

Minutes of the Meeting of the Board of Trustees of the University of Kentucky,
Tuesday, March 7, 2006.

The Board of Trustees of the University of Kentucky met at 1:00 p.m. (Lexington time) on Tuesday, March 7, 2006, in the Board Room on the 18th Floor of Patterson Office Tower.

A. Meeting Opened

Mr. James Hardymon, Chair, called the meeting to order at 1:00 p.m. and asked the secretary of the Board, Ms. Pam May, to call the roll.

B. Roll Call

The following members of the Board of Trustees answered the call of the roll: Mira Ball, Stephen Branscum, Penny Brown, Dermontti Dawson, Jeff Dembo, Marianne Smith Edge, Rebecca A. Ellingsworth, Ann Haney, James Hardymon (Chair), Pamela May, Billy Joe Miles, Roy Moore, Phillip Patton, Frank Shoop, Myra Leigh Tobin, JoEtta Wickliffe, Billy Wilcoxson, and Russ Williams. Absent from the meeting were Steven Reed and Barbara Young. The university administration was represented by President Lee T. Todd, Jr., Interim Provost Scott Smith, Executive Vice President for Finance and Administration Frank Butler, and General Counsel Barbara W. Jones.

Members of the various news media were also in attendance.

Mr. Hardymon announced that a quorum was present. He declared the meeting officially open for the conduct of business at 1:02 p.m. and asked the Board to refer to their agenda.

C. Consent Items

Mr. Hardymon called attention to the consent items on the agenda: Minutes of the January 24, 2006 meeting, PR 2 - Personnel Actions, and FCRs 1 through 10 which involve some very welcome gifts and pledges. He asked for a motion for approval of the consent items. Mr. Branscum moved approval. Ms. Smith Edge seconded his motion, and it carried without dissent. The following are consent items: (See PR 2 and FCRs 1 through 10 at the end of the Minutes.)

Minutes – January 24, 2006

PR 2 Personnel Action

FCR 1 Ashland Inc. Gift (Consent)

FCR 2 Estate of Jean T. Barnhart Gift (Consent)

FCR 3 Earl F. and Jean M. Lockwood Gift (Consent)

FCR 4 Gifts and Pledges to the Joy Bale and George Street Boone Symposium
in the Humanities Fund (Consent)

FCR 5 Gifts and Pledges to the Bell Alcohol and Addictions Chair (Consent)

- FCR 6 Gifts and Pledges to the Clarke-Knapp Entomology Research Fund (Consent)
- FCR 7 Gifts and Pledges to the John R. Gaines Endowed Chair in the Humanities Fund (Consent)
- FCR 8 Gifts and Pledge to the Kevin Heidrich/Team 7 Endowment for ALS Patient Services (Consent)
- FCR 9 Gifts and Pledges to the Bobby C. Pass Endowed Professorship (Consent)
- FCR 10 Gifts to the Werner F. S. Schmitt Professorship in Aging and Neuro-behavior (Consent)

President Todd recognized Ralph Derickson, who is listed in the retirement section in PR 2 of the Personnel Actions and commented on his service to the university. Mr. Derickson has been at the University of Kentucky for 25 years and has covered the Board meetings for much of that time. He was the director of the UK News Bureau for 13 years and was a public relations officer for the Lexington Campus Chancellor's Office for six years.

President Todd said he was sure that Mr. Derickson and his wife, Betty, were looking forward to having some time with the grandchildren. He asked Mr. Derickson to stand and be recognized following which Mr. Derickson received a round of applause. President Todd thanked Mr. Derickson for his service to the university.

Dr. Moore said he wanted to mention briefly that Dr. Loys Mather and his wife, Sonja, are also in the retirement section of PR 2. He said that there was no finer person, anyone more committed to the institution, or anyone who has served the institution as well as Dr. Mather. In addition to his role as a faculty member, he served as chair of the Senate Council and as a member of the Board of Trustees for three terms. Dr. Mather will leave a big void at the university. He enjoyed himself very much while he was at the university and made many contributions.

Dr. Dembo said that Sonja Mather also was an integral member of the academic community. According to Dr. David Bettez, the director of International Affairs, Mrs. Mather served as the bedrock upon which all of the international affairs kept its foundation for 18 years through four directors who relied on her heavily, not just to crunch the numbers but also to do the right thing. She and Dr. Mather both work very closely to befriend international students who come to the University of Kentucky. She will also be missed.

Dr. Moore noted that Dr. and Mrs. Mather's combined service to the university totals about 64 years, a long time for two people to be at the university.

Mr. Hardymon said that some of the members around the board table were on the Board when Dr. Mather was a member of the Board.

President Todd thanked Drs. Moore and Dembo for calling attention to the retirement of these two distinguished members of UK's organization.

D. President's Report to the Trustees (PR 1)

President Todd called attention to the following items in PR 1:

The UK College of Pharmacy is collaborating with Norton Healthcare. Norton Healthcare pledged \$1.15 million for UK to extend pharmacy outreach, and UK's fourth-year pharmacy students can now have experience in Louisville. For some time, money has been requested from the Council on Postsecondary Education (CPE) to disseminate the pharmacy capabilities in order to increase enrollment. UK has not been able to get that CPE money, but Norton Healthcare has taken the initiative of funding the project.

The Gaines Center for the Humanities received a \$220,000 matching grant from the National Endowment for the Humanities. This grant is to be matched four-to-one by private fundraising over a four-year period. President Todd noted that there were only three of those grants awarded: one was to UK, one was to Swarthmore College, and one was to Cornell University. He noted that UK is in good company.

The School of Management has been ranked among the Top 20 in the world for research productivity in 2005. President Todd repeated one of his previous comments: You get to Top 20 status one program at a time and one department at a time. He expressed appreciation for the accomplishment of the Gatton College's School of Management.

The UK students had a dance marathon, DanceBlue, and raised \$123,323 for the Pediatric Oncology Clinic. This is the first time that UK has undertaken this type of program. The program started at Kent State. Penn State raises millions a year now with the program. Several UK students say it was the most uplifting event they have ever been involved with at the university. This is a program that will become an annual event and a real tradition for campus.

The Kentucky Institute of Medicine has received a grant for \$214,500 from the Foundation for a Healthy Kentucky Inc. This grant is to study health issues and prepare a comprehensive report documenting those issues.

