus at Cherokee Farm in Knoxville. Cherokee Farm is being developed as a research park to house private companies with links to UT researchers and ORNL. The first building will house the UT-ORNL Joint Institute for Advanced Materials. Completion is expected in 2014.



UT faculty members conduct research that improves quality of life. Dr. Samuel Dagogo-Jack, a professor at UTHSC, is recognized nationally and internationally for his work on diabetes. He is leading a \$3.3 million study on the development and prevention of prediabetes.



UT faculty members are working to solve our nation's challenges. UT Knoxville professor Yilu Liu wants to create a smarter electric grid that automatically resolves minor disruptions before they escalate to major blackouts. She holds a UT-ORNL Governor's Chair and co-leads a new center funded by \$18 million from the National Science Foundation and the U.S. Department of Energy.

Through each campus, the Institute for Public Service (IPS), and the Institute of Agriculture, UT has a presence in all 95 counties in Tennessee. The University provides training and educational programs for Tennesseans of all ages, from 4-H for schoolchildren to certifications for law enforcement and government officials, and from parenting classes for young adults to business development workshops for entrepreneurs.

The University engages the community through the fine arts that bring the public to campuses. Faculty, staff and students take their skills into communities to volunteer and provide training, consulting and assistance in schools, business and organizations. Hundreds of adults and children are helped every year by medical and dental clinics of the UT Health Science Center (UTHSC), and the College of Veterinary Medicine hospital serves pets, livestock and zoo inhabitants.

In the last year, IPS assisted on projects that led to more than \$420 million in economic impact for Tennessee. IPS agencies answered more than 25,000 requests for assistance;

trained more than 12,000 government employees, law enforcement members and industry workers, and assisted with retaining or creating nearly 5,600 jobs.

UT Extension made more than 5.3 million contacts in providing assistance in areas such as financial and crisis counseling, nutrition and combating diseases like Type 2 diabetes. AgResearch, the research arm of the UT Institute of Agriculture, recorded 45,000 contacts through attendance at field day events and the work of its faculty. The College of Veterinary Medicine treated more than 30,000 patients.

Often, the University mission converges in certain programs, and there are many examples. In 2012, the Pediatric Language Clinic in Knoxville celebrated its 40th anniversary. Founded in 1972, the clinic serves children birth to 3 years old with significant social, communicative, and behavioral delays, or a diagnosis of Autism Spectrum Disorder. The clinic, part of UTHSC's College of Allied Health, has provided tens of thousands of service hours to clients and families since its opening. It has continued to grow within the Department of Audiology and Speech Pathology, which routinely graduates 35 to 40 speech-language pathologists per year. Alumni enjoy a 100 percent pass rate on national boards and 100 percent employment upon graduation, and the vast majority dedicates the knowledge and skills acquired during their training to improving the health and quality of life of Tennessee families.



UT students touch lives while providing hands-on experiences. In spring 2012, first-year engineering students at UTC built assistive devices for six children in the Chattanooga area with special needs. These devices included a wheelchair-accessible playhouse, adjustable chairs and a portable stool.



UT programs improve and encourage learning in schools. HABIL, or Human Animal Bond in Tennessee, is an animal-assisted program sponsored by the College of Veterinary Medicine that has a mission to help children read through Ruff Reading. Children relax around the animals and read to them. Ruff Reading is working in 12 East Tennessee counties.

FINANCIALS / SOURCES OF CURRENT FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FEDERAL AND LOCAL APPROPRIATIONS \$20,527,111.32

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

INDEPENDENT OPERATIONS \$79,656,919.32

Revenues collected from UT Medical Center in Knoxville and the UT Foundation for leased employees.

OTHER \$96,192,873.82

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

AUXILIARY ENTERPRISES \$188,529,286.81

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

TUITION AND FEES \$342,023,563.48

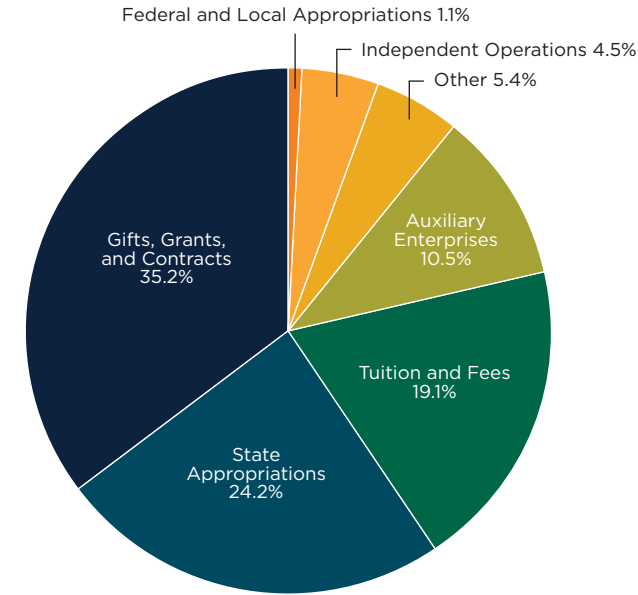
Revenues collected from students; includes resident enrollment fees, program and service fees, extension enrollment fees and other fees.

