

Minutes of the Meeting of the Board of Trustees of the University of Kentucky, Tuesday, August 13, 2002.

The Board of Trustees of the University of Kentucky met at 1:00 p.m. (Lexington time) on Tuesday, August 13, 2002 in the Board Room on the 18th Floor of Patterson Office Tower.

A. Meeting Opened

Mr. Billy Joe Miles, Chairperson, called the meeting to order at 1:00 p.m., and Ms. Marian Sims gave the invocation.

B. Oath of Office

Paul Van Booven, Acting General Counsel, administered the Oath of Office to the following new member:

Myra Leigh Tobin, elected by the Alumni Association to replace John R. “Jack” Guthrie, for a term ending June 30, 2008.

C. Roll Call

The following members of the Board of Trustees answered the call of the roll: Mr. Paul W. Chellgren, Ms. Marian Smith Edge, Professor Michael Kennedy, Dr. Robert P. Meriwether, Mr. Billy Joe Miles (Chairman), Dr. Claire Pomeroy, Mr. Steven S. Reed, Mr. Tim Robinson, Mr. Frank Shoop, Ms. Marian Moore Sims, Ms. Alice Stevens Sparks, Dr. W. Grady Stumbo, Ms. Myra Leigh Tobin, Ms. JoEtta Y. Wickliffe, Mr. Billy B. Wilcoxson, Mr. Russ Williams, Ms. Elaine A. Wilson, and Ms. Barbara S. Young. Absent from the meeting were Ms. Pamela R. May and Dr. Elissa Plattner. The University administration was represented by President Lee T. Todd, Jr., Acting Provost Michael Nietzel, Acting Senior Vice President Jack C. Blanton, Senior Vice President and Chancellor of the Medical Center James W. Holsinger, Jr., Acting Vice President for Research James Boling, and Acting General Counsel, Mr. Paul Van Booven.

Members of the various news media were also in attendance. A quorum being present, the Chairperson declared the meeting officially open for the conduct of business at 1:04 p.m.

D. Consent Agenda

Mr. Miles noted the following four items on the consent agenda and asked for a motion of approval:

Approval of Minutes – June 11, 2002
July 15, 2002 Executive Committee
PR 2 Personnel Actions

AACR 1 Candidates for Degrees – Community College System
AACR 2 Candidates for Degrees – University System

Ms. Wilson moved approval of the Consent Agenda. Her motion, seconded by Ms. Edge, carried. (See PR 2, AACR 1 and AACR 2 at the end of the Minutes.)

E. President's Report to the Board of Trustees (PR 1)

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

1. The University of Kentucky breaks \$200 million mark in research. This year's awards represent a 22.1 percent increase over last year. President Todd reported that the University is up 10% already over last July and he believes the strategies put in place last year will begin to take even more effect this year. He congratulated the faculty for a great performance.
2. Twenty-two African-American upperclassmen spent their summer working in the scientific laboratories and academic offices of several University of Kentucky professors hired under the state's Research Challenge Trust Fund program. This was a recommendation from the Commission for Diversity headed by Professor Deneese Jones at that time. President Todd and Governor Paul E. Patton presented certificates to the participants at the end of their work. President Todd said that this is the type of program that the University wants added to the KYSS program, Kentucky Young Scientists Summer Program.
3. The University of Kentucky broke ground for a new Center for Rural Health building in Hazard. The \$13.1 million project represents a unique cooperative effort between the University of Kentucky, Kentucky Community and Technical College System (KCTCS), state, federal and private funding. This building will be named the Bailey-Stumbo building in honor of Dr. Stumbo who has contributed so much to that region. President Todd expressed congratulations to Dr. Stumbo.
4. The American Society for Virology brought nearly 1,300 of the world's most prominent researchers on plant, animal and human viruses to UK's campus for a five-day meeting. President Todd said that comments were made about it being the best conference held in the 21-year history of that society.
5. The University of Kentucky generated \$1.5 million in royalties during fiscal 2001-2002 from intellectual property licensed for use by business and industry. President Todd noted that this is down somewhat; however, UK did have a record of 83 inventions disclosed this past year.