Governor Ernie Fletcher announced \$170,000 in grants to invest in Kentucky's coal workforce, including \$50,000 in scholarships for 30 mining engineering students at the UK College of Engineering. The Governor has helped UK in his budget, and the House has left the mining scholarships in the budget. President Todd pointed out that UK has been losing students to West Virginia and other states that were more aggressive in this area. Through fundraising, UK also has received quite a bit of money from private industries.

Dean Steven Hoch, College of Arts and Sciences, recently secured funding for UK's first endowed chair in Catholic Studies; this was a major gift. He has also been able to get an endowed chair in Judaic Studies, but that one has not been announced yet.

President Todd said that there were many other good things in PR 1 for the Board to review.

Mr. Hardymon called attention to the six journalists named to the Kentucky Journalism Hall of Fame. While all six are great people who deserve the honor, he pointed out one recipient, Bob White, who was his roommate at UK. Mr. White retired as "Mr. High School Sports." He knew what he wanted to do from the first day he came to the University of Kentucky. His nickname throughout school was Scoop White. Mr. Hardymon said that he was so pleased to see that Bob White has been rewarded for his efforts.

E. University Research Professorships (PR 4)

President Todd said that he would like to recognize the recipients of the University Research Professorships who were present: Michael Bardo, Department of Psychology; Alan Daugherty, Division of Cardiovascular Medicine, Gill Heart Institute; and Jonathan Phillips, Department of Geography. Another recipient, Daret St. Clair, Graduate Center for Toxicology, was out of the country and could not attend the meeting.

President Todd said that this award began in 1976 to recognize the most productive and accomplished researchers on campus and to give them some time to invest in their research field to their own professional betterment and to the betterment of the university as a whole. They do a tremendous job and are highly respected by their peers. If you look at the list of research professors at the university, there are some very top scholars that any university around the world would be proud to have. President Todd said that he is very proud of the professors and wished them a good year. The Board gave the recipients a round of applause.

Mr. Hardymon asked for a motion of approval. The motion made by Dr. Moore and seconded by Dr. Dembo carried. PR 4 was approved without dissent. (See PR 4 at the end of the Minutes.)

F. Proposed Amendment to the Governing Regulations (PR 3)

President Todd said that he had skipped PR 3 because he thought it was going to be addressed in the Student Affairs Committee report. He asked Mr. Hardymon if he wanted him to present PR 3 at this time or handle it under the Student Affairs Committee report.

Mr. Hardymon said that it could be presented at this time and suggested that Ms. Smith Edge, Chair of the Student Affairs Committee, discuss the recommendation.

Ms. Smith Edge said that PR 3 is a proposed amendment to the Governing Regulations. The attached amendment to the Student Affairs section of the university's Governing Regulations (GR XI) was received for preliminary consideration as PR 5 by the Board of Trustees on January 24, 2006.

She said that it was the recommendation by the majority of the vote of the Student Affairs Committee to approve these changes in the Governing Regulations. The amendment was discussed in detail at the committee's meetings. One of the biggest changes involved the University Appeals Board and the special jurisdiction over student matters. Ms. Smith Edge moved approval of the proposed amendment to the Governing Regulations as presented in January.

Mr. Hardymon asked for any questions or comments.

Ms. Ellingsworth said that she thought she made her argument clear at the last Board meeting, but she wanted to say again that she is strongly opposed to this amendment. In her opinion, the amendment still has the potential to give the university, as Dr. Dembo stated at the last meeting, a black eye. She said that she would be voting against the amendment.

Ms. Smith Edge moved approval of PR 3. Her motion was seconded by Mr. Williams and carried. Ms. Ellingsworth voted against the approval of PR 3. (See PR 3 at the end of the Minutes.)

G. College of Arts and Sciences Report

President Todd introduced Dean Steven Hoch and asked him to give his presentation about the College of Arts and Sciences.

Dean Hoch thanked the members of the Board of Trustees for the opportunity to update them on the College of Arts and Sciences. He opened his presentation by reiterating the college's sincere commitment to the university's Top 20 Business Plan and said that his presentation would focus on how the college is working to meet the Top 20 Business Plan's measures of progress.

Undergraduate and Graduate Education. Dean Hoch presented a table to the Board members that demonstrated that the College of Arts and Sciences leads the university in the generation of total undergraduate student credit hours. Almost all of the university's recent enrollment growth has taken place in the college. For example, the university has increased its freshman enrollment by 38 percent (from fall 2000 to fall 2005), yet during the same time period, the College of Arts and Sciences has increased its freshman enrollment by 61 percent. The College of Arts and Sciences also has more undergraduate student majors than any other university college and has absorbed the

majority of the recent growth. For example, since fall 2000 UK has increased the number of its undergraduate majors by 11 percent, and the college has increased its undergraduate majors by 40 percent. Currently, the college has more than twice as many majors as any other university college.

Dean Hoch also highlighted a new on-line advising program the college has recently implemented. Dubbed APEX (Academic Program Evaluation and eXploration), this system allows students and faculty alike to compare remaining requirements with completed courses. It helps erase all the technical aspects of advising so that faculty advisors can spend the bulk of their time with students discussing other issues such as academic progress, career opportunities and plans, and potential problems. The college is the first unit on campus and the nation to implement this system.

Dean Hoch also discussed the myriad of talent the college has in its undergraduate and graduate student population. He introduced two of these superior students to the Board: Monica Hobson and Natalie Schick. Ms. Hobson is a Robinson scholar from eastern Kentucky. She is a senior political science major who has maintained a 4.0 grade point average and has been accepted at every law school to which she has applied. Natalie Schick is an Air Force ROTC Cadet from Illinois. She is a senior sociology major who has also maintained a 4.0 grade point average. Ms. Schick was awarded the 2005 Air Force Association Cadet of the Year Award, which is given to only one student throughout the entire country.

Dean Hoch described how the college is responsible for educating the Commonwealth and the nation's economic, social, professional, and political leaders. In fact 20.0 percent, 16.3 percent, and 13.4 percent of UK's incoming medical, dental, and law students are Arts and Sciences alumni, respectively.

