

Minutes of the Meeting of the Board of Trustees
University of Kentucky
Friday, February 17, 2017

The Board of Trustees of the University of Kentucky met on Friday, February 17, 2017, in the Board Room on the 18th floor of Patterson Office Tower.

A. Meeting Opened

E. Britt Brockman, chair of the Board of Trustees, called the meeting to order at 1:52 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., Jennifer Y. Barber, Claude A. “Skip” Berry, III, Lee X. Blonder, James H. Booth, William C. Britton, E. Britt Brockman, Mark P. Bryant, Michael A. Christian, Kelly Knight Craft, Angela L. Edwards, Cammie DeShields Grant, Robert Grossman, David V. Hawpe, Kelly Sullivan Holland, David Melanson, Rowan Reid, C. Frank Shoop, Robert Vance, and Barbara Young. Trustee Carol Martin “Bill” Gatton was 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, Katherine McCormick, and the University staff was represented by Chair of the Staff Senate, Troy Martin.

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

C. Chairs Report and Consent Items

Chair Brockman reported that there had been no petitions to address the Board since the last Board of Trustees meeting and called attention to the consent items on the agenda. The items were as follows:

Minutes	Board of Trustees Meeting, December 13, 2016
PR 2	Personnel Actions
ASACR 1	Academic Degree Recommendation: College of Medicine
ASACR 2	Candidate for Degree: December 2014
FCR 1	Charitable Grant Recommendation
FCR 2	Pledge from L. Stanley Pigman
FCR 3	Pledge from John Pirri, Jr. and Naming of a Building

- FCR 4 Change Purpose and Name of Neurology Research Chair (Endowed Chair in Child Neurology)
- FCR 5 Change Name of Endowed Chair in Neurosurgery (Byron and Judy Young Endowed Chair in Brain Tumor Research)
- FCR 6 Approval of 2015-16 Endowment Match Program Annual Report
- FCR 7 Approval of Ground Lease (Alpha Chi Omega Fraternity)
- FCR 8 Approval of Ground Lease (Beta Theta Pi Fraternity)
- FCR 9 Approval of Sublease (110 Conn Terrace, Lexington, KY 40508)
- FCR 10 Renovate/Improve Athletics Facility Capital Project (Joe Craft Center Locker Room)
- FCR 11 Disaster Recovery and Business Continuity Information Technology Capital Project
- FCR 12 Capital Construction Report
- FCR 13 Patent Assignment Report

Hearing no requests to remove items from the consent agenda, Chair Brockman asked for a motion for approval. Trustee Akins moved approval of the consent agenda. Trustee Britton seconded the motion and the consent agenda passed without dissent. (See consent items on the Board of Trustees website, www.uky.edu/Trustees, under agenda.)

D. Appointment to Board of Directors of the University of Kentucky Center on Aging Foundation, Inc. (PR 3)

President Capilouto stated that PR 3 was the recommendation that the Board of Trustees appoint Mr. Stephen L. Grossman, Ms. Paula Hanson, and Mr. Chris Mossman each for three-year terms beginning March 1, 2017, and ending December 31, 2019, to the Board of Directors of the University of Kentucky Center on Aging Foundation, Inc.

Trustee Shoop moved approval of PR 3. Trustee Reid seconded the motion and it passed without dissent. (See PR 3 on the Board of Trustees website, www.uky.edu/Trustees, under agenda.)

E. Renaming of University Building (PR 4)

President Capilouto stated that PR 4 was the recommendation that the Board of Trustees approve the official renaming of the “Linda and Jack Gill Heart Institute”, to the “Gill Heart and Vascular Institute.”

Trustee Melanson moved approval of PR 4. Trustee Vance seconded the motion, and it passed without dissent. (See PR 4 on the Board of Trustees website, www.uky.edu/Trustees, under agenda.)

F. President’s Report (PR 1)

President Capilouto took a moment to thank everyone involved with the planning and proceedings of the Board of Trustees meetings.

