JULY MEETING, 2000

The University of Michigan
Ann Arbor
Thursday, July 13, 2000

The Regents convened at 1:10 p.m. in the Regents' Room. Present were President Bollinger and Regents Horning, McGowan, Newman, Taylor, and White. Also present were Provost Cantor, Vice President Feagin, Interim Vice President Harper, Executive Vice President Kasdin, Vice President and General Counsel Krislov, Chancellor Little, Chancellor Mestas, Executive Vice President Omenn, Vice President Rudgers, Vice President and Secretary Tedesco, Vice President Ulaby, and Vice President Wilbanks. Regent Brandon arrived shortly after the start of the meeting; Regent Deitch arrived at 2:00 p.m.; Regent Maynard was absent.

Comments from President Bollinger

President Bollinger called the meeting to order and welcomed Chancellor Little to the University and to his first Regents' Meeting. He then reported that the board of directors of the Institute of Electrical and Electronics Engineers (IEEE) had just announced that Vice President Ulaby would be the recipient of its 2001 Electromagnetics Award. This is the highest international award bestowed by this organization in recognition of scholarly and educational contributions to theoretical and applied electromagnetics.

Resolution in Honor of Bob Kalmbach

Regent Horning called Mr. Robert Kalmbach to the podium and read the following resolution:

Regents' Resolution

The Regents of the University of Michigan congratulate Bob Kalmbach on his retirement and express their deep gratitude for his creativity, loyalty, and dedicated service spanning forty-five years.

Bob's love of people and for Michigan is evident in the thousands of photographs he has taken as the University's official photographer, from class reunions and athletic contests to portraits of renowned scholars and performers, American presidents, and royalty.

He understands Michigan in ways few of us do, including where to find the best rooftop views. With his trained eye, timing, and technical skills, Bob masterfully and artistically presents the complexity of the University of Michigan, bringing into sharp focus its exuberance and beauty. His photographs, which have delighted audiences for decades, offer a legacy for future generations interested in learning about life at the University in the last half of the twentieth century.

Always affable, gracious, and kind, Bob is one of the University's best known and beloved staff members.

The Regents thank you, Bob Kalmbach, for memorializing the life of the University. You have brightened our campus publications and our public spaces with your photographs, and our lives with your friendship, and we wish you health and happiness as you retire from the University of Michigan.

A standing ovation followed, after which Mr. Kalmbach commented that he was honored to have received the resolution and thanked the Regents and administrators he had worked with over the years for their friendship and cooperation.

Introductory Comments - 2000-2001 Revenue and Expenditure Operating Budgets

President Bollinger made note of the massive effort required on the part of many individuals from across the University to produce the annual University budgets.

Executive Vice President Kasdin reported that the University of Michigan is in excellent financial health, as judged by the responses to the following three questions: Is the University effectively tracking and managing its financial performance? Is it protecting the balance sheet as defined by the relationship of current assets to current liabilities, the mix and quality of assets, and the size and nature of liabilities? Do the proposed operating budgets ensure the maintenance of the University's overall financial health?

He noted that the University has recently undergone total replacement of management information systems and has received an unqualified audit opinion following successful replacement of the financial system and rotation of auditors. The University continues to focus on improvements in financial control and compliance. He also noted that the close collegiality and collaboration among the provost, CFO, and executive vice president for medical affairs greatly benefits the University's financial management.

Executive Vice President Kasdin displayed a chart depicting the mix of the University's $7.9 billion in assets in FY2000. These include investments (65%), physical properties (depreciation value) (27%), receivables (7%), and other (1%). The total liabilities ($1.4 billion) include notes and bonds payable (51%); present value of insurance claims (14%); accounts, trade settlements, and interest payable (18%), accrued compensation (8%), and other (9%).

To evaluate the FY 2000-2001 budgets, Executive Vice President Kasdin suggested the following considerations: whether diverse revenue sources are being used; whether there is a demonstrated ability to control costs; whether there is adequate maintenance of physical properties; and how debt is utilized. He noted that over the past 20 years, the percentage of revenue from state appropriation has declined from 21% to 12%, and the health system has grown from 30% of the revenue base to 42%.

Excluding the health system, the percentage of revenue from state appropriation has declined from 31% in 1981-82 to 21%. for 2000-01. Investment income has grown from 4% to 6%; however, he noted that the schools against which the University is competing for students and faculty receive close to 30% of their revenue from their endowments.

Regarding voluntary support, Vice President Feagin observed that FY2000 was a record year for giving, with gifts totaling $226 million. The number of individual donors increased to

104,000, indicating broad-based support for the University. Additionally, there were more large gifts in FY2000. She noted that 70% of the gift total was from individuals, as opposed to 62% the previous year and 50% ten years ago.

In the area of expenditures (excluding the Health System), Executive Vice President Kasdin noted that almost 60% of expenditures are in the areas of salaries and wages (46%) and staff benefits (12%). As an example of efficiencies that are continually being sought in staffing, he reported that over the past few years the number of accidents resulting in time lost has decreased to 60% due to an increased focus on workplace safety, and creates cost-savings due to a decreased need for temporary workers. This, combined with an increased emphasis on worker rehabilitation, has resulted in a savings of $5 million per year in workers compensation premiums as compared to the premium rate in 1995. He also pointed out savings that have occurred through the use of improved technology and employee training, which reduces the need to increase staffing despite increases in the volume of activity.

Executive Vice President Kasdin reported that utilities expenses in the General Fund are being reduced by $2.7 million for FY2000-01, and further savings are expected to accrue due to other measures being implemented in the coming year. He noted that the University is taking a number of steps to reduce supplies expenses, resulting in fewer vendor complaints about payment delays and more efficient use of staff time. Prime vendor contracts and resale agreements, among other measures, are yielding significant savings in procurement costs, and additional improvements are being planned.

