

MINUTES OF THE FINANCE COMMITTEE
University of Kentucky Board of Trustees
June 8, 2010, 11:00 AM
18th Floor Patterson Office Tower, Board Room

Committee Members Present

Stephen Branscum, Chair; Britt Brockman, Bill Gatton, James Stuckert, and Jo Curris

Approval of Minutes

The minutes of the April 27, 2010 Finance Committee meeting were approved as presented.

FCR 1-3, (Consent)

Mr. Stephen Branscum, Chairperson, acknowledged the gifts and pledges totaling \$1.45 million, of which \$240,000 is eligible to be matched through the Endowment Match Program. Mr. Branscum thanked the donors for their generous support.

FCR 4, Approval of Lease for Department of Social Work

Mr. Stephen Branscum requested that the Board of Trustees authorize the Executive Vice President for Finance and Administration to negotiate and execute a lease between the University's Department of Social Work and Blazer Parkway Venture for space located at 3470 Blazer Parkway in Lexington. The Department of Social Work has occupied the space since 2002. The total annual cost will be \$181,200 for 10,910 square feet of clinical and administrative space. The University advertised this lease renewal and received no other bids. Jo Curris moved for approval. Jim Stuckert seconded, and the motion for approval unanimously carried.

FCR 5, Approval of Lease for Department of Psychiatry

Stephen Branscum requested that the Board of Trustees authorize the Executive Vice President for Finance and Administration to negotiate and execute another lease between the University and Blazer Parkway Venture for space located at 3470 Blazer Parkway in Lexington. The Department of Psychiatry has occupied this space since 1999. The rental rate is \$18.25 per square foot for 25,474 square feet of clinical and administrative space and \$17.75 per square foot for 546 square feet of support space. The total annual rate will be \$474,592 and will be funded from clinical revenues. The University advertised this lease and received no other bids. Britt Brockman moved for approval. Jo Curris seconded, and the motion for approval unanimously carried.

FCR 6, Lease-Purchase of High Performance Research Computer

Stephen Branscum stated that this FCR comes as a recommendation to acquire a High Performance Research Computer at a cost \$2.6 million. The supercomputer will be acquired by lease-purchase and will be paid for in two installments - \$1.3 million annually for two years. The current supercomputer lease expires July 31 2010. A request for proposals was issued and a committee of faculty assessed the technical and financial responses to ensure that the selected equipment will meet the needs of research faculty.

The Debt Management Committee reviewed the acquisition and determined that it is consistent with the University's Debt Policy. Jim Stuckert moved for approval. Jo Curris seconded, and the motion for approval unanimously carried.

FCR 7, Acceptance of Interim Financial Report for the University of Kentucky for the Nine Months Ended March 31, 2010

Angie Martin, Vice President for Financial Operations and Treasurer, reported that the financial statements include the University and affiliated entities and provide comparative totals for the nine months ended March 31, 2009. A summary of the financial statements highlights was provided separately. The balance sheet remains sound with assets of \$3.6 billion, liabilities of \$1.1 billion, and fund balances of \$2.5 billion. Since March 2009, fund balances have increased \$350 million (18 percent) primarily due to an increase of \$223 million (38 percent) in endowment funds. During the first nine months ended March 31, 2010, the University has realized 77 percent of the revenue estimate and expended 68 percent of the approved \$2.4 billion budget. Financial operations are consistent with the budget plan and the University's financial condition remains excellent. Britt Brockman moved for approval. Bill Gatton seconded, and the motion for approval unanimously carried.

FCR 8, Patient Care Facility Project

Stephen Branscum stated that this action item requests approval to initiate the first phase of construction of the operating room suite and related support space in the new Patient Care Facility and increase the total scope of Patient Care Facility project from \$532.3 million to \$570 million. The Operating Room Project was initially deferred due to the addition of two patient care floors. The Operating Room Project is now recommended to be initiated to provide capacity for planned growth and a new consolidated family waiting area for surgical services. The scope of the Operating Room Project is not expected to exceed \$35 million and will be paid for with a loan from the University, which UK HealthCare expects to repay within 10 years. Any additional funds, if needed, will be provided by UK HealthCare's fund balances. Pursuant to the University's Debt Policy, the Debt Management Committee reviewed and supports the proposed loan. Any increase in the \$570 million scope will be presented to the Board for approval prior to implementation. Jim Stuckert moved for approval. Jo Curris seconded, and the motion for approval unanimously carried.

FCR 9, Easement Authority for Kentucky American Water Company Water Line (Eden Shale Farm)

Stephen Branscum stated that the Board of Trustees is being requested to authorize the Executive Vice President for Finance and Administration to convey approximately 3.75 acres for a permanent utility easement to the Kentucky American Water Company. The easement will be for the construction of a water line along the western boundary of the University's Eden Shale Farm in Owen County, Kentucky. Britt Brockman moved for approval. Jo Curris seconded, and the motion for approval unanimously carried.

