# Minutes of the Quarterly Board of Regents Committee Meetings Murray State University Friday, May 20, 2011 Jesse Stuart Room – Pogue Library

#### **Audit and Compliance Committee**

# Harry Lee Waterfield II, Chair Bill Adams Constantine Curris

Mr. Waterfield, Chair of the Audit and Compliance Committee, called the meeting to order at 8 a.m. and reported all members were present.

#### Statement of Ethical Principles and Code of Conduct, approved

Mr. Waterfield reported the Committee held a special meeting in April 2011 to consider the *Statement of Ethical Principles and Code of Conduct* and recommended the statement be amended by removing reference to members of the Board of Regents. At that time the Committee reached consensus to recommend to the full Board adopting the amended *Statement of Ethical Principles and Code of Conduct*.

On behalf of the Audit and Compliance Committee, Mr. Adams moved that the Board of Regents, upon the recommendation of the President of the University, approve the *Statement of Ethical Principles and Code of Conduct* as presented and as it relates to Murray State University (MSU) faculty and staff. Dr. Curris seconded and the motion carried unanimously.

# <u>Conflict of Interest Principles – Association of Governing Boards (AGB) Statement of Conflict of Interest</u>, approved

On behalf of the Audit and Compliance Committee, Mr. Adams moved that the Board of Regents, upon the recommendation of the President of the University, approve the *Conflict of Interest Principles* – Association of Governing Boards (AGB) *Statement of Conflict of Interest* as presented and as it relates to the MSU Board of Regents. Dr. Curris seconded and the motion carried unanimously.

Appreciation was expressed to General Counsel John Rall for his work on the ethical statements to make changes requested by the Board.

# Auditor Communications, discussed

Mr. Denton introduced the RubinBrown Engagement Team which included Jeff Winter, Partner, Matt Finke, Manager and Doug Lascody, Supervisor. The following highlights were presented:

- ➤ The firm is required to communicate with (at a minimum) the Audit Committee Chair but also those in charge of governance over the financial reporting process. The most important scope of services provided includes the audit of University financial statements.
- ➤ MSU receives a significant amount of federal dollars either directly or through the state and there are obligations when certain thresholds of expenditures exist which require those that are considered "major" programs to be audited. The known major program is the Student Financial Aid cluster.
- ➤ Preliminary anticipated additional major programs include the TRIO and the Research and Development clusters. It is difficult to determine what the major programs to be audited will be until after expenditures are tabulated and accounted for at fiscal year ending June 30.
- ➤ The Racer Foundation financial statements are compiled by management and RubinBrown does not audit those statements but performs compilation services and prepares the not-for-profit organization Internal Revenue Service Form 990.
- As with any affiliated radio station associated with the Corporation for Public Broadcasting (CPB), an audit of the WKMS-FM financial statements is required and RubinBrown will perform attestation procedures required by CPB dealing with the Schedule of Non-Federal Financial Support.
- > State-required reports dealing with compliance, including House Bill 622; Kentucky Revised Statutes (KRS) 164A.630 and Kentucky Lease Law statutes KRS 48.111, 48.190 and 56.800 through 56.823 will be undertaken. The state requires the auditing firm to issue the Subsequent Events Audit Report indicating any knowledge of activity after June 30, 2011.

- ➤ A Quality Control Report is required which provides assurance to the state that the proper policies and procedures are in place at RubinBrown and the firm provides quality work in compliance with professional standards.
- ➤ The National Collegiate Athletic Association (NCAA) requires an Agreed-Upon Procedures Report for the Intercollegiate Athletic Department which is not an audit. The document provides a service to the President to allow him to provide reports required at the management level to the NCAA.
- A Management Letter is a report on internal control deficiencies and will be issued by RubinBrown, if necessary. As part of the firm's presentation at the fall Board meeting, required communications regarding the results of the audit include the report to governance or the Auditor Communication Letter.
- Some tax services are also provided to the University with regard to unrelated business income through Internal Revenue Service Form 990-T.
- ➤ With regard to the University financial statement audit and the separate radio station audit for WKMS, the objectives of those audits is to express an unqualified opinion on the fairness of the financial statements in conformity with U.S. Generally Accepted Accounting Standards (GAAS). Included with the University audit, in accordance with GAAS, will be the issuance of a report on compliance with certain rules and regulations as well as a report on internal financial reporting control.
- ➤ RubinBrown will undertake a single audit A-133 with the objective of expressing an opinion on compliance with the A-133 supplement and all major federal award programs. This will be accompanied by a report on internal control on administration of federal work programs.
- ➤ RubinBrown will also issue reports on compliance with Kentucky state regulations and statutes, namely House Bill 622 Kentucky Lease Law which will be an examination of records based on Kentucky regulations.
- A preliminary engagement timeline was provided for preparation of each of the mentioned reports, with a target date for final issuance of financial statements, compliance report and BPA report of October 3. The radio station audit and NCAA Reports are scheduled for November 1-30, 2011.
- A preliminary assessment of risk was undertaken on individual items which appear on the University's financial statements or the underlying reporting processes. Risk assessment areas were divided into three levels high, moderate and low. The conclusions presented are based on a myriad of factors primarily, but not limited to, the auditor's impression of how difficult the various areas are to audit, underlying complexities, volume of transactions, susceptibility of the area to management judgment, fraud or anything of that nature.
- High risk areas relate primarily to Student Financial Aid and other federal programs (due to the detailed nature of these programs); tuition, including related receivables and deferred revenue (due to the high volume of transactions and the detailed nature of those processes) and net assets (due to the nature of the item being the primary indicator of the institution's financial health). Moderate and low risk areas are important but do not require as much tailoring to address during the audit process as is required for the other areas mentioned.
- ➤ If the Audit and Compliance Committee does not feel the effectiveness of controls in place to mitigate fraud risks have been adequately communicated by management the auditors indicated the topic should appear on the agenda for discussion at the next BOR meeting. The Board should be aware of the effectiveness of controls in place to mitigate certain fraud risks and safeguard the assets of the University. One of the best practices with regard to a "true" Audit Committee is to have some level of comfort and knowledge as to what management is doing from the standpoint of control responsibilities. This does not necessarily apply to the implementation of internal control procedures which are used to mitigate, prevent or detect fraud but for the Board to have knowledge of what management is doing. This is usually accomplished by placing the item on the agenda for one meeting throughout the year where management makes a presentation to define fraud and report those controls which are in place to ensure the Board has knowledge of those controls.
- Mr. Adams indicated Regents have a tremendous fiduciary responsibility and sometimes the Board, like most boards, forgets about the fiduciary aspect of its role. In response to a question with regard to controls which are in place and why the auditors express no opinion regarding those internal controls, it was indicated it depends on the professional standards that are dictated and the auditors opining on the effectiveness of internal control represents a separate project. The auditors utilize internal controls from gaining an understanding of the entity and its environment and the controls in place to undertake risk assessment and to determine the nature, planning and extent of the procedures. The goal is not to opine on the effectiveness of internal controls but to use that knowledge to opine on the institution's financial statements. It represents a separate scope beyond the scope of what is required from an internal financial statement auditor. The University Internal Auditor - Amy Sasseen - may also play a role in that communication of controls through presentations to the Audit and Compliance Committee. This individual reports directly to the President and the BOR Audit and Compliance Committee and this could be one way the Board achieves its fiduciary responsibility with regard to financial management and internal control. Dr. Dunn indicated this begs discussion that is yet to be firmed up regarding the type of reporting the Internal Auditor makes to the Committee. The Internal Auditor has been working on a number of projects, specifically in the area of fraud and has discovered findings which have had an impact on personnel actions and things of that nature. A determination has not been made on how to report a summary of the activity that has taken place

given audits conducted over the course of the past year. Mr. Waterfield indicated the Internal Auditor was certainly instructed and encouraged to contact him as Chair of the Audit and Compliance Committee or any committee member. Dr. Dunn confirmed the Internal Auditor understands she has direct access to the Audit and Compliance Committee if the need arises to report a particular issue and if there is a need to bypass the President's Office. A determination must still be made on how a summary report of the Internal Auditor's activities over the course of the year should be presented to the Board. This responsibility cannot fall solely on the external auditors and any expectation gap should be as narrow as possible in terms of goals and objectives with regard to work the auditors are undertaking. Mr. Waterfield suggested two official meetings take place with the Internal Auditor throughout the year to review the itinerary of scheduled audit guidelines with the understanding other issues could arise. It must also be clearly understood the Internal Auditor has access to the Audit and Compliance Committee on a continuous and ongoing basis. Dr. Dunn indicated there should be a formalization of this arrangement which is work the Audit and Compliance Committee must undertake. Much of the work of the Internal Auditor has been requested by the administration and the process should be formalized in terms of the reporting aspect.