President Capilouto updated the Board of Trustees on some recent visitors to the University, including Dr. Douglas Lowy, Acting Director of the National Cancer Institute, Dr. Nora Volkow, Director of the National Institute on Drug Abuse, and Chief Justice of the United States Supreme Court, John Roberts. Drs. Lowy and Volkow met with faculty, researchers, and students to discuss health disparities in Kentucky and the Chief Justice of the United States was the inaugural guest of the lecture series made possible by the Heyburn Initiative for Excellence in the Federal Judiciary.

President Capilouto recognized the retirements of Wilma Farmer and Phylis VanHoose, both with over 40 years of dedicated service to the Physical Plant Division. He congratulated the University of Kentucky Cheerleading Squad on their 22nd national championship. He also congratulated the freshman team of Dan Bannister and Anthony Trufanov of the UK Debate team as one of the top 16 teams in the country to receive an automatic bid to the 71st National Debate Tournament.

President Capilouto recognized and introduced DanceBlue Overall Chair Richie Simpson to share about DanceBlue 2017. Mr. Simpson was joined by Joey Gdovka, technology chair for DanceBlue. Now in its 12th year, DanceBlue has raised over \$9.8 million for cancer care for pediatric patients. The 2017 24-hour dance marathon will be Saturday and Sunday, February 25-26. One of the highlights from the past year was the ribbon cutting on the new DanceBlue Kentucky Children's Hospital Pediatric Hematology/Oncology Clinic. Mr. Simpson shared that this clinic is just one of the tangible results from this annual fundraiser. He thanked UK administration, faculty, and staff for their ongoing support and invited the Trustees to visit the marathon.

President Capilouto introduced Dr. Lisa Cassis, Vice President for Research, who in turn introduced Dr. Phil Kern, Director of the Center for Clinical and Translational Sciences (CCTS).

Dr. Kern was pleased to share with the Board that the overall mission of the CCTS was to catalyze clinical and translational research at UK. Established in 2007, the Center received its first Clinical and Translational Science Award (CTSA) from the National Institutes of Health in 2011. This award is three grants in one. The first area supports the overall program/center, the second area supports career development for junior faculty with a focus on the clinician scientist, and the third area supports institutional training for pre-doctoral and post-doctoral students.

With the funding, the Center's major goals include: infrastructure for clinical and translational science; educational programs and workforce development to ensure a pipeline of trained researchers; champion innovation by pilot funding to seed transformative research projects and the development of new processes; advance the use of cutting edge informatics; work with the national network of CTSA's, including multicenter clinical trials; and team science, community engagement, and focus on special populations in clinical and translational research.

One area of accomplishment is the pilot grant program, which resulted in millions of dollars in extramural support, primarily from the National Institutes of Health. Another area of focus for CCTS is the Appalachian Translational Research Network, which connects institutions in the area to continue research on Appalachia. Finally, the Center fosters collaborations with the other

national network of 64 CTSA award recipients, most of which are leading medical and academic medical centers throughout the country.

G. Human Resources/University Relations Committee Report

Secretary Kelly Holland, chair of the Human Resources/University Relations Committee, stated that the Committee had met earlier in the day. Following the approval of the minutes, the Committee heard a presentation from Jay Blanton, Executive Director of Public Relations and Marketing, regarding University public relations and the social media agenda as it relates to the University.

Topics covered in the presentation included an overview of the Public Relations Office and its role on campus, numbers and data on various platforms of social media, and brand crisis and reputational threat management.

Chair Holland stated that in the next three meetings, the Committee would hear more about the Government Relations process, free speech on campus, and campus inclusion programs.

H. University Athletics Committee Report

On behalf of committee chair C.B. Akins, Sr., Secretary Kelly Holland reported that the University Athletics Committee had met that morning. Athletic Director Mitch Barnhart gave an update of fall and spring sports. Highlights included that UK Athletics ranks 25th nationally and second in the SEC in Director's Cup standings. UK Athletics also closed the fall semester with a 3.143 GPA, marking the ninth straight semester with a GPA of 3.0 or better.