He also highlighted several notable alumni of the college, including the Honorable Phillip Patton, current UK Board of Trustee member.

Dean Hoch demonstrated how the college leads the university in graduate education as well. The college grants more doctorates than any other university college (41 percent of the university total), which is a Top 20 Measure of Progress. Similarly, the college ranks two among all university colleges in the number of post-doctoral scholars, again a Top 20 Measure of Progress.

Faculty. Dean Hoch reported that the college has 333 FTE faculty members, who are leaders in their chosen fields. He showed Board members an array of recent faculty publications and reported that Professor Gary Ferland (Physics and Astronomy) is the most widely-cited faculty member in the university (a Top 20 Measure of Progress). Similarly, the dean showed the Board members an array of granting agency and foundation logos to represent all the units that have formally recognized Arts and Sciences faculty members in the past year.

Research. Dean Hoch also reported on the college's role in fulfilling the Top 20 mission in regards to research. The college is responsible for \$45.0 million in collaborative external funds and \$20.5 million in primary external funds. The college ranks second among all university colleges for indirect costs (IDC), and the college houses the top university department for collaborative funds per faculty member (Statistics at \$1.5 million per faculty) and the second ranked university department for intellectual property disclosures (IPD) (Chemistry).

Dean Hoch then highlighted the work of three individual faculty members to illustrate the cutting edge research taking place in the college. Professor Dan Smith (History) was recently nominated for an Emmy for his documentary *February One*, which premiered nationally on PBS. His documentary tells the historical story of the Greensboro Four. Professor Randall Voss (Biology) was highlighted for his research on salamanders and environmental toxicity, which has direct scientific and medical implications for such ailments as spinal cord injuries. Finally, Gill Eminent Professor Sylvia Daunert (Chemistry) was acknowledged for her research on the smart pill, a responsive drug delivery system with major implications for the treatment of diabetes.

He also reported on four recent research grants that help to serve the Commonwealth, specifically students from Appalachia. All involved K-12 preparation and all are over a \$1 million dollars.

Development. Dean Hoch described the substantial investment the college has made in development and fund raising. Since his arrival in 2003 the college has hired three additional development officers/staff. He mentioned four recent gifts made to the college: the Cottrill Rolfes Chair in Catholic Studies (\$1 million), the Zantker Foundation Partnership in Jewish History (\$500,000), the Gabbard Endowed Scholarship (\$340,000), and the Guy Davenport Professorship in English (\$100,000).

Dean Hoch closed his comments by reiterating his appreciation to the Board for the opportunity to make his presentation and said he would be pleased to take any questions.

Dr. Dembo said that the College of Arts and Sciences is different and special because of the many things that it does. He asked Dean Hoch if the college was treated differentially when it comes to budget and resources.

Dean Hoch said the college was certainly spared some of the budget cuts two years ago. It was very much appreciated because it was at a time when the number of students was going up, and this increase impacted the College of Arts and Sciences more than any other college. He pointed out the three biggest challenges for the college:

1. The size of the faculty, which hopefully the Top 20 Business Plan will address.
2. Faculty salaries, which is another key issue for everyone.
3. Facilities.

In that sense, the college is not different from any of the other colleges except that virtually all the students that come through the university at the undergraduate level and many at the graduate level are impacted by how the College of Arts and Sciences is able to carry out its mission.

President Todd said there were a couple of things that Dean Hoch does that really please him. When faculty members in the College of Arts and Sciences publish a new book, Dean Hoch blows up the image of the book and displays it at the Intermezzo Café to visualize people's success. The college also had an internal arts and sciences function recently in the Lexmark room that was a lot of fun. The faculty had a delightful afternoon, and the publications, books, journal articles, and other monographs that had been generated this year were exhibited around the room. Dean Hoch puts a real emphasis on trying to celebrate faculty accomplishments. President Todd thanked Dean Hoch for bringing the two students to the meeting and for his good presentation. Dean Hoch received a round of applause.

H. Academic Affairs Committee Report

Myra Tobin, Chair of the Academic Affairs Committee, said that AACR 1 is the recommendation that the Board of Trustees approve the establishment of the Louie B. Nunn Center for Oral History in the University of Kentucky Libraries, effective immediately. By way of background, over the past 30 years the University of Kentucky has sought to build one of the finest and most thorough oral history collections for modern political and public policy research in the United States. Oral history projects have documented important public policy issues in Kentucky. The proposed Louie B. Nunn Center for Oral History will be an integral part of the University of Kentucky Libraries under the administration of the Dean of Libraries. The establishment of the Louie B. Nunn Center for Oral History recognizes and honors the late Governor Nunn and his life-long devotion to the betterment of Kentucky and its people. Ms. Tobin moved the adoption of the recommendation to establish the Louie B. Nunn Center for Oral History. Dr. Moore seconded the motion, and it carried without dissent. (See AACR 1 at the end of the Minutes.)

Ms. Tobin reported that the committee had some discussion about the issue of diversity. The committee heard information from four speakers. The speakers talked about some of the legal aspects, the emphasis on enrollment currently being done, multicultural affairs, and institutional equity. These are things that will be further discussed over time as needed to get a better understanding of what the university is doing in these areas.

I. Finance Committee Report

Ms. Wickliffe, Chair of the Finance Committee, reported that FCRs 1 through 10 were consent items that involve gifts and pledges. The gifts total \$1,163,263 with pledges being \$441,149 for a total of \$1,604,412, all of which are eligible to be matched

by the state. With these gifts, we have matched \$30 million of the \$66.67 million available as part of the Endowment Match Program.

J. Acceptance of Interim Financial Report for the University of Kentucky for the Six Months Ended December 31, 2005 (FCR 11)

Ms. Wickliffe said that FCR 11 is the acceptance of the Interim Financial Report for the university for the first six months ending December 31, 2005.