He displayed a chart illustrating the University's success in ensuring that expenditure levels do not exceed budgeted amounts. He noted that new construction has returned to the modest levels of the early 1990s, following extensive growth from 1996-1998. Within the

Hospitals and Health Centers, he pointed out that except for 1997, no money has been spent on new facilities since 1990. With respect to renewal of the existing physical plant, he noted that for many years, more money has been spent on rehabilitation of existing facilities than on new construction. Executive Vice President Kasdin noted that there will be a growing number of cranes on campus, as construction activity is about to increase.

Regarding liabilities, Executive Vice President Kasdin commented that the University has $648 million in debt outstanding; it enjoys a strong credit rating; has a consistent debt management policy; and has an aggressive interest expense management program.

Executive Vice President Kasdin concluded that the financial impact of the proposed budget is consistent with maintaining the University's overall financial health. Quoting from Moody's Investment Service, he noted that the University has a "strengthening ... balance sheet, highlighted by its successful fundraising and conservative debt strategy, as well as favorable operating performance, including the University's health care operations."

Proposed Ann Arbor FY2000-01 General Fund Operating Budget and Student Tuition and Fee Rates

Provost Cantor thanked staff in her office and in the Office of Budget and Planning for their efforts in assembling the budget. She displayed a chart indicating a total proposed current funds budget for all three campuses of $3.533 billion in revenues and $3.526 billion in expenses. As was the case last year, she noted that the budget is built on ongoing and evolving collaboration between the state and the University, which allows tuition increases to be kept at low levels. She indicated that the University anticipates a state appropriation increase of 5.7%, based on the recommendation of a house-senate conference committee, and that it is expected that this estimate will be formally approved by the legislature and signed by the governor in September.

Provost Cantor pointed out that there is a negative correlation between the level of state appropriation and the growth in tuition. She noted that since 1996 tuition has grown at a much more modest rate than during the previous decade, due to the partnership being developed with the state.

Provost Cantor reviewed the underlying assumptions of a great public research university: a superb faculty and staff; shared public culture; and the ability to expand the learning venues outside of classroom walls and into the community. The proposed budget, she noted, is built on five imperatives: exploration as broadly as possible in time and space across all versions of human ideas; providing an education that prepares students for an increasingly complex and interconnected world; preservation of intellectual and cultural treasures; providing opportunities for experiencing the University's offerings to as broad a group of students, faculty, staff, and community members as possible; and modeling the notion of character, i.e., what it means to be a citizen of the world beyond the campus.

Provost Cantor described the benefits of large scale and connectivity of ideas as well as electronic media that are inherent in great research universities. She noted that there are myriad examples across the institution of the creative connections between research and teaching. These examples are often interdisciplinary, stretch the boundaries of an area of inquiry, and involve technology that allows perception of things that otherwise could not be immediately comprehended. These ideas are then brought forward into the larger world. She listed a number of examples that illustrate the connectivity between research and teaching, including biomedical engineering, the Life Sciences undergraduate curriculum, the Arts of Citizenship Program, and Project Community.

As an illustration of scale and connectivity in action, Provost Cantor reviewed the work of Professor Susan Alcock, who was recently awarded a MacArthur Foundation Fellowship, and whose interests span the fields of archaeology, history, anthropology, landscape architecture, and classics.

Integral to the success of the work of faculty such as Professor Alcock, she noted are a number of cost drivers, including innovation and conservation; retention of faculty and staff; information technology costs; the upcoming development campaign; increased compliance costs; and the size and age of the campus. The recommended General Fund revenue increase of 5.7 percent ($53.0 million) will be expended on increased costs related to the presence of additional students and increases in indirect costs for research ($16.7 million); plus increases deriving from operating cost increases for financial aid, faculty and staff salary increases, and 3% growth in non-salary costs ($35.1 million). The total General Fund expenditure increase for increased activity plus inflation totals $51.8 million (5.6%).

Provost Cantor emphasized that the budget management philosophy by necessity involves substantial internal reallocation, reduction, and fund-raising to achieve program enhancements. Examples of cost reduction include substantial reductions in utilities costs that have been achieved by the Plant Department as well as internal reallocations done by academic units such as the College of Engineering, the College of LS&A, and other schools and colleges. These efforts compliment the fundraising efforts directed towards new program enhancements.

Provost Cantor displayed a chart detailing the recommended General Fund Budget for FY00-01 of $981.4 million. It includes an increase of 2.8% for resident and nonresident undergraduate tuition and 3% for most of the graduate and professional programs, and pointed out that the percentage increase adjusted for inflation has been decreasing in recent years.

Compared to other Big Ten universities, the University's tuition and fee cost increases for 2000-01 are among the lowest.

In closing, Provost Cantor commented that the economic return of higher education is the highest it has been in decades. In addition, she pointed out that education is the key to effective engagement in an increasingly complex world and that it is the best universities, such as the University of Michigan, that can provide the highest returns of all by building on their scale and connectivity. She concluded that the citizens of Michigan are depending on the University of Michigan to provide an opportunity whereby people can use their minds to connect to other people and to build a thoughtful world.

Regent Newman commented that though there is every reason to be pleased with the largess of the state legislature, the University needs to remain cognizant that funding can be very unstable. Therefore it needs to work harder at achieving efficiencies and controlling costs. She noted that revenues are up by 5.52% but expenditures were increasing by 6.62%, and that a decrease in centrally-awarded financial aid appeared to be paying for the increased expenditures. She asked why the University was spending more on expenses and less on financial aid relative to its history.

