

OCTOBER MEETING, 2001

*The University of Michigan
Ann Arbor
Thursday, October 18, 2001*

The Regents convened at 1:50 p.m. in the Michigan Rooms on the campus of the University of Michigan-Flint. Present were President Bollinger and Regents Brandon, Horning, Maynard, Newman, and Taylor. Also present were Vice President Feagin, Vice President Harper, Executive Vice President Kasdin, Chancellor Little, Chancellor Mestas, Vice President Rudgers, Interim Provost and Vice President and Secretary Tedesco, Vice President Ulaby, and Vice President Wilbanks. Regent Deitch, Regent McGowan, Vice President and General Counsel Krislov, and Executive Vice President Omenn were absent. Regent White participated in the meeting by phone.

President Bollinger called the meeting to order and observed that working with the Flint campus had been a great pleasure during his tenure as president. He noted that he had especially enjoyed his interactions with members of the campus community during the chancellor search that led to the appointment of Chancellor Mestas. He thanked Chancellor Mestas and the Flint community for all of their contributions to the University of Michigan.

Annual Report of Investments

Executive Vice President Kasdin noted that the goal of the annual investment report is to provide a context for evaluating the decisions that the Board of Regents will confront during the coming year. He noted that the year ended June 30, 2001, had been a difficult one, but that the University had managed to limit the loss of capital during the economic downturn. Executive Vice President Kasdin emphasized that the Board of Regents retains all authority with respect to

the investment portfolio, including asset allocation and the hiring of investment managers, and it consults with the Investment Advisory Committee semi-annually. He called on Erik Lundberg, the University's chief investment officer.

Mr. Lundberg gave a presentation about the University's investment policies and portfolio. He noted that investment activities are governed by a set of guiding principles set forth by the Regents. These principles include a reliance on external investment management; a long term horizon and equity orientation; a commitment to alternative assets; a spending rule that insulates the operating funds from the markets; and relying on total return without regard to source of income.

As of June 30, 2001, the University's assets totaled \$5.4 billion, divided into endowment funds (\$3.614 billion); the University Investment Pool (\$1.364 billion); Veritas (reserves of the University's wholly-owned insurance company) (\$156.5 million); and M-Care (\$125.9 million). Mr. Lundberg displayed a slide illustrating the growth of the endowment funds from \$0.1 billion to \$3.6 billion over the past 20 years. Executive Vice President Kasdin observed that about half of the endowment is in the health system and that the endowment is distributed unequally among the University's schools and colleges.

Mr. Lundberg reviewed the various features of the endowment portfolio, beginning with the asset allocation of the \$3.6 billion Long Term Portfolio, which consists of alternative assets (26%), domestic equities (24%), fixed income securities (21%), international equities (14%), absolute return investments (14%), and cash equivalents (1%). Within the alternative assets category, he reviewed the asset allocation (real estate, private equity, venture capital, energy, and distressed debt). He also compared a model portfolio of an ideal asset allocation mix with the University's actual asset allocation portfolio.

Mr. Lundberg then compared the portfolio's returns for Fiscal Year 2000-2001 (-5.5%) with various benchmarks. He noted that the University's returns outperformed all of the benchmarks, and commented on the specific performance and benchmark comparisons for each asset class. He pointed out that the University's broad diversification across all asset classes helped to limit the extent of its negative returns compared with the benchmarks, and noted that marketable securities had performed well compared to the rest of the portfolio.

Over the long run, he noted, the University's investment portfolio has produced very strong returns, of 15.6% over the past 5 years. This exceeds the performance of the top quartile of Cambridge Associates survey of about 200 endowments.

Mr. Lundberg then reviewed the performance of the University Investment Pool (UIP), which consists of the fixed income investments of the University's construction funds and working capital that will be used for designated purposes over the next three-five years, and is valued at \$1.4 billion. He noted that the UIP had underperformed the benchmark by a small margin for one year and for three years. He then reviewed the performance of Veritas and of M-Care.

In conclusion, Mr. Lundberg commented that the outlook for the future is for difficult and volatile markets for the near term, but over the longer term, more normal conditions will return and investors will be rewarded for prudent risk-taking. The University's approach in this environment will be to continue to pursue a coherent and diversified investment strategy, to focus on the long term, and to seek to generate positive relative and absolute returns.

In response to a question from Regent Newman, Executive Vice President Kasdin said that compared to other universities, during the past year the University was in the third quartile. The goal is to be in the second quartile over the long term.

Consent Agenda

Minutes. Vice President Tedesco submitted for approval the minutes of the September 20, 2001 regular meeting and the September 28, 2001 special meeting.

Reports. Executive Vice President Kasdin submitted reports of Plant Extension, Human Resources and Affirmative Action, and the Regents Report on Non-competitive Purchases over \$5,000 from Single Sources, June 21, 2001-September 21, 2001. Regarding the Plant Extension Report, he noted that the Burton Tower renovation has been completed in a spectacular fashion.

Litigation Report. The Regents received the Litigation Report.

Research Report. Vice President Ulaby submitted the Report of Projects Established for September 1 - September 30, 2001. He noted that research expenditures for the first quarter of the year are 12.8 percent higher than for the same period the previous year, and that research awards are up 65 percent, resulting in \$120 million more during the first quarter of this year than the first quarter a year ago. The awards are distributed broadly across campus, with significant amounts received by the Medical School, ISR, and the Department of Physics.

University of Michigan Health System. There was no report from the University of Michigan Health System.

Division of Student Affairs. No report was submitted.

University of Michigan-Dearborn. Chancellor Little noted that he had completed one year as chancellor of the Dearborn campus, and noted that he is developing a five-year plan for the campus. He also described a collaborative grant recently received by his campus in the area of organ transplantation.

UM-Flint. Chancellor Mestas commented that the Regents and president had received gifts of CD recordings of the Flint Chamber Singers and the Flint Gospel Choir.

