

Minutes of the Meeting of the Board of Trustees
University of Kentucky
Tuesday, May 3, 2016

The Board of Trustees of the University of Kentucky met on Tuesday, May 3, 2016, in the Board Room on the 18th floor of Patterson Office Tower.

A. Meeting Opened

Dr. E. Britt Brockman, chair of the Board of Trustees, called the meeting to order at 1:45 p.m. Chair Brockman asked Trustee Kelly Holland, 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., Claude A. “Skip” Berry, III, James H. Booth, William C. Britton, E. Britt Brockman, Sheila Brothers, Mark P. Bryant, Angela L. Edwards, William S. Farish, Jr., O. Keith Gannon, Cammie D. Grant, Robert Grossman, David V. Hawpe, Kelly Sullivan Holland, C. Frank Shoop, Robert Vance, John Wilson, and Barbara Young. Trustees Terry Mobley and Austin Mullen, and Honorary Trustee Carol Martin “Bill” Gatton were not in attendance. Secretary Holland announced that a quorum was present.

The University administration was represented by President Eli Capilouto, Provost Tim Tracy, Executive Vice President for Health Affairs Michael Karpf, Executive Vice President for Finance and Administration Eric Monday, and General Counsel William Thro.

The University faculty was represented by Chair of the University Senate Council Andrew Hippisley, and the University staff was represented by Chair of the Staff Senate Jann Burks.

Guests and members of the news media were also in attendance.

C. Consent Items

Chair Brockman called attention to the consent items on the agenda. The items were as follows:

- Minutes of the Board of Trustees meeting on February 19, 2016
- PR 2 Personnel Actions
- ASACR 1 Candidates for Degrees: May 2016
- ASACR 2 Candidates for *In Memoriam* Degrees: May 2016
- ASACR 3 Candidate for Degree: May 2014
- ASACR 4 Candidates for Degrees: May 2015
- ASACR 5 Candidate for Degree: August 2015
- ASACR 6 Candidates for Degrees: December 2015
- ASACR 7 Academic Degree Recommendation: Graduate School

- ASACR 8 Change in Name of an Education Unit: College of Public Health
- ASACR 9 Creation of the Department of Linguistics: College of Arts and Sciences
- FCR 1 C. Michael Garver Pledge
- FCR 2 Halcomb Family Foundation Charitable Grant Commitment and Naming of a College Department
- FCR 3 Hardymon Foundation Charitable Grant Commitment and Renovate Third Floor F. Paul Anderson Tower
- FCR 4 Gift from the Estate of Ewa J. Maciniak
- FCR 5 Robert N. Trunzo Pledge
- FCR 6 William T. Young Foundation, Inc. Pledge
- FCR 7 Acceptance of Interim Financial Report for the Six Months Ended December 31, 2015
- FCR 8 Funding Revision to Construct Greek Park (Alpha Gamma Rho Fraternity) Capital Project
- FCR 9 Expand/Renovate/Upgrade Law Building Capital Project
- FCR 10 Repair/Upgrade/Improve Civil Site Infrastructure Capital Project (Blue and Green Lots Expansion and Resurfacing)
- FCR 11 Approval of Lease
- HRURCR 1 Proposed Revision to Administrative Regulation: University of Kentucky Phased Retirement Policy and Program

Chair Brockman reviewed the consent items and asked for any requests to remove any item. Hearing none, the consent item list was unanimously approved. (See consent items on the Board of Trustees website, www.uky.edu/Trustees, under agenda.)

D. Chair's Report

Chair Brockman reported that there had been no petitions to address the Board since the last Board of Trustees meeting.

E. Alternate Meeting Site (CR 1)

Chair Brockman stated that CR 1 was the recommendation that Bowling Green, KY be approved as the alternate meeting site for September 8-9, 2016 Board of Trustees meeting. Kentucky Revised Statutes (KRS) 164.170 states that all meetings shall be held on campus of the University unless otherwise specified by a majority vote of the Board of Trustees.