UK Athletics was excited to report that the UK cheerleading team won its unprecedented 22nd National Championship in January. Men's basketball moved to 21-5 overall and remains tied for the lead in the SEC Conference. In women's basketball, UK is led by its potent senior duo of Makayla Epps and Evelyn Akhator. Miss Epps is among the top 20 late-season candidates for the John R. Wooden Award. The seniors will play their final regular season games this coming week in Memorial Coliseum.

Secretary Holland continued with a spring sports update. The baseball team opens its challenging 2017 schedule with a trip to Chapel Hill to face No. 15 North Carolina. This will be first-year head coach Nick Mingione's first game of the season.

The gymnastics team continued its impressive start to the season with a first win in program history over perennial power and sixth-ranked Alabama.

UK and the Lexington Center Corporation (LCC) agreed to a new 15-year lease that will keep Rupp Arena as the home of UK's men's basketball. As part of the new lease, UK and LCC have negotiated improving the fan experience and atmosphere with multi-media rights, souvenir sales, parking, club and premium memberships, and catering services.

Secretary Holland concluded that the Committee acknowledged FCR 1 Charitable Grant Recommendation and reviewed and recommended approval to the Finance Committee of FCR 10 Renovate and Improve Athletic Facility Capital Project (Joe Craft Center Locker Room).

I. Audit and Compliance Committee Report

Trustee Skip Berry, chair of the Audit and Compliance Committee, stated that the Committee had met earlier in the day.

Treasurer Susan Krauss updated the Committee on the BKD Report of January 2017 bond offering. As required by auditing standards, BKD performed the review to ensure no events occurred subsequent to June 30, 2016, which would require adjustment to the financial statements included in the offering document. BKD also reviewed all information included in the offering document and noted no material misstatements of fact as compared to the audited financial statements.

Ms. Krauss continued her report regarding BKD's Agreed-Upon Procedures related to UK HealthCare and the management of Eastern State Hospital and Central Kentucky Recovery Center for the year ending June 30, 2016, and the NCAA Agreed Upon Procedures report on financial data for the year ending June 30, 2016. Ms. Krauss also presented the Dean Dorton Allen Ford Agreed-Upon Procedures report related to compliance with the contract between UK and Kentucky Medical Services Foundation (KMSF) for the year ending June 30, 2016. Dean Dorton Allen Ford reported no exceptions; however, a recommendation was made that more formal agreements be put in place for various cost-sharing arrangements between UK and KMSF.

Trustee Berry reported that Joe Reed, Chief Audit Executive, presented the Internal Audit updated metrics for the year ending 2017. The metrics were created to reflect the transition to the Dynamic Work Plan in Internal Audit.

In closing, ACC 1 Execution of the Audit Engagement Letter, for the year ending 2016-17 was discussed and approved by the Committee. The Committee authorized the Treasurer to execute the Engagement Letter with BKD for the audit of the financial statements for year ending June 30, 2017.

J. Finance Committee Report

Trustee Bill Britton, chair of the Finance Committee, stated that the Committee had met, discussed, and approved 13 FCRs. Dr. Eric Monday, Executive Vice President for Finance and Administration, provided an update to the Committee on the debt capacity study.

K. Investment Committee Report

Trustee Mark Bryant, chair of the Investment Committee, reported that the Committee had met on Thursday, February 16, 2017, to review performance results and conduct other business. The Endowment Pool had a market value of \$1.26 billion as of December 31, 2016. For the six-month period ending December 31, 2016, the Endowment pool generated an estimated return of

3.3 percent compared to a return of 3.8 percent for the market-based policy benchmark. Several asset categories contributed to Endowment pool performance during the period, with U.S. Equity and Diversifying Strategies allocations serving as primary return drivers.

L. University Health Care Committee Report

Trustee Robert Vance, chair of the University Health Care Committee, stated that the Committee met on Thursday, February 17, 2017, at the Charles T. Wethington Building.

Trustee Vance reported the Committee heard a presentation on how UK HealthCare is working to create a healing environment for patients, families, and staff. Jackie Hamilton, Cheryl Benze and Dr. Connie Jennings discussed some of the healing programs in the areas of Art, Art Therapy, Music Therapy, and Integrative Medicine.