MSA Report. MSA president Matt Nolan referred to the monthly MSA report in the agenda, and noted that MSA has planned a ballot initiative seeking approval to increase the student fee by \$1.00, to \$6.63 per student. If approved, the additional income of \$73,000 will be earmarked specifically for funding of student groups. He also commented that a major focus of his presidency will be gaining approval of creating a “fall study break” by replacing classes on the Monday and Tuesday of the third week of October with study days. To partially compensate for the reduction in class time, the proposal also includes starting classes on the Tuesday after Labor Day instead of the Wednesday after Labor Day. Finally, he noted that students have a strong desire to participate in a significant way in the presidential search.

Voluntary Support. Vice President Feagin submitted the Report of Voluntary Support for September 2001.

Personnel Actions/Personnel Reports. Interim Provost Lisa Tedesco submitted personnel actions and personnel reports.

Retirement Memoirs. Vice President Tedesco submitted for adoption three retirement memoirs.

Memorials. Vice President Tedesco submitted a memorial statement for Harold K. Jacobson, the Jesse Siddal Reeves Professor of Political Science in the College of Literature, Science, and the Arts and senior research scientist in the Center for Political Studies.

Degrees. Vice President Tedesco submitted for approval the final degree lists for the May and August 2001 commencements and changes to previously approved degree lists.

Approval of Consent Agenda. On a motion by Regent Horning, seconded by Regent Maynard, the Regents unanimously approved the Consent Agenda.

Executive Vice President Kasdin observed that officers from the Department of Public Safety have been experiencing extraordinary stresses during the past several weeks, and urged members of the University community to offer their support.

Alternative Asset Commitment

Executive Vice President Kasdin informed the Regents of a recent follow-on commitment of \$25 million from the Long Term Portfolio to Berkshire Fund VI, L.P.

Sale of Gifted Real Estate

Executive Vice President Kasdin informed the Regents of the sale of 840 acres of vacant land in Harris Township, Menominee County, Michigan, from the estate of Helen F. Weber. The sale price of \$300,000 was above the appraised value.

UMHHC Cardiology Procedures Unit Replacement Project

Executive Vice President Kasdin informed the Regents that a certificate of need application had been submitted to the Michigan Department of Consumer and Industry Services for replacement of a catheterization laboratory in conjunction with the UMHHC Cardiology Procedures Unit Replacement Project.

On a motion by Regent Newman, seconded by Regent Brandon, the Regents unanimously approved the following seven action requests as a group:

State Building Authority Financing of University of Michigan-Ann Arbor Campus Projects

The Regents adopted the following resolutions for approval of construction and assurance agreements, conveyance of properties, leases, and easement agreements, if necessary, for the S.T. Dana Building School of Natural Resources and Environment Phase II Renovation Project, and for the Central Campus Renovation Phase II Perry Building Project.

**RESOLUTION OF THE REGENTS OF THE UNIVERSITY OF MICHIGAN
APPROVING A CONSTRUCTION AND COMPLETION ASSURANCE AGREEMENT,
A CONVEYANCE OF PROPERTY, A LEASE AND AN EASEMENT AGREEMENT, IF NECESSARY,
FOR THE UNIVERSITY OF MICHIGAN - ANN ARBOR S.T. DANA BUILDING - SCHOOL OF
NATURAL RESOURCES AND ENVIRONMENT PHASE II RENOVATION PROJECT**

A RESOLUTION of the Regents of the University of Michigan (i) approving (a) a form of construction and completion assurance agreement (the "Construction and Completion Assurance Agreement"), by and among the State Building Authority (the "Authority"), the State of Michigan (the "State") and the Regents of the University of Michigan, a Michigan constitutional body corporate (the "Educational Institution"), providing for the rights, duties and obligations of the Authority, the State and the Educational Institution with respect to the Educational Institution's Ann Arbor S.T. Dana Building - School of Natural Resources and Environment Phase II Renovation Project and the site therefor (the "Facility") during the construction, renovation and/or equipping of the Facility and prior to the conveyance of the Facility to the Authority, (b) the conveyance of the Facility to the Authority, (c) a lease (the "Lease"), by and among the Authority, the Educational Institution and the State, for the purpose of leasing the Facility to the State and the Educational Institution and (d) an easement and/or other agreement (the "Easement Agreement") between the Authority and the Educational Institution, if necessary and/or desirable in connection with access, parking, utilities, pedestrians, encroachments, and/or other matters pertaining to the interactions between the Facility and real property owned by the Educational Institution, and (ii) providing for other matters related thereto.

WHEREAS, the Authority has been incorporated under and pursuant to the provisions of Act No. 183, Public Acts of Michigan, 1964, as amended ("Act 183"), for the purpose of acquiring, constructing, furnishing, equipping, owning, improving, enlarging, operating, mortgaging and maintaining buildings, necessary parking structures or lots and facilities, and sites therefor, for the use of the State, including institutions of higher education created pursuant to Section 4, 5, 6 or 7 of Article 8 of the Michigan Constitution of 1963 (the "State Constitution"), or any of its agencies; and

WHEREAS, the Educational Institution has been maintained and created pursuant to Sections 4 and 5 of Article 8 of the State Constitution; and

WHEREAS, the State and the Educational Institution desire that the Authority finance the acquisition, construction, renovation and/or equipping of the Facility in consideration of (i) the Educational Institution granting a license to the Authority to enter upon the site of the Facility (the "Site") in order to undertake such construction, renovation and/or equipping, (ii) the Educational Institution undertaking on behalf of the Authority the oversight of such construction, renovation and/or equipping and (iii) the Educational Institution conveying the Facility to the Authority on or prior to the date of its completion, and the Authority is willing to provide such financing in consideration of the items described above; and

WHEREAS, in accordance with the Construction and Completion Assurance Agreement, the State and the Educational Institution desire that the Authority acquire the Facility on or prior to the date of its completion, and lease the same to the State and the Educational Institution, and the Authority is willing to acquire the Facility and lease the same to the State and the Educational Institution; and

WHEREAS, the Site is presently owned by the Educational Institution, the Facility will be constructed by the Educational Institution on behalf of the Authority, and it is intended that the Site and the Facility be conveyed to the Authority by the Educational Institution; and