Trustee Grossman moved approval of CR 1. It was seconded by Trustee Young and it passed without dissent. (See CR 1 on the Board of Trustees website, www.uky.edu/Trustees, under agenda.)

F. Executive Committee Report

Chair Brockman reported that the Executive Committee had met that morning to discuss and finalize the survey questions that will be used for the 2015-16 Presidential Evaluation. The

constituent groups were also approved and the Chair will approach individuals to fill these constituent groups.

G. Item for Board Discussion

Due to an early start time, Chair Brockman stated that the President's Report would be delayed and President Capilouto would introduce the Item for Board discussion, a budget update.

President Capilouto began by reviewing the state budget process. In his joint State of the Commonwealth and Budget address in January (2016), Governor Bevin proposed a 4.5% reduction to the current year appropriation, a 9% reduction to the FY2016-17 fiscal year appropriation and 33.3% of UK's appropriation would be set aside for a performance fund in FY2017-18.

During February and March, the House and Senate drafted their proposals for the two-year state budget. President Capilouto met individually with state lawmakers and also testified in public before the House Budget Review Subcommittee on Postsecondary Education and the Senate Appropriations and Revenue Committee.

On April 1, a 4.5% mid-year reduction was enacted and has since been scaled back to 2%. The final version of the budget was passed by the state legislature on April 15, and signed into law last week. The budget enacted included a 4.5% reduction to FY2016-17 and 5% of FY2017-18 appropriation set aside for a performance fund. The performance fund will most likely include metrics related to: retention and graduation; closing the achievement gap for underrepresented minority students, first-generation students, and low-income students; serving a larger number of underrepresented students; and total expenditures for research and development. President Capilouto pointed out that these types of metrics align with the principles and metrics of the 2015-2020 Strategic Plan.

In light of the continuing reductions in state appropriations and bordered by states that have chosen to invest in higher education; President Capilouto stated he was committed to the principles of the Strategic Plan. The guiding principles of the budget development process include:

- student access and affordability
- competitive pay for faculty and staff
- strategically plan to prevent across-the-board cuts and maintain and enhance academic quality
- diversity and inclusion

President Capilouto welcomed Executive Vice President for Finance and Administration (EVPFA) Eric Monday and Provost Tim Tracy to update the Board on the progress of the budget development team.

EVPFA Monday reviewed with the Board the fund sources that contribute to the overall budget. This includes: state appropriations, hospital system, auxiliaries, tuition and fees, gifts,

grants and contracts, and sales, service, and other income. These fund sources are connected and complementary, but have boundaries. Where possible, the separate enterprises contribute when and where appropriate. The state appropriation pays for faculty lines and core services and allows the other enterprises to generate income and operating revenue.

EVPFA Monday shared that the initial step to building a budget is identifying the financial needs. The reduction in state appropriations over the next two years is part of this equation. Other contributors to this financial needs pool include increases in institutional aid to help address student access and affordability, faculty/staff pay raises, increases in fixed costs, and strategic investments.

Provost Tracy stated that one area of strategic investment was the academic enterprise. In 2015-16, the University invested \$5,000,000 in recurring funds to colleges based on growth of student body and performance/retention of students. In addition, under a new formula for facilities and administrative costs (F&A) generated by research grants, the college/unit/faculty were returned more of the money they were awarded/generated, allowing for reinvestment in their college or program.

EVPFA Monday explained that the next step in building the University's budget was to pinpoint available resources, including identifying new revenue streams, increase/locate efficiencies of the enterprise, and the strategic reallocation of funds.

In looking at new revenue streams, Provost Tracy offered that professional masters programs are tremendously popular and provides for financial incentives to be returned to the college. Provost Tracy stated that with the Strategic Plan as a guide, one area for strategic reallocation should be undergraduate student success. To support students with academic, financial, social, or emotional and physical wellness issues, investment should be made in the services UK provides. The University also has made a commitment to improve access and affordability for students by investing in scholarships and moderating tuition and fee increases.