6. Five UK faculty have been named Fulbright Scholars for 2002-2003 academic year, permitting them to study abroad. That is a great tribute to Rory Remer, Edward (Skip) Kifer, Mark Berger, Desmond Brown and Greg Brock. President Todd said he was proud of their accomplishments.
7. The University of Kentucky held its annual College Business and Management Institute in late July. President Todd reported that there were 760 participants in that program this year. Dr. Jack Blanton was roasted at their banquet for his long-term participation and leadership in the conference. Dr. Todd expressed congratulations to Dr. Blanton for another great conference.
8. UK Trustee Russ Williams traveled to New York City in mid-July as one of 500 volunteer facilitators specially chosen from around the nation to assist in choosing the new World Trade Center proposals. President Todd expressed appreciation to Mr. Williams for taking the time to participate in the discussions and for representing the University in that endeavor.

President Todd asked the Board to take note of the other “good stuff” in his report that he did not have time to mention.

F. Introduction of Executive Committee of Staff Senate

President Todd reminded the Board of its action last year to establish a Staff Senate. He reported that elections had been held, and the Executive Committee of the Staff Senate had been selected. He said that Mr. Williams had been a leader in this effort and asked him to introduce the new members of the Staff Senate.

Mr. Williams said that the Staff Senate is now in place. The Executive Committee and other members of the Staff Senate were present to meet the Board. He introduced the following 2002-2003 Staff Senate Executive Committee and Chairs of the Standing Committees:

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| Chair | Bill Adkisson, Department of Surgery |
| Vice Chair | Vacant due to a transfer to another department |
| Secretary | Karen Michul, Coldstream Research Campus |
| Treasurer | Kim Judd, General Accounting |
| Parliamentarian | Tyrone Gentry, Green County Cooperative Extension Office |

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| Chair, President’s Advisory Committee | Paula Dunn Graduate and Family Housing |
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| Chair, Staff Trustee Advisory Committee | Dave Vantrees College of Education |
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| Chair, By-Laws Committee | Ann Livingstone International Affairs |
| Chair, Election Committee | Mary Harralson College of Fine Arts |
| Chair, Public Relations Committee | Bill Bruening Department of Agronomy |
| Chair, Staff Issues Committee | Jonathan Demersseman College of Arts and Sciences |

Mr. Williams asked other staff senators in attendance to also stand and be recognized, following which everyone received a round of applause.

President Todd recognized Dr. Jeff Dembo, Chair of the Senate Council. He congratulated him on his leadership role and said he looked forward to working with the University Senate.

G. Update on Coldstream Research Campus

President Todd said that the Board would have a presentation on some of the facts, figures and accomplishments of Coldstream Research Campus. At a previous Finance Committee meeting, Mr. Chellgren requested a review of the structure and the leasing of property at Coldstream. President Todd indicated that a sub-committee of the Finance Committee may be appointed to undertake that request, and he would be talking with Mr. Chellgren about that. He asked Dr. Boling to introduce Ms. Kathy Stewart, who would be making the Coldstream Research Campus presentation.

Dr. Boling said that when President Todd became President of the University, he reorganized where the Coldstream Research Campus lies within the University structure. Prior to the reorganization, the Coldstream Research Campus had been handled by Central Administration. It is now under the Office of the Vice President for Research and the Office of the Associate Vice President for Research. Under the Office of the Associate Vice President for Research, Dr. Joe Fink is responsible for Information Services, ASTeCC, Intellectual Property and the Coldstream Research Campus.

Dr. Boling said that Kathy Stewart is the Executive Director of the Coldstream Research Campus. Ms. Stewart is a graduate of Georgetown College with a MBA from Bellarmine College. She spent some of her early career at the National City Bank and other financial institutions in Louisville. In the mid 1980's she came to Lexington as Vice President in Commercial Lending at Citizens Union Bank and followed that at the National City Bank. Her last bank appointment was with the PNC Bank. In 1999 she came to the University and was appointed Executive Director of the Coldstream Research Campus. She has been doing an excellent job for the University and will give an update on the total campus at Coldstream.

Ms. Stewart thanked Dr. Boling and the Board of Trustees for giving her the opportunity to update them on Coldstream Research Campus. The presentation gave a brief history of the Research Campus, demographic information and described the amenities to tenants locating on the campus. Ms. Stewart's presentation detailed the number of lots leased, mini-campus details, employee count and number of buildings, including total square footage. The types of companies that have located at Coldstream were discussed and a listing of the current tenants was detailed. Marketing partners were presented, as was detailed financial data that showed preliminary June 30, 2002 revenues of \$467,500 and net income of \$123,200. The presentation was closed with an offer to the Board of Trustees to tour Coldstream and questions were entertained.