WHEREAS, the acquisition of the Facility by the Authority for use by and lease to the Educational Institution and the State is necessary in order for the State and the Educational Institution to carry out necessary governmental functions and to provide necessary services to the people of the State as mandated or permitted by constitution and law, and the use of Act 183 to accomplish such acquisition represents the most practical means to that end at the lowest cost to the State and the Educational Institution; and

WHEREAS, Section 7 of Act 183 provides that the Lease shall be approved by the Authority, by the State Administrative Board of the State and by concurrent resolution of the Legislature of the State concurred in by a majority of the members elected to and serving in each

house and if the Lease is for an institution of higher education existing or created pursuant to Section 4, 5, 6 or 7 of Article 8 of the State Constitution, then in addition, the Lease shall be authorized by the institution of higher education and signed by its authorized officer and, accordingly, it is necessary that the Educational Institution authorize and approve the Lease; and

WHEREAS, if it is determined that (i) the Authority will require an easement from a public road to the Facility over real property owned by the Educational Institution so that the Authority has access to the Facility, (ii) the Educational Institution will require for future use certain easements through the Facility, (iii) the Authority and the Educational Institution will require an agreement to share a common structural wall, (iv) the Authority will require an easement over real property owned by the Educational Institution so that the Authority has sufficient parking available in connection with the reasonable use of the Facility, and/or (v) the Authority and/or the Educational Institution will require other easements and/or agreements pertaining to the Facility and/or real property owned by the Educational Institution (such as, but without limitation, easements and/or agreements pertaining to pedestrian traffic, utility lines, and/or encroachments), then in order to meet any such requirement, it may be necessary for an authorized officer of the Educational Institution to approve an Easement Agreement or Easement Agreements to provide for such easements and/or agreements;

NOW, THEREFORE, BE IT RESOLVED BY THE REGENTS OF THE UNIVERSITY OF MICHIGAN THAT:

The plans for the Facility, as filed with the Educational Institution, are hereby approved.

The Educational Institution hereby authorizes and approves the Construction and Completion Assurance Agreement in substantially the form attached as Exhibit A, and the Executive Vice President and Chief Financial Officer of the Educational Institution is hereby authorized and directed to execute and deliver, at the appropriate time, the Construction and Completion Assurance Agreement in substantially the form attached as Exhibit A for and on behalf of the Educational Institution. Such officer is hereby authorized to approve such changes in and modifications to the Construction and Completion Assurance Agreement as do not materially adversely affect the Educational Institution.

The conveyance of the Site and the Facility to the Authority in accordance with the Construction and Completion Assurance Agreement is hereby approved, and the then seated President and the Executive Vice President and Chief Financial Officer of the Educational Institution are hereby authorized and directed to execute and deliver a warranty deed in substantially the form attached as Exhibit B and bills of sale to accomplish such conveyance in such form as may be from time to time approved by such officers.

The Educational Institution hereby authorizes and approves the Lease in substantially the form attached as Exhibit C, and the Executive Vice President and Chief Financial Officer of the Educational Institution is hereby authorized and directed to execute and deliver the Lease in accordance with the Construction and Completion Assurance Agreement and in substantially the form attached as Exhibit C for and on behalf of the Educational Institution and such officer is hereby designated as an authorized officer of the Educational Institution for purposes of Section 7 of Act 183. Such officer is hereby authorized to approve such changes in and modifications to the Lease as do not materially alter the substance and intent thereof as expressed in the Lease and the request for action submitted to the Regents in connection therewith; provided such officer is not hereby authorized to approve a change in the Lease with respect to the range of rental, the description of the Facility or the material financial obligations of the Educational Institution contained in the Lease approved herein. The Educational Institution hereby determines that the maximum rental in the amount described below is reasonable and the authorized officer is hereby authorized to approve in the Lease, as executed, rental in annual amounts determined by the final appraisal of "True Rental," but not exceeding \$1,187,000 in any 12-month period and a lease term of not exceeding 40 years.

If in connection with the entering into of the Lease, and if the Executive Vice President and Chief Financial Officer of the Educational Institution determine that (i) the Authority will require an easement from a public road to the Facility over real property owned by the Educational Institution so that the Authority has access to the Facility, (ii) the Educational Institution will require for future use certain easements through the Facility, (iii) the Authority and the

Educational Institution will require an agreement to share a common structural wall, (iv) the Authority will require an easement over real property owned by the Educational Institution so that the Authority has sufficient parking available in connection with the reasonable use of the Facility, and/or (v) the Authority and/or the Educational Institution will require other easements and/or agreements pertaining to the Facility and/or real property owned by the Educational Institution (such as, but without limitation, easements and/or agreements pertaining to pedestrian traffic, utility lines, and/or encroachments), then such officer is hereby authorized and directed to execute and deliver an Easement Agreement or Easement Agreements if necessary in order to meet any such requirement.

The Executive Vice President and Chief Financial Officer of the Educational Institution is hereby authorized and directed to take or cause to be taken all other actions, including, without limitation, making requests of and approving requests from the Authority and the State and signing certificates, documents or other instruments, on behalf of the Educational Institution, as he deems necessary or desirable under the circumstances to accomplish the purposes of the transactions authorized in this Resolution.

The Educational Institution further confirms its obligations to perform the duties and obligations specified in the Construction and Completion Assurance Agreement (only upon its execution by the authorized officer of the Educational Institution) and the Lease (only upon its execution by the authorized officer of the Educational Institution) and acknowledges that such obligations do not depend upon passage of title to the Facility to the Educational Institution without consideration upon termination of the Lease. The Educational Institution hereby recognizes that it would execute and deliver the Lease even if title to the Facility would not pass upon termination of the Lease.

The Educational Institution recognizes that the Authority shall pay for costs of the Facility in an amount not in excess of \$11,249,900.

All ordinances, resolutions and orders or parts thereof in conflict with the provisions of this Resolution are, to the extent of such conflict, hereby repealed.

This Resolution shall be effective immediately upon its adoption.