EVPFA Monday stated that the last step in the budget discussion would be to evaluate an increase in tuition and fees. The Council on Postsecondary Education sets the limit or rate of increase every year for all Kentucky public institutions. In discussing what UK's tuition should be, one question that is always asked is how does our pricing compare to other institutions and other flagships of the surrounding states?

Another piece of the University's budget is the capital budget. EVPFA Monday reported that UK did not receive any support for state bond-funded projects, but did receive approval for two agency bond projects (UK HealthCare patient care project and campus facilities renewal and modernization project) and authorization for multiple cash-funded projects.

EVPFA Monday reviewed the timeline of budget discussions and conversations, building the budget over the course of the next six weeks, ending on June 24, 2016, when the Board considers the Operating and Capital Budget and Tuition and Fees. For more information, this presentation can be found at:

http://www.uky.edu/Trustees/agenda/full/2016/may/Operating_and_Capital_Budget

President Capilouto thanked Provost Tracy and EVPFA Monday for the report on the budget issues. He reiterated that though state appropriation cuts are felt, “we will not lose our way, but we must continue to find new ways. We will earn our way forward and continue to be the University for Kentucky.”

Trustee Grossman asked about the percentage of students who graduate debt-free and also the median debt of those students who do graduate with some debt. President Capilouto stated that 53% of UK (undergraduate) students graduate debt-free and the average debt of those who do graduate with debt is approximately \$25,000.

Trustee Hawpe offered that historically, students were able to work throughout the year to pay for their schooling. The University should take into consideration that today’s jobs and salaries do not afford the same level of financial contribution.

H. President’s Report (PR 1)

President Capilouto called the Boards attention to PR 1, which contains a story about cancer research groups, under the leadership of the Markey Cancer Center, working collaboratively to reduce cancer rates across Kentucky. Another story details a UK professor and his students who are helping design sustainable solutions for Appalachian communities, rebuilding after disasters, beginning in the Morgan County community of West Liberty and now are being used to help Johnson County rebuild after severe flooding. Another professor is leading an international effort to find long-term sustainable control options to manage the mosquitos that transmit the Zika virus. And yet another professor’s provocative artwork is being showcased locally, in the Museum of Arts and Design in New York City, and on the television screen in the Fox network hit drama “Empire.”

President Capilouto also recognized Joe Halcomb, a graduate who chose to generously support the College of Engineering, more specifically the Department of Biomedical Engineering.

President Capilouto acknowledged the 4800 students who would graduate from UK this coming weekend. Among them are participants who raised millions to help fight pediatric cancer. They collected textbooks for school children in Cameroon. They competed and placed in entrepreneurship competitions with students from universities across the nation. They helped start and launch a city-wide substance abuse resource, GetHelpLex.org, which provides information on treatment resources and facilities around Central Kentucky, and they serve countless nonprofits through UK Fusion. They balanced academics with athletics, student organizations, personal obligations, and friendships.

President Capilouto introduced Dr. Lisa Cassis, Vice President of Research, to present the recipients of the University Research Professorship.

Dr. Cassis shared that to align with the principles in the 2015-20 Strategic Plan, the University Research Professorship awards were revised to recognize excellence in research and creative work across the institution. Working with senior leadership in all 17 academic colleges,

criteria were developed in research and creative work that relate to the specific types of research that are performed by faculty across UK's diverse colleges.

