

APRIL MEETING, 2002

*The University of Michigan
Ann Arbor
Thursday, April 18, 2002*

The Regents convened at 1:30 p.m. in the Regents' Room. Present were Interim President White and Regents Deitch, Horning, McGowan, Maynard, and Newman. Also present were Interim Provost Courant, 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 White participated by telephone; Regents Brandon and Taylor were absent.

President's Opening Remarks

Interim President White called the meeting to order. He welcomed Sarah Boot, newly-elected president of Michigan Student Assembly, to her first Regents' Meeting. He commented on several items of interest with respect to students, faculty, alumni, and staff, and noted the deaths of several emeritus faculty members.

Regents' Resolution in Honor of Robert Kasdin

Interim President White called on Regent McGowan, who made the following comments:

"This is a story which speaks to the values of Robert and his staff of skilled professionals. Picture, if you will, a meeting of some time past between Robert and members of his staff and Jack Dixon on the very difficult issues surrounding the construction of the Life Sciences complex. A meeting which the participants describe as a partnership meeting. At the meeting's conclusion, members of the CFO's staff were heard telling each other, "You know, the meaning of this project is clear. We are going to work night and day to make it work. The buildings we now see rising on the Washtenaw Curve are a magnificent example of how the academic people of this university have come to look at the men and women of the primary business and finance office as their

partners rather than as the obstacles to their mission. That is good business; it also affirms that we have in place a group of people, assembled and led by Robert, who are motivated by the sense that what they are doing is fundamental to the advancement of the goals of a world-class public university. That fact, I believe, has been Robert's proudest achievement."

Regent McGowan called Executive Vice President to the podium and read the following resolution:

Regents Resolution

The Regents of the University of Michigan commend and express their gratitude to Executive Vice President and Chief Financial Officer Robert Kasdin as he leaves the University April 30 to become Columbia University's senior executive vice president.

Keenly aware, aesthetically sensitive, and a person of great integrity, Mr. Kasdin has closely aligned the University's business and financial operations with its academic mission. In 2000, Moody's Investors Service upgraded the University's bond rating to Aaa, recognizing the University's prudent use of debt, successful supply chain management, aggressive cost containment, and strong financial performance overall. Today, Michigan is one of only three public universities in the nation to attain Moody's highest rating.

The University also has earned top-tier investment returns during his tenure. The endowment, which has grown from \$2.1 billion in 1997 to \$3.5 billion, is the fourth largest endowment among public universities.

Mr. Kasdin has contributed significantly to the University's built environment, from overseeing the development of a new campus master plan and restoration of Burton Tower, Hill Auditorium, and the Perry and Rackham buildings to high-quality architecture in new projects, most notably, the buildings rising on Palmer and Zina Pitcher drives. His interest and appreciation for art and aesthetics has attracted some of the world's most outstanding architects to University projects. The University has made great gains in environmental stewardship, including a nationally recognized recycling program. Mr. Kasdin also played a leadership role in negotiating the sale of University land to Pfizer, an important step in development of the state's Life Sciences Corridor.

With admiration and deep gratitude for his dedication to the University's fiscal and physical well-being, the Regents congratulate and offer their best wishes to Robert Kasdin.

Executive Vice President Kasdin thanked the Regents and observed that "the stakes in Ann Arbor are incredibly high, and there is a real question whether a public university can continue to be a great research university and a center of education and learning." He noted that the University of Michigan is a world class university and needs to remain so. He thanked the Regents for the faith they have shown in his judgment during his tenure, and expressed his gratitude. A round of applause followed.

Regents Newman, Deitch, and Maynard complimented Executive Vice President Kasdin on his accomplishments.

Undergraduate Science Instruction Center

Executive Vice President Kasdin commented that the Undergraduate Science Instruction Center is the final segment of the Palmer Drive development. He introduced Mr. Robert Venturi of Venturi Scott Brown and Associates and Victor Cardona from SmithGroup architects to present the programmatic functions and layout of the site plan and the schematic design. Mr. Venturi described the site plan and the exterior of the structure from several angles, especially in relation to the site and surrounding buildings. He commented that the design is in the tradition of the Albert Kahn generic loft buildings found elsewhere on campus, and that the facade is similar to that of the Life Sciences Institute and the Commons Building, except the north elevation would be metal. It was noted that there are a lot of “incidental seating” areas to encourage interaction among students and faculty using the building.

