Chair Stout called the committee meetings of the Murray State University Board of Regents to order at 8:45 a.m. and welcomed members of the public and University community. He announced that the meetings are being broadcast via public live stream, sponsored by the MSU Department of Journalism and Mass Communications. Providing access to the Board committee and plenary session meetings through this medium represents an extension of what a number of public agencies are undertaking to increase the transparency of their governing boards. Chair Stout also introduced newly-elected Student Government Association President Kara Mantooth, and indicated her duties as Student Regent begin July 1, 2008.

Regents Teaching Excellence Awards, approved

Dr. Morgan, Chair of the Academic Affairs Committee, reported that all members were present. He indicated that the agenda item before the committee is approval of the 2008 Regents Awards for Teaching Excellence. These individuals are very deserving of the honor and were recognized during the Faculty Banquet in April and led the Commencement exercises in May.

Ms. Hays moved, seconded by Mrs. Winchester, that the following individuals be approved as recipients of the Regents Awards for Teaching Excellence for 2008:

- Thomas I. Miller  College of Business and Public Affairs
- Mary Lou Yeatts  College of Education
- Bertus Ferreira  College of Health Sciences and Human Services
- Kevin Binfield  College of Humanities and Fine Arts
- John Dressler  College of Humanities and Fine Arts
- Terry McCreary  College of Science, Engineering and Technology
- William Payne  School of Agriculture

The motion carried unanimously.

The Academic Affairs Committee meeting adjourned at 8:50 a.m.
Judge Taylor, Chair of the Finance Committee, called the meeting to order at 8:50 a.m. and reported that all committee members were present.

**KIIS Administrative Fee, discussed**

Dr. Dunn reported that a small piece of the cost containment measures plan to address the $2.1 million budget shortfall included revenue enhancement and included in that is the Kentucky Institute for International Studies (KIIS) administrative fee. The University currently serves as a fiscal and administrative agent for this consortium of colleges and universities that conducts international programs and studies. Over the course of an academic term, and particularly during the summer, the consortium takes a group of students to various countries, including Argentina; Bregenz and Salzburg, Austria; Brazil; China; Czech Republic; Cost Rica; Denmark; Ecuador; France; Germany; Greece; Italy; Japan; Mexico; Poland and Ukraine; and Spain and Turkey.

Dr. Dunn stated a Memorandum of Understanding currently exists between the KIIS Board and an administrator at MSU but the agreement was never officially enacted by the Board. In reviewing the situation with regard to KIIS, the University administration determined an appropriate opportunity existed for revenue generation. There are two key pieces to the revenue enhancement initiative with the first being assessment of the mandatory fee portion of the University’s tuition and fees for students participating in KIIS trips and receiving MSU credit. One of the agreements in the Memorandum referenced earlier is if a student is enrolled in an institution that is a KIIS consortium member and chooses to take a trip for academic credit, then that credit is awarded from Murray State. MSU does not charge tuition because the student has enrolled in a KIIS experience and has completed the travel and attendant work.

Dr. Dunn further explained that the initial agreement between the KIIS consortium and the University was not approved by the Board of Regents even though it could be argued the Board approved the budgets covering all of the years of KIIS existence and by implication has approved this arrangement. The initial agreement between the University administrator and the KIIS Board never contained language indicating that fees would be waived. In fact, mandatory fees had been waived beyond the explanation contained within the agreement and MSU administrators believe it is appropriate for the University to collect a fee for serving as administrative agent for the consortium. This represents a legitimate revenue stream from the program for the period that the University continues to serve as its fiscal agent. Dr. Dunn indicated these fees would amount to a revenue gain of approximately $100,000 and is viewed as a change in procedure unless the Board directs otherwise. The students who will be affected are not just Murray State students but include students from the 21-member schools in KIIS.

Dr. Dunn stated that the additional increase the Board is being asked to act upon will institute an administrative fee for serving as a fiscal agent, with the University handling administrative duties for the institute, and would constitute a revenue source of $75,000. In the initial set of cost containment materials and in the revenue enhancement area that was discussed with the Board, it was indicated this would most likely be an additional assessment to students and that KIIS would institute an additional charge above the mandatory fee to help cover the cost. It became clear in discussions with Dr. Chris Bierwirth, Professor of History and KIIS Director, that the KIIS Board might take issue with this action and there is, in fact, value attached to not having differential treatment for a KIIS student from MSU versus one from another institution because the University had intended to waive that add-on administrative fee for MSU students. On the advice of Dr. Bierwirth, MSU administrators decided to leave the decision of how to pay the administrative fee up to the KIIS Board. If they chose to assess the fee across all KIIS member schools, that would amount to approximately $3,500 per school. As a member school Murray State would gladly pay such a fee in exchange for the experience that MSU students gain through access to the KIIS program.

Dr. Dunn believes this action is justified and mentioned the various duties, tasks and responsibilities contained in the Memorandum of Understanding that Murray State handles for KIIS. While the administration did not go through each of these duties to cost out everything, it instead decided to show the Board the type of work the University takes on to support KIIS and thus provides justification for the proposed administrative fee. Some institutions that are members of KIIS actually institute their own fee for their students to participate in the KIIS experience and that is why MSU felt an administrative fee attached to those students would not
be outlandish. He cited as an example the University of Kentucky (UK), which charges students a fee to participate in the KIIS program even while MSU is providing tuition free of charge.

Mr. Tom Denton, Vice President for Finance and Administrative Services, stated that years ago when KIIS was first implemented the state utilized a funding formula that recognized credit hours throughout the year and with that the University gained an advantage in funding from state appropriations – that is no longer the case. The state now only considers enrollment during fall semesters for funding purposes. Dr. Dunn stated this is a very good point and some Regents may wonder if the University will lose headcount by virtue of losing KIIS students who participate in an experience during a fall semester. He reported there would be a nominal decline because the bulk of KIIS experiences take place during the summer.