Mr. Craig Collins, UK HealthCare Vice President and Chief Financial Officer provided financial updates regarding UK HealthCare. Areas of note include the change in acuity of patients. Year-to-date, the number of routine/intermediate patient days is down and the number of Intensive Care Unit (ICU) days is up. ICU patients require much more concentrated nurse staffing, which contributes to some of the increases in personnel expenses. Management continues to focus on reduction activities in the areas of full time equivalents (FTE) requests, focusing on process improvement, implementing supply and drug standardization, and working with consultants to develop a more robust workforce management process.

Dr. Karpf provided information updates to the Committee on FCR 4 and FCR 5, which pertained to the endowed chairs in child neurology and neurosurgery respectively. Dr. Karpf also shared an update on PR 3, the appointment of members to the Board of Directors to the UK Center on Aging Foundation, and PR 4, renaming the Gill Heart Institute to become the “Gill Heart and Vascular Institute.”

Trustee Vance continued that Dr. Phil Chang provided an update on the Flu Activation plan that was initiated on Thursday, February 16, 2017. UK HealthCare has recently seen an increased incidence of flu activity among patients and healthcare workers, and the Kentucky Department of Health is reporting that influenza is widespread in Kentucky. UK HealthCare is tightening its protocols for employee personal hygiene and best practices. For patients, the hospital and clinics are making some changes to the visitation policy to try to limit potential exposure. UK HealthCare is monitoring closely and once the threat has receded, restrictions will be lifted where appropriate.

In business items, the Committee reviewed and recommended approval to the Finance Committee of FCR 9, a sublease for the UK Department of Ophthalmology and Visual Science, and FCR 11, which authorizes UK HealthCare to rebuild critical core systems to improve its information technology capabilities. Lastly, the Committee approved the list of privileges and credentials presented.

M. Item for Discussion – Performance Funding

President Capilouto reminded the Board that at the close of the 2016 legislative session, there was a bill passed that indicated a portion of the budgets of higher education institutions would be allocated to a performance pool. The bill also set up a committee consisting of the presidents of the four-year universities and community colleges, representatives from the Kentucky House of Representatives and Senate, and representatives from the Governor's office. After much discussion and a number of proposals, a model was eventually accepted and made its way into legislation.

President Capilouto introduced Angie Martin, Vice President for Finance and Chief Budget Officer, to provide an update on the performance-funding model to the Trustees.

Ms. Martin began by giving the Board some context on performance funding. She reported that since the recession in 2008, for most states including Kentucky, tax revenues have been increasing every year, but state funds allocated to post-secondary education have not kept pace. During 2000-2008, Kentucky made good progress in graduation rates compared to other states in the country, but had seen little to no progress since that time. Twenty-five states in the U.S. have implemented a performance-funding model, eight have developed but not implemented a model, and five states including Kentucky are in progress of developing a model.

Ms. Martin continued that two important questions of any performance-funding discussion or model is how much of the existing and new state funds, if any, will be allocated to the model and what will be measured. Most states that have implemented an outcomes-based funding have some type of course completion requirement, along with a progression metric, meaning retention rates or accumulation of student credit hours and degree completion. The percentage of these two components varies by state.

The current model under consideration for Kentucky will transfer five (5) percent of the 2017-18 fiscal year institutional appropriation to a new post-secondary education performance fund. A total \$42.9 million, which includes \$13.3 million from the University of Kentucky, was moved from the base state appropriations to the new education performance fund. Senate Bill 153 is the vehicle legislation in the 2017 Kentucky General Assembly. It stipulates and "...finds that improving opportunity for the Commonwealth's citizens and building a stronger economy can be achieved by its public college and university system focusing its efforts and resources on the goals of:

- Increasing retention and progression of students toward timely credential or degree completion;
- Increasing the number and types of credentials and degrees earned by all types of students;
- Increasing the number of credentials and degrees that garner higher salaries upon graduation, such as science, technology, engineering, math, and health (STEM+H); and in areas of industry demand;
- Closing achievement gaps by increasing the number of credentials and degrees earned by low-income students, underprepared students, and underrepresented minority students; and

- Facilitating credit hour accumulation and transfer of students from KCTCS to four-year institutions.”