STATE APPROPRIATIONS \$432,546,017.31

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

GIFTS, GRANTS, AND CONTRACTS \$630,055,881.90

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



Total: \$1,789,531,653.96

FINANCIALS / USES OF CURRENT FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2012

LONG TERM DEBT & OTHER TRANSFERS \$51,463,787.31

Mandatory transfers for debt service and other transfers.

STUDENT SERVICES \$77,832,677.16

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

INDEPENDENT OPERATIONS \$79,656,919.32

Expenditures for leased employees for UT Medical Center in Knoxville and the UT Foundation.

INSTITUTIONAL SUPPORT \$98,670,387.70

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

PHYSICAL PLANT \$108,459,239.82

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

ACADEMIC SUPPORT \$131,349,960.81

Expenditures for libraries, computing support and academic administration.

AUXILIARY ENTERPRISES \$131,769,548.99

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

PUBLIC SERVICE \$146,569,899.05

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

STUDENT AID \$222,388,444.93

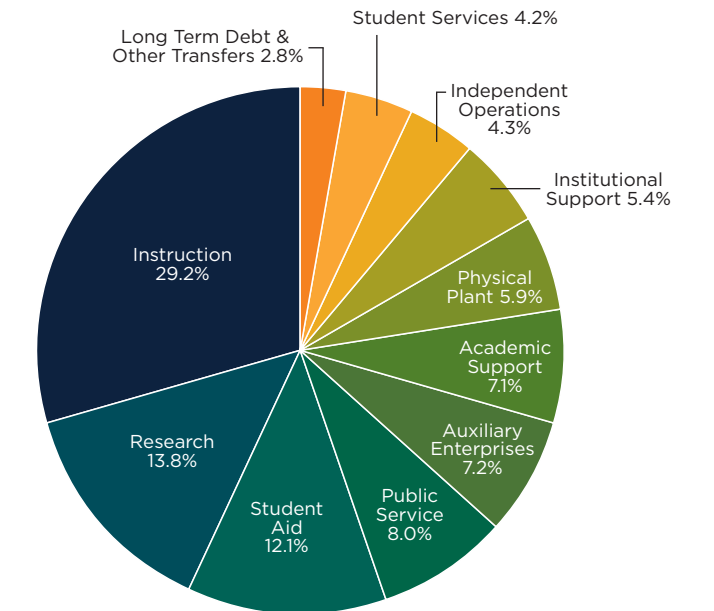
Scholarships and Fellowships awarded to students.

RESEARCH \$253,559,978.29

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

INSTRUCTION \$536,233,974.57

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



Total: \$1,837,954,817.95

Over the course of the 2012 fiscal year ending June 30, the total funds invested for the benefit of the University of Tennessee System declined slightly to \$869 million from \$889 million. This \$20 million decrease from the previous year was driven by negative performance in the global equity markets, as well as the domestic small and midcap sectors of the market. In contrast, large cap stock and high-quality bonds produced positive returns as investors sought shelter from the ongoing uncertainty troubling global capital markets.

The attendant chart displays the total historical funds available to UT at each fiscal year-end for the past ten years, broken down into four categories. On June 30, 2012, endowments stood at roughly \$612 million and the Chairs of Excellence, \$114 million; the University of Chattanooga Foundation held \$101 million; and Life Income Trusts contained \$42 million.