Judge Taylor asked how many years Murray State has been responsible for administering the KIIS program and Dr. Bierwirth indicated the first program at the University was conducted in 1975. The KIIS Consortium did not come into official existence until September 1980. Dr. Dunn reported that the Memorandum of Understanding with the KIIS Board was not executed until July 2005. Judge Taylor asked how many hours credit students normally receive for participating in a summer program and Dr. Bierwirth indicated during the spring and fall semesters the students are required to take 12 semester hours which applies to a small number of KIIS students with the vast majority of students participating during the summer. If students participate during the summer they are required to take at least one three-hour course but could take as many as two courses for a maximum of six hours. Roughly 70 percent of students take six hours and 30 percent take three hours which averages to five hours per student. Judge Taylor asked if other institutions recognize Murray State credit toward their degree requirements and Dr. Dunn indicated they do. Mr. Adams asked how many total students participate in the program and Dr. Bierwirth reported that in 2007 there were 588 students, 522 in the summer programs and 66 in the spring and fall semester programs. Enrollment has not been completed for the fall 2008 semester programs but Dr. Bierwirth reported that 41 students participated in the spring, with 540 expected to participate during the summer and 30 to 34 students most likely participating during the fall semester for a total of between 610 to 615 students.

Mr. Adams asked for clarification on whether the University would bill the students or the KIIS consortium. Dr. Dunn stated with regard to the mandatory fee ($100,000) the students would be billed directly based on the number of hours they take and that portion of the plan does not require Board action. The $75,000 administrative fee that is being assessed to the KIIS program, effective July 1, requires Board approval. This fee covers the work the University does as the fiscal and administrative agent for the KIIS program. Mr. Adams clarified that up until this point the University has not been charging either the mandatory fees or the administrative fee for students to participate in the KIIS program and Dr. Dunn indicated that is correct and the $100,000 has until now been foregone revenue because the University never charged the fee even though the agreement between the University and KIIS never waived the fee. Judge Taylor asked whether this could be considered tuition and Dr. Dunn indicated it could because every student attending MSU and paying tuition is also paying mandatory fees on top of that for every credit hour taken, in accordance with tuition and fees previously approved by the Board. There is a long-standing agreement between the University and KIIS and the administration thought it would be overreaching to go after tuition but it is an open question within the terms of the policies of the University whether the Board wishes to continue in this manner.

Mr. Adams asked if the mandatory fee portion is what any student at Murray State University would pay and that is where the $100,000 is coming in by charging KIIS students that same mandatory fee and Dr. Dunn stated that is accurate and averages out to approximately $150 to $200 per KIIS student. Mr. Adams further clarified that the $75,000 is the administrative fee that would be charged to the KIIS Board and asked whether the University had previously charged this fee. Dr. Dunn indicated this represents a new fee. Dr. Morgan inquired whether the proposal must go through a process with the KIIS Board and, if so, how long that process might take. Dr. Dunn reminded him there is currently no executed agreement between the two boards and a University administrator obligated the institution to the KIIS program and the parameters outlined in the Memorandum of Understanding. The Board of Regents has approved the budget each year and by implication has also approved the University’s participation in the KIIS program. It is within the authority of the Board to determine the fees it sets and there is no written agreement with KIIS that one board cannot take action without the other. The KIIS Board may not like the decision made by the MSU Board and may even indicate it will not pay
the administrative fee but it is a legitimate fee for what the University does for the KIIS agency. In response to a question from Judge Taylor, Dr. Dunn indicated that the KIIS Board receives funding that is completely driven by the revenue obtained from students participating in international trips. Dr. Bierwirth indicated KIIS is completely self-supporting and sets its program budget at a level where cost of instruction can be maintained. Dr. Dunn added that the University supports Dr. Bierwirth’s salary for his work as KIIS Director.

Mrs. Travis asked how many of the 610 to 615 students participating in the KIIS program for 2008 are Murray State Students and Dr. Bierwirth reported that approximately 15 percent on average are MSU students. She asked whether the KIIS Board would likely feel they have had a good situation for a number of years and would understand the necessity for this change. Dr. Bierwirth indicated that most members of the KIIS Board feel that the program has made a significant contribution to Murray State and there is a misconception that KIIS has been getting a “free ride.” The KIIS program has directly contributed $250,000 in revenue to the University over the years and has provided indirect contributions by helping to secure state funding which the University received under the previous funding formula. Students enrolled in the KIIS programs over the summer helped raise the overall FTE levels for MSU and the KIIS program currently pays some fees to Murray State, including an application and transcript fee of $33 per student amounting to approximately $20,000 per year. The University also holds reserve funds for KIIS and receives interest from that and pays KIIS $5,000 in lieu of that interest. Every year the account has been in existence, with the exception of the first year, the interest has amounted to more than $5,000. Dr. Bierwirth stated that the KIIS program purchases other services from Murray State, including printing, which last year amounted to $10,000. Aside from the FTE funding, KIIS has directly contributed approximately $27,000 per year to MSU since the inception of the consortium. The overall sense of the KIIS Board is they have been paying for many services from Murray State from the beginning.

Mr. Denton countered that from an administrative perspective there are many services the University provides for the KIIS program that are not reimbursed, including:

- Admission of all non-MSU students
- Creation of course sections and enrollment of students receiving credit
- Processing of all waivers and fees to student accounts
- Processing of all stipend payments to faculty
- Processing of all expenses (procurement and payables)
- Processing of all payrolls for KIIS employees, benefits, taxes, deductions
- Maintenance of all foreign and local bank accounts for program use (funding and monthly reconciliations)
- Executing all wires to foreign vendors (most are prepayments that assume a large degree of risk)
- Purchasing of all foreign currencies and forward contracts
- Reconciliation of all program transactions to ledgers and actual receipts provided by KIIS
- Management of annual audit (fraud/risk questionnaires, work papers, statements)
- Assume liabilities for our students traveling overseas
- Allow University scholarships to be used to pay KIIS program fees
- Provide cash management and depository services
- Provide ledger system for use by KIIS
- Provide Human Resources services for all KIIS employees
- Provide technology services and applications as any other university department (network, web, etc.)