Provost Cantor responded that expenditures are not higher than revenues in the proposed budget: both will equal 5.71%. Likewise, the undergraduate financial aid budget has not been reduced; it always increases by the same amount as undergraduate tuition, which in FY2001 will be 2.8%. She observed that the total budget is completely balanced and that the University is proud of its ability to meet the demonstrated financial need of its resident undergraduate students.

Regent Newman commented that the University could do a better job of helping students with financial aid in a good year such as this.

Regent White observed that it is remarkable that the University is both committed and able to meet the financial needs of instate students, and that is why the increase in the financial aid budget is tied to the increase in tuition.

Regent McGowan asked for some examples of how decisions are arrived at for internal reallocation. Provost Cantor described how the dean of the College of Engineering carried out a strategic planning initiative over a number of months to build consensus within the faculty that the kinds of reallocation he envisioned with regard to building the computer science department would be worth doing. Agreement had to be reached regarding shifts in teaching assignments, in internal allocation of new faculty positions, and in the budget's focus on computer science at the expense of other programs. Consensus on this area as a focus of fundraising also had to be achieved. A similar process occurs regularly within the College of LS&A as new hires are made to fill open positions. Each opening is scrutinized to determine where within the college the position should be allocated. This is always a multi-year decision, and positions are not always replaced in the department in which the opening occurred.

Regent Deitch complimented Provost Cantor, her staff, and the entire University leadership team on the budget. He noted that it is responsible and disciplined within the context of the mission of the University, which is different from that of a corporation seeking to maximize profits for its shareholders.

Regent Newman commented that the University should be more fiscally conservative. She noted that the University is in the business of educating students and that if it spends too much money and is not affordable for students, it will go out of business. She concluded that it is a good budget and she would vote for it if she were going to be present for the vote, noting that her concerns were about preparing for the future and spending more than is taken in.

Regent McGowan observed that Regents have had ample opportunity during the past month to discuss the budget with the provost. Provost Cantor and Executive Vice President Kasdin emphasized that it is a balanced budget. Regent White reiterated that the University is keeping its commitment to meet the unmet financial needs of instate undergraduate students.

President Bollinger commented that it is a source of pride for his administration that three of the past four budgets have involved tuition increases of under three percent. He also pointed out that it is generally understood that tuition only covers part of the cost of providing education at a public university.

Proposed Dearborn Campus FY2000-01 General Fund Operating Budget and Student Tuition and Fee Rates

Chancellor Little commented that he was pleased to be here and to begin his relationship with the University. He also thanked colleagues at the Dearborn campus for their work in preparing the budget. Chancellor Little observed that the mission of the University of Michigan-Dearborn is to provide high quality education to meet the needs of the citizens of southeast Michigan; to establish and enhance strong relations with all facets of the community; and to offer support and encouragement for the pursuit of active scholarship on the part of faculty and students. He noted that accessibility and diversity are leading priorities which also guided the construction of the budget.

Chancellor Little said that the campus is proud of the quality education it has been able to provide with the relatively modest size of its operating budget. He described the budget process, noting that a goal in the coming year is to make it an even more collaborative process through which voices from all segments of the campus community can be more systematically incorporated. The budget assumes a 7% increase in state appropriation and a 3% increase in resident undergraduate tuition. For competitive reasons, however, in most cases non-resident tuition will not increase, and graduate tuition in the School of Education will decrease by over 23%.

Chancellor Little noted that highlights of the budget include increases to reflect operating costs for the new CASL building; a debt service increase to fund field house renovations; and a 4% increase in the faculty and staff merit pool.

Proposed Flint Campus FY2000-01 General Fund Operating Budget and Student Tuition and Fee Rates

Chancellor Mestas introduced the provost and acting vice chancellor for administration and thanked them for their efforts in preparing the budget. He described the budget preparation process, noting that attempts were made to open it up internally as much as possible to demystify the process and avoid misconceptions. There were open hearings during which anyone who wished could voice an opinion about the budget.

Budget assumptions include a state appropriations increase of 7% and a tuition and fee increase of 3%. Four priorities were established in drafting the budget: maintain affordable tuition and fees; increase the competitiveness of faculty and staff salaries; provide support for the technology plan; and continue to move ongoing expenditures from contingency to base funds. He noted that these priorities have been met by (respectively) keeping the tuition and fee increase below the level of inflation; establishing a 5% merit package for faculty and staff--the largest in a decade--and initiating a study of equity salary issues; increasing the technology fee and using available state funds; and by internal reallocation.

Chancellor Mestas noted that this was the first time he had experienced the budget process with the state legislature and executive branch, and that he was "amazed and delighted" by how smooth the process was and by the level of support received from both branches of the legislature and from both political parties.

2000-2001 University Health Service Fee

Interim Vice President Harper praised the work of Interim UHS Director Robert Winfield and the Health Service staff, and announced that the Health Service is requesting a 2.8% fee increase. This will fund a salary merit program and general costs of providing preventive services, campus public health activities, and medical care to students.

Interim Vice President Harper announced that in conjunction with the Office of the Provost, the University Health Service is currently undertaking an executive review of health service funding, which includes an analysis of funding strategies of 11 university health services across the country. The results of the study, which will be available in the fall, will guide a re-examination of the funding structure for the University Health Service.

2000-01 Fee Assessments for Michigan Student Assembly (MSA), Student Legal Services (SLS), and School/College Governments

Interim Vice President Harper noted that no fee increases are being requested for Michigan Student Assembly, Student Legal Services, and school/college governments for the 2000-01 fiscal year.

