

Minutes of the Board of Trustees of the University of Kentucky, Tuesday, December 13, 2011.

The Board of Trustees of the University of Kentucky met at 8:45 a.m. (Lexington time) on Tuesday, December 13, 2011 in the Board Room on the 18<sup>th</sup> Floor of Patterson Office Tower.

A. Meeting Opened

Dr. Britt Brockman, chair of the Board of Trustees, called the meeting to order at 8:45 a.m. and asked Ms. Sandy Patterson, secretary of the Board, to call the roll.

B. Roll Call

The following members of the Board of Trustees answered the call of the roll: C. B. Akins, Sr., William C. Britton, E. Britt Brockman (chair), Sheila Brothers, Jo Hern Curris, William S. Farish, Jr., Micah Fielden, Oliver Keith Gannon, Carol Martin "Bill" Gatton, Pamela T. May, Billy Joe Miles, Terry Mobley, Sandy Bugie Patterson, Joe Peek, Erwin Roberts, Charles R. Sachatello, James W. Stuckert, and Barbara Young. C. Frank Shoop and Irina Voro were absent from the meeting. Ms. Patterson announced that a quorum was present.

The University administration was represented by President Eli Capilouto, Executive Vice President for Finance and Administration Frank Butler, Executive Vice President for Health Affairs Michael Karpf, and General Counsel Barbara W. Jones.

The University faculty was represented by Chair of the University Senate Council Hollie Swanson, and the University staff was represented by Chair of the Staff Senate Mike Adams.

Members of the various news media were also in attendance.

C. Closed Session

Dr. Brockman said the Board of Trustees would go into closed session, and the closed session was pertinent to the Finance Committee's deliberations. He stated that the Board would go into closed session for two purposes:

1. to deliberate on the future acquisition or sale of real property. An open discussion of the future acquisition or sale of the real property would be likely to affect the value of the property, and
2. to conduct discussions with a representative of a business entity concerning a specific proposal. Open discussions would jeopardize the siting, retention, expansion, or upgrading of the business entity.

Dr. Brockman moved that the Board go into closed session pursuant to KRS 61.810 (1) (b) and 61.810 (1) (g). These statutory citations are the exceptions in the open meetings law that permit the Board to go into closed session to deliberate on the future acquisition or sale of real property by a public agency, but only when publicity would be likely to affect the value of a specific piece of

property to be acquired for public use or sold by a public agency; and to have discussions between a public agency and a representative of a business entity and discussions concerning a specific proposal, if open discussions would jeopardize the siting, retention, expansion, or upgrading of the business. Mr. Stuckert seconded the motion, and it passed without dissent.

Dr. Brockman said that only those persons necessary to provide the information to the Board may be present. Nothing else may be discussed in the closed session but information relating to the two issues. When discussion has been completed, no vote may be taken but a consensus relating to FCR 1 can be determined. The Board went into closed session at 8:47 a.m.

D. Open Meeting and Recess

At 10:21 a.m. Dr. Brockman stated that the closed meeting of the Board of Trustees had concluded. No matters other than the possible acquisition or sale of real property and discussions with a business entity were discussed, and no final action was taken. He announced that the Board was back in open session and would proceed with business. Ms. May moved that the Board recess until the conclusion of the Finance Committee meeting. Mr. Stuckert seconded the motion, and it passed.

E. Meeting Reconvened

At 10:50 a.m. Dr. Brockman called the meeting to order and asked Ms. Patterson to call the roll. The following members of the Board of Trustees answered the call of the roll: C. B. Akins, Sr., William C. Britton, E. Britt Brockman (chair), Sheila Brothers, Jo Hern Curriss, William S. Farish, Jr., Micah Fielden, Oliver Keith Gannon, Carol Martin "Bill" Gatton, Pamela T. May, Terry Mobley, Sandy Bugie Patterson, Joe Peek, Erwin Roberts, Charles R. Sachatello, James W. Stuckert, and Barbara Young. Billy Joe Miles was not present for the roll call; however, he entered the meeting during the presentation of CR 1. C. Frank Shoop and Irina Voro were absent from the meeting. Ms. Patterson announced that a quorum was present.

F. Consent Items

Dr. Brockman called attention to the two consent items on the agenda. They included the minutes for the regular meeting of the Board on October 25, 2011 and PR 2 which deals with personnel actions. Mr. Stuckert moved approval. The motion was seconded by Dr. Sachatello and carried without dissent. (See consent items listed below on the Board of Trustees website, [www.uky.edu/Trustees](http://www.uky.edu/Trustees), under agenda.)

Minutes – October 25, 2011  
PR 2 Personnel Actions

G. Proposed Revision to Governing Regulation: University Athletics Committee (CR 1)

Dr. Brockman reminded the Board that this is the second reading of CR 1. It has been vetted amongst various constituencies. CR 1 is a recommendation that the Board of Trustees approve the attached revisions to Governing Regulation (GR) II, relating to Board committees, which was received for preliminary consideration at the October 25, 2011, Board meeting.

The proposed revision of GR II establishes a University Athletics Committee within the committee structure of the Board of Trustees and defines the Committee's responsibilities. The revision also includes housekeeping and formatting changes.

In March 2011, the Chair of the Board of Trustees appointed a Special Committee of the Board to review UK Athletics with benchmark institutions and current best practices. The Committee met on October 20, 2011 and recommended that the Board of Trustees create a new Athletics Committee within the committee structure of the Board and to include community advisory members. The Committee further recommended that in order to remain compliant with NCAA rules on institutional control over intercollegiate athletics, the committee membership and its chair should be appointed by the President in consultation with the Chair of the Board of Trustees.