Mr. Cardona reviewed schematic designs for each of the four floors that make up the interior of the building. He pointed out that the laboratory space is flexible and reconfigurable. It was noted that a new parking deck with 1,000 spaces was under construction to accommodate the increased parking needs associated with this and other buildings on the Palmer Drive site.

Regent McGowan asked whether construction of this building would result in fewer options for other building construction in this area in the future. Executive Vice President Kasdin responded that nothing being done on this site precludes use of the site of the Plant Services Building for future construction.

Mr. Venturi commented on what a pleasure it had been to work with Executive Vice President Kasdin on the University’s projects.

Executive Vice President Kasdin thanked Associate Provost Pamela Raymond for her efforts in helping to identify future programmatic and instructional needs for undergraduates in conjunction with this building. He also noted that the latest budget estimate for this project is \$61.0 million, as opposed to \$59.5 million noted in the Regents Communication. He commented that during his tenure, he has been working to enhance financial controls over building projects and as part of this effort, all of the Palmer Drive projects are being tracked as one bundle.

Regent McGowan moved approval of the schematic design for the Undergraduate Science Instruction Center project as presented, at a budget of \$61.0 million. Regent Newman seconded the motion, and it was approved unanimously.

It was decided that the conflict of interest items would be considered next, followed by the consent agenda and the remainder of the action agenda, and concluding with the hospitals and health system discussion.

Purchasing Contract with HealthMedia, Inc.

On a motion by Regent Newman, seconded by Regent Deitch, the Regents unanimously approved a purchasing contract with HealthMedia, Inc. Because Victor Strecher is both a University of Michigan employee and vice president, chief science officer, and stockholder in HealthMedia, Inc., this contract 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 contract are the Regents of the University of Michigan and its University Health Service, and HealthMedia, Inc.
2. The service to be provided is an online smoking cessation program, to be conducted from April 1, 2002 through March 31, 2002, at a total cost of \$5,000.
3. The pecuniary interest arises from the fact that Victor Strecher, a University of Michigan employee, is vice president and stockholder of HealthMedia, Inc.

Payment for Services of Michigan Interiorscaping Company (UMHS Pastoral Care)

On a motion by Regent Horning, seconded by Regent McGowan, the Regents unanimously approved payment for services of Michigan Interiorscaping Company to provide plant care and maintenance for the University of Michigan Health System's Pastoral Care Department. Because the sole proprietor of Michigan Interiorscaping Company, Bruce Morrison, is also a University of Michigan employee, this purchase 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 contract are the Regents of the University of Michigan and its University Health System Pastoral Care Department, and Michigan Interiorscaping Company.
2. The service to be provided is live plants and plant maintenance, from January 1, 2002 through December 31, 2002, at a total cost of \$480.00.
3. The pecuniary interest arises from the fact that Bruce Morrison, a University of Michigan employee, is sole proprietor of Michigan Interiorscaping Company.

Payment for Services of Michigan Interiorscaping Company (Center for Chinese Studies)

On a motion by Regent Horning, seconded by Regent Deitch, the Regents unanimously approved payment for services of Michigan Interiorscaping Company to provide plant care and maintenance for the University of Michigan's Center for Chinese Studies. Because the sole proprietor of Michigan Interiorscaping Company, Bruce Morrison, is also a University of Michigan employee, this purchase 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 contract are the Regents of the University of Michigan and its Center for Chinese Studies, and Michigan Interiorscaping Company.
2. The service to be provided is live plants and plant maintenance, from August 14, 2001 through June 30, 2002, at a total cost of \$660.00.
3. The pecuniary interest arises from the fact that Bruce Morrison, a University of Michigan employee, is sole proprietor of Michigan Interiorscaping Company.