University of Michigan Health System (UMHS) Strategic Plan

President Bollinger commented that under Executive Vice President Omenn's leadership, the health system had recently gone through a strategic planning process.

Executive Vice President Omenn thanked the many individuals in the health system who had participated in the strategic planning process. He introduced Doug Strong, associate vice president for finance and strategy and Richard Coffey, director of management engineering within the health system.

Executive Vice President Omenn reviewed the goals of the strategic planning process and described the mission statement that developed from the process, which is "to improve the health of patients, populations, and communities through excellence in education, patient care, community service, research and technology development, and leadership activities in Michigan, nationally, and internationally." He noted that the most important values identified as a result of the planning process are creativity and innovation. Among the planning principles were to maximize integration and cooperation across the health system; design flexibility into organizations, buildings, systems, and relationships; identify, focus on, and invest in core competencies to develop competitive advantages and form partnerships, affiliations, or outsource for other services and capabilities; create competitive edge and market distinction through innovations and breakthroughs; take all necessary actions to keep UMHS financially strong; improve cost effectiveness across all mission elements; raise the quality bar; and make strategic investments from UMHS reserves.

Executive Vice President Omenn reviewed expected national trends for the next ten years in each area of the UMHS mission: patient care and insurance, education, and research and technology transfer. These were distilled into the UMHS vision statement: "By 2005, the UM Health System (UMHS) will have measurably enhanced the leadership reputation of each element of the Health System mission. Each mission element will be recognized based on national benchmark comparisons.... UMHS will be increasingly competitive in recruiting faculty, house officers, and students, [and will be recognized regionally as] the health care provider of choice, the employer of choice, and a culturally sensitive community partner. M-Care will be rated among the best managed care organizations in the country."

The key themes that emerged from the strategic planning process, he noted, were 1) creativity, innovation, and integration; 2) metrics for all aspects of operational and financial performance; and 3) greater satisfaction of patients, families, referring physicians, faculty, staff, students, and other external customers.

Executive Vice President Omenn highlighted ten key initiatives and implementation actions to be undertaken as a result of the strategic planning process: 1) Continue improving service to patients and families; 2) assure that clinical programs and M-Care remain competitive and grow to sustain positive operating margin, however tough the payment world; 3) expand development of comprehensive care centers into such areas as cardiovascular, transplantation, depression, and ophthalmology; 4) ensure intensive use of existing facilities; 5) enhance Medical School ranking in research; 6) Improve ability to attract, develop, and retain outstanding faculty, staff, and students; 7) Enhance UMHS leadership reputation in education; 8) streamline decision-making processes; 9) intensify the use of performance metrics by a much broader array of UMHS leaders; 10) significantly increase philanthropic support for the Medical School and Hospitals and Health Centers.

Executive Vice President Omenn concluded that the strategic plan will be important in everything the Hospitals and Health Centers do, including assessing proposals and allocating resources for operations improvement plans, operating budgets, investments and capital budgets; faculty and staff recruitment; space allocations; and integration of services and resources across UMHS.

Proposed FY2001 University of Michigan Hospitals and Health Centers Operating Budget

Executive Vice President Omenn submitted for approval the proposed FY2001 University of Michigan Hospitals and Health Centers Operating Budget. He noted that the FY2000 budget yielded a margin for operations of $5.0 million. The proposed FY2001 budget calls for total operating revenues of $887.1 million; total expenses of $869.2 million, and an operating margin of 2% ($17.9 million). He noted that the proposed FY2001 budget includes a reduction of over $30 million from the cost structure and the elimination of 35 positions.

FY2000-2001 Athletic Department Operating Budget

President Bollinger called on Mr. William Martin, interim athletic director. Mr. Martin reported that the Athletic Department would be completing the fiscal year in a deficit situation. He reported that the mission of the department is to be among the top five contestants in the national rankings for the Sears Cup, and that it has achieved this goal in 1999-00 with a ranking of three.

Mr. Martin noted that he had been a member of the Athletic Department Financial Advisory Committee, formed by President Bollinger in 1999. One of the Committee's recommendations was to develop a comprehensive capital plan that schedules the rehabilitation of the physical plant and sets aside funding in an annual operating budget. He reported that this process has been started by surveying all Athletic Department buildings for facility needs, which identified $7 million in deferred maintenance, not including Michigan Stadium or Crisler Arena.

The second recommendation was to deliver a balanced budget by controlling expenses and becoming less dependent upon nonrecurring revenue events. New programs, including new sports, should be examined to ensure operational funding in advance. The third recommendation was for the department to move toward utilization of University systems; this process is well underway. The final recommendation was for the department to energize its development efforts.

Reviewing the FY99-00 budget, Mr. Martin noted that an operating surplus of $880,000 had been budgeted, but it turned out that there was a $2.6 million deficit. Revenue shortfalls occurred in the default of a radio contract ($2.0 million); a decrease in licensing royalties from what had been projected ($650,000); and a decrease in annual donations ($300,000). Total expenses, however, are projected to be within 1% of the budget.

For FY00-01 revenues, the department projects a continued decline in licensing royalties of 28% (from $2.8 million to $2 million). Regent Newman complimented Mr. Martin and his staff on the clarity of the budget information. She asked what causes the decrease in licensing revenues. Mr. Martin responded that this is a nation-wide phenomenon due to fashion trends among young people to whom the items are targeted.

Regarding ticket revenues for FY00-01, Mr. Martin said that no changes are budgeted for football and hockey tickets, but increases are planned for basketball. The budget also assumes no new apparel or shoe contract.