The Committee's responsibilities will include: providing counsel to the President concerning matters or activities of the Athletics Department; reviewing the Athletics Department's annual budget and audit reports, major expenditures and acquisitions, and construction of facilities if the cost is expected to exceed \$400,000; and, providing needed information to the Board of Trustees. The Committee will be composed of five Board of Trustees members, up to three non-voting community members, and the Faculty Athletics Representative as an ex officio non-voting member.

The revision to GR II has been reviewed by the University Senate, Staff Senate, and Student Government Association. A revised copy of GR II is attached. Proposed additions are underlined; proposed deletions are lined through.

Dr. Brockman stated that this is coming out of committee, and no second is required. He asked for any discussion regarding the second reading of CR 1. Ms. Brothers asked if the University Athletics Committee would report its findings to the Board and then the Board make a final decision or would the Committee have its own authority to make final decisions. Dr. Brockman said the Committee will function as every other committee on the Board and would report to the Board.

There being no further discussion, Dr. Brockman called for a vote, and CR 1 passed without dissent. (See CR 1 on the Board of Trustees website, [www.uky.edu/Trustees](http://www.uky.edu/Trustees), under agenda.)

H. President's Report (PR 1)

Before beginning PR 1, President Capilouto said he wanted to take a moment to recognize someone at the University. Some of the big things done at the University are "heavy lifts," and he wanted to recognize Executive Vice President Frank Butler who is a terrific, champion "weight lifter." This is Mr. Butler's last meeting as the executive vice president for finance.

President Capilouto said that Mr. Butler has been one of the classiest people that he has met since arriving at the University. Thankfully for the University, Mr. Butler has agreed to stay on and assist during the transition of a replacement. Mr. Butler will continue to manage part of his portfolio until the search is complete. President Capilouto said he hoped to find the appropriate time to celebrate everything that Mr. Butler has done for the University. He asked the Board to join him in acknowledging Mr. Frank Butler. Mr. Butler was given a round of applause and a standing ovation.

President Capilouto then referred to PR 1. He knows all of the Board takes particular pleasure in reading the many accomplishments outlined in PR 1. The University of Kentucky is truly remarkable. He introduced Nikky Finney, who is UK's first National Book Award winner for poetry and featured in PR 1. Professor Finney's work has stirred the souls of readers at the University and all over the world. President Capilouto encouraged the Board members to read her book entitled *Head Off and Split*, which he had given to them. He talked about Professor Finney's acceptance speech that she gave at the award ceremony. Actor John Lithgow said it was the best acceptance speech he had ever heard, and it truly was outstanding.

As a native of Montgomery, Alabama, President Capilouto said he took particular pleasure and was deeply moved by Professor Finney's poem *Red Velvet*. This poem is what makes poets great. You feel like Nikky Finney knew you all your life, even when you were six years old in Montgomery, Alabama. He remembers that time of turmoil and vividly remembers the buses, or the ones he took at least weekly in his youth. The times and tribulations and the scars and growth of a community certainly never leave one's mind. Professor Finney deeply stirred his thoughts as he read her vivid account to the poem *Red Velvet*.

President Capilouto acknowledged Dean Mark Kornbluh and the Interim Chair of the Department of English Marion Rust, where Professor Finney holds her appointment. He thanked them for attending the Board meeting and asked Dean Kornbluh to introduce Professor Finney.

Dean Kornbluh said it was an incredible honor to introduce Professor Finney because she truly represents the best of the University of Kentucky. The University of Kentucky has a three-fold mission: to advance knowledge, to teach a new generation, and to affect the larger society. The University advances knowledge in innumerable ways but none more insightful than Nikky Finney's poetry. It is poetry of beauty and with infinite meaning.

The National Book Award given to her was UK's first National Book Award ever. It recognizes the power of her words, and for the University, it honors the fact that UK has had her working with students for 20 years. This power echoes through her inspired teaching. At a reception for Professor Finney, several of her students got up and talked. Listening to her students talk about her in the classroom and in her office is a transcendent experience. Professor Finney really changes people's lives.

Equally important, Professor Finney's achievement is about the university's Land Grant Mission. Her poetry, as much as the research in agriculture and engineering, is designed to reach out to the community to inspire insight and to truly improve lives. Nikky Finney is a treasure, and the University is honored to have her on the faculty. Dean Kornbluh expressed great pleasure in

introducing the University of Kentucky's first National Book Award winner, Professor Nikky Finney. The Board gave Professor Finney a round of applause.

Professor Finney thanked President Capilouto for the invitation to attend the meeting and said it was a great honor. She also thanked Dean Kornbluh for his kind words, and Dr. Marion Rust for the support of the English Department.

Professor Finney gave the following remarks to the Board:

When I was 17 years old and an undergraduate at a small Alabama, historically black college, I dreamed of being a poet. I would go to the library every day because the library was the heartbeat of the campus. And on the shelf, I would find any book that had to do with poetry, with literature, and with art, and I would read it until I could memorize some of the things there.