FCR 10, Resolution Establishing Authority for Banking and Investing Transactions

Stephen Branscum reported that as a result of National City Bank's acquisition by PNC Bank, PNC Bank's attorneys have requested a clarification of prior resolutions approved by the Board of Trustees. While the prior resolutions authorized the Treasurer to establish accounts, they did not explicitly state that the Treasurer had authority to sign agreements for treasury management services. This resolution makes this authority explicit. Jim Stuckert moved for approval. Britt Brockman seconded, and the motion for approval unanimously carried.

FCR 11, Disposal of Personal Property

Stephen Branscum stated that per Administrative Regulation 8:1, the Board of Trustees is to approve an annual plan for the routine disposal of personal property including the method of disposition. "Personal property" means moveable or fixed equipment and supplies. The various methods of disposal are listed in the attachment to the FCR. Jo Curris moved for approval. Britt Brockman seconded, and the motion for approval unanimously carried.

FCR 12, Capital Construction Report

Bob Wiseman, Vice President for Facilities Management, reported that during the quarter ending March 31, 2010 there were four new contracts for design, two new contracts for construction, and 45 change orders greater than \$25,000; and one contract was completed. While the number of change orders appears large, over 30 of the 45 are associated with the Patient Care Facility and total approximately \$2.5 million. When the project was initiated, the Board of Trustees was advised there would be many such change orders as the project progressed. Jim Stuckert moved for approval. Bill Gatton seconded, and the motion for approval unanimously carried.

FCR 13, Patent Assignment Report

Jim Tracy, Vice President for Research, presented the quarterly Patent Report. The report included nine patents. During the quarter ended March 31, 2010, the University filed 25 patent applications, 16 patents were issued, and patent receipts totaled \$1.2 million. Britt Brockman moved for approval. Jim Stuckert seconded, and the motion for approval unanimously carried.

FCR 14, Approval of Investment to Coldstream Laboratories

Stephen Branscum stated that this action item requests that the Board of Trustees authorize the President to transfer up to \$6 million to the University of Kentucky Research Foundation to be used for investment in Coldstream Laboratories, Inc. (CLI). CLI was formed to expand and commercialize pharmaceutical manufacturing, research, and development. CLI is building a client base but has not yet become self-sufficient. Although CLI had hoped to have a positive cash flow by March 2010, the economic recession has slowed CLI's progress. The requested investment will be funded by UK HealthCare. Jim Stuckert moved for approval. Britt Brockman seconded, and the motion for approval unanimously carried.

FCR 15, Operating and Capital Budget

Angie Martin presented the 2010-11 Operating and Capital Budget. The operating budget totals \$2.5 billion, an increase of \$38.5 million (1.6 percent) compared to the current fiscal year. This is the University's smallest percentage increase on record. The small increase is primarily caused by limited opportunities for expansion due to the lack of additional research and clinical space. The change in undesignated general fund revenues totals \$8.9 million and includes a reduction in state support, an increase in tuition revenue, and a decline in investment income. The biennial budget recently passed by the General Assembly reflects a \$4.4 million (1.4 percent) reduction in state support. Over \$17 million of the University's state support will be funded with one-time federal stimulus funds.

Undesignated general fund increases in fixed expenses and critical investments total \$15.9 million. One of the bright spots in the budget is General Education Reform. The Fiscal Year 2010-11 budget includes \$2.7 million to partially fund the new General Education curriculum. This new curriculum is estimated to cost \$5 million when fully implemented, primarily to add small-group sessions to large lecture classes and to improve the teaching of communication skills. With \$8.9 million in net revenues and \$15.9 million in increased expenses, the University is once again facing a shortfall. This \$7 million shortfall will be covered by reallocating base budgets. Fiscal Year 2010-11 will be the third consecutive year that colleges and departments will reallocate funds. The cumulative amount reallocated now totals over \$30 million.

Given the uncertainties that exist regarding the short-term stability of state support, the pace of state and national economic recovery, and future tuition revenue growth, increases in recurring expenses are being held to a minimum. Thus, the budget does not include base salary increases for the majority of the faculty and staff. However, a one-time payment of up to \$1,000 for eligible faculty and staff making less than \$75,000 is included in the budget. Angie Martin noted that the Administration is very sensitive to the fact that the pattern of no base salary increases for the majority of faculty and staff cannot continue. Unfortunately, there are no foreseeable significant increases in additional revenues in the short-term.

Stephen Branscum quoted President Lee Todd's Budget Message, "We remain faithful to the cause of building a better University as a means to a better Kentucky. In that spirit, this budget does not accomplish all that we should, but it does accomplish all that we can. Let us be mindful, that every student that sits in our classrooms and works in our laboratories and sleeps in our residence halls is the culmination of the love and faith of many. We must reciprocate that trust in us with an unyielding determination to give our all, unencumbered by the distractions of economic circumstance." Jim Stuckert moved for approval. Jo Curriss seconded, and the motion for approval unanimously carried.

Other Business

Next Meeting

Tuesday, September 14, 2010, 11:15 AM, 18th Floor Patterson Office Tower Board Room

Respectfully submitted,

Barbara Royalty-Tatum
Barbara Royalty-Tatum