Mr. Denton stated most transactions the University handles for KIIS are not routine mainly due to the fact that they involve a foreign country and what might take five minutes to handle in the United States might take several hours in another country. Considering the wide range of activities numerous departments help KIIS with on a daily basis, and in particular the Accounting Office, Mr. Denton would not agree with the statement that the KIIS program provides a significant portion of reimbursement for services offered by the University.

Dr. Dunn added that as a unit of the University KIIS pays fees for services the University provides, such as for printing, but he does not agree this can be considered as revenue because it is comparable to what every unit pays when they utilize a centralized University service. In the interest of full disclosure, Dr. Dunn asked the Board to be aware that discussion has taken place regarding whether the KIIS Board would seek to leave Murray State and be housed at another
institution. The University receives some prestige from the KIIS program but Dr. Dunn is not convinced other institutions would jump at the chance to take on the program without doing some due diligence first and determining how they recreate within their own budgets the arrangement that currently exists at Murray State. Very few institutions are in a financial position to take on this additional work and in spite of the risks involved Dr. Dunn believes this recommendation is a legitimate means of revenue enhancement.

Ms. Hays inquired whether discussion has taken place with the KIIS Board and Dr. Dunn indicated a University delegation has not met with the Board and negotiations have not taken place. She asked whether value can be placed on the services previously mentioned and perhaps utilize a billing system with KIIS. Dr. Dunn indicated if the Board issues that directive then administrators would go back to the drawing board. He believes this would involve a great deal of effort to figure out the cost for those services and send a bill to KIIS every time they use a University service and a much better option would be to implement a flat administrative fee that amounts to $2,500 to $3,000 per school. Ms. Hays indicated she agrees.

Judge Taylor stated that the University assuming liabilities for students traveling overseas is one of the services listed that KIIS receives and asked for clarification on what is involved with that service. Mr. Denton reported that the KIIS program has liability insurance but events could arise and, whether they involve monetary damages or whether it is something more reputational in nature, if such events occur with MSU students or programs it could impact the entire University. The University has sovereign immunity protection to a certain degree for certain events but in a general sense it is subject to liability from the public’s perception and must make sure good controls are in place. Dr. Dunn indicated that he would go on record as saying this action is not likely to destroy the KIIS program and it will continue to operate.

**KIIS Administrative Fee Discussion, approved**

On behalf of the Finance Committee, Mr. Stout moved, seconded by Mr. Adams, that the Board of Regents, upon the recommendation of the President of the University, approve the establishment of an annual administrative fee of $75,000 to be assessed to the Kentucky Institute for International Studies (KIIS) program effective July 1, 2008. Motion carried unanimously.

**Budget Reduction, discussed**

Dr. Dunn referred Board members to their supplemental notebooks which contain the final list of cost containment measures sent earlier via e-mail. Unless the Board reinstates any of the cuts, the budget reductions as proposed become effective July 1, 2008. Dr. Dunn provided an overview of the financial situation which places the University in the position where it must identify a way to cover $2.1 million in budget cuts. Last year the Racer Advantage Grant was offered and the Council on Postsecondary Education (CPE) has clearly stated the University needed to at least keep pushing on that initiative if it expected approval for any sort of tuition increase for Murray State. As the price of attending Murray State increases, the amount needed for merit and the other University scholarships goes up as well and that must also be taken out of the equation, resulting in net revenue of tuition and mandatory fees of almost $2.7 million. Once the University’s appropriation to the general fund is subtracted from that number the University is short by approximately $433,500. The University has reallocated money within the budget that was to be used for capital purposes. Because the University has been able to get capital costs for which this money was set aside covered in other ways, these funds are available for use within the general budget. After these funds in the amount $924,000 are added back in that gives the University approximately $490,500 to work with. Dr. Dunn outlined the various uses for the funds to illustrate what happens to this figure and leads to the $2,107,500 needed from cuts or revenue enhancements below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary Increase of $400 per regular, full-time employees</td>
<td>$508,000</td>
</tr>
<tr>
<td>Equity Adjustments (promotion and awards)</td>
<td>247,000</td>
</tr>
<tr>
<td>Minimum Wage Increases</td>
<td>150,000</td>
</tr>
<tr>
<td>Staff (Hourly) Compensation Enhancement</td>
<td>50,000</td>
</tr>
<tr>
<td>Health Insurance Increase</td>
<td>621,000</td>
</tr>
<tr>
<td>Fringe Benefits (FICA and retirement)</td>
<td>274,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>250,000</td>
</tr>
<tr>
<td>Women’s Athletics – Title IX Issues</td>
<td>100,000</td>
</tr>
</tbody>
</table>
Dr. Dunn explained that the $50,000 salary compensation enhancement would be reserved for the lowest paid staff to start moving them up the pay scale. The University has been working with Staff Congress to conduct an equity study to review staff wages and salaries but that has been postponed for now for a variety of reasons. In order to show the University’s commitment to raising the salaries of the lowest paid staff, $50,000 has been set aside for salary enhancements. Dr. Dunn then presented institutional priority budgeting items which included:

SACS Accreditation -- Planning and Initiative Work $25,000
Assistant Professor, Agricultural Systems Technician 45,000
Assistant Professor, Music – Business Education 45,000
Recruitment Initiatives – Non-Personnel 30,000
Adjunct Replacement – Residential College Heads 25,000
WKMS Repeater Towers – Federal Match 116,000
Information Technology – Elluminate Online Upgrade 41,000
Bank Credit Card Fee Increases 25,000
BKD Audit Cost Increase 25,000
General Insurance Cost Increase 21,000

Total Expenses $398,000

Chair Stout inquired whether University administrators have adequately factored into the budget the significant increase in fuel and transportation costs that are on the horizon. Mr. Denton reported that currently no additional travel costs have been factored into the budget but individual departments, in particular the Motor Pool, would review the issue and understand they will ultimately have less money to expend for travel.