- Balance sheet assets were \$2.6 billion which is an increase of \$282 million or 12 percent since December 2004.
- Cash is at \$549 million, an increase of \$141 million or 35 percent. The large change is due to the increase in plant fund cash of \$95 million primarily as a result of the issuance of general receipts Series A notes for the patient care facility.
- Investments total \$828 million, an increase of \$61 million or 8 percent. The majority of the change is from an increase of \$30 million in the endowments' fair market value, along with principal additions of \$15 million.
- Liabilities were \$676 million, an increase of \$124 million or 23 percent from December 2004.
- Fund balances were \$1.8 billion, an increase of \$133 million or 8 percent over December 2004.
- Endowment funds totaled \$581 million, an increase of \$46 million or 8 percent since December 2004.
- As of December 31, 2005, revenues are at 53 percent and expenditures are at 47 percent of the \$1.7 billion budgeted amount.
- Net deferred revenues, which are revenues less expenditures, equal \$110 million, providing excellent cash flow and financial position for the university.

On behalf of the Finance Committee, Ms. Wickliffe moved the adoption of FCR 11.

Mr. Hardymon noted that assets have grown \$282 million and the liabilities only \$124 million. He pointed out that the net number is the one to watch, and it is certainly very positive. He called for a second to the motion that had been made by Ms. Wickliffe. Mr. Shoop seconded the motion, and it carried without dissent. (See FCR 11 at the end of the Minutes.)

K. Establishment of Chandler Medical Center University Hospital Quasi-Endowment Fund (FCR 12)

Ms. Wickliffe said that FCR 12 is the establishment of the Chandler Medical Center University Hospital Quasi-Endowment Fund. The UK HealthCare Administration intends to maintain a minimum of at least \$200 million in cash balances and general reserves. The establishment of this quasi-endowment fund, by transferring up to \$150 million of the reserves, will provide higher investment returns than shorter-term fixed-income investments.

Kentucky's Secretary of the Finance and Administration Cabinet, Robbie Rudolph, has approved the request to invest University Hospital funds in the University of Kentucky Endowment Investment Pool. The Finance Committee certainly appreciates the approval of the Governor and his staff.

The return on UK's endowment last year was 7.8 percent. The state's return was 2.7 percent. This will give more money for the hospital project. On behalf of the Finance Committee, Ms. Wickliffe moved the adoption of FCR 12. Mr. Branscum seconded her motion, and it passed without dissent. (See FCR 12 at the end of the Minutes.)

President Todd said that he had met with Secretary Rudolph and his staff last month. One reason that the University of Kentucky is gaining some financial flexibility from Governor Fletcher's administration is because of the admiration that Secretary Rudolph and his staff have of the sophistication of the university's treasury and finance function. UK's Treasurer Henry Clay Owen has a lot to do with that. Marc Mathews, Controller, is under his tutelage and has done an exceptional job, as has their entire staff. President Todd said that this is no small accomplishment, and he thanked them.

L. Amendments to the University of Kentucky Woman's Club Fund Endowment Agreement (FCR13)

Ms. Wickliffe said that FCR 13 is Amendments to the University of Kentucky Woman's Club Fund Endowment Agreement. These amendments were requested by the Woman's Club, the Graduate School, and the university's legal counsel to change the selection criteria for the endowed fellowships. The amendments include:

1. Adding a non-voting representative from the UK Woman's Club to the selection committee.
2. Changing the criteria from a specified GPA to passing the qualifying exam for graduate school.
3. Adding appropriate diversity language which would permit any student to be considered for the awards.

Ms. Wickliffe noted that legal counsel has worked on this agreement for some time. She thanked Barbara Jones for getting the agreement together. On behalf of the Finance Committee, she moved the adoption of FCR 13. Ms. Haney seconded her motion, and it carried without dissent. (See FCR 13 at the end of the Minutes.)

M. Proposed 2006-07 Tuition and Mandatory Registration Fee Schedules (FCR 14)

Ms. Wickliffe said that FCR 14 is Proposed 2006-07 Tuition and Mandatory Registration Fee Schedules. She asked President Todd to give his PowerPoint presentation on the recommendation.

President Todd began by stating that this is the time of year when tuition rates for the next year need to be set. UK typically sets these rates earlier than other universities because UK competes with a lot of out-of-state institutions in recruiting, and award letters need to be sent out to students as early as possible.

President Todd said he would be discussing how tuition ties into the Top 20 Business Plan. He reported that it had taken a year and a half to prepare the plan and put it in place. One objective of the plan is to make it very evident to people across the state that having a Top 20 institution does make a difference. Some important measures that identify the quality of life in a given state include median household income, percent of population on Medicaid, population below the poverty level, and population with bachelor's degrees or higher. If you look at states that have Top 20 universities, those states are above the national average when it is good to be so. Where it is good to be below the national average, they are below it. The Commonwealth of Kentucky is exactly the opposite.

One example is the percent of population on Medicaid. As everyone knows, an educated population is much healthier. If Kentucky could get the percent of its population on Medicaid down to 14 percent such as the Top 20 states, it would save the state of Kentucky \$850 million. That is one of the reasons it matters to have a Top 20 institution. The other reason is that it will help build an economy that will be innovative, creative, and able to create sustainable employment.

President Todd took a moment to brag on some of the accomplishments that UK has attained since House Bill 1 was passed in 1997.

- There has been a 10 percent increase in enrollment. He pointed out that UK has had an increase in students while it has not been able to afford an increase in the number of faculty.
- The graduation rate is up 24 percent.
- Research expenditures have increased from \$125 million to almost \$300 million.

- The endowment has increased from almost \$200 million to almost \$600 million.
- The number of endowed chairs has more than tripled.

However, there are only 14 years left to do what is necessary to get to Top 20 status. While these targets have been put in place for 2020, an intermediate measurement period of 2012 has been put in place in order to gauge UK's progress between now and 2020.

Previously, it has been said that UK should enroll 6,200 more students. The plan that has been put in place is going to hold student enrollment for the freshman class constant for the next two years. The number of faculty needs to increase by 625. The plan is to add 27 new faculty members per year.

President Todd reviewed the growth targets for 2020:

Undergraduates

One of the most significant parameters to be measured in the quality of undergraduate education is the student-faculty ratio.

Graduates, First Professional and Postdoctoral Appointments

Research Expenditures

The target is to get the research expenditures up to approximately \$800 million by 2020.

Bachelor's Degree Granted

The number of bachelor's degrees granted should almost double by 2020. That is what Kentucky needs to do, get to the median number of bachelor's degree candidates in the workforce compared to the national average.

Doctorates Granted

The number of doctoral degrees granted should increase by 70 percent by 2020.