- Additional required discussion items include any reports communicated through the whistleblower or similar process regarding improprieties which have taken place on campus; any allegations, suspicions or known instances of fraud during the current year; conflicts of interest; legal issues; commitments and contingencies; consultation on accounting issues; grant compliance and significant transactions for 2011. Attention to these items is also required from management.
- ➤ The American Institute of Certified Public Accountants publishes a tool kit that addresses Audit Committee structure, roles and responsibilities and it could be helpful to share this information with the Committee.
- The external auditors are very conscientious of the recommendations and findings from last year and have been working with management and have no reason to believe those issues have not been addressed and procedures put in place to rectify the findings.
- Mr. Adams reported slightly over one year ago as Audit Committee Chair he met with RubinBrown representatives and there was some apprehension on the Board with hiring the firm because they were smaller than the previous firm and had never worked in Kentucky. From his point of view, starting with the first meeting and what he has witnessed since, he has been very pleased with the rapport between the auditors and the Board as well as the firm's resourcefulness in providing informative presentations. He complimented RubinBrown for their efforts and encouraged the firm to keep up the good work.
- ➤ Mr. Waterfield recognized MSU Internal Auditor Amy Sasseen who indicated she had no issues to report to the Board at this time.

#### **Adjournment**

The Audit and Compliance Committee adjourned at 8:35 a.m.

# **Buildings and Grounds Committee**

Bill Adams, Chair Marilyn Buchanon Susan Guess Harry Lee Waterfield II

Mr. Adams, Chair of the Buildings and Grounds Committee, called the meeting to order at 8:35 a.m. and reported all members were present.

# CFSB Center Basketball Practice Facility, approved

Dr. Dunn reported the Board earlier provided authorization to move forward with the CFSB Center Basketball Practice Facility but considering the specialized nature of the expenditure and its significance a determination was made the facility would be brought before the Board again for a separate authorization vote which is what is being suggested today.

Chief Facilities Officer Kim Oatman reported the following:

- > The architectural firm of Hastings and Chivetta has been hired to provide preliminary information to site the building and develop budget figures.
- The project will provide for construction of an 18,000 square foot Basketball Practice Facility to be added on the north side of the existing CFSB Center. This site was chosen because it is at the same grade level as the floor. This location provides significant cost savings by allowing the sharing of locker rooms already located on the first floor. The facility will contain an NCAA regulation size court plus side goals, men's and women's coaching staff offices, conference rooms, a lobby and all required common spaces.

- ➤ Projected budget costs include architectural and engineering fees (\$300,000) and base bid construction cost estimate without other soft costs and contingencies (\$3.3 million) for a total of \$3.6 million to be covered with available funding. The CFSB gift (excluding signage) and \$500,000 in internal University funding (to be paid back over 10 years) will cover this cost. Other soft costs/contingencies are estimated to be \$400,000 with an estimated total cost for the project of \$4 million. The architect's estimate was presented which illustrated a cost of approximately \$181 per square foot.
- A tentative project schedule was presented with construction anticipated to begin October 30, 2011, with substantial completion expected by October 30, 2012. A rendering was also presented showing how the CFSB Center addition would look once completed.

Dr. Curris clarified an additional \$500,000 beyond the CFSB gift is needed to complete the project and the proposal is to be funded internally and paid back over ten years (\$50,000) per year. He questioned what the source of revenue would be to pay back the loan and Athletic Director Allen Ward indicated the source of funds would be restricted gifts that come to the department each year. The CFSB Center is a multipurpose facility and by October 15 each year there becomes a "choke point" where there is great need to have an adequate practice facility, especially during the season. For athletic teams to be moved out of the facility for other events that are also important to the University has a detrimental effect on those teams, particularly in basketball. Individuals have very high expectations for the Racer basketball program and this facility will help meet those expectations. The facility is a selling point with potential candidates for the Head Coach position and for recruits and the University's commitment must meet expectations. Dr. Dunn reported also included in the materials was a rough schematic of the layout for the facility but that could change. Mrs. Buchanon indicated it is a blessing to have Mr. Ward at Murray State and it is comforting to know he undertakes budgeting work because that has not always been the case. Dr. Dunn agreed Mr. Ward is a strong administrator, particularly in the area of budgeting.

On behalf of the Buildings and Grounds Committee, Mrs. Buchanon moved that the Board of Regents, upon the recommendation of the President of the University, approve the capital construction project for the CFSB Center Basketball Practice Facility with a project scope of \$4 million. Mrs. Guess seconded and the motion carried unanimously.

# Ordway Hall, discussed

Mr. Oatman reported Ordway Hall is in need of major repair if the building is going to continue to be utilized but it would be preferable to tear down the facility and build anew. The estimate to totally renovate the facility was \$9.4 million and included all necessary structural upgrades at approximately \$200 per square foot which helps illustrate the benefit of building a new facility. The VFA demolition estimate, including work which must be undertaken on the site to reroute utilities, was about \$1.1 million (pre-recession). The building contains asbestos although some renovations have been undertaken over the years. The average cost for razing Ordway Hall was estimated to be \$681,000 but allowances must also be made for removal of some architectural elements of the building that could be used elsewhere on campus. Clarification was provided that the \$9.4 million estimate includes saving the building exterior except for the addition of weatherproofing, waterproofing and installing new windows. It was agreed one of the major recruiting aspects for new students is aesthetics on campus. What is being suggested is maintaining some of the architectural elements of Ordway Hall and incorporating them into other buildings on campus or erecting a stand-alone monument but this will not likely involve the entire building facade. Board policy allows for some memorialization when a campus building is razed, whether at that site or elsewhere on campus. Mrs. Buchanon believes the appearance of the building and the character that it adds to campus highlights the fact that older buildings say to people MSU has been here for a long time and it is here to stay. There is definitely some community sentiment and she has always pictured Ordway Hall as a place to relocate the Development Office. Dr. Dunn confirmed at present the offices currently housed in the facility are being relocated and there are no plans to construct a new facility in place of Ordway Hall. There is no need for a replacement at this time but if the building were renovated it would represent a campus showplace to be utilized for whatever purpose. Significant improvements have been made in terms of the look and feel of campus and some buildings have been brought out of the 1960s. Clarification was provided that there is no need for the Board to make a decision today but an opportunity is being presented to provide ample time for discussion. At the quarterly meeting in August the Board will adopt the Six-Year Capital Plan for the upcoming biennium and the project will need to be listed in that document. The University is not

prohibited from having a dual listing – raze and renovate – but all institutions have been advised to move away from that practice and decisions need to be made moving forward with these capital plans. Final action can occur in August if that is the desire of the Board and the recommendation would be incorporated within the Six-Year Capital Plan. Mr. Oatman reported the Capital Plan has already been submitted per the initial review and includes razing the facility but the plan is not locked in until September or October. Razing (Dr. Dunn's preference) can be changed to renovation at the August meeting before the plan is finalized. Dr. Curris recommended Board members tour the facility prior to the next meeting so all are fully aware of its condition. Tearing down a building is a final decision which cannot be reconsidered but there are significant costs involved and it is hoped at the August meeting the Board will be provided with up-to-date thinking – if the building were razed – in terms of planned use for the space. If the Board wants to move toward renovation best thinking as to what would be included in the building and the source of funds to cover the estimated costs should be provided to the Board so it has a full understanding. Dr. Dunn indicated a rendering could be provided to the Board illustrating what a memorial to the building utilizing various design elements would look like. The administration can certainly look at renovation but there currently is no source of funds. The administration could speculate a certain campaign would be undertaken but that would be problematic, short of a donor who wanted to step in. The project could be added to the state appropriations list as part of the Six-Year Capital Plan but there are other campus demands. The building will be vacated but the question remains how long the facility sits vacant and in what condition until money presents itself for a renovation. Dr. Dunn personally prefers preservation but this facility is difficult considering the financial situation and condition of the facility.

# **Adjournment**

The Buildings and Grounds Committee adjourned at 9:05 a.m.

# **Finance Committee**

Stephen Williams, Chair Bill Adams Marilyn Buchanon Constantine Curris Jack Rose

Mr. Williams, Chair of the Finance Committee, called the meeting to order at 9:05 a.m. and reported all members were present.