I tell you this story because one of the journals on those shelves was a book called *Callaloo Journal*, which was based at the University of Kentucky in the 1970s. I have this saying that the world is round. It is not because some explorer told us but because I live my life in a way that I believe things come back to me if I put them out into the world. And sure enough, after ten or 15 years, after that moment, I became an instructor at the University of Kentucky, it happened. *Callaloo Journal* has gone to John Hopkins, but I will never forget the impact that it had on me as a 17 year old trying to figure out how to become a poet and sort of living that life in a sort of an autodidactic way, finding my way piece by piece and person to person. That journal made a huge impact on me as a freshman and as a novelist poet. I thank you for supporting *Callaloo Journal* 30 years ago and for putting art, culture, and poetry on the map in Kentucky at that time. I don't ever want to see you lose that touch with art and literature and all the things that make us who we are as human beings.

I also want to say that I never intended to win the National Book Award. I just wanted to write a poem in the most beautiful, powerful way that I possibly could. The National Book Award is an added benefit. One of the beautiful things that is happening now, and I said this at the College of Arts and Sciences reception, is that even though I walk through the door, it seems 10,000 people or more walk with me. I get warm bread on my doorstep and flowers. It has just been an abundance of goodwill after having won the award and that has to do with poetry and with art and how poetry and art speaks to the human heart. No matter who wins the award, we all win. And so, I thank you this morning. I hope you enjoy this fourth collection of words. There will be more coming up the pike, I hope, and I thank you for your attention.

President Capilouto, it is nice to meet you and may your tenure here be long and wondrous.

Professor Finney received another round of applause.

I. Appointment of Dean of the Gatton College of Business and Economics (PR 3)

President Capilouto said it was a distinct pleasure to recommend the appointment of the dean of the Gatton College of Business and Economics. Dr. David Blackwell will begin his appointment

as dean this spring. He asked Dr. Blackwell to stand and be recognized and then gave some background information about Dr. Blackwell.

Dr. Blackwell is currently the Associate Dean for Graduate Programs and Republic Bank/James W. Aston Professor of Finance at Texas A&M University's Mays Business School. He holds his bachelor's and doctoral degree in finance from the University of Tennessee.

Before joining Texas A&M, Dr. Blackwell served as Director of Forensic and Litigation Services at KPMG and Manager of Financial Advisory Services at PricewaterhouseCoopers. Before that he had a consulting career and faculty appointments at Emory University and the University of Georgia. He was the overwhelming choice of the search committee and has been warmly received by the faculty in the Gatton School. Dr. Blackwell was welcomed with a round of applause.

Dr. Brockman asked for a motion for acceptance of PR 3. Mr. Gatton so moved. Mr. Mobley seconded the motion, and it passed without dissent.

Mr. Gatton said that everyone is thrilled to have Dr. Blackwell at the University. He noted that Dr. Blackwell turned down a rather large university before UK made the offer, and he has been offered the deanship at another major university which he turned down. (See PR 3 on the Board of Trustees website, [www.uky.edu/Trustees](http://www.uky.edu/Trustees), under agenda.)

J. President Eli Capilouto's Remarks – "The Kentucky Promise"

President Capilouto gave the Board an update on the progress with the strategic review that he undertook upon his arrival. He often speaks about "The Kentucky Promise," and for him, it is no better manifest than in the words of Professor Finney. The University does everything from save and extend lives to stir souls, and he gets to witness this every day. This progress must continue.

He told the Board that he has completed conversations with faculty and staff in all the university's colleges and libraries. He has met with the leadership of the University Senate and Staff Senate many times and deeply enjoyed talking with prospective students and their families about their dreams of an education at the University of Kentucky. He has talked with state and local policy makers, and it has been a particular delight for him.

Over the past few months, he has been meeting with the alumni. He has met with them in New York, Atlanta, Louisville, and Washington, DC. Washington, DC was just like previous visits where he had graduates. Many of them were young who now work in great positions, who are entrepreneurs, and who are in the public sector as well. They all say the same thing to him. They work alongside people who received their educations from the most prestigious universities, and they feel their education at UK far surpasses their colleagues. They are so proud to be graduates of the University of Kentucky. He has talked to many donors and business leaders about the university's future, and he is glad to say that it has resonated.

President Capilouto reminded the Board members of the University Review Committee headed by Dr. Hollie Swanson that formed the basis of much of the Board of Trustees discussion at

the retreat. He said that he had the privilege of echoing it in his Investiture speech entitled “The Kentucky Promise.”

He conducted focus groups as he visited many communities endorsing what the Board concluded at the retreat. He shared what will be the university’s guide and principles to further chart the course.

First, everyone needs to keep mindful and be mindful of the priorities and mission of the University. He wants to work to further enhance and improve the university’s transparency.

He heard often that it was just not enough to be a diverse university. The University of Kentucky has to be inclusive, and it is important to continue gathering information from key constituents. A principle that has served him well in his administrative career is find good people, set up a good process, and trust it.

Here are some major steps that will be taken over the next several months. Many have heard discussions and concerns expressed about the administration at universities across the country and at UK. The first office that he will take under examination is the Office of the President. Listed below are questions that will be answered as decisions are made for the best organization to serve this University:

- Are roles and functions clear?
- Are we the right size?
- Do we need to be streamlined?

Those are the kinds of questions to be answered. He wants it to be a learning organization where he receives feedback and acts on it constructively. He wants to develop that kind of culture across all of the administration at UK.

Based on what was concluded at the Board retreat, steps have already been taken to enhance the undergraduate educational experience. There will be more recruiters in the field. Top scholarships will be increased. The Honors Program will be expanded. And, the marvelous living and learning environment that many have read about in an article in the Chronicle of Higher Education will be improved. This is just one example that featured the university’s first generation scholars program.