Expense increases in FY00-01 will occur due to the addition of women's water polo and men's soccer ($600,000), increased travel costs ($400,000), and increased compensation costs ($970,000, including merit pay increase, market adjustments, and additional staff). Mr. Martin noted that three additional development staff will be added, pursuant to the recommendation of the Financial Advisory Committee, in order to increase the level of income from donations. Other expense increases in FY00/01 will be due to increases in grants-in-aid ($255,000); facilities deferred maintenance costs ($200,000); debt service ($150,000); post season expenses ($480,000).

Mr. Martin then reviewed what specific steps will be taken to deliver a balanced budget in FY 2001/02. This will be accomplished by evaluating and implementing a new football pricing plan, after building a case and achieving buy-in from all of the stakeholders. He displayed a chart indicating that the University is at the bottom when compared to its top football competitors in ticket prices and donation levels. He also pointed out that other schools have premium pricing programs and tie donations to ticket availability, and noted that if Michigan were to institute an annual $100 seat licensing fee to all season ticket holders, it would generate $6.6 million and eliminate the deficit.

Additional balcony seating for Yost Arena is also planned for 2001/02 for which a minimum donation will be required. This will have a payback period of less than three years and thereafter will add annual revenues of $500,000 to $600,000. Adding seating to Michigan Stadium in the form of a new press box will also be considered, as will possible new revenue sources from such areas as facility rentals and advertising. A five-year financial plan, including operating and capital needs will be developed and implemented.

Mr. Martin said that consideration is being given to adding an extra pre-season football home game in Fall 2001. Revenue from this event would go into facilities, as opposed to operations.

Mr. Martin reviewed long-term challenges faced by the department. These include facility infrastructure renovation needs of $20-25 million, which would be funded by donations and possibly by additional football seating. He observed that the department carries a relatively modest debt load; has an endowment fund of $17 million and a quasi-endowment fund of $19 million, of which only $9 million is in unrestricted reserves. Approval of the budget will reduce the $9 million to $5 million in unrestricted reserves.

Regent Newman clarified that the transfer from the quasi-endowment fund and from the University, which total $7 million, would be used to cover the deficit for 2000/01, and that if the Nike contract were still in effect, there would have been additional revenues of $1.3 million. Regent Newman requested that the president investigate whether the reason for the termination of the Nike contract negotiations was due to the University's becoming a member of the Workers Rights Consortium (WRC).

President Bollinger stated that Nike's reasons for not renewing the contract were unknown. He noted that the University's provisional membership in the WRC occurred after broad review by a faculty/student/staff committee, and that over 50 other universities had also joined the consortium on a provisional basis. These universities believe there are serious issues involving potential human rights problems in the manufacture of their own goods that should be of concern. It is important, he noted, for the University to articulate its values and principles as a university and join any reasonable efforts to monitor the manufacturing process as part of a collective group involving universities and industries. He said that he had attached clear conditions to the University's joining the WRC, including that it be inclusive of industry. He said that the University also needs to give serious consideration to joining the Fair Labor Association as well. President Bollinger noted that there is an advisory committee studying these issues, and at the same time the Athletic Department is reviewing a number of possibilities for apparel contracts.

Regent Newman stated that she is only interested in the impact of the University's membership in the WRC on Athletic Department revenues. She observed that it is odd that to have joined an organization that hasn't established a lot of policies yet, because one should know what an organization stands for prior to joining it.

Regent Horning noted that there are a number of other institutions who belong to the WRC and who also have contracts with Nike, and this creates confusion. He said he wants to move forward and study the issues laid out by Mr. Martin. Finally, he stated that his comment at the last Regents Meeting that stadium sky boxes should be looked at as a potential source of new revenue was not meant to indicate he supported the idea; just that it be considered as one of a number of possible means of enhancing revenue.

Regent Taylor commented that joining an organization that has not yet formulated all of its procedures and policies provides an opportunity to play a role in shaping these policies. He observed that it is wise not to rely on royalties as part of the base budget.

Regent Deitch commented that Mr. Martin had presented a broad, detailed overview of the Athletic Department's budget situation. He said that nobody knows what Nike's motivations were for withdrawing from licensing negotiations, and it may have had nothing to do with the University's membership in the WRC. He also pointed out that the radio contract that resulted in a $2 million revenue loss had been entered into in good faith a number of years ago, and there would have been no way to predict how it would have turned out.

Regarding football ticket prices, Regent Deitch observed that these tickets are underpriced and recalled that past suggestions for price increases have been met with criticism on the part of the Regents. Overall, he commented that the University is extraordinarily well-run financially. In the Athletic Department there have been years of financial practices which were allowable because of the department's good fortunes. Now that the situation has changed, Mr. Martin has brought the situation back on track and the University owes him great thanks for having put the deficit in context and showed that there is a clear path to restoring the department's financial health.

Regent Newman responded that if the reasons for the need for ticket price increases are spelled out, she can accept it. She said the Regents have a responsibility to ask questions and she is concerned about the loss of $1.3 million from the Nike contract and the loss of licensing revenues.

Regent Horning commented that he would like to have the reasons for the need for ticket price increases clearly explained. He noted that two years ago, the Regents were first told a ticket price increase would not be necessary, and several months later were told an increase would be necessary to pay for a deficit. In the current situation, he agrees that it would be unreasonable to not consider a ticket price adjustment going forward.

Regent Taylor requested that a plan be presented soon for developing a framework for going forward and eliminating the deficit. President Bollinger agreed, and noted that it is important to remember that we have an outstanding athletic department, although there are clearly financial problems and problems related to the basketball program. We have the means to address the financial problems, he noted, and complimented Mr. Martin on the candid, straightforward manner in which he has brought these issues to the fore.