**RESOLUTION OF THE REGENTS OF THE UNIVERSITY OF MICHIGAN
APPROVING A CONSTRUCTION AND COMPLETION ASSURANCE
AGREEMENT, A CONVEYANCE OF PROPERTY, A LEASE AND AN
EASEMENT AGREEMENT, IF NECESSARY, FOR THE UNIVERSITY OF MICHIGAN-
ANN ARBOR CENTRAL CAMPUS RENOVATION PHASE II PERRY BUILDING**

A RESOLUTION of the Regents of the University of Michigan (i) approving (a) a form of construction and completion assurance agreement (the "Construction and Completion Assurance Agreement"), by and among the State Building Authority (the "Authority"), the State of Michigan (the "State") and the Regents of the University of Michigan, a Michigan constitutional body corporate (the "Educational Institution"), providing for the rights, duties and obligations of the Authority, the State and the Educational Institution with respect to the Educational Institution's Ann Arbor Central Campus Renovation Phase II Perry Building and the site therefor (the "Facility") during the construction, renovation and/or equipping of the Facility and prior to the conveyance of the Facility to the Authority, (b) the conveyance of the Facility to the Authority, (c) a lease (the "Lease"), by and among the Authority, the Educational Institution and the State, for the purpose of leasing the Facility to the State and the Educational Institution and (d) an easement and/or other agreement (the "Easement Agreement") between the Authority and the Educational Institution, if necessary and/or desirable in connection with access, parking, utilities, pedestrians, encroachments, and/or other matters pertaining to the interactions between the Facility and real property owned by the Educational Institution, and (ii) providing for other matters related thereto.

WHEREAS, the Authority has been incorporated under and pursuant to the provisions of Act No. 183, Public Acts of Michigan, 1964, as amended ("Act 183"), for the purpose of acquiring, constructing, furnishing, equipping, owning, improving, enlarging, operating, mortgaging and maintaining buildings, necessary parking structures or lots and facilities, and sites therefor, for the

use of the State, including institutions of higher education created pursuant to Section 4, 5, 6 or 7 of Article 8 of the Michigan Constitution of 1963 (the "State Constitution"), or any of its agencies; and

WHEREAS, the Educational Institution has been maintained and created pursuant to Sections 4 and 5 of Article 8 of the State Constitution; and

WHEREAS, the State and the Educational Institution desire that the Authority finance the acquisition, construction, renovation and/or equipping of the Facility in consideration of (i) the Educational Institution granting a license to the Authority to enter upon the site of the Facility (the "Site") in order to undertake such construction, renovation and/or equipping, (ii) the Educational Institution undertaking on behalf of the Authority the oversight of such construction, renovation and/or equipping and (iii) the Educational Institution conveying the Facility to the Authority on or prior to the date of its completion, and the Authority is willing to provide such financing in consideration of the items described above; and

WHEREAS, in accordance with the Construction and Completion Assurance Agreement, the State and the Educational Institution desire that the Authority acquire the Facility on or prior to the date of its completion, and lease the same to the State and the Educational Institution, and the Authority is willing to acquire the Facility and lease the same to the State and the Educational Institution; and

WHEREAS, the Site is presently owned by the Educational Institution, the Facility will be constructed by the Educational Institution on behalf of the Authority, and it is intended that the Site and the Facility be conveyed to the Authority by the Educational Institution; and

WHEREAS, the acquisition of the Facility by the Authority for use by and lease to the Educational Institution and the State is necessary in order for the State and the Educational Institution to carry out necessary governmental functions and to provide necessary services to the people of the State as mandated or permitted by constitution and law, and the use of Act 183 to accomplish such acquisition represents the most practical means to that end at the lowest cost to the State and the Educational Institution; and

WHEREAS, Section 7 of Act 183 provides that the Lease shall be approved by the Authority, by the State Administrative Board of the State and by concurrent resolution of the Legislature of the State concurred in by a majority of the members elected to and serving in each house and if the Lease is for an institution of higher education existing or created pursuant to Section 4, 5, 6 or 7 of Article 8 of the State Constitution, then in addition, the Lease shall be authorized by the institution of higher education and signed by its authorized officer and, accordingly, it is necessary that the Educational Institution authorize and approve the Lease; and

WHEREAS, if it is determined that (i) the Authority will require an easement from a public road to the Facility over real property owned by the Educational Institution so that the Authority has access to the Facility, (ii) the Educational Institution will require for future use certain easements through the Facility, (iii) the Authority and the Educational Institution will require an agreement to share a common structural wall, (iv) the Authority will require an easement over real property owned by the Educational Institution so that the Authority has sufficient parking available in connection with the reasonable use of the Facility, and/or (v) the Authority and/or the Educational Institution will require other easements and/or agreements pertaining to the Facility and/or real property owned by the Educational Institution (such as, but without limitation, easements and/or agreements pertaining to pedestrian traffic, utility lines, and/or encroachments), then in order to meet any such requirement, it may be necessary for an authorized officer of the Educational Institution to approve an Easement Agreement or Easement Agreements to provide for such easements and/or agreements;

NOW, THEREFORE, BE IT RESOLVED BY THE REGENTS OF THE UNIVERSITY OF MICHIGAN THAT:

The plans for the Facility, as filed with the Educational Institution, are hereby approved.

The Educational Institution hereby authorizes and approves the Construction and Completion Assurance Agreement in substantially the form attached as Exhibit A, and the Executive Vice President and Chief Financial Officer of the Educational Institution is hereby authorized and directed to execute and deliver, at the appropriate time, the Construction and Completion Assurance Agreement in substantially the form attached as Exhibit A for and on behalf of the

Educational Institution. Such officer is hereby authorized to approve such changes in and modifications to the Construction and Completion Assurance Agreement as do not materially adversely affect the Educational Institution.

The conveyance of the Site and the Facility to the Authority in accordance with the Construction and Completion Assurance Agreement is hereby approved, and the then seated President and the Executive Vice President and Chief Financial Officer of the Educational Institution are hereby authorized and directed to execute and deliver a warranty deed in substantially the form attached as Exhibit B and bills of sale to accomplish such conveyance in such form as may be from time to time approved by such officers.