# <u>Property Acquisition – 1617 Ryan Avenue, approved</u>

Mr. Denton indicated the purchase of a lot located at 1617 Ryan Avenue is being recommended to the Board. This property will be used for parking and is located adjacent to two existing lots. Included in the information provided to the Board was a plat showing the location of the property on the corner of Kentucky and Ryan Avenue and the purchase is listed as a high priority in the Campus Master Plan.

On behalf of the Finance Committee, Dr. Rose moved that the Board of Regents authorize the President of the University to purchase property located at 1617 Ryan Avenue, Murray, Kentucky. Mr. Adams seconded and the motion carried unanimously.

# Elizabeth Residential College - Refinancing Bond Authorization Resolution, adopted

Mr. Denton introduced Greg Phillips, Principal with Hilliard Lyons in Louisville, Kentucky. His firm is on contract with the state to provide financial advice in regard to bond issuances for universities and he has worked with Murray State on a number of occasions. Three series of bonds are being recommended and the first pertains to Elizabeth Residential College renovation. The University has authority for a higher amount (\$8.9 million authorization) than what has been listed in the recommendation but Mr. Oatman has worked with the architectural consultants and determined renovations can be accomplished for less because some work has already been undertaken. Mr. Phillips reported the following:

➤ Hilliard Lyons and the University are attempting to accomplish the new issue of \$7.695 million but are also trying to undertake refunding those that received the Board's authorization last fall. By the

time the firm reached market interest rates had risen to a rate where it was determined not to be feasible. Interest rates continued to rise, at least in the University's market through the first part of the year, and Hilliard Lyons wanted the opportunity to bring it back to market since the University is doing the new money financing. Over the last five weeks interest rates have started to come down in the University's market. Interest rates had risen – not because of the general level of interest rates – but if one looks at the ten-year Treasury which is the bellwether of all interest rates – it has been pretty steady if not going down. Some financial and bond experts have predicted a wave of municipal bond defaults, primarily because of problems with state budgets (California, New Jersey, Illinois). The University's interest rates in the municipal market started going up while the general level of interest rates stayed the same or went down which caused a credit widening in terms of the relationship between the University's market and the Treasury market. That is beginning to wane and right now – again, bonds will not be sold until June 22, 2011 – if the Board approves this action today it will be advanced to the state Bond Oversight Committee and bonds can be sold accordingly.

- Refunding is being undertaken because the bond issues that are being refunded are housing and dining bonds. Some make economic sense and others are being refinanced to get out from under the indenture that requires certain coverage factors and debt service reserve (which is cumbersome because it cannot be reinvested). For a number of reasons the decision was made to eliminate the housing and dining indenture and bring all current and future housing and dining type bonds under the General Receipts structure which is now in place for everything but housing and dining which cannot be accomplished until all housing and dining bonds are defeased.
- The Commonwealth's bond rating changed approximately one month ago and has affected all state universities. The state's credit rating was downgraded by Moody's which means the University's current rate went from AA2 to AA3. The University remains in the AA category but does not want to decrease any further. Dr. Dunn clarified this was due to the element of the state's own recapture and the University's issuances were not down significantly. Clarification was provided this is no reflection on MSU but the University piggybacks off of the state rate and when the state gets downgraded the institution also gets downgraded.
- ➤ No issues are anticipated with the state Bond Oversight Committee but out of an abundance of caution approval of the refunding is being requested again, with the primary reason for going back to the Bond Oversight Committee being Elizabeth Residential College.
- Clarification was provided that the Elizabeth Residential College Bond is unrelated to the two other refunding bond issues which is why they are being sold as a separate bond series. In response to a statement regarding resources which may be freed through refunding being not necessary for the financing of the Elizabeth Residential College renovation, confirmation was provided that cash flows in the housing and dining system are sufficient to amortize debt service on Elizabeth, even without the refunding. Dr. Dunn reported the attraction associated with refinancing is cash which gets freed up from the pinch the University suffers in housing with regard to expenses particularly housing scholarships. Mr. Denton confirmed funds have been budgeted for renovation of Elizabeth Residential College regardless of the refunding issuance.
- ➤ Dr. Curris indicated the refinancing is beneficial to the institution which translates into cash availability which can be applied to operations or can be used for other bonding projects. He inquired how much additional bonding capacity would result from the refinancing issues, assuming the projected rates now are the ones that materialize. Mr. Phillips reported the cash flow savings are roughly \$200,000 for seven or eight years and then drop to about \$190,000. After that it drops significantly because some bond issues are amortizing. Usually one would like to issue 20-year bonds but cash flows would not support the \$200,000 because they do not exist after ten years. If a shorter bond issue has to be structured, the majority of savings would still be well over \$1 million.
- Pr. Curris questioned whether the decline in savings is a result of the bonds maturing and Mr. Phillips indicated five to six different bonds retire at different times which affects the level of savings. Dr. Dunn added the institution has increased debt capacity but its ability to service that debt is another issue with regard to housing and dining. The challenge the University has now is with income in housing and dining given other obligations existing debt service, scholarships and maintaining the older low rise residential colleges. Mr. Denton indicated the University would receive \$200,000 per year for approximately eight to ten years to be used for whatever purpose. Another aspect is with future bond issuances and the University would not be required to fund debt service reserves approximately 8 percent. Mr. Phillips confirmed a reserve is typically funded on one years' principle and interest. If there is a bond issue with debt service of \$1.5 million per year the University must also fund \$1.5 million. This would not be a bad situation if the University could reinvest at the rate it is paying on the bonds but right now with short term rates so low the University would only receive 25 basis points and is paying on current bonds outstanding an average rate of close to 5 percent which is referred to as negative arbitrage.
- Due to the new indenture arrangement and the general receipts issuance, as opposed to the old indentures which are restrictive, the University is no longer required to maintain the debt service reserve. Dr. Dunn indicated as the indenture is backed with the general receipts of the University that gives the bond buyers more comfort the University will not default. Mr. Phillips confirmed technically a general receipts is a much better secured bond so a debt reserve is not demanded but would be for revenue bonds. The purpose of a debt service reserve is if something were to happen

and revenues could not meet debt service this provides at least one year where bond holders continue to be paid while the University resolves the situation. Anytime a refunding takes place and there is a reserve and that reserve must be used in its entirety. Mr. Denton added that most other universities in the state have moved to General Receipts Bonds.

On behalf of the Finance Committee, Mrs. Buchanon moved that the Board of Regents, upon the recommendation of the President of the University, adopt the attached Resolution providing for the authorization, issuance and sale of approximately \$7,695,000 General Receipts Bonds, 2011 Series A, \$3,770,000 General Receipts Refunding Bonds, 2011 Series B, and \$16,625,000 General Receipts Refunding Bonds, 2011 Series C of Murray State University, pursuant to the Trust Agreement dated as of May 1, 2007, and a Third Supplemental Trust Agreement to be dated as of the first day of the month in which the bonds are issued. Dr. Rose seconded and the motion carried unanimously.

#### Fiscal Year 12 University Budget, approved

Dr. Dunn reported a copy of the PowerPoint presentation regarding the Fiscal Year 2011-12 University Budget was included in the Supplemental Notebook. Mr. Denton will present highlights from the budget, and those important elements which make up the budget, including tuition, mandatory fees and housing and dining rates will be discussed. The administration is taking a different approach with regard to the Budget this year and instead of holding a special meeting – which would typically be done to approve all rates and fees – the Board and administration will move forward with a general set of agreements. The following highlights were presented:

- ➤ The total operating budget represents a net increase of approximately \$6.1 million for a total of \$147.7 million which includes both E&G and auxiliaries, with the E&G budget increasing by 5.7 percent.
- ➤ State appropriations are permanently being reduced by 1 percent (approximately \$500,000) and there is a \$992,000 temporary reduction which will be replaced in the following fiscal year. An offset account has been created to account for the \$992,000 but essentially this money will not be spent in this budget and will be there for the 2012-13 fiscal year. Dr. Dunn indicated this amount is backstopping the K-12 stimulus funding but the University is also required to be part of the maintenance of effort in higher education and this reflects that requirement.
- ➤ With Board approval there will be a 5 percent increase (\$156 per semester) for tuition and mandatory fee rates for full-time, resident undergraduate students. Five percent represents the maximum parameter allowed by the Council on Postsecondary Education (CPE) for regional institutions, with those colleges under the Kentucky Community and Technical College System increasing by 4 percent and doctoral institutions increasing by 6 percent.
- ➤ Tuition revenue has been increased by \$1.9 million for online programming in order to encourage the academic areas to develop more online courses and enhance enrollment. Within a three-year period the initiative is expected to be self-funding.
- ➤ These increases are essential to maintaining academic quality, covering fixed costs and providing additional financial aid to students. On average the University provides about 40 percent of the tuition increase which results in a waiver or discount to students.
- > Tuition and fees at Murray State University remain among the lowest rates of the comprehensive public universities and is competitive in the state and market region.
- ➤ Total revenue and other funding sources total \$8.6 million which includes approximately \$4.8 million increase in gross tuition resulting from the rate increase, plus additional tuition in the budget from prior year, \$1.6 million increase in gross tuition from enrollment increase, \$1.9 million gross tuition from the online course initiative and \$404,000 in mandatory and course fee increases. Also included is a \$1.6 million net increase in scholarships and waivers, \$651,000 in reallocation of operations from the President and vice presidential areas (1 percent) and an \$834,945 increase from reallocation of vacant positions.
- ➤ The salary pool increase of 4 percent amounts to \$2.1 million (excluding fringes and new initiatives), \$231,000 budgeted for the second portion of the compensation study, \$91,000 for academic promotions and \$112,000 for other increases, including residential college and awards for total salary increases of \$2.5 million.
- ➤ Cost adjustments include \$517,000 which represents the 1 percent utilized to cover the state operating appropriation reduction, \$1.9 million for the online program initiative, \$2.5 million for fringes and \$112,000 for utilities for a total of approximately \$5 million in cost adjustments.
- ➤ Priority spending items were discussed at the February 2011 quarterly Board meeting in context of the budget authorization memorandum.
- ➤ With regard to capital projects, none were funded for the 2010-12 biennium and with regard to agency bond authorization, renovation of Elizabeth Residential College was included at \$8,896,000 with the plan of issuing approximately \$47.7 million in General Receipts Bonds in June 2011.
- With a tuition and fee increase of \$156 per semester Murray State will still be the second least expensive state university in terms of cost. A chart was presented to illustrate where MSU stands in

- regard to regional competitors looking at previous year tuition and mandatory fees and what is being proposed for next year. With the \$156 increase MSU remains in the bottom quartile among competitor universities in comparison to their tuition and mandatory fee rates from last year. It is relatively certain that most, if not every competitor, will have a similar increase as fall 2011 rates are set.
- Western Kentucky University and Northern Kentucky University have taken issue with the state appropriation Murray State receives. Enrollment increases at both Western and Northern have been relatively strong but state appropriations have not kept pace with growth. Both schools have argued in terms of the level of appropriation from the state to each of the institutions considering they have experienced notable growth and because state support is not on a per-pupil basis those schools are disadvantaged. In the 1980s the state funding formula was advantageous to Murray State because it was based on square footage. The formula was also based on the difference in graduate and undergraduate level courses and MSU had more proportionately than the other comprehensive institutions based on the type of courses and enrollments. Murray State also offered a greater number of higher cost courses and during this time established a healthy appropriation base through the funding formula. There is now no funding formula for higher education in Kentucky and institutions receive appropriations based on incremental growth from year to year. The strong base established by MSU some time ago is now being called into question as Kentucky begins to talk about going back to a formula-driven system. Carl Prestfeldt, Director for Fiscal Planning and Analysis, serves as Murray State's representative in this area.
- ➤ Don Robertson, Vice President for Student Affairs, reported Murray State University's housing and dining operations are self-supporting and no state appropriations are involved. With regard to dining, a rate increase of 3.8 percent is being recommended for unlimited and 175/400 plans and 4.1 percent for the 125/300 plan which more accurately reflects applicable overhead costs. The increase in plan cost for residential dining plans is \$56 to \$59 per semester, with the commuter dining plans increasing by \$10 per plan (bronze, silver, gold and copper) and by \$25 for platinum.
- ➤ 15 percent of the dining budget will be used to cover auxiliary debt service and food cost increases for 2011-12 are predicted to reach 6.5 percent, with staff compensation expected to increase by 4 percent and utilities projected to increase by 5 percent.
- ➤ Current dining service rates include the continuation of competitive rates for student employees (over 300 students employed) with an increase of 25¢ per hour for returning students with one year of service.
- There are three residential meal plans: 1) Unlimited which provides "unlimited" access to Winslow Dining Hall for the entire semester and includes eight Winslow guest meals to spend on family and friends and \$75 Flex to spend at other campus dining venues; 2) 175/400 which provides for 175 Winslow meals and \$400 Flex to spend at any campus dining venue and 3) 125/300 which provides for 125 Winslow meals and \$300 Flex to spend at any campus dining venue.
- ➤ Room rate increases are driven by the additional increase in debt service charges of \$578,000 and provide coverage for forgone revenue resulting from implementation of the *Living-on-Campus Task Force*, a budget for student scholarships in excess of \$700,000 and the expected staff compensation increase of 4 percent.
- Residential College rates will increase by \$93 per semester for Hart, Hester, White and Regents and \$118 for Lee Clark and Richmond with no increase being recommended for Elizabeth, Franklin, Springer or College Courts and represents a move toward a differential pricing structure.
- A 175 to 200 student headcount increase was built into the \$1.6 million budgeted which was required to provide for programmatic changes and salary increases. With regard to \$1.9 million for the online course initiative, a three-year plan has been developed whereby the incremental tuition received from this initiative will put the University at the break-even point with the number of program participants significantly increasing over a long period of time. The budget for this program equals the incremental cost of implementing the initiative. Dr. Dunn confirmed this represents a shift from what this Board has historically done because normally the institution would consider what an enrollment and tuition increase would provide on a lag basis. In order to meet budget this year, particularly with the aggressive move on salaries, it was decided it was time to make the shift and undertake very conservative budgeting but based on anticipated growth and build that into the revenue projection. This represents a more accurate means of undertaking budget work but the challenge becomes not getting too aggressive on counting new students.
- It was suggested that faculty participating in the online initiative should be provided with an incentive for doing so. A similar program was undertaken with international scholarships with the University making a significant upfront investment with the idea enrollment would grow and revenue would result which was also successfully based on a three-year payback schedule and the same result is expected with the online subscription.

Mr. Williams inquired with regard to the \$1.5 million in reallocations whether any programs are being put at risk. Dr. Dunn indicated with regard to the reallocation of vacant positions the deans were not happy but have obviously been able to live without filling these positions for some amount of time. Nothing prohibits a review of a position which has been swept and it

could be added back at a later date. Academic programs are not being put at risk in terms of course offerings, advisement and other academic support but this work must be monitored carefully and can be adjusted as necessary. This action has certainly changed the nature of the discussion and has shifted some of the decision making authority from the deans to a more centralized control. He wants the deans to continue to be the driver of these decisions and make determinations based on needs within their colleges. If a case is made to bring a position back a determination must be made regarding what other areas within the budget might be affected if funding is restored. Academic deans have great control over their budgets and Dr. Dunn supports this decentralized control but it is not good budget management practice for lines to remain vacant over several years. As revenue growth occurs and this initiative begins to experience success there must be a way to reward faculty effort toward the initiative which will allow them to continue to build their colleges and schools.

On behalf of the Finance Committee, Mr. Adams moved that the Board of Regents, upon the recommendation of the President of the University, approve the FY12 (2011-12) University Budget. Dr. Curris seconded and the motion carried unanimously.

On behalf of the Finance Committee, Mr. Adams moved that the Board of Regents, upon the recommendation of the President of the University, approve the tuition and fee rates for FY12 (2011-12) as reflected in the rate sheets presented. Dr. Rose seconded and the motion carried unanimously.

#### Student Affairs Fees, approved

On behalf of the Finance Committee, Dr. Rose moved that the Board of Regents, upon the recommendation of the President of the University, approve the following:

- 1. Increasing the Late Registration Fee from \$25 to \$75. The Late Registration Fee will not be applicable to new first-time freshmen, new first-time transfers, new first-time international students and new first-time graduate students.
- 2. Once revenue from the Late Registration Fee reaches the general fund budgeted amount of \$19,800 any overage generated by the new fee will be divided equally among the following offices 1) Bursar, 2) Financial Aid and 3) Registrar.
- 3. Increase the Racer Card ID rate for new and replacement cards from \$12.50 to \$20 for all new freshmen, new transfer students and students who have lost or damaged their existing card.

All increases would be effective beginning with the fall 2011 semester.

Mr. Adams seconded and the motion carried unanimously.