Regent Brandon commented that Mr. Martin is to be commended for having the courage to suggest significant change in a department which has previously been reluctant to change. He noted that Mr. Martin has also done a good job of preparing the community for a more realistic approach that the department will need to take in the future, given the new financial realities.

Public Comments

The Public Comments session began at 4:25 p.m. The Regents heard comments from the following individuals on the topics indicated: Gary Hann, alumnus, on civil rights and constitutional rights violations; Marcia Federbush, citizen, on sex discrimination in athletics on the part of the NCAA; Michael Edwards, president, AFSCME Local 1583, on outsourcing at the University of Michigan Hospitals and unfair labor practices; and Sara Chen, on the residency classification policy.

The Regents requested a report on the status of the AFSCME Local 1583 labor contract issues raised by Mr. Edwards. They also requested reports on the residency classification policy in general and on Ms. Chen's case in particular.

Motion to Meet in Non-Formal Session

Regent White read the following motion:

I move that we adjourn this formal session of the Regents and begin a non-formal session, the purpose of which is to consider a personnel evaluation.

Regent Horning seconded the motion, and it was approved unanimously.

The meeting then continued in non-formal session from 4:50 to 6:15 p.m.

Friday, July 14, 2000

The Regents convened at 8:45 a.m. in the Regents' Room. Present were President Bollinger and Regents Brandon, Deitch, Horning, Maynard, McGowan, Taylor, and White. Also present were Provost Cantor, Vice President Feagin, Interim Vice President Harper, Executive Vice President Kasdin, Vice President and General Counsel Krislov, Chancellor Little, Chancellor Mestas, Executive Vice President Omenn, Vice President Rudgers, Vice President and Secretary Tedesco, Vice President Ulaby, and Vice President Wilbanks. Regent Newman was absent.

President's Opening Remarks

President Bollinger announced that the University had won third place in the 1999-2000 Sears Directors' Cup ratings. He also commented on a number of recent honors received by current and former faculty members and several other items of interest.

FY 2000-2001 Revenue and Expenditure Operating Budgets

On a motion by Regent Taylor, seconded by Regent Deitch, the Regents unanimously approved the revenue and expenditure operating budgets for FY 2000-2001.

Proposed Ann Arbor FY2000-01 General Fund Operating Budget

On a motion by Regent Horning, seconded by Regent McGowan, the Regents unanimously approved the Ann Arbor General Fund Operating Budget for FY2000-01.

Proposed Ann Arbor FY2000-01 Student Tuition and Fee Rates

On a motion by Regent White, seconded by Regent McGowan, the Regents unanimously approved the proposed Ann Arbor FY 2000-01 student tuition and fee rates, as described in the Regents Communication.

Proposed Dearborn Campus FY2000-01 General Fund Operating Budget

On a motion by Regent Taylor, seconded by Regent White, the Regents unanimously approved the 2000-01 Dearborn Campus General Fund operating budget.

Proposed Dearborn Campus FY 2000-01 Student Tuition and Fee Rates

On a motion by Regent White, seconded by Regent Horning, the Regents unanimously approved the proposed Dearborn Campus FY 2000-01 student tuition and fee rates.

Proposed Flint Campus FY2000-01 General Fund Operating Budget

On a motion by Regent Maynard, seconded by Regent White, the Regents unanimously approved the Flint Campus FY2000-01 General Fund operating budget.

Proposed Flint Campus FY2000-01 Student Tuition and Fee Rates

On a motion by Regent Deitch, seconded by Regent McGowan, the Regents unanimously approved the Flint Campus FY 2000-01 student tuition and fee rates, as described in the Regents Communication.

2000-01 Fee Assessments for Michigan Student Assembly (MSA), Student Legal Services (SLS), and School/College Governments

On a motion by Regent White, seconded by Regent McGowan, the Regents unanimously approved the following fee assessments for 2000-01: $5.69 per student per term for MSA; $5.50 per student per term for SLS; and $1.50 per student per term for school and college governments. All of these fees represent no change from 1999-00.

2000-01 University Health Service Fee

On a motion by Regent Horning, seconded by Regent Maynard, the Regents unanimously approved a fee of $3.05 per student per term for the University Health Service, a 2.8 percent increase.

Proposed FY2001 University of Michigan Hospitals and Health Centers Operating Budget

On a motion by Regent McGowan, seconded by Regent Horning, the Regents unanimously approved the proposed FY2001 Hospitals and Health Centers operating budget.

Purchasing Contract with Absolutely Karaoke

On a motion by Regent Brandon, seconded by Regent White, the Regents unanimously approved a purchasing contract with Absolutely Karaoke. Because one of the owners of

Absolutely Karaoke, Julie Peterson, is also a University of Michigan employee, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. The parties to the purchase contract will be the Regents of the University of Michigan and its Department of Arts and Programs at the Michigan Union and Absolutely Karaoke.
2. The terms of the contract are to provide karaoke performances weekly during the 27 weeks of the academic school year, beginning in July 2000 and ending in June 2002, for a total not to exceed $12,000.00
3. Ms. Peterson's pecuniary interest arises by virtue of the fact that she is a 50% owner of Absolutely Karaoke.