The Educational Institution hereby authorizes and approves the Lease in substantially the form attached as Exhibit C, and the Executive Vice President and Chief Financial Officer of the Educational Institution is hereby authorized and directed to execute and deliver the Lease in accordance with the Construction and Completion Assurance Agreement and in substantially the form attached as Exhibit C for and on behalf of the Educational Institution and such officer is hereby designated as an authorized officer of the Educational Institution for purposes of Section 7 of Act 183. Such officer is hereby authorized to approve such changes in and modifications to the Lease as do not materially alter the substance and intent thereof as expressed in the Lease and the request for action submitted to the Regents in connection therewith; provided such officer is not hereby authorized to approve a change in the Lease with respect to the range of rental, the description of the Facility or the material financial obligations of the Educational Institution contained in the Lease approved herein. The Educational Institution hereby determines that the maximum rental in the amount described below is reasonable and the authorized officer is hereby authorized to approve in the Lease, as executed, rental in annual amounts determined by the final appraisal of "True Rental," but not exceeding \$949,000 in any 12-month period and a lease term of not exceeding 40 years.

If in connection with the entering into of the Lease, and if the Executive Vice President and Chief Financial Officer of the Educational Institution determine that (i) the Authority will require an easement from a public road to the Facility over real property owned by the Educational Institution so that the Authority has access to the Facility, (ii) the Educational Institution will require for future use certain easements through the Facility, (iii) the Authority and the Educational Institution will require an agreement to share a common structural wall, (iv) the Authority will require an easement over real property owned by the Educational Institution so that the Authority has sufficient parking available in connection with the reasonable use of the Facility, then such officer is hereby authorized and directed to execute and deliver an Easement Agreement if necessary in order to meet any such requirement, and/or (v) the Authority and/or the Educational Institution will require other easements and/or agreements pertaining to the Facility and/or real property owned by the Educational Institution (such as, but without limitation, easements and/or agreements pertaining to pedestrian traffic, utility lines, and/or encroachments), then such officer is hereby authorized and directed to execute and deliver an Easement Agreement or Easement Agreements if necessary in order to meet any such requirement.

The Executive Vice President and Chief Financial Officer of the Educational Institution is hereby authorized and directed to take or cause to be taken all other actions, including, without limitation, making requests of and approving requests from the Authority and the State and signing certificates, documents or other instruments, on behalf of the Educational Institution, as he deems necessary or desirable under the circumstances to accomplish the purposes of the transactions authorized in this Resolution.

The Educational Institution further confirms its obligations to perform the duties and obligations specified in the Construction and Completion Assurance Agreement (only upon its execution by the authorized officer of the Educational Institution) and the Lease (only upon its execution by the authorized officer of the Educational Institution) and acknowledges that such obligations do not depend upon passage of title to the Facility to the Educational Institution without consideration upon termination of the Lease. The Educational Institution hereby recognizes that it would execute and deliver the Lease even if title to the Facility would not pass upon termination of the Lease.

The Educational Institution recognizes that the Authority shall pay for costs of the Facility in an amount not in excess of \$8,999,900.

All ordinances, resolutions and orders or parts thereof in conflict with the provisions of this Resolution are, to the extent of such conflict, hereby repealed.
This Resolution shall be effective immediately upon its adoption.

UMHHC Cardiology Procedures Unit Expansion Project

The Regents approved the University of Michigan Hospitals and Health Centers' Cardiology Procedures Unit Expansion Project as described in the Regents Communication, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

UMHHC HomeMed Office Space Expansion Project

The Regents approved the University of Michigan Hospitals and Health Centers' HomeMed Office Space Expansion Project as described in the Regents Communication, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

UMHHC Taubman Health Center Computer Room Cooling Project

The Regents approved the University of Michigan Hospitals and Health Centers Taubman Health Center Computer Room Cooling Project as described in the Regents Communication, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

UMHHC Taubman Health Center Roof Replacement Project

The Regents approved the University of Michigan Hospitals and Health Centers' Taubman Health Center Roof Replacement Project as described in the Regents Communication, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

UMHHC University Hospital Chiller Replacement - FY 2002

The Regents unanimously approved the University of Michigan Hospitals and Health Centers University Hospital Chiller Replacement - FY 2002 Project as described in the Regents Communication, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

Two License Agreements between the University of Michigan and DermaCo Inc.

On a motion by Regent Brandon, seconded by Regent Taylor, the Regents unanimously approved two license agreements with DermaCo to practice and commercialize inventions developed by University of Michigan faculty members John J. Voorhees, Gary J. Fisher, and Sewon Kang for research sponsored in whole or part by Johnson & Johnson (J&J). Because Drs. Voorhees, Fisher, and Kang are also partial owners of and consultants to DermaCo Inc., these agreements fall under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. Parties to the agreements are the Regents of the University of Michigan and DermaCo Inc.

2. Licensing terms include:

Field of use: all fields.

Grant: Exclusive world-wide license, with a right to grant sublicenses. Term of the agreement is for the life of the patent.

License Fee: \$85,000 for License A; \$15,000 for License B, both payable in scheduled installments.

Minimum Royalties: Minimum annual royalty payments of \$21,250 for License A and \$3,750 for License B. Minimum royalties are creditable against royalty due.

Patent Costs: All current and future patent costs will be paid by DermaCo.

Equity: In License A, 22.5% to be taken by the University of Michigan in DermaCo at fund closing of \$2,000,000. One-half of this equity (11.25% will be immediately transferred to J&J upon receipt by Michigan. Equity is subject to dilution corresponding to that of the founders. No equity will be transferred to Michigan or J&J in License B.

Royalties: Terms included in each license: 2.5% of net sales with an opportunity to amend the license to differentiate rates by type of Product before June 30, 2002; 20% of Gross Sublicensing Revenues, anti-stacking provision.

Performance criteria: Specified milestones must be met in order to maintain the rights granted by the licenses. Provisions requiring sublicensing to J&J companies by DermaCo are included in License A.

