

Minutes of the retreat of the Board of Trustees of the University of Kentucky, Sunday, August 21 and Monday, August 22, 2005.

The Board of Trustees of the University of Kentucky began its retreat at 5:00 p.m. (Lexington time) on Sunday, August 21, 2005 at Donamire Farm, 4151 Old Frankfort Pike, Lexington, Kentucky.

Mr. James Hardymon, Chair, welcomed the members and thanked them for attending the retreat. He asked Barbara Jones, General Counsel, to administer the Oath of Office to the new members.

A. Oath of Office

Ms. Jones administered the Oath of Office to the following members:

Penelope Brown, appointed by Governor Ernie Fletcher to replace Elaine Wilson, for a term ending June 30, 2011.

Dermontti Dawson, appointed by Governor Ernie Fletcher to replace Alice Sparks, for a term ending June 30, 2011.

B. Roll Call

The following members of the Board of Trustees answered the call of the roll: Mira Ball, Stephen Branscum, Penelope Brown, Dermontti Dawson, Jeffrey Dembo, Marianne Smith Edge, Ann Haney, James Hardymon (Chair), Pamela May, Billy Joe Miles, Roy Moore, Phillip Patton, Frank Shoop, JoEtta Wickliffe, Russ Williams, and Barbara Young. Myra Leigh Tobin arrived late. Absent from the meeting were Steven Reed and Billy Wilcoxson. The university administration was represented by President Lee T. Todd, Jr.

First Lady Patsy Todd and *Kernel* reporter Troy Lyle were also in attendance.

C. Opening Remarks by Chair

Mr. Hardymon reviewed the agenda for the retreat. He noted that he had input from Mr. Williams and other members of the Board in completing the agenda. He announced that Coach Rich Brooks would attend the reception and make some brief remarks at the dinner.

Mr. Hardymon reported that the Board would go into closed session to receive a report about current university litigation at the beginning of the meeting Monday morning.

Mr. Hardymon talked about the process concerning President Lee Todd's contract and said that he would have two sessions with the Board to talk about the contract. The purpose in having two sessions is to give the members an opportunity to attend one of the sessions. He noted that Dr. Dembo would not be available for either session because he would be out of the country and said that he would talk with Dr. Dembo when he returned.

He explained that the Board members will be given a document that will identify the changes in the contract. It will be a fair document that will be open to suggestions. It will be a working document, and a decision about the contract will not be voted on until the September 20 Board meeting.

D. President Lee Todd's Comments

President Todd reported that the fall semester begins Wednesday, August 24, and the students began moving on campus last Friday. The university's budget is for 3,800 Freshman students, but there will probably be 3,900. The Freshman ACT scores are not available at this time, and the administration will be watching that closely.

He announced that he and his wife, Patsy, had lunch with the Singletary Scholars recently. He noted that the Governor's Scholars and the Governor's School for the Arts programs are doing well.

The fall Freshman class will have 217 legacy students this year. This is an important program that brings the alumni back to campus.

Four new dormitories opened this fall. There are complaints from some parents of students who have to live in dormitories without air conditioning. He talked about the expense involved in putting air conditioning in old dormitories.

President Todd announced that the university's endowment is over \$550 million, and the university will bring in \$15 million during the month of August. The development reorganization is going very well, and Mike Richey has a lot of energy in the development area.

President Todd talked about the importance of salaries. The target is to get to 90 percent of the benchmark median salaries. To do so would take a 4 percent increase next year and 5 percent the following year. The administration is trying to break down the categories in order to get a 4 percent increase in place for next year. He said that the university has an obligation to the faculty to get their salaries increased.

The university's tuition is very reasonable. The Council on Postsecondary Education (CPE) will still try to have control over tuition. CPE will be putting a procedure in place that will make the institutions justify their tuition.

President Todd reported that the university received \$274 million in research grants. This is a 15 percent increase over last year which represents \$36 million more than last year. Corporate research dollars are also up this year.

The post doctoral goal has been met, and there was a record number of Ph.D.s awarded this year.

President Todd reported on the provost search. The committee evaluated the firms and selected Korn/Ferry to handle the search. The target date is July 1, 2006 to have someone in

place for the provost position. President Todd noted that he serves on two or three committees with other presidents of institutions and would be receiving input from them. In the meantime, Dr. Scott Smith is doing a good job while the search is ongoing.

President Todd gave an update on capital projects. He reported that he had met with legislators in Frankfort about all the capital needs for the university. He does not anticipate much help from Frankfort; therefore, the university must put research at the top of its priorities.

President Todd reported that he is working to improve his communications with faculty. He plans to attend college meetings as soon as possible and has already met with the Fine Arts faculty. He will be meeting with the University Senate and plans to begin having breakfasts with selected faculty across campus. He talked about a book entitled *The World is Flat* and encouraged the Board to read it. He plans to schedule campus lunches to discuss the book in an effort to improve communications on campus.