Dr. Cassis introduced the following recipients:

Arthur G. Hunt	College of Agriculture, Food and Environment Plant and Soil Sciences
Qiang Ye	College of Arts and Sciences Mathematics
Thomas R. Zentall	College of Arts and Sciences Psychology
Sherali Zeadally	College of Communication and Information School of Information Science
Jeffrey L. Ebersole	College of Dentistry Oral Health Practice
Gary P. Rohrbacher	College of Design School of Architecture
W. Brent Seales	College of Engineering Computer Science
Diana R. Hallman	College of Fine Arts School of Music
Stephen P. Borgatti	Gatton College of Business and Economics Management
Esther Dupont-Versteegden	College of Health Sciences Rehabilitation Sciences
Mary J. Davis	College of Law
Eugenia F. Toma	Martin School of Public Policy and Administration
Bret N. Smith	College of Medicine Physiology
Edward D. Hall	College of Medicine Spinal Cord Brain Injury Research Center
Ellen J. Hahn	College of Nursing

L. University Athletics Committee Report

Trustee C.B. Akins, Sr., chair of the University Athletics Committee, stated that the committee had met this morning. Due to a mandatory Southeastern Conference Athletics Directors meeting, Director of Athletics, Mitch Barnhart was not in attendance. Deputy Athletics Director, DeWayne Peevy was on hand to provide an update on winter and spring sports.

The 2015-16 University of Kentucky Athletics season is nearing its end. Solid performances from rifle, women's basketball, track and field, and men's basketball have lifted UK to No. 28 in Directors' Cup standings. A top-30 finish would be the fifth in a row for UK Athletics, unprecedented in school history.

The men's basketball team became the second UK team to claim a championship since the start of 1-3-5 Elite, which calls on every UK team to win a conference or national title by 2022. The Wildcats won a share of the SEC regular-season title, as well as the SEC Tournament. The women's track and field team, which placed 12th at the NCAA's Indoor Championship, is currently ranked first in the nation.

Trustee Akins continued that the football team concluded a spring that Coach Stoops called the best of his tenure, with the Blue-White Spring Game on April 16. In February, UK football put the finishing touches on another solid recruiting class. The class is ranked No. 29 in America according to Rivals. Construction of the new football practice facility, which will be among the best in the country, is nearing completion. The facility will be ready in time for fall camp in August. An offseason project to install bench backs throughout the lower bowl at Commonwealth Stadium is also set to be completed in time for the start of the season. The Green and Blue Lots adjacent to Commonwealth Stadium will be expanded as part of FCR 10, providing valuable space for fans. A premium tailgating space will open in 2016, allowing fans and businesses to enjoy pregame in style without displacing any fans.

In business items, the Committee considered the financial statements of the Department of Intercollegiate Athletics. Melissa Gleason, Senior Associate Athletics Director for Finance reviewed the interim financial statements of the department for the six months ended December 31, 2015. The statements included the balance sheet, the statement on revenue and expenses, and the change in net assets. The Committee accepted the financial statements as presented.

In closing, Trustee Akins was pleased to report that all 22 UK athletic teams surpassed the NCAA's Academic Progress Rate (APR) cut score of 930 by scoring 950 or better, including four teams – women's cross country, men's golf, rifle, and men's basketball – that were recognized for being among the top 10 percent in their respective sports over the four-year evaluation period. UK is one of only two Southeastern Conference institutions that have never missed the NCAA APR cut score. Moreover, 12 teams exceeded the national average and 20 had perfect 1,000 scores for the 2014-15 school year. UK's student-athletes also combined for a GPA of better than 3.0 for the seventh straight semester this fall.

M. Audit and Compliance Committee Report

Trustee Mark Bryant, chair of the Audit and Compliance Committee, reported the Committee had met this morning. There were no action items; however, the Committee had updates and report-outs from both the internal and external auditors.

Prior to the updates, the Physics and Astronomy Investigation was discussed. Joe Reed, UK Internal Audit Senior Director, shared audit procedure highlights and critical events pertaining to the investigation. Eric Monday, Executive Vice President for Finance and Administration, discussed the strong commitment at the University of Kentucky to create and sustain a culture of compliance and how the audit area is a critical component in helping to build that culture of compliance.