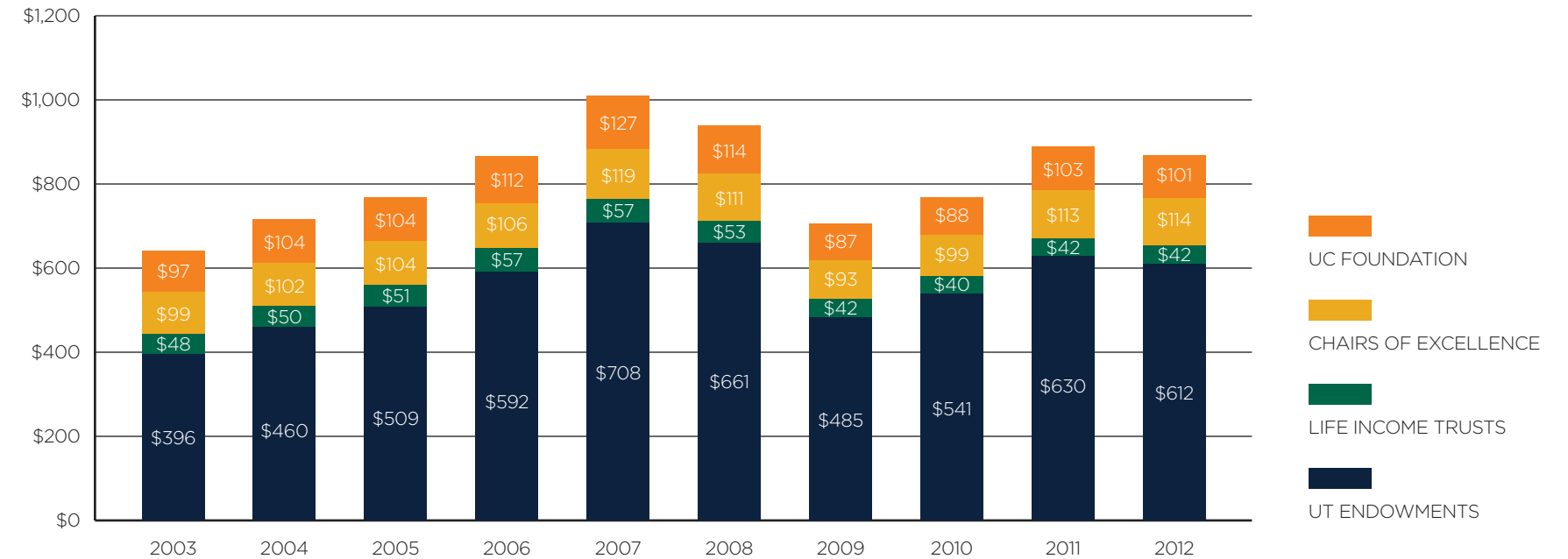
The \$612 million in endowments are invested through the University's Consolidated Investment Pool, which was established in 1954 to allow for diversification and efficient investment of all endowed assets, regardless of size. The long-term goal of the pooled endowment investment program is

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.

Over the last 12 months, the pool generated a total return of -2.2 percent, and +5.5 percent over the last decade. In addition, it distributed \$26.4 million in fiscal 2012, a decline of \$5.5 million from the prior year. The distribution, calculated using a rolling calendar three-year average of the pool's market value, was affected by both the increase in the expenses charged against the pool and the lingering effects of the credit crisis. The funds distributed in any given year equal 4.5 percent of that three-year rolling average.

Finally, the Tennessee Chairs of Excellence provided \$3.4 million and the University of Chattanooga Foundation \$6.1 million for the fiscal year. 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 2011 - 2012 (HEADCOUNT)

UT SYSTEM	2008	2009	2010	2011	2012	5-Year Change
Undergraduate	37,249	37,807	38,573	38,605	38,401	3.1%
Graduate	10,546	10,764	10,992	10,940	10,843	2.8%
Total	47,795	48,571	49,565	49,545	49,244	3.0%

UT KNOXVILLE	2008	2009	2010	2011	2012	5-Year Change
Undergraduate	21,475	21,006	21,308	21,126	20,829	-3.0%
Graduate Academic	5,505	5,313	5,395	5,399	5,407	-1.8%
Graduate Professional	759	788	820	854	782	3.0%
Total	27,739	27,107	27,523	27,379	27,018	-2.6%

UT CHATTANOOGA	2008	2009	2010	2011	2012	5-Year Change
Undergraduate	8,405	9,039	9,229	9,891	10,159	20.9%
Graduate	1,402	1,487	1,552	1,547	1,501	7.1%
Total	9,807	10,526	10,781	11,438	11,660	18.9%

UT MARTIN	2008	2009	2010	2011	2012	5-Year Change
Undergraduate	7,127	7,586	7,947	7,500	7,326	2.8%
Graduate	451	515	522	413	425	-5.8%
Total	7,578	8,101	8,469	7,913	7,751	2.3%

UT HEALTH SCIENCE CENTER	2008	2009	2010	2011	2012	5-Year Change
Undergraduate	242	176	89	88	87	-64.0%
Graduate Academic	770	996	1,062	1,115	1,111	44.3%
Graduate Professional	1,659	1,665	1,641	1,612	1,617	-2.5%
Total	2,671	2,837	2,792	2,815	2,815	5.4%

- Includes non-degree seeking and dual enrollment (high school) students
- Excludes students enrolled in audited classes and co-op courses
- UTK includes Space Institute and Veterinary Medicine students
- UTHSC excludes Residents in Health Sciences
- Grad-Professional = Medicine: MD, Dentistry: DDS, Pharmacy: PHARM.D, Law: JD, and Vet Med: DVM



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