The University will retain ownership of the licensed technology and may continue to further develop it and use it as a research tool.

3. The pecuniary interests of Drs. Voorhees, Fisher, and Kang arise from their ownership of equity in DermaCo Inc. They have waived any personal participation in the sharing of revenues received by the University from the company.

Subcontract Agreement from Nanobio Corporation to the University of Michigan

On a motion by Regent Brandon, seconded by Regent Horning, the Regents unanimously approved a subcontract agreement with Nanobio Corporation (“Company”) to perform research with funding received by the Company from the Michigan Life Sciences Corridor Fund. Because James R. Baker, Jr. is both an owner of the Company and an employee of the University of Michigan, 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 Nanobio Corporation.
2. The terms of the agreement conform to University policy. Kent Johnson, M.D., will be the principal investigator for the project at the University which is to be conducted over a three year period at an estimated total cost of \$85,504 including indirect cost at 25% (the rate applicable to the MLSCF). Approval has been obtained for the use of animals in this study.
3. Dr. Baker’s pecuniary interest arises from his ownership of Nanobio Corporation. He will not participate in the project as a University employee.

Subcontract Agreement from the University of Michigan to Vanderbilt University

On a motion by Regent Newman, seconded by Regent Maynard, the Regents unanimously approved a subcontract agreement from the University of Michigan to Vanderbilt University to support collaborative activities there of Dr. Tony Brown. Because Dr. Brown will

also maintain an adjunct assistant research scientist position at the University of Michigan, 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 Vanderbilt University.
2. Under the project a total subcontract of \$29,933 is anticipated to cover the period September 1, 2001 through May 31, 2002. The University's standard subcontract provisions will apply.
3. Dr. Brown has no pecuniary interest in the project, other than his status as a paid faculty member at Vanderbilt University.

Public Comments

The Regents heard comments from the following individuals on the topics indicated: Michael Chapman, president of the UM-Flint Student Government Council, on including the Flint campus in the presidential selection process; Meredith Hochman (Q-Vis), Stephen Rassi (Rainbow Network), and Benjamin Conway (MSA LGBT Issues Commission), students, on the University's relationship with the United Way Campaign; and Quincy Murphy, citizen, on student housing for the Flint Campus and community outreach in the City of Flint.

PricewaterhouseCoopers LLP Presentation and Discussion

Executive Vice President Kasdin introduced University of Michigan staff members who had assisted in preparation of the audit report. He also commented on the upcoming retirement of Fred White following 26 years of service, and acknowledged his many contributions over the years. A round of applause followed.

He noted that he has asked the auditors to examine two auxiliary activities each year in an attempt to ensure that all facets of the University move towards best practices; this year's studies were done on the University of Michigan Press and Student Publications. Comments and

responses on these audits will be reported next month; they have no impact on the University's overall financial health.

The following PricewaterhouseCoopers (PWC) personnel introduced themselves: Jack McCarthy, the executive partner in charge of the firm's University of Michigan engagement and leader of the firm's higher education practice; Darrell Burks, the overall engagement partner; and George Johnson of George Johnson and Co., joint venture partner. A handout was distributed as a companion to the presentation.

Mr. McCarthy stated that PWC had issued an unqualified opinion on the financial statements and on each of the units that make up the University, which include the Board in Control of Intercollegiate Athletics, the Hospitals and Health Centers, Veritas Insurance Corporation, and the Michigan Health Corporation. Separate reports were issued for the Alumni Association, the William Davidson Institute, and the University Musical Society; the report for M-Care will be submitted in February following the close of its fiscal year in December. He reported that no material misstatements or illegal acts were noted, and that the audits did not disclose any material deficiencies in the University's internal control structure.

He noted that the University had adopted several new standards promulgated by the Government Accounting Standards Board (GASB) in advance of the required date, which was a significant undertaking and demonstrated the University's leadership in this area. He reported that as a result of the audit procedures performed, there are no matters which came to PWC's attention that would require further communication or action by the University's management.

Mr. McCarthy reviewed each of the required communications to the institution's governing board that are mandated per generally accepted auditing standards. He noted that there were

no significant audit adjustments nor disagreements with the University's management, and that University management cooperated completely throughout the audit process.

Mr. Burks then continued the presentation. He noted that follow-up of management's action plan and status report regarding PWCs observations and recommendations is an ongoing part of the audit process throughout the year. He then reviewed the changes to the GASB requirements and their effect on the University. Executive Vice President Kasdin thanked Associate Vice President Tim Slottow for his leadership on the conduct of the audit.

University of Michigan Financial Statements

On a motion by Regent Taylor, seconded by Regent Maynard, the Regents unanimously approved the financial statements for the year ended June 30, 2001.

The meeting was adjourned at 3:40 p.m.

Friday, October 19, 2001

The Regents convened at 9:30 a.m. Present were President Bollinger and Regents Brandon, Deitch, Horning, Maynard, McGowan, Newman, and Taylor. Also present were Vice President Feagin, Vice President Harper, Executive Vice President Kasdin, Vice President Krislov, Chancellor Little, Chancellor Mestas, Vice President Rudgers, Interim Provost and Vice President and Secretary Tedesco, Vice President Ulaby, and Vice President Wilbanks. Regent White participated by telephone; Chancellor Mestas and Executive Vice President Omenn were absent.

President Bollinger called the meeting to order.

Regents' Meeting Schedule for 2002

Regent Newman moved approval of a traditional, 2-day, 11-meeting-per-year schedule for the 2002 calendar year. Regent Maynard seconded the motion and it was approved unanimously. The following schedule was set for 2002:

January 17-18
February 14-15
March 14-15
April 18-19
May 16*-17 (*Held at UM-Dearborn)
June 20-21
July 18-19
September 19-20
October 17*-18 (*Held at UM-Flint)
November 14-15
December 12-13

Interim President

Regent Deitch commented that President Bollinger had been offered and had accepted the presidency of Columbia University. He said that “working with you has been a great pleasure and a great honor. You have done a wonderful job. We wish you were staying and we wish you good luck and Godspeed in your new position.”