Dr. Dunn reported that the cost containment measures from the President’s Office budget amount to $357,000 and include a minority hiring pool that was not utilized. In reviewing the Budget Reduction Worksheet for fiscal year 2008-09, the amount of cuts from the respective vice presidential areas include: President’s Office ($357,032), Academic Affairs ($574,916), Student Affairs ($306,205), Finance and Administrative Services ($381,830), Institutional Advancement ($72,272), and Special Accounts ($269,878). When the revenue increase from KIIS is factored in ($175,000), total cuts amount to $2,137,133. The budget cuts become effective July 1, 2008, unless the Board votes to change or remove something. The cuts were carefully reviewed and none of those being proposed affect teaching, learning or direct student services at the University. The ultimate goal was for the campus to look as much as the same as possible when students return to campus for the fall semester. Dr. Dunn requested that if a member of the Board makes a motion to reinstate a budget cut they must also identify a source of funding within that motion. If no source of funds is identified the Board must understand that the additional funding required to reinstate a cut will come from fund balances of the University.

Dr. Dunn reviewed budget balances for auxiliary and general funds to illustrate the University’s position in relation to other comprehensive universities in the Commonwealth. In comparing institutions, unrestricted net assets versus revenue was determined to be the most appropriate and accurate ratio and Mr. Denton indicated what has been presented is a projection and assumes the University will break even in the current year.

(See Attachment #1)

Ms. Hays stated if she were to make a motion she would not identify a source of funds because she does not believe it is her duty as a Board member to do so. If the Board agrees to restore funding to an area it then goes back to the President to identify an appropriate source of funding. Ms. Hays indicated she would not have the information necessary to make an informed recommendation and does not feel it should be an assumption the money will come out of the general fund. Dr. Dunn indicated he would not argue the point but the Board should assume if they reinstate something and do not indicate a source of funding that he intends for the money to come from the general fund balances. Dr. Dunn stated that administrators do not want to be in the position of going back and announcing additional cuts. The entire budget process was
designed to be open and full campus discussion has taken place and all parties are able to see what cuts are being proposed and a collective understanding exists of what is being given up in the $2.1 million. If the Board wants to restore a program the administration does not need to be faced with starting the process over and going back and identifying additional cuts. That is why, unless the Board directs otherwise, funding for anything added back into the budget will come from general fund balances. Ms. Hays stated that she takes Dr. Dunn’s comments to mean that the cuts have pretty much been set in concrete and a review of any other potential cut sources, cost containment measures or cost savings will not be undertaken. Dr. Dunn indicated the Board could direct him in the motion that he cannot go to the fund balances but the Board must understand that then gives Dr. Dunn and other administrators the ability to determine what the funding source will ultimately be.

Ms. Hays asked whether there was documentation that would show what other potential sources of revenue were considered and eliminated. Dr. Dunn indicated that one funding source was the 9 percent tuition increase instead of the 6 percent increase the Board approved. Administrators did review revenue enhancements and agree it should be studied even further but as far as general fund revenues and without getting into a very large and difficult discussion around tuition pricing, this is what the administration felt would be warranted at this time.

Judge Taylor added that the Board must keep in mind that the proposed budget as it stands right now assumes the same number of students the University had this year with no projection for growth. More revenue will be generated as enrollment increases and focusing efforts in this area is the best way to address the budget shortfall. The second mandate or consensus of the Board has been that teaching and learning should not be compromised.

Chair Stout stated he appreciates the openness and transparency of the process Dr. Dunn and other administrators have undertaken to reach this point. He agrees with Judge Taylor that the proposed cuts do not take into consideration any increase in enrollment but they also do not take into consideration the significant increases in fuel, transportation and food costs that the University is facing. Inflation has become a major factor more so than any Board member could have anticipated just a few short months ago and while the Board is attempting to be prudent and keep an acceptable level in reserves, there are hidden costs that may prove to be more challenging than what can be anticipated at this time.

Ms. Hays indicated she appreciates the work that has gone into the process but does not see cost containment. She does not see any effort to cut costs or control expenses and specifically mentioned the Saturday morning special delivery FEDEX package she recently received at a cost of $35. Those types of expenditures must be controlled and she suggested utilizing electronic communications more. Dr. Dunn indicated there is incentive for cost containment within the units because the savings they generate comes back to them in the form of carryforwards. Mrs. Buchanon added that the cost of mailing invitations alone should be reviewed and would amount to substantial savings if more electronic invitations were utilized. Mr. Denton stated that with block budgeting there is an incentive to save and because the vast majority of units on campus have not received an increase in operating funds for some time they have even further incentive to operate in the most efficient and cost effective manner.

Mr. Adams indicated he wants it to be understood that the comments he is about to make do not speak against a particular program but instead focus on making a decision on what is more important to Murray State in its mandate of what the University wants to become. He believes that students who live in this region should be the University’s primary focus and indicated he is referring to Carr Scholarships as opposed to tuition waivers in international education. He is attempting to evaluate who the University is mandated to serve. There is $986,800 in international scholarships and $993,696 in Carr Scholarships and the University has elected to reduce Carr Scholarships by 10 percent but could instead reduce international scholarships by 10 percent and put money back into the University’s constituency. He believes doing so would be more important to the University’s mission and offers this as an alternative to what has been presented for the committee to consider.