He said that the four underlying Top 20 goals are:

Student Enrollment Growth and Increased Quality
Competitive Employee Salaries and Benefits
Increased Research Expenditures
Strategic Investments

President Todd displayed maps of Kentucky and pointed out that UK has students coming from every county in the state. He compared UK's enrollment by county to other Kentucky public universities and noted that UK has increased enrollments from 32 of Kentucky's 55 Appalachian counties and from 19 of the 29 counties that the Council on

Postsecondary Education lists as “underserved.” He emphasized that he is mindful with increases in tuition and the strategic use of financial resources to improve scholarships so that UK can continue to enroll students from all counties across the state.

President Todd said that one of the targets set in his first Strategic Plan was to get faculty salaries to 90 percent of the median of UK’s benchmarks. UK is currently at 89.1 percent. When the Top 20 plan was written, the target was reset. Instead of being at 90 percent of the median, the goal was changed to 100 percent of the median by 2012. He noted that UK has overtaken Purdue University and that improvement has been made in the last year or so.

In the research area, UK has made tremendous gains, going from \$62 million in Federal Research Expenditures to \$100 million since House Bill 1 was passed in 1997 to the last time that national data were available in 2002. While UK’s research expenditures increased \$40 million, the 20th position increased over \$60 million. While UK is making substantial increases, the competition is moving rapidly as well.

President Todd talked about the Top 20 challenges:

- State Budget Environment
- Kentucky Population Trends
- Affordability
- Federal Research Budget

The challenge is basically the budget for the state. Medicaid is absorbing state budgets all across the nation. It is not just a Kentucky issue. The Corrections Department’s budgets are increasing. K-12 is more demanding with increases in teacher salaries and healthcare. Without additional revenues, there are challenges in the budget process.

Population trends are such that there will not be an explosion of high school graduates applying for admission. The population of high school graduates may go up slightly; however, it will go down after that and then back up. Population has a ripple effect right now. UK is already seeing some of that impact this year. If you talk about accountability, the institutions should work with K-12 to get students in the 7th and 8th grades who are not planning to go to college to start thinking about it and actually enrolling. The real challenge is to enroll the Kentucky students who are not planning to go to college. That is something that this institution has to commit to in order to meet the enrollment goals.

In regard to the federal research budget, the National Institutes of Health (NIH) and the National Science Foundation are not overflowing with funds as they were in past years. Previously, the NIH budget doubled over a four- or five-year period, and that has ceased. The competition is such that some grants already awarded are actually being reduced. The award levels for new grants being submitted are not being covered because

there are not enough resources. This inadequacy of funding exists for a lot of outstanding awards as well. There are some challenges in moving forward in this area.

President Todd referred to a slide regarding the current status of House Bill 380 (the budget bill currently being considered by the Kentucky Legislature) and reviewed various items.

The benchmark funding model would give UK about \$4 million in 2006-07. There is some money in the House Bill for agriculture extension and \$1 million in research support. There are some other programs that the Governor put in his budget and the House supported, giving UK a total of approximately \$8 million more funds in 2006-07. But, over \$3 million is earmarked for specific programs.

President Todd showed a slide for the second year of the biennium and expressed a wish that the legislature pass a two-year budget this time. Unfortunately, a two-year budget has never happened since he took office in 2001, and every spring for the last five years the administration has been working on a budget.

The House put \$9 million in the 2007-08 budget for UK's Top 20 Business Plan. This is a credit to a lot of work and education that has been done with the Governor and legislators over the last few months.

Benchmark funding would also increase by about \$5 million. There is another \$1 million for research support. The Kentucky Geological Survey Center has some money in the bill as well as a few other special programs. Thus, the House recommended \$15 million of new money in the second year. It is a much stronger budget for UK in the second year.

In capital projects, UK has been given the full appropriation for the pharmacy building, receiving \$40 million in bonds from the last session and \$80 million in bonds during this session to build a \$120 million pharmacy building. This is the most needed building in Kentucky for research. The full funding of this facility is a very significant accomplishment.

With the previous BBSRB research building that was built, the Council on Postsecondary Education required that UK pay 40 percent of the debt service. Every year for the next 20 years, UK is going to be paying \$2.3 million out of the indirect cost recovery for debt service on that building.

UK would receive \$13.5 million in state bonds for the Livestock Disease Diagnostic Center which meets a commitment that UK has to help the equine industry. The agency bonds authorization has been increased by the House to what is needed for the hospital project.

There is \$4 million for research support in lab renovations and equipment. The overall capital budget is very positive for the university.

President Todd displayed a chart from the business plan which compares state appropriations and tuition rate increases. The chart shows that it would take \$18 million of new state funds to keep tuition increases below double-digits. If UK had received that amount, tuition would have been increased by 9 percent. However, in the first year of this biennium, the number to be received is likely between \$4 and \$5 million. Thus, a 17 percent increase in tuition would be required to give pay increases, add faculty, and do some other things.

In the past, the Council on Postsecondary Education (CPE) set the tuition for all universities but decentralized that authority to the individual universities several years ago. CPE is now taking back control of setting tuition. They developed a matrix based on the amount of state appropriations received. If UK received less than a \$9 million increase from the state, UK could increase tuition by 15.1 percent. Should UK want to increase tuition by 17 percent, the university administration would have to appeal for the higher increase. UK has had double-digit tuition increases for the past three years and would like to get out of that trend. With the current funding, it is not possible. Not wanting to increase tuition to 15 percent, a decision was made by UK to propose a 12 percent increase.

President Todd talked about the university's preliminary financial needs. UK will lose approximately \$2 million of service assessment revenue. UK also needs \$30.9 million to fund increasing costs, including \$19.5 million for employee compensation and health benefits. In 2001, UK was only covering about 32 percent of the family health plan. For the last several years, the percentage has moved up to 62 percent of the family plan. More money has been put into the health plan. The preliminary budget includes a 3 percent salary increase for faculty and staff, a 2.5 percent "catch-up" fund for faculty, and a \$5 million enhancement fund for staff. The allocation of the \$5 million fund for staff will be determined in a way to keep staff compensation competitive with the market place.