Mr. Reed reviewed the Internal Audit Activity Update Report, representing UK Internal Audit (UKIA) performance for the first eight months of fiscal year 2016. The split between planned and unplanned hours was 52% and 48%, respectively. Due to current and emerging risks from the unplanned activity, UKIA has made unplanned activity a priority during this fiscal year; however, UKIA still projects a 60% work plan completion rate for planned activity this fiscal year. Mr. Reed also presented the Internal Audit Dynamic Work Plan Process for fiscal year 2017. Trustee Bryant stated that this process will emphasize assessing current information throughout the year, as opposed to assessing historic information annually. This approach is collaborative with Internal Audit partnering with units across UK to create a vigorous and transparent risk assessment process.

Trustee Bryant shared that the external audit report-out included an update from UK Treasurer Susan Krauss and BKD Partner Jim Creeden. Ms. Krauss discussed the results of the BKD procedures performed on UK's January 2016 bond offering document; BKD found no material inconsistencies or misstatements of facts between the offering document and the 2015 audited financial statement. The signed Engagement Letter for Audit Services to be provided by BKD for fiscal year 2016 was reviewed and discussed. Lastly, the Pre-Audit Communication for fiscal year 2016 was presented by BKD Partner Jim Creeden.

N. Finance Committee Report

Trustee William C. Britton, chair of the Finance Committee, reported that the Committee considered and approved 11 FCRs, including a number of large gifts. He complimented Vice President for Philanthropy Mike Richey and his team for excellent work.

O. Human Resources and University Relations Committee Report

Trustee Sheila Brothers, filling in for Trustee Terry Mobley, who was unable to attend the meeting, chaired the Human Resources and University Relations Committee. She stated that she appreciated the opportunity to serve as chair and considered it an honor.

Trustee Brothers reported that the committee reviewed proposed changes to Administrative Regulations 3:2, the Phased Retirement Policy and Program, an administrative regulation that is in the purview of the Board. The recommendation followed the requirements set out in the University's policies regarding review of regulations, having been reviewed by the University Senate, Staff Senate, Employee Benefits Committee, and the Regulations Review Committee.

P. Investment Committee Report

Trustee William S. Farish, Jr., chair of the Investment Committee, stated that the Committee met on Monday, May 2, to review performance results and conduct other business. The Endowment pool had a market value of \$1.18 billion as of March 31, 2016. For the nine-month period ending March 31st, the Endowment pool decreased by 3.63% due to losses incurred in the equity and commodity markets. International Equity and Diversified Inflation strategies were the largest detractor from the Endowment pool performance during the period.

Trustee Farish reported that Fund Evaluation Group (FEG) had been selected to provide endowment investment consulting and performance monitoring services effective July 1, 2016, following a recent request for proposals (RFP) from national investment consulting firms. Representatives from FEG attended the meeting to provide an overview of the new consulting relationship and their proposed implementation plan. Trustee Farish thanked Treasurer Susan Krauss, and Chief Investment Officer Todd Shupp, and the committee in selecting FEG. It was an exhaustive search.

Q. University Health Care Committee Report

Trustee Robert Vance, chair of the University Health Care Committee, reported that the Committee met on Monday, May 2, 2016.

In a departure from prior reports, Trustee Vance shared that in the run up to the University Health Care Committee Retreat next month, he wanted to briefly talk about UK HealthCare's recent history, its current position, and the challenges UK HealthCare will face in the near future.

Trustee Vance stated that due in large part to Dr. Karpf and his staff, former University Health Care Committee chair, Barbara Young and President Capilouto, UK HealthCare's recent history has been extremely successful. Evidence of this success includes hospital discharge growth of 88 percent since 2004. The number of licensed beds from 2003 to 2015 has grown from 463 to 945. Patient transfers are up 98 percent from 2010 to 2015, from 9,100 to 18,000. Patient transfers are significant in that it shows the confidence that the surrounding hospitals have in UK HealthCare's ability to handle more acute patients. But due to space constraints, UK HealthCare has turned away an increasing number of patients per year, over 1700 in 2015. Trustee Vance stated that this increase is significant as UK HealthCare looks to the future and patient needs.