President Todd said that Ms. Stewart had a passion and energy for her job, and he appreciated what she does at Coldstream. He said that he had the pleasure long before he became President of sitting on the zoning group that zoned Coldstream and going to City Council meetings to get it processed, and he was fairly familiar with it.

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

President Todd said that PR 3 is an amendment to the Governing Regulations that clarifies the annual election of the Chairperson of the Board of Trustees. It is an election of the Chairperson as one of the five voting members of the Executive Committee. This is presented for preliminary consideration at this meeting and will be voted on at the next meeting, provided at least one month has elapsed. President Todd said that no action was necessary at this time.

I. Approval of Administrative Regulation AR II-1.6-1 University of Kentucky Retirement Plan (PR 4)

President Todd said that PR 4 was an approval of administrative regulation regarding the retirement plan. There was a need to define more clearly which University positions are considered to be executive for purposes of mandatory retirement. Previously, it read that mandatory retirement was applicable to people employed in bona fide executive or high policy making positions for two or more years. For the purposes of this new regulation, bona fide executive or high policy making position means the President, Provost, Senior Vice Presidents, Vice Presidents, Deans of the academic colleges, the Director of Athletics, and the General Counsel. This should be a little easier to understand. He asked for a motion of approval of PR 4. Ms. Sims so moved. Her motion, seconded by Ms. Wilson, carried. (See PR 4 at the end of the Minutes.)

Mr. Miles said that there is a lot of discussion about the 65-year retirement. He asked if this change affected the 65-year retirement in anyway.

President Todd said this would not change that. It is still there.

Mr. Miles said that there has always been a misunderstanding about the 65-year rule and a lot of people think that at 65 you are retired. He mentioned C. M. Newton who went past age 65 and asked if this changed that.

President Todd said that the Board can take action to override that rule so possibly that is what accounts for that situation.

J. Appointment/Reappointment of Advisory Board at the Lexington Community College (PR 5)

President Todd said that PR 5 is the appointment/reappointment of the Advisory Board members at Lexington Community College (LCC). The recommendation is that Margaret Koffler and Reginald Thomas be appointed for four-year terms ending June 30, 2006 and the reappointment of Paula Hanson, O. Randall Powell and William Wilson for three-year terms ending June 30, 2005 to the Advisory Board at LCC. Mr. Williams moved approval. Ms. Edge seconded the motion, and it carried. (See PR 5 at the end of the Minutes.)

K. Appointment of Vice President for Student Affairs (PR 6)

President Todd said that PR 6 is the Appointment of Vice President for Student Affairs. He recommended that Dr. Patricia S. Terrell be appointed as Vice President for Student Affairs effective August 14, 2002. Following Dr. Kuder's retirement, there was a search to fill the position. Dr. Terrell, who is a graduate of this university and served in capacities in student affairs at the University of Louisville as well as Southern Methodist University and most recently at Utah State University, was selected and recommended by that advisory group. He recommended the appointment of Dr. Terrell. Tim Robinson so moved. Mr. Chellgren seconded the motion, and it passed.

L. Appointment of Vice President for Academic Outreach and Public Service (PR 7)

President Todd said that PR 7 is a request for the appointment of Vice President for Academic Outreach and Public Service. He said his recommendation is based on the search committee's recommendation. He recommended that Dr. Retia Scott Walker be appointed Vice President for Academic Outreach and Public Service effective August 14, 2002. He reminded the Board that it recently approved the formation of the position. It is his strong feeling that the University needs someone in this capacity to advance the public service and academic outreach mission of the University. He said it was interesting to learn as he interviewed Dr. Walker that she also served in New York City in their public service well before she came to the University of Kentucky. He recommended the appointment of Dr. Retia S. Walker as Vice President for Academic Outreach and Public Service. Ms. Wilson so moved. Ms. Sparks seconded the motion, and it carried. (See PR 7 at the end of the Minutes.)*

*Amendment of this paragraph was approved at the February 25, 2003 Board meeting. Please see the minutes page (www.uky.edu/Trustees/Minutes) for that meeting.

M. Capital Construction Report (FCR 1)

Mr. Chellgren, Chairperson of the Finance Committee, reported that the Finance Committee had a brief meeting that morning. FCR 1 is the quarterly Capital Construction Report. During the last quarter there were no new contracts, some 3 amendments and 14 change orders. The only particular project that was brought to the Finance Committee's attention was change orders on a blanket utility upgrade project on page 8 in the Capital Construction Report. This is not to be unexpected in the \$14 plus million project where they are making massive changes in the water lines, the chillers and various other parts of the infrastructure of a campus of this magnitude and of this age. He moved the acceptance of FCR 1. Ms. Wilson seconded the motion, and it passed.