President Capilouto said there needs to be a transformation of many of the facilities on the core campus. It has got to be attractive to students. It has got to support the creativity that is in many of the undergraduate programs. It has got to be a fantastic work environment for the faculty so they collaborate and develop partnerships and relationships to extend their work and better educate the students, and always, to remember the university’s commitment to fellow citizens in Kentucky. As part of the facilities transformation, a public/private partnership to revitalize residence halls has been explored. He asked Vice President Angie Martin to come forward and give an update on the public/private partnership.

Ms. Martin said she was pleased to give the Board an update on the status of the housing development plan. At the October Board retreat, housing was identified as a top priority because the

average age of housing on campus is 44 years. The deferred maintenance of the housing facilities totals over \$200 million dollars. UK has a \$2.7 billion budget, but we have to put that in perspective of the housing enterprise. The \$200 million deferred maintenance compares to housing's annual budget of less than \$30 million, which is a large issue. The reason why this is so important is that we know that students who live on campus are more successful at UK and across the country. UK's on campus freshmen had a retention rate of 83 percent this past fall, but off campus students only had a retention rate of 76 percent. UK's on campus students had a GPA of 2.9, and off campus students had a GPA of 2.5. There is definitely a track record of success.

President Capilouto has set a long term goal to basically replace and renovate all undergraduate and graduate housing, as well as expand the number of beds to serve the students. As part of this overall plan, we have an immediate short-term goal of opening a new residence hall of at least 600 undergraduate beds in the fall of 2013. This is a very aggressive timeline and means we have to start construction on April 1, 2012.

We are looking at basically two different options on how we develop and meet this challenge: go the traditional route for housing as in the past, which is funded by agency or university debt and managed internally. We are also looking at an alternative approach which is a public/private partnership. What we are trying to do in evaluating this method is to find the best option that first and foremost maintains affordability for the students. We also want to preserve the university's financial capacity, which means debt capacity. We have a lot of capital construction needs on campus, and the way we can preserve debt capacity, if we went into the public/private partnership, is by having a partnership with a developer that can provide a significant amount of equity. Hopefully, they can bring money to the table that is not debt but equity. And finally, we want to meet this aggressive timeline with as minimal disruption of the campus as possible.

A little information on affordability is that our average annual increase in housing rates over the last nine years has been 6 percent every year. If you think about the condition of the facilities that we have and the rate increases that we have been dealing with, you can see that we cannot really continue on this path in the future. Our rates are very comparable to the local markets, and we are already getting into the issue of affordability with our students. Our traditional hall's rate for this year's fall and spring semesters is \$4,510, and our premium residence hall rate is \$6,030.

To evaluate which method we want to use, we issued a Request for Proposal in October. We asked developers to submit proposals to replace and expand, as well as manage our housing enterprise. We broke this into two phases. We know Phase I. We want a facility open August 2013. Phase II is the larger concept of doing everything else. What we were looking for was a developer that basically has the financial wherewithal and the experience to do such a project.

President Capilouto created a committee to evaluate the proposals, and there are eight members on the committee. At this time, I want to thank this committee. They worked incredibly hard over a small period of time, even devoting the Sunday of Thanksgiving break. We have three of the members in the audience: Sergio Melgar, Robert Mock, and James Hardyman. I want to offer a special thanks to Mr. Hardyman, who through his dedication and love of the institution agreed to give so much of his time to this project.



The charge to this group was to select a developer to pursue a possible P3. We have not made the decision. When I saw the article in the Wall Street Journal, I kind of gasped a little at the first sentence. We have not said “yes, this is a done deal and we are moving forward.” That is not it at all. We asked this committee to evaluate the proposals and pick one developer to start negotiations because these types of deals are so intricate that it is not feasible to actually go through negotiations with more than one developer at the same time. So, we have asked the committee to pick a developer to negotiate with and then we will evaluate which option we want to go.

How did the committee evaluate these proposals? As I said before, it was based on the wherewithal to finance such a large project. Of course, we are also looking for a developer that has prior history with building and constructing large scale projects, and we wanted experience with managing student housing.

The committee went through an extensive evaluation process. We had an educational session, and we toured our own facilities. We had a presentation on the status of housing. We even had assistance by external advisors. We had Anderson Strickler, who is a well-known education real estate consultant. And, we also called upon BKD, our external auditors, to help us evaluate the proposals and the impact on our financial statements, because that was one of our key goals through this examination. The committee had a comprehensive examination and discussion of each proposal. We did reference checks and had presentations and interviews. We short-listed the proposals and brought in three companies. We also performed site visits to some of the developments.

I am pleased to tell you that the committee has recommended to President Capilouto that we pursue a possible P3 with Education Realty Trust. Education Realty Trust is a REIT or real estate investment trust. For those of you on the Investment Committee, this is very familiar. It is a publicly traded company. It has more than 50 years of experience in student housing, including four on-campus facilities with the University of Louisville. And, what is really amazing to us is they proposed a significant equity investment. It might be helpful if I take a few seconds to explain the history of these public/private partnerships. This is not new.

Prior to 2008, the common practice was to form separate 501 (c) 3 corporations and issue 100 percent debt. It was a way to off balance sheet the debt. After the economic downturn, Moody’s and S & P, as well as the accounting profession itself, said we have got to start recognizing this debt, both in terms of bond ratings as well as possibly recording the debt on the balance sheet. So, the evolution of P3 arrangements has really changed over time. EDR, the company’s stock symbol, proposed a 100 percent equity investment for Phase I and Phase II. It is likely unprecedented. Normally, today you can see up to about 35 percent equity investment, but EDR really sees this as a potential game changer for the industry, where we are not just going to do one or two dorms, but we are really looking at how we can replace all of housing and do it in the most affordable way for students.