He observed that now it was time to move on and build on the accomplishments of President Bollinger and the executive officers, deans, and faculty and work “with speed and thoughtfulness” to elect a new president. The first order of business in that process is to choose an interim president. Regent Deitch nominated B. Joseph White as interim president, effective January 1, 2002. He noted that Professor White is the former dean of the School of Business Administration, Wilbur K. Pierpont Collegiate Professor of Leadership in Management Education, and Professor of Business Administration. Regent Newman seconded the motion.

Statement by Regent McGowan

Regent McGowan made the following statement:

“I greatly regret the loss to this University represented by Lee Bollinger’s departure. As president, he has certainly led, putting in place both people and programs that illuminate our values. The new leadership will be asked to commit to advancing those decisions that he and we have made over the past several years. It’s been a pure pleasure for me to serve on this board with Lee as president. Over the course of my own professional life I have worked with a few wise and great leaders who are also thoughtful and kind people. This man ranks high among them.

But we as a University and as a board must today begin the processes of selecting an interim president and designing a search process for a new and excellent president. I am pleased and not surprised that we have in Joe White an individual on this campus who is clearly well-prepared to step in and serve as our interim president. We have many distinguished academic leaders among our current and past deans, and he is certainly among them. His contributions as dean of the School of Business Administration over two five-year terms extended well beyond the responsibilities of that office. He is greatly respected among the other deans and members of the faculty, and many speak of his commitment to this University, to his pragmatic wisdom, and to his ability to motivate thoughtful discussion. These abilities in an interim president will serve Michigan well.

What concerns me deeply, however, is the proposal to depart from our long-standing established precedent of selecting as interim president someone who had no intention of seeking to become president beyond the interim period. Professor White would like to reserve into the future his decision on whether or not to become a candidate, and to me this raises two important issues. First of all, over the next several months, the interim president must be fully engaged with the responsibilities and tough decisions that we expect of a chief executive. Real progress at Michigan must be made. Decisions should be made forthrightly and courageously, and they must be universally understood to advance the lofty goals of a great university. Second, this proposal could seriously compromise the credibility of our selection process. The design of our search process must be fully credible to the University community, and this can occur only if we create the largest possible pool of excellent candidates.

We have been advised that in any presidential selection process, the best candidates are not volunteers, and our effort must be 95% recruitment and 5% selection. As we have seen from search processes across the country, academic officers at one university actively seeking to leave another university expose themselves to considerable risks. Their loyalties to their existing institutions can be called into question, and their candidates may destabilize their positions of leadership on their own campuses. Likewise, potential candidates from within the University must have the maximum incentive to apply.

We must do nothing to limit the candidate pool when we should be drawing from the very best and brightest both outside and within the University. The next president of this university must emerge from a process that is credible to all concerned: faculty,

staff, students, alumni. And in the first instance, that is possible only if it is credible to the potential candidates themselves. I believe the presence of an interim president who is also a candidate for the permanent position will have a chilling effect on the entry of many outstanding candidates.

The selection process that we went through five years ago was not only exhaustive, but it was exhausting. It took some personal toll on all of us who went through it. I would hope it could be shorter this time around. But an open, nation-wide search for the best possible president did, I am convinced, produce the best possible president. I am proud to have played a part in that success; the University of Michigan deserves no less.

For these reasons I will vote against the proposal to select as interim president someone who has not ruled out the possibility of seeking the presidency itself. I hope my fellow Regents, Professor White, and the rest of the University community will understand that my position is based on conviction but not on any concern about his abilities to do this job.”

Statement by Regent Maynard

“This will not be the last time I will have a chance to thank Lee for his five years of presidency. I just want to say that you’ve given this University leadership and vision, and you will be very missed.

My no vote today will not be a reflection of my opinion of Dean White. I have the highest respect for him and know that he has the skills and talents to ably serve the University. And I have had the opportunity during the last few years to serve with him as a member of the Ginsberg Center Board, and I have been very impressed with the work you’ve done on that board. My no vote is rather a belief that our presidential search would be a better one if our interim president might not be a candidate for the interim position, and Dean White has not yet decided whether he will or will not seek the permanent job.

I experienced the search on the Flint campus and believe that there was a negative impact on that campus when the interim head sought also the permanent appointment. I have also listened to those much more experienced in searches than I who say that our ability to attract the best candidates can be influenced negatively by our having an interim inside candidate. I know that Dean White and my colleagues, as I, all support the most open and most inclusive process in seeking a new president. My no vote reflects my wish that there could be just one more element in that search process. Thank you.”

Comments by Regent Deitch

Regent Deitch commented, “The good news is that all eight of us recognize Dean White’s enormous talent and commitment to this institution and his ability to run it well. Reasonable people can differ about the best way to accomplish a goal. Replacing you, Lee, won’t be easy, because you’ve been a wonderful president. But the thing is, you’ve been the president of the greatest university in America, which helps anyone who sits in

that position. And I believe there is zero empirical evidence that we will not be able to attract a good candidate pool because we have elected an interim president who has not yet decided whether he will be a candidate for the permanent position.

Everyone needs to remember that this is the University of Michigan, and the privilege and the opportunity of sitting in the presidency of this university I believe is such a compelling opportunity that there must be three or five women or men in America, in the world, who would be willing to throw their hats in the ring for this position.

Second, we live in a world where people are very glib. My interactions with Joe White have shown that he is not a glib man. We talked about this question of whether he would decide and declare that he would not be a candidate for the permanent position, and he said, 'Mary and I simply haven't decided.' He went on to say, 'We are people who make commitments carefully and keep them faithfully.' And the meaning of that is this: It would have been easy for Dean White to say he didn't want the position and then to have lightning strike a few months later and have him change his mind.

What we are doing is starting this position with a 'what you see is what you get' level of integrity and the future will take care of itself. We have said we are committed to an inclusive, national search to seek out the best person to replace Lee Bollinger, and we will do that.