President Todd talked about undergraduate initiatives and said the administration needs to maintain its focus on undergraduate studies. There will be an announcement soon about a Center for Undergraduate Excellence. There will be seven living-learning centers in the dormitories. He explained the process for students to learn throughout the day and stated that this should help the retention rate. Some major committees will be working on this issue. He noted that he welcomed 400 honor students to campus yesterday.

He concluded his remarks by saying that these are the kinds of updates that the Board should know, and he feels good about this update.

E. Coldstream Update

Mr. John Parks, Executive Director of Coldstream Research Campus, gave the Board the following report on the Coldstream Campus.

Progress in fiscal year 2005

During fiscal 2005, seven new tenants were brought into Coldstream bringing the total to 28. These ranged from a one-person start-up company to the American Board of Family Medicine which will employ over 50 once their building is completed. Also, an additional 50.31 acres were leased, bringing the total in the campus under development to 154 acres.

Total employment at Coldstream grew from 604 employees in June 2004 to 723 in June 2005. The previous peak employment was 691 jobs at Coldstream in fiscal 2001. These tenants have occupied all but 8,000 square feet of currently available space in Coldstream, and that space has a lease pending. This puts us in critical need of additional speculative space in order to address the interest from the rapidly growing high-tech sector.

Construction commenced on the facility for the Center for Pharmaceutical Science and Technology (CPST) in the fall of 2004, and the building shell should be completed this

September. CPST is anticipating beginning manufacture of non-sterile products in the first quarter of 2006 and, following FDA certification, the manufacture of sterile products by the third quarter.

The Lexel Imaging facility was purchased by the university on July 1, 2005. Lexel Imaging has downsized from 163,000 square feet to 80,000 square feet and signed a six-year lease with the university. The remainder of its building will be converted to multi-tenant use. The remaining space includes 12,000 square feet of clean room space and 16,000 square feet of factory floor. We anticipate sufficient funding to remodel the office portion to be available in September 2005.

Currently the CPST is leasing several offices along with Kentucky Textile Technologies, WRRI, Kentucky Technology Incorporated, and the Coldstream administrative office. Possible new tenants include the UK Center for Coatings and Surface Inspection (subject to state participation for lab fit-up), and any one of several prospects working with Coldstream.

Year-to-date progress in fiscal year 2006

For fiscal 2006, we now have 30 tenants scheduled, with employment of approximately 775 people (this includes the Center for Pharmaceutical Science and Technology and the American Board of Family Medicine). Currently 574,000 square feet of space have been constructed in Coldstream. There are four pending construction projects that could represent as much as an additional 385,000 square feet.

Facilities

New facilities proposed and under construction include

- The Center for Pharmaceutical Science and Technology
- The expansion of the Kentucky Technology Center
- Remodeling of the Coldstream Center
- The construction of the Lexhold LLC multi-tenant facilities

Marketing

We anticipate our new tenant base for the Coldstream Research Campus will come primarily from five sources:

Faculty Start-ups
External brokers
Research engagements
University and government uses
Local expansions

Our marketing focus will be in the areas of agriculture and ag biotech, pharmaceuticals and medical devices, advanced manufacturing and imaging, and information technology.

Issues

The primary issues facing Coldstream in the near- and mid-term include:

- providing a continuum of space, business support services, and equity financing for faculty start-up companies
- marketing university interactions to established technology firms
- providing an inventory of the right physical facility products for growing high-tech firms (multi-tenant lab and office space).

Following Mr. Parks presentation, the Board adjourned at 6:30 p.m. for a reception and dinner.

The Board retreat continued at 8:30 a.m. on Monday, August 22.

The following members of the Board of Trustees answered the call of the roll: Mira Ball, Stephen Branscum, Penelope Brown, Jeffrey Dembo, Marianne Smith Edge, Ann Haney, James Hardymon (Chair), Pamela May, Billy Joe Miles, Roy Moore, Phillip Patton, Frank Shoop, Myra Tobin, JoEtta Wickliffe, Billy Wilcoxson, Russ Williams, and Barbara Young. Absent from the meeting were Dermontti Dawson and Steven Reed. The university administration was represented by President Lee T. Todd, Jr.

First Lady Patsy Todd and *Kernel* reporter Troy Lyle were also in attendance.

F. Closed Session

Mr. Hardymon announced that the Board needed to go into closed session in order to discuss pending litigation with the General Counsel. The reason the session has to be closed is counsel will be advising the Board as to the status of pending litigation that involves the university. He moved that the Board go into closed session pursuant to KRS 61.810(1)(c). This statutory citation is the exception in the open meetings law that permits the Board to go into closed session to discuss pending litigation on behalf of a public agency, in this instance, the university. On motion made by Ms. Wickliffe, seconded by Mr. Branscum and carried, the Board went into closed session.