EDR has experience with not only the University of Louisville but also the University of North Carolina at Chapel Hill, the Penn State System, and the University of Colorado. They have developed over 83,000 beds in the country. They also are very familiar with sustainability efforts. They have done many projects with gold and silver LEED certification, and they have proposed to look at the possibility of geothermal heating and cooling on our campus as well.

Now, I want to stress that we are not asking for Board action today. This is just an information session. But, I wanted to go through our next steps. First, we are going to negotiate with EDR and develop a very general Memorandum of Understanding on how we proceed. It is going to deal more with Phase I for the single facility. We expect to build this facility on Haggin Field, behind Haggin Hall on University Drive near the library.

To determine if the P3 is an optimal solution for us, we will evaluate the potential agreement which will address the rental rates, not only now but in the future for our students. Our goal is to replace the existing housing and have annual increases that are less than what we are currently doing. So, our students will be paying in the future less than what they would normally but live in new facilities.

If the P3 does prove optimal, then the action will be asking the Board of Trustees to approve a ground lease where we would lease the land to EDR, and they would construct a facility. It would be a very long ground lease. In this business, it runs from 40 to 60 years. So, it is going to depend on the negotiations of the contract on how long our ground lease will be. In most of these situations, the facilities revert to the university at the end of the ground lease.

If we get this far, we will then also enter into an Affiliation Agreement with EDR, and this gets into all the details you can only imagine that would come with allowing or asking a developer to manage our housing. We are talking about the operation and maintenance requirements of this facility. We are talking about the rental rates and who is going to collect the rental rates, insurance, and UK's employees. In response to our proposal, EDR has agreed to make a commitment to our existing employees. So, we would have three different options for our staff, if we move this way. We could find our custodians and maintenance folks other positions on campus. We do have a lot of turnover in that area. So, if they are currently employed, we can handle it. We could work with EDR on transferring the employees to them if the employees choose to do so, or we can keep them on as our own employees, and then reimburse or have EDR reimburse us. EDR is willing to work with us for any of those options as we move forward. Of course, nothing is too good to be true. And so, we will have to work through the details and see what is possible.

Now, we want this to be as a transparent and inclusive process as possible. So, we have already initiated some of the discussions, and we will continue to have discussions with the Governor, the legislative leadership, bond rating agencies, local communities, as well as faculty, staff, and students. So, this is where we are at this point. We can give you updates as we go through this process. We will need to decide in January which way we want to go if a dorm is to open in fall 2013. A funny story with that is that President Capilouto said he wanted a new dorm and asked, "When can you have it open?" Bob Wiseman said, "It is no problem. We can have it open in August 2014." President Capilouto responded, "Well, you got the month right." This is a very aggressive timeline, but we will have a new dorm in 2013 whether it is in a traditional manner or whether it is a public/private partnership.

Ms. Martin concluded her remarks by stressing that if UK goes with the public/private partnership, it would only be for Phase I. After Phase I is completed, they could then step back, re-evaluate it, and decide how to approach Phase II. They could decide: do we want to do it all, do we want to do it with this developer, or do we want to do it in a traditional manner?

President Capilouto thanked Ms. Martin, all members of the committee, and many other staff on campus who put in countless hours working on the Student Housing Development Plan. He said the Board and administration need to look for other unique partnerships involving donors, the state, and the University. He wants to continue the growth with UK HealthCare and other self-financing programs like Athletics as part of a finance program as the ambitious program of restoring campus is undertaken. With the assistance of an outside set of eyes, it is time to pause and take a close look to fully understand what the university's full capacity is to borrow and build.

President Capilouto reiterated that he has heard loud and clear across campus that people want greater transparency and a clearer system of financial accountability. He will be charging a group to develop what he is calling an integrative and transparent budgeting system that is reflective of the university's priorities and mission. It will link revenue to productivity and quality and will assign cost according to how resources can be consumed. This greatly empowers colleges, which he thinks are the key academic units in providing academic homes for faculty to internalize many of the strategic decisions that they must make for the long-term and on a day-to-day basis back to trusting the people. He has found that when people are empowered in this way, since they are closest to the decisions, they can make the best decisions. This is going to be a difficult undertaking, but this is a process the University will go through using people on campus and some outside support to help guide the way.

Lastly, the University is certainly not just bricks and mortar; it is a reflection of the energy and talent of its most precious resource which is human capital. These questions will be addressed going forward to make sure that the best talent is recruited and retained at the University of Kentucky.

President Capilouto outlined the process going forward for the University. He is creating workgroups of administrators, deans, faculty, and staff. Guidelines will be established for each of these workgroups in terms of a timeline. It will take 12 to 18 months to complete the work and implement everything; therefore, parts of it will have to be over a phased period.

President Capilouto reported that he had shared all of this information with the University Senate. He announced that he has made the decision to further engage the Huron Consulting Group, who has worked effectively with the University during the first few months of his tenure. They served as a staff to the University Review Committee and guided him with some fresh perspectives. This group will serve as a top team of analysts. They are authorities on best practices across universities around the country, and they have immense experience. What is best for the University of Kentucky must be defined. It cannot be borrowed from another university and inserted here. The hard questions must be asked amongst ourselves: What works best for our mission, priorities, and goals?