# Miscellaneous Graduation Fees, approved

Mr. Denton reported that after careful review and evaluation of peer institutions, as well as a review of current operating costs, it is recommended that the University increase the following fees as they pertain to the Registrar and Graduate Admissions offices:

Undergraduate Graduation Fee	Present \$20.00	Recommended \$30.00 (\$20.00 to General Fund, \$10.00 to Registrar)
Undergraduate Graduation Late Fee	\$ 5.00	\$20.00 (\$20.00 to Registrar)
Graduate Program Graduation Fee	\$20.00	\$30.00 (\$20.00 to General Fund, \$10.00 to Graduate Admissions)

Graduate Program Graduation Late Fee	\$ 5.00	\$20.00 (\$20.00 to Graduate Admissions)
Certificate Completers Fee	\$ 0.00	\$15.00 (\$15.00 to Registrar)
Duplicate Diploma Fee	\$10.00	\$15.00 (\$15.00 to Registrar)

These increased graduation fees will allow both offices to continue to service the needs of students and account for the increase in operational costs.

Dr. Curris indicated he will vote for the recommendation because it is an unusual year but is troubled the University is "dinging" students on separate fees. His philosophy is fees should be related to costs which must be covered because they are beyond normal costs. It appears as though these fee increases serve the purpose of increasing revenue and are not necessarily related to costs which need to be covered by separate fees. It sets a bad example because it basically indicates to a unit of the institution if they want more money all they have to do is figure out a way to establish or increase fees in the respective area. This kind of impact over the course of time can be disturbing. It is an unusual year and an attempt has been made to undertake some unusual work at the University – such as providing significant salary increases – which limits the flexibility from tuition revenue and appropriations to undertake other initiatives. He is troubled by the philosophy that fees should be increased for the purpose of generating additional revenue as opposed to covering necessary costs.

Ms. O'Donoghue will vote in favor of this recommendation because she recognizes the need but the last review of the Late Registration Fee was in 1996, with the Graduation Fee being reviewed in 1985, and there should be more frequent review so students are not hit at once with significant increases. Dr. Higginson reported discussion has taken place in terms of these fees for quite a while but now is the time to look at the higher costs associated with processing graduation packets, the work involved when applications are turned in late and the subsequent impact on the Registrar's Office. Dr. Dunn indicated he does not believe students are being "gouged" with these proposed fees because MSU is not a fee heavy institution.

On behalf of the Finance Committee, Mr. Adams moved that the Board of Regents, upon the recommendation of the President of the University, approve the increases in the Undergraduate Graduation Fee, Undergraduate Graduation Late Fee, Graduate Program Graduation Fee, Graduate Program Graduation Late Fee, Duplicate Diploma Fee and the establishment of the Certificate Completers Fee as presented above, effective with the fall 2011 semester. Dr. Rose seconded and the motion carried unanimously.

#### Adjournment

The Finance Committee adjourned at 10:18 a.m. The Board adjourned for a break beginning at 10:18 a.m. and ending at 10:35 a.m.

# **Academic Affairs Committee**

Jerry Sue Thornton, Chair Kirby O'Donoghue Jack Rose Phil Schooley Stephen Williams

Dr. Thornton, Chair of the Academic Affairs Committee, called the meeting to order at 10:35 a.m. and reported all members were present.

# Bachelor of Arts/Bachelor of Science - Youth and Nonprofit Leadership, approved

Dr. Higginson indicated in the early 1980s under Dr. Curris' leadership Murray State established the American Humanics program which is now called Nonprofit Leadership Alliance. Since that

time this program has grown to a record high enrollment of 670 students in Youth and Nonprofit Leadership (YNL) classes and is designed to certify college students for professional leadership careers in the nonprofit sector. Out of 70 American Humanics programs throughout the United States, MSU's program has had the highest enrollment for the past 20 years. The decision to make Youth and Nonprofit Leadership a major comes in large part from student demand. There are currently 112 minors and it is fully expected the major will also have a healthy enrollment. Due to increased opportunities in the nonprofit sector, coupled with student demand, many have worked diligently over the past several years to develop the curriculum for a Bachelor of Arts or Bachelor of Science degree in Youth and Nonprofit Leadership – only the second such major in the country. MSU is extremely fortunate Bob Long, Distinguished Visiting Professor – Kellogg Foundation and Roger Weis, Director and Professor of American Humanics, are well known nationally for their work in this area. This past year Drs. Long and Weis published the only undergraduate textbook for YNL in the country – Leading and Managing Nonprofit Organizations. Dr. Long enjoyed a lengthy career with the Kellogg Foundation and came to Murray State a few years ago and has made a significant difference not only in the program but on the entire campus.

Dr. Rose indicated as soon as the YNL degree is up and running and as soon as reasonably feasible this bachelor's program should be reviewed in terms of also offering a master's degree to students with a different undergraduate major who need the nonprofit degree. He challenged the administration to look sooner rather than later at offering a master's degree in YNL not only on the main campus but also on the extended campus sites. Dr. Dunn reported one of the graduate certificates approved at the last Board meeting was in YNL so for an individual desiring to build a mid-career credential that option is already available.

Dr. Long indicated some of the information contained in the proposal represents "snowball data" meaning it is accelerating. The nonprofit sector is about 50 percent of the gross domestic product today and has doubled in ten years. The proportion of employment is approaching 20 percent and is also accelerating. There is great demand from individuals requesting the additional types of curriculum that are being developed and will be developed in the future. The curriculum is serious, the courses are difficult and students want a serious academic program. Additionally, he attended the 35<sup>th</sup> anniversary of the Nonprofit Academic Centers Council conference in San Diego, California, last month. The number of programs there has also doubled and no self-respecting university today would not offer a program in nonprofit management. Many are scrambling to develop such programs and MSU has one of the oldest in the country and there is a foundation upon which to build and not just follow trends and fads.

On behalf of the Academic Affairs Committee, Mr. Williams moved that the Board of Regents, upon the recommendation of the President of the University, approve a new baccalaureate degree program – Bachelor of Arts/Bachelor of Science – Youth and Nonprofit Leadership. Dr. Rose seconded and the motion carried unanimously.

#### Regents Teaching Excellence Awards, approved

Dr. Dunn reported one of the great pleasures the Board has is to provide an official blessing and authorization on the Regents Teaching Excellence Awards. The recipients were listed by name in the recommendation and a brief biographical paragraph was provided for each. They represent a wonderful group of scholars and teachers and are certainly well deserving of these awards. Dr. Higginson added that the award process is outlined in the *Faculty Handbook* and individuals are nominated and then selected by a committee through a rigorous selection process. The 2011 recipients of the Regents Teaching Excellence Awards are:

Leigh Johnson College of Business Barbara Washington College of Education

Tracey Wortham College of Health Sciences and Human Services

David Pizzo College of Humanities and Fine Arts Saihua Xia College of Humanities and Fine Arts

James Hereford College of Science, Engineering and Technology Edmund Zimmerer College of Science, Engineering and Technology

On behalf of the Academic Affairs Committee, Mr. Williams moved that the Board of Regents, upon the recommendation of the President of the University, approve the above named faculty as

Regents Teaching Excellence Awardees for 2011. Dr. Rose seconded and the motion carried unanimously.

#### **Adjournment**

The Academic Affairs Committee adjourned at 10:45 a.m.

#### **Regional Services Committee**

Sharon Green, Chair Constantine Curris Susan Guess Kirby O'Donoghue Phil Schooley Stephen Williams

Mrs. Green, Chair of the Regional Services Committee, called the meeting to order at 10:45 a.m. and reported all members were present.

#### Paducah Extended Campus - Memorandum of Understanding, discussed

Mr. Oatman reported the Barkley Woods property Murray State University owns in Paducah represents 23.26 acres, borders Interstate 24 and touches Alben Barkley Drive (US 62). Entry onto the property includes Court Avenue and Sunset Avenue. Sunset Avenue is currently an enhanced driveway and would require additional improvements to extend it onto the University's property. The property was heavily wooded and although a developer cleared many of the trees some heavily wooded areas remain uninterrupted. The property has some wetlands with the total area classified as wetlands being approximately 0.8 acres. There are also floodways predominantly on the highway right-of-way on I-24 (stream following boundary line) which come onto the MSU property about 30 to 40 feet – in a low lying wetland area. There are effectively 22 acres which can be developed and when the property was first purchased the University began working with a consultant on land planning to determine what could be done on site without spending a great deal of money.