Amendment of Existing Lease with First Properties Associates

On a motion by Regent Brandon, seconded by Regent McGowan, the Regents unanimously approved an amendment to an existing lease between M-Care, Inc. and First Properties Associates for property located at 2301 Commonwealth, Ann Arbor. Because William C. Martin is both the sole limited partner of First Properties Associates and a University of Michigan employee, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. Parties to the contract are the Regents of the University of Michigan and M-Care and First Properties Associates.
2. The service to be provided is an extension of an existing lease for five years, the addition of 35,391 square feet of new space and the termination of 11,500 feet of existing space. The additional space will be leased at a rate of $64,744 per month; the space being terminated was leased at a rate of $51,248 per month.
3. The pecuniary interest arises from the fact that William C. Martin, a University of Michigan employee, is the sole limited partner of First Properties Associates.

Proposed License Agreement between the University of Michigan and Nanobiologics, LLC

On a motion by Regent White, seconded by Regent McGowan, the Regents unanimously approved a license agreement between the University of Michigan and Nanobiologics, LLC. Regent Deitch announced that he would abstain from voting due to a conflict of interest. The vote was then taken and the motion was approved unanimously. Because the owners of the companies, James R. Baker, Jr., and Tarek Hamouda, are also University of Michigan employees, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. Parties to the agreement are the Regents of the University of Michigan and Nanobiologics, LLC.

2. Terms of the agreement include:

   Field of use will encompass all fields. The grant will be an exclusive world-wide license, with a right to grant sublicenses. The license fee will involve an initial payment monies will constitute partial reimbursement of current patent costs. Maintenance fees will be $50,000 to $100,000* per year to be offset by research grant revenue. All remaining current and future patent costs will be paid by Nanobiologics, LLC.

   2-7%* equity is to be held by the University of Michigan in Nanobio.

   Royalties will be 2-7%* on Net Sales of Products. The first approximately $200,000 in royalties would be offset by patent costs. Sublicensing royalties will be 50% of Gross Sublicense Revenue.

   Performance criteria: Specified milestones must be met in order to maintain the rights granted by the license.

   The University will retain ownership of the licensed technology and may continue to further develop it and use it as a research tool. No use of University services or facilities, nor any assignment of University employees, is obligated under the agreement.

   **Final figures will be negotiated by the University's Technology Management Office before a contractual agreement is concluded with Nanobio.*

3. Dr. James Baker's pecuniary interest arises from his ownership in the companies. He has waived any personal participation in the sharing of funds received by the University from Nanobiologics/Nanobio as a result of this license agreement.

   Dr. Tarek Hamouda's pecuniary interest arises from his ownership in the companies. He has waived any personal participation in the sharing of funds received by the University from Nanobiologics/Nanobio as a result of this license agreement.

Proposed Reassignment Agreement between the University of Michigan and Mayukh Bhattacharya, Alejandro F. Gonzalez, Shriram Kulkarni, and Pinaki Mazumder

On a motion by Regent Deitch, seconded by Regent McGowan, the Regents unanimously approved a reassignment agreement between the University of Michigan and Mayukh

Bhattacharya, Alejandro F. Gonzalez, Shriram Kulkarni, and Pinaki Mazumder regarding their invention "NMOS Negative Differential Resistance Circuits for Prototyping RTD-CMOS Circuits" (TMO File #1764). Because each of the inventors is also a University employee, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. Parties to the agreement will be the University of Michigan and Mayukh Bhattacharya, Alejandro F. Gonzalez, Shriram Kulkarni, and Pinaki Mazumder.

2. Reassignment agreement terms include:

   Assignment of the University's interest in the title to the Inventors;

   The inventors will seek patent protection and licensees without the University, and will reimburse the University for costs already incurred toward patent protection;

   Royalties to the University of fifteen percent (15%) of license revenue received by the Inventors;

   Reservation by the University of a right to practice the invention for research and educational purposes;

   Term of the agreement is for the life of any patents that might result;

   No use of University services or facilities, nor any assignment of University employees, is obligated under the agreement.

3. The Inventors' pecuniary interest arises from their receipt of potential returns from ownership and licensing of the technology to industry. They will waive any personal participation in the sharing of royalties received by the University.

License Agreement between the University of Michigan and MedEc, LLC

On a motion by Regent White, seconded by Regent Brandon, the Regents unanimously approved a license agreement between the University of Michigan and MedEc, LLC. Because Dee W. Edington is both an equity owner of MedEc and a University of Michigan faculty member, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. Parties to the agreement are the University of Michigan and MedEc, LLC, a company owned partially by Professor Dee W. Edington.

2. Contract Terms include:

   10% equity for the University on the same terms as the investors, non-dilutable until $5,000,000 has been invested in the company;

   1% royalties on gross revenues of MedEc, affiliates, distributors and market partners;

   Minimum royalty payments of $50,000 in year 1 (2001), $75,000 in year 2, $100,000 in year 3, $200,000 in year 4 and $350,000 per year thereafter;

   Sponsored research to the HMRC to improve the technology, with funding based on an algorithm tied to MedEc business activity (minimum of $200,000, maximum of $2 million annually);

   Milestones include $2,000,000 in funding at license signing, another $1,500,000 in funding within 12 months, and being in full operation within 2 months with a full time staff, offices and equipment;

   A two-year exclusive services contract to MedEc for continuing HMRC processing activities.

   The University retains all rights necessary to continue to use and modify the programs, and to meet obligations under existing licenses.

   No use of University facilities or assignment of University employees is obligated under this agreement.

3. Dee Edington's pecuniary interest arises from ownership in the company. He has waived any personal participation in the sharing of royalties received by the University from the company.

Consent Agenda

Minutes. Vice President Tedesco submitted for approval the minutes of the June 15-16, 2000 meeting.

Reports. Executive Vice President Kasdin submitted reports of Investment, Plant Extension, Human Resources and Affirmative Action, and the Regents Report on Non-competitive Purchases over $5,000 from Single Sources, March 16, 2000 to June 15, 2000.