N. Report of Leases (FCR 2)

Mr. Chellgren said that FCR 2 is the recurring Report of Leases. There were three new leases and one renewal lease. These are leases where annual consideration is less than \$30,000, and they are described in FCR 2. There is nothing on the list that needs to be brought to the Board's attention. He moved the acceptance of FCR 2. Mr. Williams seconded the motion, and it carried. (See FCR 2 at the end of the Minutes.)

O. Approval of Lease (FCR 3)

Mr. Chellgren reported that FCR 3 is the approval of leases exceeding \$30,000 annually in value. One is a renewal and one is a new lease. The first one is a renewal of a lease in Hazard, Kentucky. This lease facility will be replaced by the new Rural Health facility that is named after Senator Benny Ray Bailey and Dr. Stumbo. The second item is a new lease between the University and the University Commons in Lexington, Kentucky for six buildings consisting of 72 apartment units near campus on Red Mile Road. These six buildings will accommodate approximately 280 students and make some significant step to accommodate the expanded student enrollment. He pointed out that these units are priced in terms of rental to the students to break even from the University's point of view. It is not a net cost to the University. This will be a lease expense, and then there will be revenue from student rent. He moved the acceptance of FCR 3. Ms. Sparks seconded the motion, and it carried. (See FCR 3 at the end of the Minutes.)

P. Coldstream Research Campus Ground Lease First Alliance Corporation (FCR 4)

Mr. Chellgren said FCR 4 is a request from one of the tenants at Coldstream. The tenant has requested that their lot be moved from lot 21 to lot 24 in the mini-campus that was referenced in the Coldstream presentation. He moved the adoption of FCR 4. Mr. Shoop seconded the motion, and it passed. (See FCR 4 at the end of the Minutes.)

Dr. Stumbo and Mr. Miles asked that the record show that they abstained from voting because of a business relationship.

Q. Endowment Name Change (FCR 5)

Mr. Chellgren said that FCR 5 is a request that the Board approve the change of the name of an endowment in the Chandler Medical Center from the U.S. Surgical Endowed Professorship to the U.S. Surgical-Pfizer Endowed Professorship. U.S. Surgical has been acquired by Pfizer and that would be the reason for the change. He moved the acceptance of FCR 5. Ms. Edge seconded the motion, and it carried.

R. Establishment of Gift Annuity Program (FCR 6)

Mr. Chellgren said that FCR 6 is the establishment of a gift annuity program at the University. The Finance Committee had a comprehensive discussion about this new program. Gift annuities are attractive to donors because they do qualify as charitable deductions for income tax purposes. Donors receive a fixed payment guaranteed for the life at a rate that is in effect when the gift annuity is negotiated and executed. This is following a pattern that almost all major academic and other charitable institutions have. The Development Office believes that it will be an important additional donation opportunity for the donors and contributors of the University. He moved the acceptance of FCR 6. Ms. Wilson seconded the motion, and it carried. (See FCR 6 at the end of the Minutes.)

S. Gifts and Pledges (FCR 7 through FCR 12)

Mr. Chellgren said that with the Board's concurrence, he would like to deal with FCR 7 through 12 as a blanket resolution. These are the contributions that need Board approval.

FCR 7 – approve the establishment of the Franklin E. Tuttle Memorial Quasi-Endowment Fund. In 1988, the University of Kentucky received just over \$1.4 million from the estate of A. Sidney Behrman, as a memorial to Dr. Tuttle, a former chemistry professor. Those funds were invested in the short-term investment program that would not have earned significant returns. The decision has been made to place these funds in the pooled endowment investments that will historically, perhaps not the last three years, generate much better money market returns.

FCR 8 – accept a gift of \$10,000 and a pledge of \$40,000 from Deane Blazie from Hobe Sound, Florida to create and endow a professorship in the College of Engineering, Department of Electrical and Computer Engineering. This is eligible for matching funds in the state's Research Challenge Trust Fund (RCTF).

FCR 9 – accept a gift of \$50,000 from Kentucky Utilities, Inc., which is now linked with Louisville Gas and Electric, to create and endow a professorship in

the College of Engineering, Department of Electrical and Computer Engineering. This is eligible for matching funds from the RCTF.