A plan was presented which showed four potential building sites. The preferred site sits on a higher area and would be highly visible from I-24 but it would be necessary to build some portion of road in order to reach that site. The University has an easement and could build a road to the site but it is currently green space that would tie into a drive which leads into the parking lot. The goal is to avoid the wetlands and at most it might become necessary to cross one of the streams. The University would need to secure a permit through the Corps of Engineers and would either have to mitigate elsewhere or pay a fee – which for a 50 foot section would cost \$5,000. There is also a secondary site which would involve no stream crossing and another potential site which may not be feasible at this time because it is closer to I-24 but is further away from any access roads. Another potential site location is close to I-24 but is a low lying area making it not the most suitable location for building construction. Clarification was provided that there is an existing road up to the property line at Sunset Avenue and the drive the University would need to develop would be from the property line, assuming the first site preference, to the intersection and parking lot. The estimate includes 1,000 feet of road but 300 feet is already in place and although additional improvements would be required that work could be undertaken at a lower cost than building a new road. It was confirmed there is not a great deal of hope of having access to the land directly off I-24, although access off of Highway 62 had been considered but would be too close to the interstate exit ramp.

A preliminary project cost estimate for Paducah Regional Campus site work and building construction included:

- ➤ Parking lot (200 spaces) \$400,000, including grading and drainage
- ➤ Building street and street enhancements (approximately 1,000 square feet) \$200,000
- ➤ Additional grading and drainage \$100,000
- ➤ Utility extensions \$110,000
- ➤ Signage \$30,000
- Total estimated cost of \$840,000
- ➤ Constructing 40,000 square feet building with classroom and office space \$7,510,000

- Architectural and Engineering fees with LEED (includes 8.98 percent of site work and building) -\$750,000
- ➤ Other soft costs and contingencies, including bond issuance (\$500,000), telecommunications (\$50,000), survey/testing, inspections (\$100,000), and contingency at 3 percent of construction (\$250,000) which total \$900,000
- Total project costs were estimated at \$10,000,000 but do not include furniture and equipment which is estimated at approximately \$600,000 with potential funding sources of remaining contingency balances, gifts and operational monies budgeted for ongoing campus replacement).
- ➤ The University currently occupies approximately 20,000 square feet in the Crisp Center and the proposed facility would include 40,000 square feet, doubling the amount of available space.

Mr. Adams suggested during the building design process consideration should be given to allowing for both a reduction and expansion in square footage. This would provide options during the bid process if costs are more than the University is able to handle. By including both options a plan will already be in place to address such a situation and would provide options ahead of time for the facility to be reduced or expanded. Some site cost estimates are a concern and all must be careful to ensure these costs are controlled and this should be a consideration on the front end. The project should be kept within budget which represents a good stewardship practice. Also of concern are architectural fees of 8.98 percent of site work and building (with LEED) and although this work leads to high efficiency and green buildings and results in resource efficiency and sustainability, it can be quite costly. He has been told by Mr. Oatman that the LEED requirement is mandated by state law but KRS 56.770 indicates, "if 50 percent or more of the funds come from the Commonwealth then it must be LEED certified." In this particular case 50 percent or more of the funding will be provided by a local government and not the state. There is no issue designing the building to be sustainable and to have energy and resource efficiency but there are issues with paying LEED certification fees because it does not represent good stewardship (even though mandated by the legislature). Mr. Oatman agreed the University would not have to pay the LEED fees because the project is not 50 percent funded by the state but there are other good aspects to designing in this fashion. If a facility is designed environmentally and efficiently it will pay back in operating dollars. If the University does not have to pay a commission for certification it would not do so and this would provide additional contingency. Sustainability is a relatively sensitive issue among students and they want the University to support such efforts.

In response to a Regent question regarding the condition of the furniture being used in the Crisp Center, Dr. Van Horn reported the furniture has aged with the facility and would not be suitable for the new building. Mr. Williams suggested this might present an excellent local philanthropic opportunity, particularly in terms of naming opportunities for classrooms. Mrs. Guess indicated this would represent an opportunity Murray State should take the lead on because the county and city have been careful not to become involved in the philanthropic aspect of the initiative. Dr. Dunn indicated short of a gift the purchase of furnishings for the facility would be accomplished from a variety of sources, including contingency funds, furniture in the Crisp Center and operational replacement costs which have been included in the estimate.

Dr. Dunn reported the Memorandum of Understanding for the Paducah Extended Campus was intended to generally parallel the agreement between Daviess County and Western Kentucky University at least in terms of the pattern and outline followed. The goals the initiative is attempting to obtain were outlined in the document, followed by the key responsibilities of the parties, with Murray State University's responsibilities forming the bulk of the document. The document also indicates Paducah, McCracken County and GPEDC are obligating funds to the project and there is discussion regarding program review elements and areas of academic focus. With regard to areas of academic focus, concern has been expressed by some that the University is obligating itself to offering degree programs in the fields of allied health/health care administration, distribution/logistics, physical therapy, manufacturing/applied engineering, information technology/computer engineering and business/management/accounting and in so doing is making a commitment to offering new programming and degrees only in those areas. This is not the intent of that wording and the GPEDC wanted to include a statement indicating workforce needs. This is part and parcel of the responsibility that body has for the region and it was specifically requested that this information be included in the agreement. The parties understand as the University considers new programs to bring to the area – which MSU has the authority to do as need is shown and can be justified – the institution will fit those new courses, certificates, degrees or programs within these broader sectors. The University will consider expanding offerings in Paducah – beyond taking the existing inventory of course and degree

programs from the Crisp Center to the new facility – and as the University grows and other demands are met, programs which fit within the fields mentioned will be considered whether they are currently offered in the inventory or new programs will be developed.

A recitation of the obligations, commitments and responsibilities of the University and suggested program and degree offerings was provided in the Memorandum of Understanding. With regard to resident faculty, it is clear to the parties in Paducah that this is viewed as an economic development agreement which is driving educational attainment. This document is similar to an economic development agreement in that Paducah leadership wants numbers included because they must see something tangible, measurable and defined – such as enrollment of 2,000 students – for their investment. The resident faculty issue was a concern but it is a fair characterization to say the Paducah parties want this facility to resemble a "regular" university in the sense this can be accomplished – not teaching with adjuncts or staffing with part-time employees. Resident faculty is a term of art which surfaced during negotiations. The Paducah parties have not demanded any type of definition of the term but all want to be able to say there is an identifiable core of staffing that would be viewed as Paducah faculty. The University has the ability within its own system to define resident faculty but this does not have to be done for purposes of the agreement. A policy could eventually be developed which defines resident faculty but generally there was a desire to indicate a faculty body has been identified associated with this facility and resident faculty was a way to respond to that request while giving the University necessary flexibility as programs grow over time. The University cannot violate CPE guidelines and make up separate rules for the Paducah campus and not for the other extended campuses. Information was provided on other considerations and the MOU acknowledges this is not the "be all to end all" of every agreement that will have to be developed to effectuate construction of the facility. There will be leases, easements and financing agreements at the point bonds are sold. The parties have obligated themselves to good faith negotiations to move forward upon approval of the MOU. MSU controls the guidelines, rules and requirements with all codes and regulations to be followed pertaining to construction of the building.

Enrollment targets were provided with the University pledging a doubling of enrollment with a target of 2,000 – as determined by headcount enrollment and consistent with CPE requirements within 20 years – to fulfill this obligation for the investment being made. If other institutions come into Paducah with a physical presence or the Community and Technical College begins offering baccalaureate degrees – which is within the realm of possibilities – renegotiation will occur. If the University fails to reach the 2,000 enrollment goal renegotiation will occur. The document also contains legal ease the attorneys for each of the parties deemed necessary regarding modifications, terms of agreement, contingencies and how to handle any conflicts which may arise.

Dr. Rose indicated if he thought the votes were on this Board to delay action on the Memorandum of Understanding so members of the Board other than the "kitchen cabinet" could review the document further over the next few days or weeks and make some modifications that would be his preference. He believes this is the worst *Memorandum of Understanding* he has seen during his career and for what the University is trying to accomplish. He apologized to the "kitchen cabinet," Dr. Dunn and General Counsel John Rall because he knows these types of agreements are difficult to negotiate. That having been said, the follow-up information the administration provided to the Board on Wednesday evening was an excellent clarification and definition which made him feel more comfortable about the document. He does not feel comfortable approving this Memorandum of Understanding on a stand-alone basis because he is concerned about future boards and presidents and what interpretations can come about from Paducah and Murray. The response to Board questions that Dr. Curris advanced to the administration were addressed adequately in the memo provided by the administration and should be included as an attachment to the MOU. An additional major concern is that the Owensboro model was followed to some degree but that model did not have the community college folks signing on. To him that is a huge mistake and it is not included in the Memorandum of Understanding being presented today. He is concerned because the community college folks have to be as close to the University as they can possibly be in terms of developing programs. He cannot imagine delving into something like this when there was very little involvement from the community college. In his judgment Dr. Barbara Veazey, President of West Kentucky Community and Technical College, is outstanding and is aggressive in working for that community. He is concerned the community college was not required to sign off on the Memorandum of Understanding. With all this having been said, when the Board comes to a

vote, if the *MOU* is approved as it stands, and if at the same time the Board agrees to incorporate into the minutes the responses the administration prepared, he will vote for the recommendation because he wants to see MSU do something beneficial in Paducah. The 2,000 student enrollment may present an issue for some but once the 1,000 current students are moved over to the new building, if programs are put in place and the University is aggressive, he believes enrollment will increase to 2,000 within five or six years. Many opportunities are attached to this initiative but future boards and presidents must also have access to the supplemental information.