In an effort to recognize the different types of institutions, the public universities performance-funding model:

- Recognizes differences in missions and cost structures between the research universities and the comprehensive universities by weighting degree types;
- Excludes funding for mandated programs and state supported debt, while adding a small school adjustment;
- Allocates funds in the Postsecondary Education Performance Fund regardless of whether state funding for postsecondary education institutions increases, decreases, or remains stable; and
- Contemplates funding equilibrium based on productivity as measured by the model.

Additionally the model has two components, an outcomes-based component (70%) and a operational support component (30%).

The outcomes-based component is:

Student Success (35%)

- Distributed based on each institution’s share of sector’s total student success outcomes:
 - Bachelor’s Degrees
 - Degrees per 100 Undergraduate Full-Time Equivalent Students
 - STEM+H, Underrepresented Minority, and Low Income Degree recipients
 - Student Progression (30, 60, and 90 student credit hour thresholds)

Course Completion (35%)

- Distributed based on each institution’s share of sector’s total student credit hours earned:
 - Weighted to account for cost differences by course level and discipline

The operational support components include:

Maintenance and Operations [M&O] (10%)

- Distributed based on each institution’s share of square feet (net of research, non-class laboratory, and open laboratory space)

Institutional Support (10%)

- Distributed based on each institution’s share of sector’s total instruction and student services spending (net of M&O)

Academic Support (10%)

- Funding for academic support services, such as libraries and academic computing

- Distributed based on each institution's share of sector's total full-time equivalent student enrollment

Ms. Martin continued that the implementation of performance-based funding is also addressed in Senate Bill 153. Over the next two biennia, the Kentucky General Assembly may allocate new state funds and/or a percentage (0%-100%) of the institutions existing allocable state funds to the Postsecondary Education Performance Fund for distribution based on the performance-funding model.

During FY 2017-18, funds allocated to the Postsecondary Education Performance Fund are allocated in accordance with the model.

For the FY 2018-20 biennium, the distribution will be:

- FY 2018-19 – Universities will be held harmless, preventing a reduction in existing state funds based solely on the model
- FY 2019-20 – A stop-loss provision will limit any reduction to 1% of an institution's existing state funds

For the FY 2020-22 biennium, the distribution will be:

- FY 2020-21 – a stop-loss provision will limit any reduction to 2% of an institutions existing state funds
- FY 2021-22 – the hold-harmless and stop-loss provisions are no longer guaranteed and must be enacted by the General Assembly this year and in the future.

Ms. Martin concluded that the Council on Postsecondary Education is still updating the model and would have final determination of funds by April 1, 2017.

Trustee Reid asked that as a Research I institution, would UK be competing only with the University of Louisville? Ms. Martin stated that UK is in the sector with all four-year institutions. There are provisions to help with the weighting of the research institutions versus the comprehensives to eliminate any special advantages or disadvantages.

Trustee Blonder asked what majors are included in the STEM+H (student success outcome) and how is that defined? Ms. Martin stated that a specific list of Classification of Instructional Programs (CIP) codes were used. As UK has more degrees issued in STEM+H majors, a vast majority of UK's degrees will count.

For more information, Vice President Martin's presentation may be found at http://www.uky.edu/Trustees/agenda/full/2017/feb/BoT_Discussion-Perf_Funding_v2.pdf.

N. Meeting Adjourned

Hearing no further business, the meeting was adjourned at 2:50 p.m.

Respectfully submitted,



Kelly Sullivan Holland
Secretary, Board of Trustees

(PR 1, PR 2, PR 3, PR 4, ASACR 1, ASACR 2, FCR 1, FCR 2, FCR 3, FCR 4, FCR 5, FCR 6, FCR 7, FCR 8, FCR 9, FCR 10, FCR 11, FCR 12, and FCR 13 are official parts of the Minutes of the meeting)