FCR 10 – accept a generous gift of \$500,000 from Kentucky Medical Services Foundation to establish and endow a chair that will enhance and help science research in the Chandler Medical Center. It is anticipated that this gift will be matched by the state’s RCTF to get the \$1 million principal needed to establish a chair.

FCR 11 – accept a gift of \$1,479,600 from the estate of George A. Young to the College of Medicine to establish and endow the George A. Young Endowment for Stroke Research in the Sanders-Brown Center on Aging. Mr. Young was a 1947 graduate of the University. He died in July 1990. It took time to liquidate his estate. The gift is eligible for matching funds from the state’s RCTF.

FCR 12 – accept an anonymous gift of \$400,000 to the Department of Athletics for the baseball stadium renovation project.

Mr. Chellgren noted that four of the six gifts show eligibility for matching funds from the Research Challenge Trust Fund. With these four gifts, that particular fund and the interest on the fund is exhausted. He said that the Committee is hopeful that there will be another program when the state gets a budget. At this point, the University has exhausted all of its RCTF funds. He moved the acceptance of FCR 7-12 inclusive. Ms. Sims seconded the motion, and it passed. (See FCR 7, 8, 9, 10, 11, and 12 at the end of the Minutes.)

T. Investment Committee Report

Mr. Miles called upon Mr. Wilcoxson to give the Board an update on the recent activities of the Investment Committee.

Mr. Wilcoxson reported that the Investment Committee had reviewed the allocation and performance results of the fixed income portfolio. The University’s investment consultants, Ennis Knupp & Associates, recommended that proposals be requested from prospective fixed income managers and that consideration be given to dividing the fixed income assets into a core and a core plus strategy. After interviewing prospective managers, the Investment Committee decided to hire Reams Investment Management Company as a core manager, and Pacific Investment Management Company (PIMCO) as a core plus manager. The University’s allocation to fixed income securities of approximately \$130,000,000 was divided equally between the two companies.

Ms. Young asked Mr. Wilcoxson to provide an explanation of core and core plus investment strategies.

Mr. Wilcoxson explained that the basic difference between core and core plus fixed income investing is the amount of risk taken. The core plus strategy offers a higher yield but with slightly more risk based on the individual ratings of the securities purchased. Basically the difference between the core and core plus is the amount of risk taken. After a thorough review, assisted by Ennis Knupp, the Investment Committee agreed that overall there may be less risk by allocating 50% of the fixed income portfolio to a core plus strategy.

Mr. Wilcoxson asked Mr. Clay Owen to comment. Mr. Owen stated that the two styles complement each other and the market returns for each of the styles do not exactly correlate. The diversification tends to reduce overall risk (volatility of returns) in the fixed income portfolio. The two portfolios would be similar for 80% of the investments, i.e. high quality corporate bonds, U. S. Treasuries, etc. In the core plus portfolio, up to 20% can be invested in securities with lower ratings, such as high yield bonds, foreign bonds (non U.S. \$ denominated) and debt of emerging markets. Core plus is more aggressive, but over time, when combined with a core portfolio, the volatility of annual returns is less because of the diversification.

Mr. Wilcoxson stated that the Investment Committee is taking what one might say is a little more risk, but believes that the potential for increasing the revenue makes the additional risk acceptable.

U. Nominating Committee

Mr. Shoop, Chairperson of the Nominating Committee, asked the Nominating Committee to remain so they could set a date for the Nominating Committee to meet.

V. Mr. Mobley Recognized

Mr. Shoop recognized Mr. Mobley for stepping in and doing such a great job as Acting Director of Athletics. It shows the capabilities of a man that can wear several hats at the University. He asked Mr. Mobley to stand and be recognized, following which he received a round of applause.

President Todd said he was going to compliment Mr. Mobley, but he prefers that the Board members do that in his stead. He pointed out that the match of two of the \$67,000,000 rounds of "Bucks for Brains" is the green hat area that Mr. Mobley wears. He has taken this endowment from about \$200,000,000 to about \$450,000,000 in a four-year period. He said that he appreciated both levels of services that Mr. Mobley has provided the University.

W. Meeting Adjourned

With no further business to come before the Board, Mr. Miles adjourned the meeting at 1:55 p.m.

Respectfully submitted,

JoEtta Wickliffe
Secretary, Board of Trustees

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