Chair Stout stated that the time allowed for committee meetings was expanded in an effort to allow as much discussion as possible, particularly in this area, and suggested the Committee entertain a motion to adopt this recommendation. The Committee could then entertain motions to extract from or add to the recommendation. Dr. Dunn agrees this discussion should occur and
that this is a value choice about what the University wants to look like. He believes it is going to be incumbent on this Board, perhaps during a summer retreat or special work session, to talk about pricing in general. If the University is going to be constrained in the future in terms of tuition percentage increases, then out-of-state waivers must also be discussed and it must be determined whether that is a community of interest that is more important than students from Kentucky. International tuition will certainly become part of that same discussion but one group must not be isolated without having a full scale discussion which includes all communities outside the boundaries of Kentucky. Another piece of the equation is that the University has aggressive goals for international student enrollment to help meet the 12 x 12 numbers and MSU can count those students toward enrollment. The University must look at ways to convince those international students to come to campus and has geared up to have a very strong recruitment effort specifically for the purpose of attracting an international population of around 5 percent. Accomplishing that objective will be crucial to meeting the enrollment goals the University has established and if Murray State is going to be a comprehensive university worth the name it must remain in international education. That education includes a set of international experiences that are especially needed by students coming from southern Illinois, far west Kentucky and northwest Tennessee because they are not currently getting any exposure to international experiences but will eventually take jobs in the global workforce.

The Board adjourned for a short recess beginning at 10:25 a.m. and ending at 10:45 a.m.

Chair Stout reconvened the Finance Committee meeting at 10:45 a.m. Mr. Adams stated he wanted to temper his earlier remarks and that in the current budget year $200,000 was added for need-based scholarships and that had not occurred before. In the coming year the amount has decreased to $150,000 and even with cutting Carr Scholarships, the University is allocating $150,000 for need-based scholarships. He does not want to be misunderstood and is not minimizing the importance of international education but in the current budget situation he is making a personal value judgment between the two.

Judge Taylor indicated that the $8 million cost associated with Enterprise Resource Planning (ERP) has been discussed and approximately $2.5 million has been expended to date. He asked if a summary of these expenses would be provided so the Board knows exactly what is occurring with ERP. Mr. Denton indicated documentation currently exists internally but an analysis could be prepared. Judge Taylor asked if the $8 million is a hard cost and Mr. Denton indicated it would be very close based on estimates and while some contingency was built in, it is too early to determine whether contingency funds will be used.

Mr. King asked how many students are affected by the 10 percent reduction in Carr Scholarships. Dr. Dunn stated 25 students would be affected and Mr. Denton indicated that a $1.2 million increase in scholarships has been identified as a priority at the University for both Carr and School Relations scholarships. Mrs. Travis asked what the overall increase for scholarships would be and Mr. Denton stated there would be a $1.2 million net increase for all scholarships and $986,000 of that amount is designated for international students. Dr. Dunn assured Mr. King that the University would maintain its commitment to those students who are currently attending Murray State on a Carr Scholarship and the proposed adjustment would apply only to incoming freshmen students.

Closed Session

Mr. Adams moved that the Finance Committee go into Closed Session, indicating that all Board members are invited to participate in Closed Session. Chair Stout clarified the motion is pursuant to KRS 61.810(1)(f) to discuss matters that might lead to the appointment, discipline or dismissal of an individual employee and requested that Mr. Denton and John Rall, General Counsel, remain as well. Ms. Hays seconded and the motion carried unanimously.

Closed Session began at 11:05 a.m. and ended at 11:25 a.m.

Ms. Hays moved, seconded by Judge Taylor, that the Finance Committee convene into Open Session. Motion carried unanimously. Judge Taylor reported that the Finance Committee took no action during Closed Session. Judge Taylor further indicated he would consider motions from Committee members to restore the proposed budget cuts. There being no motions, he
stated that the Finance Committee would vote on the proposed budget cuts with the full Board during the afternoon plenary session.

2008 – 09 Salary Increase, discussed

Dr. Dunn indicated this agenda item pertains to whether the Board desires to take action for a salary increase for employees for the next fiscal year in the form of a one-time payment of $400 for regular, full-time employees and a prorated amount for regular part-time employees. University presidents throughout the Commonwealth have reviewed various ways of addressing the salary increase issue and Western Kentucky University has put forward the idea being proposed here. It made sense to provide a flat dollar amount and that is being advanced philosophically with each full-time and regular part-time employee receiving something for the work they have done throughout the course of the year. Motivationally this may not be a great satisfier but it does acknowledge that University employees have worked hard and put forward good efforts throughout the year and the recommendation represents what other Universities are considering in a difficult fiscal year. Dr. Dunn further explained that this payment would not be a recurring expense and will not be added into the base salary. Concern regarding this point centers on the fact the University does not know what the budget situation will be for the next year but it is known that there will only be an additional $1 million in the University’s state appropriation for 2009-10. If the revenue situation in the Commonwealth does not improve the possibility exists for the University to be faced with another rescission and administrators must have something in reserve if another giveback occurs mid-year.

Dr. Dunn stated that there has been some desire on behalf of the Board to differentiate between percentages, depending on how much an employee makes, with those on the lower end of the scale receiving a higher percentage increase than those on the higher end of the scale. This initiative was geared toward the median salary of $35,941 for faculty and staff across the University and amounted to $359 per employee which was increased to $400. A percentage increase across-the-board would be much more expensive and would violate the philosophy mentioned earlier. He cautioned that deciding a salary issue at the Board table that differs from the one being proposed prohibits the administration from providing the Board with a projection of costs with exactitude. It is known that the $400 payment per employee totals $508,000.