Over a year's period, this engagement could cost the University up to \$1.2 million to have this expertise working alongside administrators and staff. He said he would not undertake this kind of serious and expensive effort if he did not think it was needed. Everyone needs to be prepared to move quickly on many of these fronts.

President Capilouto concluded his remarks by expressing appreciation for the opportunity to give the Board an update. He thanked the Board for honoring him with what has been the privilege of a lifetime. The University of Kentucky is an incredible university. He wished all of Board members could have been with him when he traveled around the country and state to hear the affection and appreciation that he experienced minute by minute. He said he would be happy to answer any questions.

Dr. Brockman thanked President Capilouto and Vice President Martin. He said the Board is extraordinarily pleased and happy with what it is seeing and what President Capilouto is doing. He told President Capilouto that he had 100 percent of the Board's support of this plan.

K. Candidates for Degrees (AACR 1)

Dr. Gannon, chair of the Academic Affairs Committee, said AACR 1 recommends that the president be authorized to confer upon each individual whose name appears on the attached list the degree to which he or she is entitled, upon certification by the university registrar that the individual has satisfactorily completed all requirements for the degree for which application has been made and as approved by the elected faculty of the University Senate and the Academic Affairs Committee of the Board of Trustees. On behalf of the Academic Affairs Committee, he moved approval of AACR 1, and it passed without dissent. (See AACR 1 on the Board of Trustees website, [www.uky.edu/Trustees](http://www.uky.edu/Trustees), under agenda.)

L. Change in Degree – College of Health Sciences (AACR 2)

Dr. Gannon said that AACR 2 recommends that the Board of Trustees approve a change in the name of the Bachelor of Health Sciences degree with a major in Clinical Laboratory Sciences to Bachelor of Health Sciences with a major in Medical Laboratory Science (CIP Code: 51.1005, PROG: BHS MLSC), effective in the Fall 2011 Semester. On behalf of the Academic Affairs Committee, he proposed AACR 2, and it passed without dissent. (See AACR 2 on the Board of Trustees website, [www.uky.edu/Trustees](http://www.uky.edu/Trustees), under agenda.)

M. Approval of Investment in Coldstream Laboratories, Inc. (FCR 1)

Mr. Stuckert, chair of the Finance Committee, said the first item for adoption by the Board is FCR1 which involves the approval of an investment in Coldstream Laboratories, Inc. (CLI). The recommendation is that the Board of Trustees authorize the President to approve the transfer of up to \$4,000,000 to the University of Kentucky Research Foundation (UKRF) to be used for investment in Coldstream Laboratories, Inc. to fund operations and capital improvements. In addition, it is recommended that the Board of Trustees authorize the President to transfer up to \$3,000,000 to UKRF to be used as a line of credit to CLI for working capital.

The sales in 2011 have increased more than 50 percent from the sales volume of 2010. Approximately \$2,000,000 of the \$4,000,000 investment will be used to improve systems, build redundancy, and implement a risk reduction strategy. CLI will use \$2,000,000 to fund operations due to planned reduction in plant capacity while these strategies are being implemented. As previously

reported to the Board, CLI was formed to expand and commercialize pharmaceutical manufacturing research in development in the Coldstream facility. On behalf of the Finance Committee, Mr. Stuckert moved adoption of FCR 1. The motion passed without dissent. (See FCR 1 on the Board of Trustees website, [www.uky.edu/Trustees](http://www.uky.edu/Trustees), under agenda.)

N. Expand/Renovate Ambulatory Care: Orofacial Pain Clinic (FCR 2)

Mr. Stuckert said that FCR 2 involves the expanding/renovating the Ambulatory Care Orofacial Pain Clinic. A feasibility study has been completed and yielded an estimated cost of \$1,448,000, well within the 2010 legislative authorization of \$20,000,000. The project will be funded from clinical revenues. He noted that this is space that has been designated in the Kentucky Clinic to allow the Orofacial Pain Clinic to relocate and expand. After the Orofacial Pain Clinic has been relocated, the vacated space in the Dental Sciences Building will be used to provide needed expansion of space for the Oral Surgery program. On behalf of the Finance Committee, Mr. Stuckert moved approval FCR 2. The motion passed without dissent. (See FCR 2 on the Board of Trustees website, [www.uky.edu/Trustees](http://www.uky.edu/Trustees), under agenda.)

O. Construct UK/Nicholasville Road Flood Mitigation (FCR 3)

Mr. Stuckert said that FCR 3 involves the construction of a University of Kentucky/ Nicholasville Road Flood Mitigation project. This is the area where two youngsters died in a flash flood several years ago. The \$8,015,463 project will be funded with a \$6,011,597 grant from the Federal Emergency Management Agency (FEMA) of the U.S. government with the balance of \$2,003,866 being the in-kind value of the 3.6 acres of University of Kentucky land designated for the project; thus, no money from the University of Kentucky. The project will involve upgrading of the existing culvert at the upstream side of Nicholasville Road; removing and replacing portions of impervious pavements at Commonwealth Stadium with pervious pavements; and excavating the area between Alumni Drive and Shawneetown Drive for additional storm water detention. On behalf of the Finance Committee, he moved for the adoption of FCR 3, and it passed without dissent. (See FCR 3 on the Board of Trustees website, [www.uky.edu/Trustees](http://www.uky.edu/Trustees), under agenda.)

P. Renovate/Upgrade Softball Complex (FCR 4)

Mr. Stuckert said that FCR 4 involves the renovation/upgrading of the Softball Complex capital project. The project will allow the University to host the 2013 SEC Softball Tournament as requested by the Southeastern Conference. With these improvements, the softball complex will meet all requirements of the Conference. The scope of the project is not expected to exceed \$7,500,000 and will be funded by Athletics.