President Todd said that there are 27 new faculty lines included in the financial needs chart. He mentioned that the English Department had four vacancies this year, and those vacancies were not new positions. There were four openings in the department because of faculty retiring or leaving the university. There were 12 people interviewed for those four vacant positions. The new faculty members will bring a lot of energy into the department. The faculty can feel the intellectual value of adding more faculty. If the departments are told that they have some new faculty lines, which will be the first time in about five years, this will create some excitement. This is a very important expense that has a strong commitment from the administration.

President Todd pointed out that when tuition is increased, it also costs the university money with higher scholarship costs.

The \$3.5 million increased utility costs amounts to about a 2 percent faculty salary increase. If UK did not have a \$3.5 million increase in its coal bill this year, it would make a significant difference in the budget. The coal bill, however, has to be paid.

President Todd mentioned UK's debt service and some commitments that have been made for recruitment effort. Both admissions staff and recruiting staff have been increased in numbers in order to improve diversity at the university.

The preliminary financial needs of the university total \$32.8 million, \$30.9 million of additional expenses and the \$2 million revenue reduction.

President Todd commented on projected funding sources. There will be \$3 million of new money coming to the university this year from investments. And, the 12 percent tuition increase will provide about \$17.4 million. Including state appropriations, the total income is about \$26 million. Thus, the university will be between \$6 and \$7 million dollars short in its overall funding.

If UK increased tuition 17 percent, that would have generated another \$5 million which would have closed a lot of that gap. The administration chose not to recommend that increase to the Board.

One of the commitments in the Top 20 Business Plan is to cut an additional \$2 million of operating cost this coming year. Those options are being reviewed. Through development efforts, another \$1 million will be raised to offset some of the General Fund operating costs; however, where the remainder of that money comes from or if UK makes reductions in planned expenditures will have to be determined.

President Todd displayed a slide showing 2005-06 tuition and mandatory fees of UK and its 19 benchmark institutions. UK has the thirteenth lowest rate among its benchmarks. If you assume that the benchmark tuitions go up an average 7 percent and UK goes up 12 percent, UK will still be thirteenth in this particular category.

When you look at the public universities in the state of Kentucky, UK's tuition rate is the highest but not by much.

President Todd reported that *Kiplinger* selects the 100 best values in America in public higher education every two years. They look at the cost of books, housing, dining, and tuition, and the quality of education, and come up with an index. UK is the second cheapest of all the benchmarks. From a ranking perspective, UK is 23rd out of the 100 best deals. Minnesota, one of UK's benchmarks, did not make the top 100. This report shows that UK is still affordable.

Despite the tuition increase, parents should understand that support systems are in place, both from the federal government and from other sources. The Board could help the university by telling those parents to contact the financial aid office and talk to the

admissions staff before assuming their child cannot attend UK. Parents will be given every opportunity to understand where financial aid can be received.

There was a study performed by J. B. L. and Associates that CPE released last year. J. B. L. says that the colleges and universities in Kentucky remain affordable for most Kentuckian's, even taking into consideration Kentucky's low per capital income.

The proposed increase for the fall 2006 for resident, undergraduate tuition is 12 percent. Housing and dining rates will increase 7.5 percent. The total cost for resident tuition, mandatory fees, housing, and dining will increase about \$1,100 for the year. The housing and dining rates were discussed in detail at the Finance Committee.

President Todd concluded his presentation by offering to take any questions or comments from the Board.

Ms. Wickliffe moved the adoption of FCR 14, and Mr. Shoop seconded the motion.

Mr. Hardymon asked for any questions or comments.

Ms. Ellingsworth said that she knows this is a lower percentage increase than last year, but she represents the student body on this issue. With quite a few consecutive years of double-digit tuition hikes, it has taken its toll on the student body, and it is really a burden to a lot of people. She said that she had received a great deal of e-mail about the tuition increase. When the Board passed the Top 20 Business Plan, Mr. Reed made a very important comment. He said that the Board must keep in mind quality versus the price of education when looking at tuition increases. She said that the Board needs to try to achieve all of the goals, but it also needs to keep in mind that students are paying to go to the university. While increasing the price of an education, the quality needs to be continually increasing as well. She stated that she would be voting against FCR 14.

Ms. Haney said as a parent of a university student who will be signing a check for this tuition, she understands that the increase is necessary.

Ms. May said that she did not want anybody in the audience to be misled by the lack of questions from the Board. The briefings the Board received prior to this meeting certainly were full of questions for the President. There were many issues raised in those briefings that are not being mentioned at this meeting. It is not that the Board is sitting back and accepting what has been placed before it. The Board had a lot of very good in-depth questions. She asked the audience to please not interpret the Board's silence to mean that they are not all struggling with this issue. There are clearly conflicting goals here, and there are clearly a lot of feelings both ways.

The Board is very sympathetic to the plight of students. Most Board members have been in the students' position and understand what every additional \$100 means. Having been on the other side now, she knows the value of a University of Kentucky

degree when someone comes to her for employment, and she evaluates them against other candidates. Rest assured that the University of Kentucky degree does mean a great deal and will mean more in the future. As the Board holds the university in trust, it has to look at the future. Hopefully by making this vote today, it will be an investment in the future even though some will be somewhat unhappy in the short-term. She asked Ms. Ellingsworth to tell the other students to hang in there.

Mr. Hardymon called for a vote, and it passed. Ms. Ellingsworth voted against approving FCR 14. Mr. Hardymon said that he appreciated the Board's involvement and noted that the members of the Board give a lot of their time to the university. The Board did a better job getting involved earlier this year, and in the process, the Board became much more educated. (See FCR 14 at the end of the Minutes.)

Ms. Ball said that the Board understands that it needs to get the tuition and fee schedules out early.

N. 2006-07 Room and Board Rates (FCR 15)

Ms. Wickliffe said that FCR 15 is the proposed 2006-07 room and board rates. Mr. Ben Crutcher, Associate Vice President for Auxiliary Services, and Dr. Pat Terrell, Vice President for Student Affairs, gave a very comprehensive briefing on these rates in the Finance Committee. She said that she would try to summarize some of the things that they presented.

Housing rates are proposed to increase by \$124.50 per semester or 7.4 percent. The housing rates vary by facility, but overall, the increase is 7.4 percent. Dining rates are proposed to increase by \$66 per semester to \$949 or a 7.5 percent increase.