Ms. Hays stated she understands the goal is to reward employees and increase salaries but there are 51 employees currently making over $100,000 and if they did not receive the $400 payment that would amount to $20,400 that could be redistributed to employees on the lower end of the pay scale. Dr. Dunn indicated that he and Mr. Denton reviewed various scenarios and a 1 percent increase provided to each employee, excluding those making $100,000 or above, would cost $470,778 as opposed to the total of $508,000 being proposed. Ms. Hays clarified that she is not advocating cutting anyone out but she knows for someone making $25,000 that $400 is a lot more money than it is for someone making over $100,000. The bulk of Murray State employees are making under $40,000 per year and the University should ensure, as much as possible, that these individuals are not as affected by the current economic situation and she requested that the Board examine this issue. Mr. Denton reported that if every employee received a 1 percent increase, that would amount to $513,000 and the $400 across-the-board payment amounts to $508,000 and represents a middle ground. Ms. Hays indicated that a 1 percent raise being given to those at the lower end of the pay scale would be unacceptable.

Mr. Denton reminded the Board that a $50,000 salary enhancement pool exists to address the salaries of lower paid employees. The University compared the salaries of these individuals to the average per capital income of $16,566 for Calloway County residents and reviewed how far away they were from that number with their annual earnings. Ms. Hays indicated the University would have $50,800 available to redistribute to the lower paid employees if those making above $80,000 do not receive the $400 incentive payment and she feels those individuals can better afford no increase. Ms. Hays further stated that additional discussion should take place regarding whether the $400 payment is added to the base salary of employees or remain a one-time payment.

Dr. Morgan stated he is aware of the University’s current financial situation but on behalf of the faculty he feels the $400 increase should be applied to the base salary. If the cost of living increase for this area is 3.4 percent per year, backing out $400 starting in the 2009-10 academic year would put MSU employees behind from the start by 3 to 6 percent which amounts to some
employees going back by $1,500 to $2,000 in terms of their purchasing power. For this reason Dr. Morgan believes adding the $400 being proposed to base salaries is paramount to keeping younger faculty members in particular at Murray State. The longer faculty members remain at the University, over a 30-year career the $400 compounds into many thousands of dollars and what the Board does not want to say to the youngest faculty, staff and general employees is that over the life of your employment at Murray State this one decision is going to cost you thousands of dollars. Mrs. Winchester agreed with Dr. Morgan but also believes that every employee is important, no matter their role at the University, and it is crucial that everyone be treated equally. To not give a salary increase to someone just because they make a lot of money would not be equitable and would be unfair. She agrees adding the $400 payment to the base salary is extremely important, especially for retirement purposes, in addition to how it affects each employee who does not receive a salary increase but must still pay higher insurance costs.

Dr. Dunn indicated he is in agreement with Dr. Morgan and Mrs. Winchester on all counts but he is concerned about what happens if the University is faced with another rescission of $1.7 million in January 2009 and where the administration would go to find that money. Adding the increase to the base essentially prohibits the University from having that source of funds to meet the rescission if it occurs. The University may not face a rescission but that will not be known for some time and if a rescission does come to fruition the University will need a means to address that.

Mr. Adams indicated that he agrees with Dr. Morgan and understands Mrs. Winchester’s point but does not believe all employees are equal or else they would already be making the same salary. He is concerned about the obligation of making this a recurring salary increase considering that the University does not know what it will be facing in January 2009. He agrees that it would be a worse scenario for the administration to come back at a later date and cut salaries and that has happened in the past. He asked the Board to also consider that in the past MSU employees have received an increase that is much more than the cost of living increase and he originally feared the Board would be in a position where there would be no money for any raises at all. He supports the recommendation of not adding the increase to employee base salaries, is supportive of enhancing the salaries of those employees at the lower end of the pay scale and commends the administration for making monies available for this purpose.

2008 – 09 Salary Increase, approved

On behalf of the Finance Committee, Mr. Stout moved that the Board of Regents, upon the recommendation of the President of the University, approve a salary increase for 2008-09 in the form of a one-time (non-recurring) across-the-board increase of $400 for each regular, full-time employee and a pro-rated amount for each regular, part-time employee. Mr. Adams seconded and the motion carried unanimously.

The Finance Committee meeting adjourned at 11:50 a.m.
Capital Campaign Review of Readiness Study

Mr. Bob Jackson, Associate Vice President for Institutional Advancement, thanked the Board for the opportunity to provide an update on the Capital Campaign Readiness Study. He reported the last couple of years have been productive for the Office of Development in terms of staff changes that have been made and recommendations from the Campaign Consultant Dr. Alan Zacharias that have been implemented. The following activities have taken place to prepare for the Capital Campaign:

- Continued college-based development program
- Moving to fill the Associate Director of Gift Planning position which is currently vacant (also responsible for development activities in the School of Agriculture)
- Conducted new prospect research and identified 100 major new prospects that are actively being cultivated
- Implemented Annual Fund changes
- Faculty and Staff Campaign is underway with 408 faculty and staff giving $132,866
- Initiated new Senior Gift Program

Mr. Jackson reported that there were 786 new, first-time donors and focus had been placed on improving the alumni and donor database which is maintained by the Office of Development for the entire University and he is confident the groundwork has been laid for a successful Capital Campaign. The Development Office continues to look for lead gifts during the quiet phase of the Campaign. More information will be forthcoming regarding a major gift, of which 80 percent will be designated for scholarships.