Other evidence of success is the number of employees has increased from 5428 in 2004 to 11,576 in 2016. Salaries and benefits totaled \$675,000,000 in 2004 and will exceed \$1,000,000,000 in 2016. In 2015 alone, UK HealthCare hired 87 new physicians. Since 2004, \$1,800,000,000 has been invested in facilities, technology, and programs.

Trustee Vance continued that regarding UK HealthCare's current position, there is on average 67 patients every day waiting for a bed. This month, Pavilion A will open 64 new beds on the ninth floor, and those beds will be filled on opening day. Next month the fifth floor in Pavilion A will open 64 beds and it is anticipated that two-thirds of those beds will be filled immediately.

Trustee Vance noted that through March 2016, 55 percent of hospital revenues were from Medicaid and Medicare, 30.4 percent in Medicaid, 24.6 in Medicare, with the balance of revenue coming from commercial payers and charity care. Trustee Vance noted that UK HealthCare is dependent on federal funding for support in Medicaid and a decline in reimbursement may disproportionately affect revenue. Regarding state funding and its relation to Medicaid expansion, it is anticipated that the State of Kentucky will indicate their plan for Medicaid in early June. Changes on the political landscape, both nationally and locally, are factors for the Committee, UK HealthCare leadership and staff to consider as decisions and investments are made long-term. At the June 23rd Retreat, the Committee will hear presentations that speak to these issues, along with projections on patient care, patient mix, and ambulatory services. To date, the enterprise has been aggressive in facility expansion and types of patient care, but conservative in that UK HealthCare's results have exceeded projections.

R. New Business

President Capilouto welcomed Provost Tracy to introduce Dean Robert DiPaola, the new Dean of the College of Medicine.

Provost Tracy stated that Dean DiPaola received his bachelor's degree and MD degree at the University of Utah. He then went on to do a residency at Duke University and a fellowship at the University of Pennsylvania. He has spent most of his career at Rutgers University, where he eventually became the Director of the Rutgers Cancer Center. Under Dr. DiPaola's leadership, the annual funding to the Cancer Center by extramural grants reached \$85 million dollars, and he himself generated somewhere north of \$10 million dollars a year in funding through his grants and contracts. He is also a tremendous researcher, evidenced by his recent article in New England Journal of Medicine about prostate cancer care. He also is a very collaborative individual that works tirelessly across all the colleges and has already begun building some very strong relationships.

Dean DiPaola thanked President Capilouto, Provost Tracy, Dr. Karpf and the Board of Trustees for the opportunity to be at UK. He has been very impressed with the strong leadership and faculty, and the strengths in clinical research and education. It is his intention to further bridge the three missions, research, education, and clinical. This bridge will provide for greater impact and will raise further UK's national reputation and rankings through growth in medical

education, research, and scholarship with an emphasis on multidisciplinary research, which helps bridge science to clinical care and with community engagement.

Dean DiPaola stated he was looking forward to helping with the efforts at engagement, recruitment, promotion and retention of a diverse population of faculty, administrators, staff, and students. After having been here a few months, he was convinced of the educational, research and clinical strengths of the College of Medicine and the University of Kentucky as a whole and their impact for a better Kentucky.

S. Meeting Adjourned

Hearing no further business, Chair Brockman asked for a motion to adjourn the meeting. The meeting was adjourned at 3:16 p.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kelly S. Holland".

Kelly Sullivan Holland
Secretary, Board of Trustees

(CR 1, PR 1, 2, 3, and 4, ASACR 1, 2, 3, 4, 5, 6, 7, 8, and 9, FCR 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 and 11, and HRURCR 1 are official parts of the Minutes of the meeting)