For four years there was no increase, but over the last 10 years, there has only been a 4.31 percent increase. There will be more locations for meals. There are more brands available to the students, and every plan will have access to the flex dollars.

Ms. Wickliffe said that benchmarking was done, and it was brought to the committee's attention that UK is the only university in Kentucky that does not outsource their dining operation. On behalf of the Finance Committee, she thanked Mr. Crutcher and Dr. Terrell for their report and moved the adoption of FCR 15. Ms. Ball seconded her motion.

Mr. Wilcoxson noted that the housing rate went up every place on campus except Greg Page. He asked for an explanation about Greg Page.

Mr. Crutcher reported that the university experienced an occupancy problem this current year at Greg Page. It was actually higher than the market price; therefore, the rate was lowered in order to get it more in line with the market.

Mr. Hardymon called for a vote. The vote passed; however, Ms. Ellingsworth voted against the approval of FCR 15. (See FCR 15 at the end of the Minutes.)

O. Patent Assignment Report (FCR 16)

Ms. Wickliffe said that FCR 16 is the Patent Assignment Report. This is the December 31, 2005 report which includes five patent assignments. Seven patent applications have been submitted, and nine patents have been issued. Patent income totals \$346,341. She referred to the report in the book and noted that the summary is very user friendly. On behalf of the Finance Committee, she moved the adoption of FCR 16. Ms. Smith Edge seconded the motion, and it carried without dissent. (See FCR 16 at the end of the Minutes.)

P. Capital Construction Report (FCR 17)

Ms. Wickliffe said that FCR 17 is the Capital Construction Report. She asked Mr. Bob Wiseman, Vice President for Facilities Management, to give a report to the Board since he had given such a good report in the Finance Committee meeting.

Mr. Wiseman said that this is a routine quarterly Capital Construction Report. It covers the period October 1, 2005 through December 31, 2005. The key points in the report are the three new projects that have been initiated in this quarterly report. All three were in the hospital.

1. The first is an upgrade of surgical services in the hospital, and an award was made of a contract to Stingle Hill Architects for \$324,000.
2. The patient care facility is the main hospital project. The university has now entered into the main and final design contract for the facility. This is a \$30 million design contract with GGBN Architects that should be added to the \$8,663,000 that was also reported. Total design costs are about \$39 million for the hospital project.
3. The last new project that was initiated was the Gilbane construction management contract for the hospital project. That was for \$1 million for pre-construction services. Gilbane will be paid in the future through the guaranteed maximum price on each piece of the project as it is implemented.

Two projects were completed. The Student Housing project was completed and opened last fall at a savings of about \$2.5 million over the budget that had been established. The second completed project was the renovation of the football practice field which was completed early last fall.

There was one contract amendment in the design for expansion of emergency services at the hospital.

Four change orders were covered. Three of those involved closeout change orders for rock removal and sodding synthetic infield services at the football practice field. The other change order involved a small drainage system at the rear of Parking Structure Number 6 in the amount of \$28,000.

Since this report is primarily historical, it would be good to highlight some prospective items. The Board will see in the next quarterly report that the Center for Pharmaceutical and Science Technology (CPST) building at Coldstream was substantially completed and turned over to the College of Pharmacy for installation of their equipment in January.

Parking Structure Number 7 was opened in January. This is a structure near the dormitory complex on the south end of campus. The Student Health building, which is a \$24 million project, is now well into final design. It will go out for construction bids this fall.

The Memorial Coliseum expansion is well under way. The project is a few weeks late, but completion of the main building, which is on the outside of Memorial Coliseum, is anticipated about Christmas 2006. The project renovation within Memorial Coliseum will be finished in the spring of 2007.

The Biological Pharmaceutical project is now in the early programming phase. Other buildings across the country are being reviewed, and the faculty will be taken on tours of those buildings.

Mr. Wiseman called attention to two final notes on page 7 of the report. They cover construction of the ARS building, the federal building that will be built on the south end of campus. He noted that a land lease to grant the federal government three acres next to the Plant Science building will be presented at the next Board meeting

He mentioned the hospital project and reported that the administration elected to proceed with two additional floors of the parking structure which is under construction. These additional floors will add about 500 more parking spaces in that area of campus. The funding for these floors comes out of a strategic contingency that was set up in the \$450 million project to make this type of decision.

On behalf of the Finance Committee, Ms. Wickliffe moved the adoption of FCR 17. Ms. Ball seconded the motion, and it carried without dissent. (See FCR 17 at the end of the Minutes.)

Mr. Hardymon asked Mr. Wiseman to update the Board as information becomes available. With the importance of the project and the size of the dollars, the update does not have to wait until the regular quarterly report.

Q. Human Resources Committee Report (HRCR 1)

Mr. Patton, Chair of the Human Resources Committee, reported that the committee met that morning and recommends the adoption of HRCR 1. This is a technical amendment to the 401(a) Qualified Pension Plan. This plan had been amended in October 2005 to make contributions beginning January 1, 2007 a pre-tax sheltered benefit. The plan presently reads that the January 2007 date is contingent upon receiving a favorable private letter ruling from the IRS. It is no longer believed necessary to receive this letter from the IRS to proceed. This technical amendment deletes that language and will enable the university to proceed as soon as practicable to implement this change. He moved the adoption of HRCR 1. His motion, seconded by Dr. Dembo, carried without dissent. (See HRCR 1 at the end of the Minutes.)

R. Investment Committee Report

Mr. Wilcoxson, Chair of the Investment Committee, reported that the Investment Committee met Monday afternoon at 1:30 p.m. to review the performance results of the Endowment.

The Endowment had a market value on January 31 of \$604.9 million. The pooled investments returned 3.2 percent in the month of January compared to the policy benchmark of 2.9 percent. Over the seven-month period for the fiscal year, the endowment pool had a 10.5 percent return compared to the policy benchmark return of 9.7 percent.

With the Board's approval of FCR 12 at this meeting, the Hospital quasi-endowment fund will be established, and \$150 million currently on deposit with the state treasurer will be transferred. The quasi-endowment will be invested in the university's endowment investment pool. This will result in a significant increase to the university's endowment. The \$150 million will be invested by the university's investment managers in accordance with the target asset allocation established by the committee.