Payment for Services of Michigan Interiorscaping Company (*Asian Languages and Cultures*)

On a motion by Regent Maynard, seconded by Regent Horning, the Regents unanimously approved payment for services of Michigan Interiorscaping Company to provide plant care and maintenance for the University of Michigan's Department of Asian Languages and Cultures. Because the sole proprietor of Michigan Interiorscaping Company, Bruce Morrison, is also a University of Michigan employee, this purchase 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 contract are the Regents of the University of Michigan and its University Health System Pastoral Care Department, and Michigan Interiorscaping Company.
2. The service to be provided is live plants and plant maintenance, from July 1, 2001 through June 30, 2002, at a total cost of \$600.00.
3. The pecuniary interest arises from the fact that Bruce Morrison, a University of Michigan employee, is sole proprietor of Michigan Interiorscaping Company.

Research Agreements between the University of Michigan and Nephros Therapeutics, Inc.

On a motion by Regent Horning, seconded by Regent Maynard, the Regents unanimously approved research agreements between the University of Michigan and Nephros Therapeutics, Inc. ("Company"), a small business in which H. David Humes is a director and partial owner and Deborah Buffington is an employee and partial owner. Because Dr. Humes and Ms. Buffington 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 University of Michigan and Nephros Therapeutics, Inc. ("Company").
2. The terms of the proposed agreements conform to University Policy and are as follows:

- ◆ Amendment of the previously approved clinical trial agreement to name Robert Bartlett as the principal investigator and add funds in the amount of \$530,036.
 - ◆ An expansion of the clinical trial as a subcontract under the company's grant from the Michigan Life Sciences Corridor will be directed by Robert Bartlett of the Department of Surgery over a one-year period at an estimated cost of \$116,576.
 - ◆ A project entitled "Tubule Assist Device in Acute Renal Failure--Cost Benefit Analysis" will be directed by Richard Swartz of the Department of Internal Medicine over a one-year period at an estimated cost of \$49,588. These studies have been reviewed and approved by the appropriate Human Subjects Institutional Review Board.
3. Dr. Humes' and Ms. Buffington's pecuniary interest arises from their status as director and partial owner, and employee and partial owner, respectively, of the Company.

Research Agreement between the University of Michigan and Mechanical Simulation Corporation

On a motion by Regent White, seconded by Regent Maynard, the Regents unanimously approved a research agreement between the University of Michigan and Mechanical Simulation Corporation ("Company"). Because Dr. Thomas Gillespie is both a University of Michigan employee and a part owner of the Company, 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 Mechanical Simulation Corporation ("Company").
2. Terms of the agreement conform to University policy. Dr. Gillespie will be the principal investigator for the project at the University to be conducted over a six-month period at an estimated total cost of \$45,762 including indirect cost at appropriate industry rates. Dr. Gillespie will not participate in the project in his capacity as an owner of the Company.
3. Dr. Gillespie's pecuniary interest arises from his part ownership of the Company.

Research Agreement between the University of Michigan and IntraLase Corporation

On a motion by Regent White, seconded by Regent Horning, the Regents unanimously approved a research agreement between the University of Michigan and IntraLase Corporation ("Company"). Because Ronald Kurtz and Tibor Juhasz are both University of Michigan

employees and co-founders of the Company, 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 IntraLase Corporation.
2. The terms of the proposed agreements conform to University policy. The period of performance for the project is one (1) year at a total cost of \$95,000. The University's effort in this project will be directed by Dr. Matthew O'Donnell in the Department of Bioengineering of the College of Engineering.
3. Drs. Kurtz and Juhasz's pecuniary interest arises from their status as co-founders of IntraLase Corporation.

Reassignment Agreement between the University of Michigan and Steven F. Bolling

On a motion by Regent Maynard, seconded by Regent White, the Regents unanimously approved a reassignment agreement with Steven F. Bolling, professor in the Cardiac Surgery Division, for the invention "Mitral Valve Annuloplasty Ring for Molding Left Ventricle Geometry (UM File No. 1548). The following information is provided in compliance with statutory requirements:

1. Parties to the agreement are the University of Michigan and Steven F. Bolling.
2. Reassignment agreement terms include:
 - ◆ Assignment of University's interest in the title to the inventor.
 - ◆ Dr. Bolling will be responsible for paying all patent expenses.
 - ◆ Dr. Bolling will provide an annual report of all activities related to the invention.
 - ◆ The University will maintain a royalty free license to use the invention for research and academic purposes.
 - ◆ No University funds or facilities will be used to further develop the technology.
 - ◆ The University will retain ownership of the licensed technology and may continue to further develop it and use it for research and academic purposes.
3. Dr. Bolling's pecuniary interest arises from his future ownership of the technology.