Mr. Jackson announced the following major gifts:

- Gyndel Garnett Bequest (Graves County High School students) $355,729
- Betty Hill Gift (School of Agriculture scholarships/academic enhancement) $100,000
- Dr. Hal Seaton Gift and Pledge 100,000
- Dr. C.C. Lowry Bequest (pre-med scholarships) 200,000
- Johny Russell Gift Annuity 900,000
- Tom and Theo Tuck Trust 1,480,000
- Jeffrey and Sallie Clark Estate (Illinois students) 982,000
- Anheuser-Busch Foundation 35,000

Mr. Jackson reported that as the Office of Development builds a portfolio of planned gifts, charitable trusts, bequests, known bequests, insurance policies, gift annuities and all types of estate planning gifts, today there are 95 planned gifts in the University’s portfolio. Many are held by the Foundation with a face value of over $21 million. This is a critical element for the future of the institution and just a few years ago the number was a fraction of what it is now. Mr. Jackson stated that the University has had some very large trusts put in place over the past few years. There are a total of 64 known bequests amounting to $10.3 million from donors who have notified the University of their intent. There are a total of 31 trusts, gifts and life insurance held by the Foundation in the amount of $11.2 million.

Mr. Jackson indicated that over the last few years Dr. Alan Zacharias, Campaign Consultant with Gonser, Gerber, Tinker and Stuhr, has been invaluable to the Office of Development as staff have worked to make changes recommended by Dr. Zacharias and to ensure that research and work has been updated and the Office of Development is prepared for a major Capital Campaign. The Capital Campaign Readiness Study has been critically important to the process and over the past several months 45 interviews have been conducted and a $60 million campaign was tested with a very positive outcome.

Dr. Zacharias stated it is an honor to address the Board and it has been a pleasure to work with Mr. Jackson, Vice President for Institutional Advancement Jim Carter and President Randy Dunn over the past several years. He publicly thanked the Foundation Board of Trustees for engaging his firm to conduct the Capital Campaign Readiness Study and stated it has also been a pleasure to work with Dr. Tim Miller, Executive Director, and members of the Foundation Board of Trustees.
Dr. Zacharias reported that he would share a brief overview of the current philanthropic climate, provide an executive summary of the Campaign Readiness Study findings and recommendations and outline the next steps in the Campaign as well as the role of the Board of Trustees and the Board of Regents in that endeavor. He stated that philanthropy represents one of the greatest growth opportunities for public universities and private support must play an increasingly larger role in funding the operations of a public institution in order to ensure that access and affordability are provided while at the same time maintaining a margin of excellence that differentiates Murray State from other institutions.

Dr. Zacharias stated the University must not take for granted its cache, its mission and its relationship, with donors. The University must continue to focus energy and communicate a sense of urgency to donors and alumni who have many new choices as to where they will give their philanthropic dollars and that this is part of the diversification of revenue streams. The University must look at the Capital Campaign as a way to transform the institution. Results from research on trends taking place throughout the country are encouraging and there seems to be no abatement in the rate of giving in the United States, recession or not, because giving is generally not affected by the economy. According to recent IRS statistics, the average American family contributes to an average of six different non-profit organizations per year and next to religion education is by far the largest beneficiary of those gifts. Dr. Zacharias indicated that gifts are an individual driven decision and include bequests (7.8 percent), corporations (4.3 percent), foundations (12.4 percent) and individuals (75.6 percent). He stated this is a key piece of information to keep in mind as conversation centers on a comprehensive Capital Campaign.

Dr. Zacharias reported there are several objectives of the Capital Campaign Readiness Study and those include:

- To evaluate and assess the mission and vision of the University
- To assess perceptions regarding strengths, liabilities and potential to determine support for a major campaign
- To gather findings and identify specific recommendations, action steps and a timeline for implementation

Dr. Zacharias added that protocol involved an internal review of documents, including:

- Looking through the history of giving to the University, in particular over the last decade
- Looking at current programs and operations
- Conducting 45 confidential interviews with Board members, donors and key administrators and University leaders

Dr. Zacharias stated that a $60 million campaign was tested, and that was manifested in a case statement distributed to interviewees prior to the interview. According to these distinctions the following were tested: student scholarships ($22.5 million), academic excellence ($20 million), campus enhancements ($11 million), athletics ($4 million) and annual giving ($2.5 million) for a total of $60 million which represents a $30 million increase over the last campaign.

Dr. Zacharias reported that the interviews conducted were highly confidential and personal and the findings were interesting and powerful and included:

- Across the spectrum there was a fairly high understanding and appreciation for the mission of Murray State University and a specific pride in the University exists, particularly as it pertains to providing access to students in western Kentucky and this region of the Commonwealth.
- There is high approval and level of pride in the University’s continuing national recognition by U.S. News and World Report as well as for recognition from other organizations and this provides validation in support of what alumni, friends and supporters already believe about the University.
- There is general appreciation about the way the University brands itself and although access and affordability are points of pride, the University also touts the quality of education students can receive from the institution.
- There is a high approval level of the administration and President Dunn’s leadership. Presidential leadership in many respects is the key issue for the success of a campaign
and for the short period of time President Dunn has been at Murray State there has been great acceptance of his leadership and a general approval of the administration.

- Dr. Zacharias reported that he received significant comments regarding the fact that there is discord at the Board level and that is having a negative impact on perceptions and support for the University. This comment should be taken in the context that people tend to give to organizations that are successful and have a level of stability and when Board issues become public that seems to shake the faith that individuals have in the overall administration and leadership of the institution.