Mr. Stuckert recognized Rachel Lawson, coach of the ladies softball team. He told the story of Ms. Lawson coaching the Western Kentucky team and beating UK continually. Athletics Director Mitch Barnhart decided to hire Ms. Lawson, and there has been a wonderful success ever since. On behalf of the Finance Committee, he moved the adoption of FCR 4. The motion passed without dissent. (See FCR 4 on the Board of Trustees website, [www.uky.edu/Trustees](http://www.uky.edu/Trustees), under agenda.)

Q. Lease/Purchase of Medical Equipment (FCR 5)

Mr. Stuckert said that FCR 5 involves the lease purchase of medical equipment. The recommendation is that the Board of Trustees approve a \$10 million UK HealthCare Enterprise Medical Equipment Lease Pool for 2011-12. Any lease arrangement of major equipment and information technology items costing \$200,000 or more where the method of procurement involves debt in the form of capitalized lease obligations has to be submitted to the Board for approval. The individual leases will not come for approval, but this negates them not being able to accommodate the opportunity that is presented. He noted that this is an annual approval. On behalf of the Finance Committee, he moved adoption of FCR 5, and it passed without dissent. (See FCR 5 on the Board of Trustees website, [www.uky.edu/Trustees](http://www.uky.edu/Trustees), under agenda.)

R. 2011-12 Budget Revisions (FCR 6)

Mr. Stuckert said that FCR 6 involves the 2011-12 budget revisions in the amount of a \$23,300,000 change. It was due to a timing issue. The University received some Medicaid monies in the prior fiscal year, and that money went into a reserve. The money is now being taken out of reserve and going to be utilized for general expenses in the amount of \$46,000 in an operating capital project in the amount of \$23.2 million for a total of \$23,263,700. It is less than 1 percent of the total budget. On behalf of the Finance Committee, he moved the adoption of FCR 6, and it passed without dissent. (See FCR 6 on the Board of Trustees website, [www.uky.edu/Trustees](http://www.uky.edu/Trustees), under agenda.)

S. University Health Care Committee Report

Ms. Young, chair of the University Health Care Committee, reported that the Committee welcomed Nick Nicholson, president of Keeneland, as the new community advisory member. Mr. Nicholson is filling the unexpired term of James Hardymon, who has moved on to other duties for the Board and University. She noted that Mr. Hardymon will definitely be missed.

Ms. Young said that Sergio Melgar presented the October financial review. There was strong volume through November. Discharges for the month of October were 92.5 per day or 1 discharge per day less than budgeted at 93.5.

Operating revenue for the month totaled \$81.7 million, which is \$1.5 million less for the budget for the month. Operating revenue year-to-date for October is \$335.2 million, which is \$20.7 million above budget compared to the prior year. Operating revenue increased by \$37.4 million or \$12.5 percent. Overall, operating expenses for the month were \$3.4 million above budget. The UK HealthCare hospital system posted an operating loss of \$3.3 million for the month of October. Year-to-date income from operations is \$3.3 million.

Comparing the balance sheet at October fiscal year 2012 and fiscal year 2011, cash has decreased \$57.6 million. Cash continues to be used to fund the remainder of Phase 1A of the patient care facility project. The value of Board Designated investments now totals \$203.2 million, which is up \$6.1 million from October of last year.

Mr. Melgar also presented a preliminary financial report for the month of November. November tallied a record volume of 94 high equity discharges a day with a very high daily census. November also showed a growth in outpatient and operating room cases. All of this activity presents challenges to UK HealthCare in terms of staffing and length of stay issues. The preliminary accounting for the month of November indicates that it will be a break-even month.

Dr. Susan McDowell presented a graduate medical education report indicating that the graduate education program is very much on par with other similar medical programs. The Committee voted to approve this report in compliance with the graduate medical education accreditation process.

Dr. Richard Lofgren presented the UK HealthCare operations performance update, and Chief Nurse Executive Colleen H. Swartz presented a report on managing nursing productivity.

Dr. Kevin Nelson presented for approval the current list of privileges and credentials for Chandler and Good Samaritan hospitals. The Committee made a motion, and all privileges and credentials were approved.

T. University Relations Committee Report

Ms. Curris, chair of the University Relations Committee, said she wanted to report to the Board that the University Relations Committee will focus on the marketing aspect of its charge. To date, she has contacted Steve Byars from governmental relations; Dr. Michael Karpf from Health Affairs; Mike Richey from Development; Mitch Barnhart from Athletics, Stan Key from Alumni; and will be contacting others. The intent is to provide 45 to 50 minutes of address by those representatives to the Committee so at the end of the year each Board member will have a packet that will include a DVD or hard copy of the materials provided. This will assist the Board in having a better understanding of the process, procedures, and goals that are being established in each of these areas. This will provide the Committee with an opportunity to see if Board members can be of assistance or if there are particular kinds of activities which would be beneficial. Ms. Curris reiterated that the purpose of the report was to give advance notice of the intent of the Committee this year.

U. Other Business

Dr. Brockman asked Mark Coyle to stand and be recognized. He said it was a bittersweet moment for the University. Mr. Coyle exemplifies, in his opinion, everything good in the Athletics Department. On January 5, 2012, Mr. Coyle will become the Athletics Director at Boise State University. He told Mr. Coyle that the University is proud of him and congratulated him on his promotion. Mr. Coyle received a round of applause.