Mrs. Guess indicated being from Paducah and being a McCracken Countian she believes this is a very generous offer and no other community has approached Murray State University with \$20 million (\$10 million of bonding capacity - \$500,000 a year for 20 years – plus another \$10 million). Paducah and McCracken County leaders could choose to seek out others but they have not because they have full faith and believe in Murray State University. It is true if the Board delays action on this recommendation today it is a "no vote" because Paducah has put other projects aside to fund this initiative. The Board should not delay when the Judge-Executive and Mayor have cut a Convention Center and other projects from their budgets to support this one. A *Memorandum of Understanding* is just that – it is not necessarily a binding agreement – and changes can be made before the issuance of bonds. Mr. Rall indicated under the terms of the agreement the parties have agreed in writing that changes can be made and, as Dr. Dunn noted, other documents will be prepared when bonds are issued.

Mrs. Buchanon stated that the "kitchen cabinet" was composed of Regents Adams, Green and Williams and asked how many times this group talked with Paducah representatives about these issues. Mr. Adams reported he was not involved in the negotiations but reviewed the Memorandum of Understanding as it was being developed and one or more conference calls were held to discuss the document with everyone involved providing input. He did not feel it was his place to negotiate the contract. Dr. Dunn agreed negotiation was not the Board's instruction to the kitchen cabinet. Mr. Williams stated if there are any concerns about the process those can certainly be discussed at the appropriate time but he never thought the charge to the kitchen cabinet was to undertake negotiation but, to the contrary, it was established to provide input. There are two fundamental subjects of discussion with one being the broader issue of the mission and the strategy of this organization (in terms of having a more significant presence in Paducah) and the second being the terms of the deal. This MOU is consistent with the institution's mission and as a regional university Murray State must view the Paducah community as a key part of its regional service area. MSU has grappled with the issue of enrollment and how to achieve growth in an appropriate way and this represents a significant growth strategy and fulfills the University's service mission. He reviewed the Memorandum of Understanding under the assumption that a strategy was well in place and the Board was not resisting that. It is this Board's fiduciary responsibility to ensure it enters into a reasonable deal. If there are issues of strategy those need to be dealt with as such and the two subjects should not be mixed together. As it relates to the MOU, after numerous reviews and discussions, he believes the document is reasonable. Someone does not put \$20 million on the table and not want to be involved in the process in some respect in terms of how their money will be handled. Opportunities to fine tune and clarify various issues in subsequent agreements will be presented which is always the case when moving from a draft Memorandum of Understanding to more definitive documents. He believes the clarification information provided by the administration should accompany the document and be placed in the minutes to illustrate the intent of the Memorandum of Understanding for future board reference. He understood from the Retreat that the Board was looking for a great partner in Paducah – with both the city and county – to develop what he sees as a huge legacy of this Board and a step forward for this University. The institution has found a partner who has stepped up and done great work in trying to reach out to MSU to allow the institution to reach out in its mission and strategy as a regional service organization. This is an economic development tool for Paducah and McCracken County and they should have a reasonable say in inventorying their needs and communicating to the Board what those needs are. He cannot imagine if the University wants to be successful that it would not be receptive to their offer. The context of the *MOU* is one of partnership and in partnerships not everyone gets everything exactly the way they like it but instead find common ground to reach common goals and this represents an extraordinarily great opportunity for the University and Paducah and the initiative should be advanced.

Mr. Adams indicated with regard to partnerships there is an MSU Office of Regional Stewardship and discussions have taken place over the years regarding Murray State's service to

the region. The University is looking for collaborative initiatives and there is not a more exemplary example of collaboration than what is contained in the *Memorandum of Understanding*. Paducah and McCracken County are indicating what they need and are selecting Murray State University as the principal provider of higher education in their community. They could have chosen from a lot of other universities but instead expressed confidence in MSU and have even agreed to pay the bill for the University to offer what is needed in their community. Paducah and McCracken County are paying a major portion of the cost of this facility on Murray State land in their county. Dr. Rose countered that by the time one takes into consideration what MSU has invested in the land, what will be invested in furnishings and other costs in terms of developing programs Paducah is really paying more than 50 percent of the total cost but not a great deal more. He complimented the County and City Commissions for their actions and in no way challenges their work but he remains concerned about signing off on a document that contains so much interpretation and definition.

Mrs. Buchanon indicated the Board is unified and unanimously wants to do something in Paducah but she is curious what Murray State requested in the *Memorandum of Understanding*. Dr. Dunn reported sometimes when negotiating a contract it is more important to keep something out that one does not want. A number of sessions were spent discussing the fact that Paducah wanted 3,000 as their enrollment number to justify the contribution. It became clear the Paducah leadership felt an enrollment number needed to be included in the document – like they have a set number of jobs in economic development agreements – and over time that figure was negotiated down to 2,000 students. It is also desirable for the University to be able to handle naming and philanthropic opportunities. Partnering on new degree programs is desirable and all entities met one another half way. Paducah leadership has indicated certain programs in certain fields were desirable as need and enrollment can justify, but the University's hands are not tied in terms of it specifically offering any certain degree. The document is the result of good negotiations and the University ended up with what it needed even though there were "walk-away" positions but the Paducah leadership also had similar positions which were successfully resolved.

Mrs. Buchanon asked why an agreement was not drawn up and presented to the Board for approval before seeking approval from Paducah. Dr. Curris indicated he was not involved in the negotiations and the property had already been purchased prior to him coming on the Board but there was concern about sacrificing priorities on the MSU flagship campus for the Paducah project which came into play during discussions concerning the capital construction priority listing. The first expectation enunciated as a Board was that the priorities of the Murray State campus had to come first which would likely mean the project in Paducah would be further down on the list because the University's number one priority was completion of the Science Complex. The response from the Paducah community was to develop a plan consistent with what the MSU Board had indicated in that it could not give priority to the Paducah project because it should not take precedence over other campus projects and this is how the Paducah plan came to the University. Secondly, at the BOR Retreat parameters were laid out in terms of what the contribution from Paducah and McCracken County needed to be in order to amortize the debt and the Board agreed the maximum amount the University would pay. The Board also authorized the President to undertake negotiations and the Chairs of the three involved committees were appointed to a kitchen cabinet to consult with the President and keep the entire Board informed. The third component the Board agreed to at the Retreat was it was understood in the negotiation process that the MSU Board wanted the City of Paducah and McCracken County to take action first. Those entities would take action and then the initiative would come before the MSU Board for review and approval. The downside of this arrangement is that it is difficult for the Board to suggest changes to an agreement after it has been approved by Paducah leadership but this represents what the MSU Board indicated it wanted. The MOU is not a perfect document but rarely does one find a perfect document and the situation became compounded when negotiations lasted longer than anticipated. The BOR Retreat took place at the end of February and thinking at that time was by the end of April negotiations would be concluded. In reality, negotiations concluded roughly one week ago which left the MSU Board with limited time to review the MOU. Dr. Curris agrees that including the response of the President in the meeting minutes is desirable. There are no issues with sharing this document with the Paducah leadership because this represents a collaborative partnership and the MSU Board should always be aware of what was intended in the process.