Dr. Zacharias presented the following strengths and weaknesses for Murray State University:

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<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tbody>
<tr>
<td>Caring Faculty</td>
<td>Rural Location</td>
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<tr>
<td>Quality Education</td>
<td>Distance from political center of Commonwealth</td>
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<tr>
<td>Affordable Tuition</td>
<td>National Awareness Issues</td>
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<tr>
<td>Faculty-Student Interaction</td>
<td>Political Partisanship at the Board Level</td>
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<tr>
<td>Beautiful, Friendly Campus</td>
<td>Presidential Turnover</td>
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<tr>
<td>National Reputation</td>
<td>Alumni Engagement in Job Placement of Students</td>
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<td>Town and Gown Relationship with City</td>
<td>Social Life of Students in a Small Town</td>
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<tr>
<td>Small Class Sizes</td>
<td>Performance of Athletic Teams</td>
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<tr>
<td>Historically Good Athletic Teams</td>
<td>Shrinking Pool/High School Seniors in W. Kentucky</td>
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<td>Sense of Community</td>
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Dr. Zacharias reported that the individuals interviewed were asked to review the case statement document and be prepared to give feedback on the statement. Of those interviewed 73 percent believed the case statement was readable and clear. Others edited the document and presented it back to Dr. Zacharias with their thoughts and ideas.

With regard to the ranking of case elements by interviewees, Dr. Zacharias noted it is interesting that endowment of scholarships ranked as high as it did for a state university with a relatively short history of philanthropic activity. This reveals a level of sophistication among donors that were interviewed and a commitment to the long-term health of the institution. The rankings were as follows:

- Endowed Scholarships: 73 percent
- Academic Excellence: 57 percent
- Racer Athletics: 14 percent
- Campus Enhancements: 6 percent
- Endowment Growth: 6 percent
- Annual Fund: 2 percent

Dr. Zacharias stated that another key indicator of campaign success is the willingness of prospective donors to volunteer in the campaign and when asked if they would participate as a volunteer, 70 percent indicated they would and 25 percent said they would, depending on what they were asked to do considering their geographic location. Dr. Zacharias stated this is a very positive finding.

During the interviews the individuals were also asked where Murray State ranks in terms of support among all of their charitable priorities, with the goal of having the institution within the top 5 of charitable priorities – 73 percent indicated MSU ranked within the top 3 percent of their giving priorities and 80 percent indicated the University ranked within the top 5 percent of their giving priorities.

Dr. Zacharias reported that in order to meet the Capital Campaign goal of $60 million it the largest gift in the amount of $12 million must be identified, along with two gifts at $6 million and three gifts at $3 million. Gifts of $1 million or more would be key, followed by gifts of $100,000 or more. Of the 45 individuals interviewed he was able to identify a high range of approximately $9 million and a low range of $6 million, with a median range of $7.5 million. Dr. Zacharias stated that it is ideal during a capital campaign readiness study to identify approximately 20 percent of the total campaign goal. The 20 percent mentioned above does not take into consideration that a number of those individuals interviewed had already made campaign commitments in anticipation of the start of the campaign. When gifts and commitments that have already been given to the campaign are added in, as well as those identified in the readiness study, the University is at approximately 40 percent of the $60 million
goal. Dr. Zacharias reported this is an extraordinarily high percentage at this point in the Campaign and reveals there is a high degree of likelihood that a $60 million goal is achievable.

Dr. Zacharias stated that new campaign donors should be identified in a campaign readiness study and it is unusual for a regional public university to find five relatively new donors who each identified gift commitments from $1 to $4 million. He further stated that this is very significant and speaks not only to the affection individuals hold for Murray State and the vision that has been cast for it, but it also speaks well for the work that has been undertaken by the Office of Development and shows this level of commitment exists. Dr. Zacharias reported that it is also significant that four major donors who gave significantly to the last campaign were not in a position to indicate a gift commitment at this time.

Dr. Zacharias indicated that individuals give for specific purposes and, most importantly, people give to a vision that is compelling and urgent and they give to the leadership that manifests that in a number of ways, including presidential leadership and Board leadership. It is important to continue to highlight the mission and vision of the University and the following recommendations were made:

1) That the University adopt a preliminary Capital Campaign goal of $60 million with the start date of the campaign being January 1, 2005, when it was first announced and continuing through December 31, 2012.
2) That an affirmative case statement should be issued and funding priorities identified.
3) That the recommendations made by individuals who participated in the interview process be used to further refine the case statement.
4) That the campaign leadership be recruited, including the Chair, Campaign Cabinet and Steering Committee.
5) That the Office of Development move forward with haste in filling the position of Planned Giving in the School of Agriculture. The area of planned giving has growth potential and the work Mr. Jackson has already done in this area must continue. Dr. Dunn clarified this is not a new position but one that has been vacant and that the University lost a highly desirable candidate a few months ago.
6) That the University continue to make advancements in campus-wide priorities which will result in greater support from the faculty and the colleges and assist with infusing current MSU students with the spirit of philanthropy.
7) Honor appropriate Board member conduct. Dr. Zacharias indicated that vigorous debate at the Board level is valued but it is important, particularly going into a capital campaign, that Board business remain that of the Board and issues not be aired publicly.
8) That the Board should engage itself during the Capital Campaign as a positive voice for the University and participate to the fullest level possible.
9) That the Foundation Board should be strengthened and efforts continue to engage the Board in the development process to continue identifying influential individuals.
10) That Mr. Jackson be asked to serve as Campaign Director.
11) That a Campaign Marketing Plan be developed.
12) That the campaign be conducted according to the phases outlined – a planning phase that will last between now through October 2008, a quiet phase where work continues on major and leadership gifts through until December 2009, and the public phase that will continue from January 2010 to December 2012. Dr. Dunn indicated that the possibility exists that the date for the public phase may be moved back.
13) That the mission and vision of the University continue to be promoted.
14) That Racer Athletics be strengthened, particularly the vision, planning and the development thereof, and athletic development functions should be closely aligned with the Office of Development. This was a recurring theme particularly among those individuals interviewed.
15) That the MSU Alumni Association be engaged in the Capital Campaign.

The Development/Investments Committee adjourned at 12:25 p.m.