Mr. Wilcoxson said he would be happy to answer any questions that anyone might have.

S. Student Affairs Committee Report

Ms. Smith Edge, Chair of the Student Affairs Committee, reported that the committee met that morning, and there was standing room only. The committee had presentations from three student organizations that receive student fee money. She recommended that this be done on an annual basis because it was an excellent overview.

The committee heard from the Student Activities Board, known as SAB. That presentation was given by Meredith Hughes, president, and Ashley Hayden, vice president. Their mission statement is to provide diverse events that educate and entertain

students, faculty, staff, and the community of the university. Obviously, they gave an overview of the SAB structure, events, relationship with the UK students, external impact, and the future. To the delight of many at the committee meeting, they announced they were bringing back the Little Kentucky Derby. She noted that many of the Board members have fond memories of SAB over the years.

Ms. Ellingsworth, student trustee and President of the Student Government Association (SGA), gave an excellent overview of SGA, including the history about the first constitution in 1912. The purpose of SGA is to represent the student body in its relations with the faculty, administration, Board of Trustees, and the Commonwealth of Kentucky.

Ms. Ellingsworth gave a good overview of the university and community relations as well as the structure of SGA, the budget, the services provided, and the collaboration efforts that they do with the other organizations on campus as well as the student leadership and outcomes.

The committee also heard from John Edwards, who is the general manager of WRFL radio station that is known as radio free Lexington. The UK radio station is located in the basement of the Student Center. It is to educate the student's who run it, the greater Lexington community, and the students of UK through its progressive and eclectic programming. The spirit of the station is non-commercial and educational. There are 13 members of the staff. All are students who receive some type of small stipend. The disc jockeys are volunteers on the station, and it is a 24-7, 365 days radio station. The committee heard about the staff, the educational value, the work that the telecommunications and journalism classes are involved in, and their vision for the future.

Ms. Smith Edge said the presentations by the three organizations were excellent. They showed how they collaborate in sponsorship, promotion, and coordination of university events and shows. UK does have very progressive students on campus, and these presentations definitely highlighted the leadership of campus and the student organizations. That was the main focus of the committee's meeting.

Mr. Hardymon agreed that it was a very good meeting. He said he was amazed at what you can learn if you listen to a different group of people. He suggested the committee meet in a larger room for their next meeting.

T. University Hospital Committee Report

Mr. Hardymon announced that Barbara Young could not attend the Board meeting. He noted that she was on campus earlier in the week and did some work on the tuition proposal. Ms. Young has asked Mr. Wilcoxson to give the University Hospital Committee report.

Mr. Wilcoxson reported that the University Hospital Committee met Monday afternoon at 4 p.m. to discuss numerous topics. At that meeting, the committee welcomed three outside advisory members: Pam Miller, Jim Gray, and Luther Deaton. These individuals' expertise will be a great help to the committee.

Mr. Wilcoxson said that the financial situation of the hospital was one of the big topics. He spoke about volume at the hospital. The census, the discharges, and the out-patient visits have increased over the prior year, and this is good when you talk about volume at the hospital. He addressed the following financial areas:

Revenues

For the seven months ending January 31, operating revenue is almost \$300 million with growth of almost \$43 million over the prior year. Approximately \$31 million of that is for in-patient services.

Operating Income

Operating income is approximately \$25 million with a margin of 8.3 percent. This is quite a bit greater than the budget in the prior year. Including non-operating income and primary investment income, the total increase in net assets is \$36 million, a 12.2 percent margin, which is an improvement over last year's \$19 million with a 7.4 percent margin, and that is very good.

Balance Sheet

Cash grew to \$266 million, which positions the hospital to invest up to \$150 million in the university endowment pool. This does not include any of the \$100 million that was borrowed in November for the building project. The hospital intends to start using that cash in February. The accounts receivable amount is \$50.5 million with days in accounts receivables below 40 for the fifth straight month.

Mr. Wilcoxson summarized his report by stating that the hospital results continue to be most impressive.

Mr. Hardymon pointed out that UHCR 1 was withdrawn from the agenda because additional work was needed. It will be presented at the next Board meeting.

U. University Relations Committee Report

Ms. May, Chair of the University Relations Committee, reported that the committee met at 8:30 a.m. that morning. While the attendance was not as large as that at some of the later committee meetings, it was a very good group, and the meeting was excellent.

The purpose of the meeting was Mr. Hardymon's request for the committee to review some of the materials that the Board receives. Everyone wants to stay in touch with the important issues, and it is sometimes hard to determine what needs to be read

and how to rank it in priority. The committee discussed this with Jay Blanton, Executive Director of Public Relations and Marketing.

Over the next month, the Board will see a little difference in the materials they will be receiving. The committee asked Mr. Blanton to alter the selection criteria a little bit more to those issues that may be of more global interest to the Board. She said the committee would be meeting when the Board meets next and asked the Board for input if they were not receiving materials that they wanted to see.

Ms. May said the committee commended the university on the e-mails that are sent to the Board regarding articles in other newspapers that they may not be getting locally. She said the articles were very beneficial.

In addition to listening to the radio station that Ms. Smith Edge suggested, she asked the Board to tune into 91.3, which is WUKY. The committee had a report about the radio station on the MPR side. This is not the student station. For those who follow radio, UK's WUKY station is number three in the Arbitron Ratings for the market, and this is just an amazing statement. For those who do not routinely listen to it, it is a very nice station. After pointing out how well they are doing in the market, they were quick to point out that they do need a new transmitter. They are going to have to have a new tower, but they have worked out an arrangement with KET and will be using their tower. It is a very impressive station that targets ages 45 to 54 in their listeners. She suggested that those in that age category may want to listen to the station.

Ms. May reported that the committee will have future meetings and will invite other groups for the organization that basically put UK's message out to the community and public as a whole. She said it was a very informative meeting.

V. Meeting Adjourned

With no further business, Mr. Hardymon said that concluded the board meeting. Mr. Shoop moved for adjournment, and several people seconded his motion. The meeting was adjourned at 2:39 p.m.

Respectfully submitted,

Pamela R. May
Secretary, Board of Trustees

(PR 2, 3, and 4; AACR 1; and FCR 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, and 17; and HRCR 1 which follow are official parts of the Minutes of the meeting.)