Mr. Stuckert complimented President Capilouto on the extensive and amazing visit he has made to all of the university's areas of interests, including campus and otherwise. He commended President Capilouto for an outstanding five and one-half months and for his leadership role. President Capilouto steps up and defines the steps that he wishes to take. To refine and define the university's goals is just phenomenal. He, along with the entire Board of Trustees, wished President

Capilouto all the best of success. Mr. Stuckert said he is very glad Dr. Capilouto is the president of the University of Kentucky.

V. Resolution

Dr. Brockman said he would like to announce another bittersweet moment in the Board's history. Dr. Joe Peek is taking a job with the Federal Reserve Bank of Boston, and this is his last Board of Trustees meeting. He will be leaving the University the end of December. From a personal note, Dr. Brockman said he would like to go on record and say that in such a short time on the Board very few people have ever accomplished so much for their constituency groups as Dr. Peek has for his constituency. Dr. Peek has looked at his role on the Board not only from the perspective of his immediate faculty constituency, but he has seen this role from a global perspective. Dr. Peek has done a fantastic job of furthering the welfare of the University of Kentucky. Dr. Brockman asked Dr. Peek to come forward while Dr. Gannon read a resolution.

Dr. Gannon said it was a great honor to read the resolution, but he, also, would read it with a bit of regret. He and Dr. Peek came on the Board at the same time, which was a couple of years ago. As most know, Dr. Peek came with a bit of reputation for being a little outspoken; however, in his opinion, everyone has come to respect Dr. Peek tremendously. Dr. Peek has shown himself to be very intelligent, very challenging, thoughtful, humorous, and very trustworthy. Dr. Peek is an excellent Board of Trustee member, and he leaves large shoes to fill. Dr. Gannon read the following resolution:

WHEREAS, Joe Peek, a member of the University of Kentucky Board of Trustees, has served the university, his community, and the Commonwealth of Kentucky with distinction, and,

WHEREAS, his service on the board includes being a member of the Academic Affairs Committee, the Finance Committee, and the Investment Committee, and,

WHEREAS, since coming to UK in 2000, he has served as the Gatton Endowed Chair in International Banking and Financial Economics and has brought distinction to the college and the university with nationally and internationally known research and expertise on topics including international banking, bank regulation, monetary policy, and credit availability, and,

WHEREAS, his articles have appeared in numerous journals, including the American Economic Review, the Journal of Finance, the Quarterly Journal of Economics, and Real Estate Economics,  
and,

WHEREAS, as a respected faculty member in the Gatton College, he has taught and guided undergraduate students, MBA students, and Ph.D. students, and,

WHEREAS, he has served as Finance Area Coordinator in the Gatton College and as Chair of the Gatton Faculty Council, and,



WHEREAS, he serves as a research associate for Columbia University's Center on Japanese Economy and Business, and,

WHEREAS, he previously served for 15 years as a visiting economist for the Federal Reserve Bank of Boston, and,

WHEREAS, he also served as a Fellow of the FDIC's Center for Financial Research, and,

WHEREAS, he was a research fellow at the Brookings Institution, and,

WHEREAS, he was a visiting Erskine Fellow at the University of Canterbury in Christchurch, New Zealand,

NOW THEREFORE BE IT RESOLVED, that the Board of Trustees of the University of Kentucky expresses its sincere appreciation to Joe Peek and wishes him well in all of his future endeavors, and orders that this resolution be made a part of the Minutes of the meeting.

Mr. Farish seconded the motion for approval of the resolution. The resolution passed without dissent. Dr. Brockman congratulated Dr. Peek. The Board gave Dr. Peek a round of applause.

Dr. Peek said that it was great to be among so many friends whom he used to not like. As many people know, the trustees have a confidentiality agreement. He said he did not have a problem in telling trustees what he thought of them; however, in a public forum, he was concerned about speaking about that because it could destroy his reputation if he said nice things about them. But, if they were in a private meeting, he would say that he is very proud to have been a member of the trustees. He is very proud of the changes that he has observed, or perhaps imagined, in the last year and a half because he thinks it is a much more active, a much more involved Board of Trustees than he had ever imagined was the case. And, in part, he thinks that has to do with the Chair Britt Brockman, because he has made this a very open group. Dr. Brockman has gone out of his way to talk to faculty, to students, and to staff. He has really gotten out there. Dr. Brockman has opened things up. When Dr. Brockman disagreed with him, he would tell him that he disagreed, and Dr. Peek appreciated that.


Dr. Peek ended his remarks by saying that, in his opinion, the University is on a great path. He is very proud of the job that President Capilouto has done. The trustees and President Capilouto are on a path of turning the University around. It is going to be a long path because a part of these changes is the culture of the University. The trustees need to change the culture of the state to put more value on education. He reiterated that, in his opinion, the University is on that path. Dr. Peek received another round of applause from the Board.

W. Meeting Adjourned

Dr. Brockman concluded the meeting by thanking everyone in the room for coming at the unorthodox time. He reminded the Board of the Governor's inauguration at 2:00 p.m. in Frankfort.

With no further business to come before the Board, Dr. Brockman asked for a motion to adjourn. Dr. Akins made a motion. The motion was seconded and passed. The meeting adjourned at 11:49 a.m.

Respectfully submitted,



Sandy Bugie Patterson  
Secretary, Board of Trustees

(CR 1; PR 2 and 3; AACR 1 and 2; FCR 1, 2, 3, 4, 5, and 6 are official parts of the Minutes of the meeting.)