In selecting Joe White, we are picking somebody who is perfectly positioned to pick up Lee Bollinger's mantle. Joe White served as dean of one of our important schools, one of our large schools, for ten years, with enormous credibility and success. He had just now given up those duties and was in the process of going back to teaching that he loved very much. So here was a person who knows the University, who knows the players, who is committed to the goals, and who has the time and is willing to make the commitment, and this is going to best keep the train running on time and progress going forward."

Regent Brandon stated, "I would like to completely and emphatically associate myself with Regent Deitch. I think Joe White will do a fabulous job, and I think his honesty and straightforward approach in the way he's dealt with this issue gives me a great sense of comfort. And I also do not believe that the University of Michigan will have difficulties finding highly qualified and interested candidates for the job of president."

Regent Taylor said that "I join David in wanting to associate myself with the remarks of Larry. And in addition, we're looking at an interim that will probably serve for a period of six months or possibly longer. I believe that if at all possible, we should have an interim president who has all of the characteristics--the background, the education, the experience--to be the

permanent president. And if you are lucky enough to have such a person available, I just cannot understand why you would want to disqualify that person from subsequent consideration. For all of those reasons, I think Joe White is the right person and I am happy that he is not making any decisions at this time.”

Regent Newman associated herself with the remarks of Regents Deitch, Brandon, and Taylor. She commented, “We set out to find the best possible interim president, and I think we did that. Because of that, I agree with Regent Taylor. I would ask that Joe and Mary make that decision in their own time. If and when they do, whatever they decide, we will go through whichever process fits that decision. I look forward to working with Joe. Joe, I’m thrilled that you agreed to do this, and we’re very lucky that you had the time to do it. We appreciate your giving up your sabbatical year and your preparation for teaching to take the time off and interrupt this position.”

Regent Deitch called the question. The vote was taken, and the motion to appoint B. Joseph White as interim president was approved, with Regents Brandon, Deitch, Horning, Newman, Taylor, and White voting in favor, and Regents Maynard and McGowan opposed.

Regent McGowan moved that the appointment of Professor White as interim president be considered unanimous. Regent Maynard seconded the motion, and it was approved.

Comments from President Bollinger

President Bollinger thanked the University and the Regents for permitting him to serve as president during the past nearly five years. He noted that he had been a professor at the University of Michigan for 26 years, and for 12 of those years had served in administration as dean and then as president. He continued,

“What distinguishes this great public university from virtually all others is the shared commitment among the faculty to be part of the highest intellectual and artistic traditions and to bring that commitment to the classroom and to the broader public. This is a truly remarkable achievement in a democratic society, and it is a standing refutation of those ... who have argued that the highest culture could only survive in an aristocratic society.

This special commitment, however, is forever fragile and must be continually nurtured over time. To be sure, not everyone can be expected to perform at the highest level of intellectual and artistic creativity. Just like not every student can be in the top half of the class. But it is critical that there be a clear-sighted appreciation of quality, a yearning for it, an evident respect for those in our midst who do achieve it, and a joy in being associated with it. It is my most fervent hope for the University of Michigan that it will continue to embrace and symbolize these characteristics, and I will leave with full confidence that it will.”

President Bollinger then recognized the contributions of the colleagues who have served with him, especially “the extraordinary group of vice presidents and chancellors who have come to serve this institution.” He commented briefly on the contributions of each of the vice presidents that has served during his tenure. He also thanked his wife, Jean Magnano Bollinger, for her service to her contributions to the University and the community.

Finally, President Bollinger noted that he had known Joe White for over a decade and had served with him as a dean. “I know him as a loyal, knowledgeable, imaginative administrator and member of this community. He likes high standards, he sets high standards for himself, and he sets out in a determined way to meet them.” He noted that he had also come to know Joe and his wife, Mary, through their daughters, and through that, he knows “that both he and Mary are very good people.” He said he would do everything he could to make the transition seamless, and that he was sure the University would be exceptionally well-served by Dean White.

Comments by Joe White

A standing ovation followed and Professor White made the following comments:

“Thank you, Lee, for those kind remarks. This is a very memorable moment for me and Mary. When we grew up in Kalamazoo the University of Michigan seemed 10,000 miles away. It was a place where only the very best had the opportunity to get the great education. Great health care was offered to the comfort of so many people in our area. Great athletics that excited us all. And it’s fair to say that I accept and we accept this invitation from you with a great sense of gratitude and with a measure of awe also.

I want to thank the Regents for your confidence. I also want to thank you for your public commitment to conducting an open, thorough, inclusive search for the next president of the University, because it’s crucial to insure the very best leadership for the institution that we love going forward. I want to thank you, Lee, and Jean, for all you’ve done for our University. I simply couldn’t imagine a better five-year presidential term than you’ve provided. We’re going to miss you deeply, and you know that. Among your many accomplishments, you’ve set a wonderful tone on campus: a tone of inclusion, a tone of intellectual inquiry, a tone of arts appreciation, a tone of innovation. And I publicly want to thank you so much and wish you the best in the years to come.

My responsibilities as interim president are very clear. To work with the Regents, the executive officers, the other leaders of the university during a time of transition to insure the continued excellence of our institution in all its dimensions and also to demonstrate rock-solid commitment to the vital initiatives that have been set in motion during Lee’s presidency. Among these are the life sciences, arts and culture, affirmative action and diversity, and the upcoming fundraising campaign about which I have a great deal of enthusiasm. I think we’re going to do very well. Those are institutional commitments, and our job working together will be to insure that we make measurable progress on all fronts.”

Dean White stated that he intends to dedicate his period of service as interim president to the alumni of the University who died in the atrocities on September 11, 2001. He named the several victims he knew personally. He noted that “each of us has sought since September 11 to find a way to serve our country during these difficult and troubling times. The Regents have presented me with my way, and that is, to honor these alums, all who were lost on September 11, by doing the very best job that I can to serve the University that we and all of these alumni have loved so much over the years.”

A round of applause followed.

There being no further business, the meeting was adjourned at about 10:30 a.m. The next meeting will take place November 15-16, 2001.