Vice President Krislov submitted the Litigation Report.

Vice President Ulaby submitted the Report of Projects Established, Research and Other Activities for June, 2000. He noted that research expenditures for the first 11 months of

FY1999-2000 are approximately $43 million higher than the previous year, a 10% increase. Research awards are up by $200 million.

University of Michigan Health System. Executive Vice President Omenn announced that the Waggoner Lecture would be given on September 13 by the new editor of the *Journal of the American Medical Association*.

Division of Student Affairs. No report was submitted.

University of Michigan-Dearborn. Chancellor Little reported that campus building projects are proceeding on schedule. He noted that Professor Joseph Lund had recently received an award for having published the best book on French colonial history in 1999. He also reported that he had been warmly welcomed to campus since arriving two weeks ago.

University of Michigan-Flint. No report was submitted.

Michigan Student Assembly. There was no report from the Michigan Student Assembly.

Voluntary Support. Vice President Feagin noted that the final report of fiscal year gift receipts would be submitted at the September meeting.

Personnel Actions/Personnel Reports. Provost Cantor highlighted the appointment of Karen L. Wolff as dean of the School of Music, the reappointment of Steven Director as dean of the College of Engineering, and the proposed change in title for Beverly Ulrich from director to dean of the Division of Kinesiology. She requested the withdrawal of one of the appointments for the associate dean for graduate programs and facilities in the School of Dentistry, noting that this was a duplicate appointment.

Retirement Memoirs. Vice President Tedesco submitted memoirs for five retiring faculty members.

Memorials. No deaths of active faculty members were reported this month.

Degrees. Provost Cantor submitted for approval the August 2000 doctoral degree list; final degree lists for April and July, 2000 commencements; and changes to previously approved degree lists.

On a motion by Regent McGowan, seconded by Regent Maynard, the Regents unanimously approved the consent agenda.

Sale of Gifted Real Estate

Executive Vice President Kasdin informed the Regents that gifted property on Russell Island had been sold at a price of $565,000.

Alternative Asset Commitment

Executive Vice President Kasdin informed the Regents that a follow-on investment of $30.0 million had been made with Crow Holdings Realty Partners II, L.P.

Alternative Asset Commitment

On a motion by Regent Horning, seconded by Regent Taylor, the Regents unanimously approved commitment of $20.0 million to Greenfield Acquisition Partners II, L.P.

Alternative Asset Commitment

On a motion by Regent Taylor, seconded by Regent Horning, the Regents unanimously approved commitment of up to $15.0 million to Communications Ventures V, L.P.

Charitable Gift Annuities

Vice President Feagin commented that charitable gift annuities are among the simplest and most popular type of gift annuities available, and the University is very excited to be able to offer them. On a motion by Regent Taylor, seconded by Regent White, the Regents unanimously approved the charitable gift annuity program and adoption of resolutions that will govern it.

RESOLUTIONS TO BE INSERTED HERE

State Building Authority Financing of University of Michigan-Dearborn and Flint Projects

On a motion by Regent White, seconded by Regent Taylor, the Regents unanimously approved the following resolutions regarding State Building Authority financing of the UM-Dearborn College of Arts, Sciences and Letters Building; the UM-Dearborn Environmental Interpretive Center; and the UM-Flint Professional Studies and Classroom Building.

RESOLUTIONS TO BE INSERTED HERE

Yost Ice Arena -- Additional Seating

On a motion by Regent Horning, seconded by Regent Brandon, the Regents unanimously approved a project for construction of additional seating at Yost Ice Arena and appointment of Rossetti and Associates, Inc. as the architect.

University of Michigan Hospitals and Health Centers Washtenaw Integrated Health Care Project

On a motion by Regent Brandon, seconded by Regent Taylor, the Regents unanimously approved a revised Urban Cooperation Agreement authorizing the Washtenaw Community Health Organization, as described in the Regents Communication.

Michigan Student Assembly (MSA) Financial Report

Interim Vice President Harper submitted the annual financial report for Michigan Student Assembly for December 31, 1999 and December 31, 1998.

Michigan Health Corporation (MHC) Annual Business Plan

On a motion by Regent Brandon, seconded by Regent Maynard, the Regents unanimously approved the Michigan Health Corporation (MHC) Annual Business Plan.

Regents' Meeting Schedule for 2001

On a motion by Regent McGowan, seconded by Regent Maynard, the Regents unanimously approved the following meeting schedule for 2001:

January 18-19	July 19-20
February 15-16	August - No meeting
March 15-16	September 20-21
April 12	October 18**-19
May 17*-18	November 15-16
June 21-22	December 13-14

* Held at UM-Dearborn
** Held at UM-Flint

Regent Horning left the meeting at this point, at 9:10 a.m.

New Degree Program for University of Michigan-Dearborn School of Education *("Master of Arts in Teaching")*

On a motion by Regent White, seconded by Regent McGowan, the Regents unanimously approved a new degree program for the University of Michigan-Dearborn School of Education, "Master of Arts in Teaching."

Naming of UM-Flint Classroom and Office Building in Honor of David M. French

Chancellor Mestas submitted a request for naming the UM-Flint Classroom and Office Building in honor of David M. French, the founding dean of the Flint Campus. On a motion by Regent McGowan, seconded by Regent Maynard, the Regents unanimously approved naming the UM-Flint Classroom and Office Building David M. French Hall.

Michigan Greats

It was decided to delay the Michigan Greats presentation until the September meeting.

Adjournment

There being no further business, the meeting was adjourned at 9:15 a.m. The next meeting will be held September 21-22, 2000.