G. Meeting Reconvened

Mr. Hardymon called upon Henry Clay Owen, Treasurer, to give a report of the Sarbanes-Oxley Act of 2002.

Mr. Owen made a presentation of the Sarbanes-Oxley Act to the Trustees, discussing the background, objectives, and key provisions of the law which was enacted in July, 2002 in response to Congressional concerns over corporate scandals, accounting irregularities, fraud, and related audit failures.

The law established new standards of conduct for Officers and Directors of publicly traded companies, new regulations for public accounting firms, and civil and criminal penalties for transgressions.

Mr. Owen explained that although the law does not apply to colleges and universities, certain provisions have relevance to higher education as “best practices” for management and governing boards. The National Association of College and University Business Officers (NACUBO) issued an Advisory Report in November, 2003 to provide guidance on “best practices” to implement from the Act. Particular areas of emphasis concerned auditor independence, ethical principles and codes of behavior for senior management, and the role and function of the Audit Committee.

Mr. Owen explained that the University of Kentucky was in compliance with many of the NACUBO recommendations and provided a separate handout titled *University of Kentucky Compliance with NACUBO Advisory Report 2003-3*.

Following the presentation there was a brief question and answer session.

H. Review of Board Regulations

Ms. Jones talked about the Governing Regulations. She said there were four regulations that need to be considered this year, and she elaborated on each of them.

With the executive committee and committee structure being one of the four that needs consideration, there was a discussion about the structure of the committees, their functions, the membership and size, and how the Board reached where they are today with the committee structure. Mr. Wilcoxson emphasized that those appointed to the committees should have expertise in the appropriate area in order to be productive for the university.

I. 2006 Meeting Schedule

Mr. Hardymon called attention to the proposed 2006 meeting schedule that had been sent to the Board. He noted that he had changed a couple of dates in order to accommodate some members’ schedules; however, he was not able to change one of the dates. The Board talked about the dates. A few members indicated that they had problems with certain dates but would attend as many meetings as possible. The proposed schedule was agreed upon and will be presented at the September 20 meeting.

J. General Discussion on University Hospital

Ms. Young gave a brief report on the hospital. She talked about the number of staff that had been added and the economic driver that it is for the city and state. She addressed the following items in her report:

The hospital has received \$100 million in bonding from the state.
An investment policy is going to be established.

There is going to be a new look with the new construction.
A site has been approved for the bed towers.
The staff profile has been improved.
The hospital will have a new marketing plan.
The closing of Rose Street will be helpful to the hospital.
The hospital's operating margins are up 5 percent.
The hospital has 64 faculty who are recognized as America's best physicians.

Ms. Young also discussed the University Hospital Committee and talked about the possibility of having outside expertise and membership on the committee. The advantages and disadvantages were also discussed, and it was determined that a proposal should be put together to be presented by the committee at a later date.

Ms. Young concluded her report by stating that good things are happening at the hospital, and it is an exciting time for everyone.

K. Top 20 Business Plan

President Todd referred to a handout about the Top 20 Business Plan that had been distributed to the Board. He reviewed the items in the handout and stated that he hopes to have the report finished by the end of September. He said he would like to have it finalized before the January legislative session.

President Todd mentioned that the purpose of the Dream Tour was to sell the importance of being a Top 20 institution.

L. Retirement Community at Coldstream

President Todd talked about the plan to partner in the establishment of a retirement community near Coldstream Farm. His discussion included the value of the property, the vision to enhance aging research, and the opportunity to foster the university's development efforts. He said that he feels the project will furnish a fair return to the university. He elaborated on certain items that had been presented in a previous report to the Board about the retirement community. There was a discussion of issues, benefits, and opportunities for the university. He said the retirement community proposal will be brought back to the Board later.

M. Hilary J. Boone Center

President Todd reflected upon his July 1, 2001 appointment as president of the university. He said one of the things he wanted to do for the university was to make it campus friendly. He reported that the Boone Center was losing money, and it is presently closed. The facility did not make the capital list this past legislative session. He proposed a plan to the Board that included corporate memberships and said that he would like to see the center as a break-even operation. He displayed charts explaining the improvements that would be made. He mentioned several sources for obtaining the money needed for the renovation. He believes the project is worth doing and would like to see the center back in operation. The Board had a brief discussion about

the center, including the importance of faculty and staff input in order for it to be successful. Mr. Wilcoxson expressed some concern about the project. Mr. Hardymon said that there seemed to be a lot of questions and said the proposal would go through the Finance Committee before coming to the Board.

N. Meeting Adjourned

Mr. Hardymon thanked everyone for attending the retreat. He noted that everyone participated and said it was a good meeting. The retreat ended at 4:00 p.m.

Respectfully submitted,

Barbara W. Jones
Assistant Secretary
Board of Trustees