Mrs. Guess reported part of the reason for the delay was the historic flood which occurred in Paducah and McCracken County. Secondly, the proposal approved by the City and County commissions did not provide the MSU Board with anything to vote on. There was no commitment on behalf of the governing bodies of Paducah and McCracken County so the goal was for that leadership to develop a document which indicated MSU could count on those monies – because they were allocated and voted on by those two commissions – and this would provide the MSU Board with something real to vote on. Mrs. Buchanon understands that but with any agreement she has ever been involved in she has never seen one that cannot have one word or some wording changed. Dr. Dunn indicated his philosophy is that this Board can look at the issue differently and choose to pursue a different route but if the Board decides to reopen this agreement to fix "x" – which may be of concern to the Board – then why not reopen it to fix "y" or "z" and then have to decide whether the other parties are afforded the same opportunity – at which point the agreement unravels. In order for this MOU to move forward the MSU Board should look at the document in terms of the four corners of the agreement – which has been passed by two governments unanimously – and then either vote the recommendation up or down. Adjustments and nuancing will still be required as finance agreements to sell the bonds and other legal documents are prepared. A vote of up or down is recommended because when one thread is pulled the entire garment comes apart.

Mr. Waterfield joins his fellow Regents in complimenting the city commissioners, Mayor, county magistrates, Judge-Executive and the community of Paducah and McCracken County. He is concerned with the earlier comment in terms of any delay amounting to Paducah leadership withdrawing the offer. This position is not indicative of the possibility of a strong, long-term relationship and represents one issue which concerns him. He knows Paducah leadership should have input into the individual who will serve as head of the campus but he also does not want political pressure put on the person hired to run that campus. He still has a few questions in terms of the MOU presented and his preference would be to table the motion just for a day just because it is difficult to get everything covered and digested during the Board meeting. He did not receive the Memorandum of Understanding until Saturday and has literally worked on the document on the fly. The attitude in terms of how to deal with the MOU – and the Paducah elected officials passed the document – should be that one party drafts the document and the other party is provided with an opportunity to provide an answer. It was during the Retreat that he first heard about the proposed MOU and bond issue. As it was explained during the Retreat, he thought it sounded like a sweet deal and was excited. As he started driving back home it struck him that he must have missed something. He thought MSU owned the Crisp Center but later discovered it belongs to the University of Kentucky (UK) and Murray State makes installment payments to eventually purchase the facility. The University has already paid for the building for 13 years and has seven years remaining – a payment of two-thirds of the purchase price (over \$2 million) which represents what the institution has already invested in that property. If MSU walks away from the facility it is walking away from over a \$2 million investment which it could own in seven years. If the University owns two-thirds of the building and UK sells it, he questioned whether the institution will recoup any of its investment. Murray State has over \$2 million invested in McCracken County – and when added to the \$1 million for the property purchase – actual costs are higher than those being discussed. It appears as though the University is walking away from a \$2 million investment and the Fact Book lists the value of the Crisp Center property at \$7 million. Dr. Dunn indicated this does not represent a local contribution or source of funds and part of the deal with MSU receiving the Crisp Center was an adjustment to the base appropriation for the University's payment to UK for that facility. At the point that deal was made the University's base appropriation was increased by \$175,000 and that has continued. Mr. Waterfield indicated he does not care where the money came from because it still represents taxpayer money.

Dr. Curris reported MSU has a lease-purchase arrangement with UK and can walk away from that agreement at any time. It is within the purview of this Board to pay off the remainder of the lease in order to acquire the facility. It is a separate decision whether the Board chooses to walk away from the Crisp Center altogether. Mr. Waterfield indicated the plan is to use the money designated for the Crisp Center to pay for the bond issue and Dr. Curris provided confirmation that is the case within the resources of the University. If approved, at the time the University occupies the new building there will likely be five years remaining on the Crisp Center agreement. The Board will have a choice at that point whether it wants to provide the funding necessary to purchase the Crisp Center and that is certainly an option. It may be a good deal for the University to spend another \$500,000 to purchase a building which can eventually be sold for

\$4 million but that option should be evaluated at the appropriate time. On the other hand, the University may spend \$500,000 and have a facility on its hands no one wants to buy. Dr. Curris does not intend to end the discussion on this issue but irrespective of what the Board does today there will be an option available to make a final decision on the Crisp Center at a later date. Dr. Dunn indicated UK could forgive the remaining five years which presents another option while allowing the University to retain what is being provided to the base appropriation. Due to press on this issue just this week inquiries have been made to the GPEDC regarding the purchase of that building. There are multiple avenues the Board could pursue at the point at which a decision needs to be made. Mr. Waterfield indicated if the University vacates the property now – and unless the property is turned over to MSU it is not Murray State's to sell – it may not be able to recoup its two-thirds interest in the facility. This is why he wanted additional time to fully understand what the University is giving away, if anything.

Mr. Williams indicated it is relevant to the point on the Crisp Center to revisit the numbers and if the decision is made to abandon the new campus strategy to focus instead on the Crisp Center to meet the University's strategy in Paducah, this action would require an allocation of roughly \$7 million upfront (likely even more) just to renovate the facility. Mrs. Buchanon and Mr. Waterfield both indicated they would like to have more time to talk about the issue so the Board is able to approve the Paducah initiative with an 11-0 vote. As Chair of the Finance Committee Mr. Williams knows the University does not have \$7 million and it must be determined where that funding would come from but it would certainly be at the detriment of other projects already on the drawing board or those the University wants to add to the drawing board. The Board would be foolish to think the University will go to the state and plead its case to get more capital money – when it is known there is none available – and when the University is turning down \$20 million. MSU might be walking away from the rent money already applied to the Crisp Center but from this point forward a determination must be made regarding the best use of capital monies for the future. The University is sitting on an offer that will not necessarily be there moving forward if the Board does not take advantage of it. Dr. Dunn indicated this also begs the question of whether the \$7 million for renovation can be identified and, if so, if it should be invested into the Crisp Center. Mr. Williams reminded all that during discussions at the BOR Retreat it was agreed that taking this action would essentially amount to putting good money after bad. Even if money was identified and invested in the Crisp Center that still would not provide a product anywhere close to what the University would be receiving with the new facility in terms of visibility and the presence Murray State wants to be proud of as a regional university. The bottom line is whether there is anything so obnoxious in the MOU in terms of the deal that should keep this Board from moving forward. Mrs. Buchanon indicated obnoxious is not the word she would use but she is concerned about the increased cost of operation and the cost of new program development. Dr. Dunn reported program growth costs attach to any new campus program – whether on the main campus or at extended campus sites. The University does not move forward with something unless it has identified a source of funds – either through an appropriation, internal reallocation or based on what is expected in terms of revenue growth. That is no different for Paducah and would be like taking a new program to Henderson or adding a new degree program on the flagship campus. Mr. Oatman provided confirmation that operational costs were considered and a review of similar costs at the Hopkinsville campus was undertaken. The University will be shifting the operational cost for the Crisp Center to the new facility – assuming the old facility will be shut down – which amounts to approximately a \$90,000 increase and seems logical considering the square footage increase in the new facility.

Dr. Thornton indicated community colleges are considering baccalaureate degrees where they do not have a strong university and personally she thinks that is the wrong route for the community colleges to take. The *MOU* contains a section which gives the community college in Paducah the opportunity to engage in even more matriculation and transfers to Murray State to help those students obtain a baccalaureate degree. To provide the opportunity to obtain a baccalaureate degree closer to home through easier access will allow many place bound students to continue advancing toward the baccalaureate degree. She is very proud of Murray State University and would love to see the institution's name advanced in the region and beyond. The University needs to "move out" and it needs to be regional. No *MOU* or contract is perfect but a starting document has been presented and if the Board has an opportunity to add the appropriate connections to that document at a later date that would be appreciated. The Board must get off the dime and move forward because there is never going to be a perfect document. She wants to see MSU reach out and she wants to see the name Murray State University visibly prominent and promoting high quality and easier access. If the institution has an opportunity to do that

throughout the region it would be desirable to see the University expand even further in the future in Madisonville and Hopkinsville. Dr. Dunn added for the record that Murray State has a very good relationship with the West Kentucky Community and Technical College (WKCTC) and this *MOU* represents a strengthening of the relationship which will only get better with the campus across Alben Barkley Drive.

Dr. Curris reported the Board must conclude the Committee Meetings and convene the full Board, immediately go into Executive Session to handle a personnel matter, recess for lunch and then reconvene the public meeting at 1:15 p.m.

# Paducah Extended Campus - Memorandum of Understanding, approved

On behalf of the Regional Services Committee, Mr. Williams moved that the Committee recommend approval of the *Memorandum of Understanding* and inclusion of the explanation provided to the Regents by the University administration to the full Board for approval. Mrs. Guess seconded and the motion carried.

#### Adjournment

The Regional Services Committee adjourned at 12:20 p.m. and the Committee Meetings of the MSU Board of Regents adjourned at 12:20 p.m.

Chair

Secretary Limit Smith