Research Agreement between the University of Michigan and M-Vision, Inc. (“M-Vision”)

On a motion by Regent White, seconded by Regent Horning, the Regents unanimously approved a research agreement between the University of Michigan and M-Vision, Inc. (“M-Vision”). Because the sole owner and officer of the corporation, Dr. Shridar Lakshmanan, 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. Parties to the agreement are the University of Michigan and M-Vision, Inc. (“M-Vision”)
2. Under terms of the agreement, the project will provide support for the graduate student research assistant in the amount of \$19,200. The total award is \$50,000 and the period of performance will be twelve (12) months.
3. Professor Lakshmanan will participate in the project as an employee of M-Vision, Inc. He will devote no effort to this project on behalf of the University.

License Agreement between the University of Michigan and Thromgen, Inc.

On a motion by Regent Horning, seconded by Regent Deitch, the Regents unanimously approved a license agreement between the University of Michigan and Thromgen, Inc. Because the founders of Thromgen, Inc., Dr. Alvin H. Schmaier and Dr. Ahmed A.K. Hasan, 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 Thromgen, Inc.
2. Licensing terms include:

Grant: Exclusive, world-wide license, including the right to sublicense, to make, have made, import, use market, offer for sale and sell, products incorporating the technology. Term of the agreement is for the life of the patents, or until the company ceases operations, whichever occurs first.

Maintenance fees: The University will receive gross sublicensing revenues of 35% in the

first year, 30% in the second year, 25% in the third year, and 20% in the years thereafter.

Patent costs: All current and future patent costs will be paid by Thromgen, Inc.

Equity:

The University will receive an equity position in the company. Upon Thromgen, Inc.'s receipt of \$3 million in equity financing, University will receive common stock equal to 7% of the total outstanding shares of Thromgen, Inc.

Thromgen, Inc., will assume diligence requirements for developing and commercializing the Michigan Intellectual Property.

Thromgen, Inc., will enter into a sponsored research agreement with the University relating to the technology at no less than \$800,000 over a period of four years beginning on 01/01/01.

Thromgen, Inc., will agree to indemnification and other reasonable and customary terms in a license agreement, all in conformity with University policy.

Royalties: The University will receive payment of a running royalty on net sales of 3.5% of Thromgen, Inc., and affiliates.

Performance Criteria: The University will receive milestone payments of: \$25,000 upon completion of Phase II Clinical Trials; \$50,000 upon completion of Phase III Clinical Trials; \$250,000 upon receipt of FDA approval; \$250,000 upon first commercial sale.

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

3. The pecuniary interests of Drs. Schmaier and Hasan arise from their ownership in Thromgen, Inc. Both have waived any personal participation in the sharing of revenues received by the University from the company.

Consent Agenda

Minutes. Vice President Tedesco submitted for approval the minutes of the March 14, 2002 meeting.

Reports. Executive Vice President Kasdin submitted reports of Investment, Plant Extension, and Human Resources and Affirmative Action, and the Regents' Report on Non-Competitive Purchases over \$5,000 from Single Sources, December 15, 2001-March 15, 2002.

Biomedical Sciences Research Building. Executive Vice President Kasdin noted some corrections to previously presented communications regarding the Biomedical Sciences Research Building (BSRB). In September 2001, the preliminary budget for the BSRB was estimated to be \$220 million, and it was noted that inflation was not being taken into account because predicting inflation over a sustained period was not practical. In December 2001, the BSRB project was submitted for final approval at the \$220 million budget, with the wording indicating that this \$220 million would be “allowing for inflation.” The communication should have stated that the budget would be \$220 million *not* allowing for inflation. He apologized for the error.

Palmer Drive Parking Structure/Undergraduate Science Instruction Center. Executive Vice President Kasdin further pointed out some changes to the Plant Extension Report. The Palmer Drive Parking Structure, the budget for which is currently listed as \$24,000,000, will be increased by \$3,000,000; and the Undergraduate Science Instruction Center (foundation) will be increased by about \$1.5 million. These changes are a result of the addition of a floor to the building and the decision to build and then defer construction of the Walgreen Drama Center.

Litigation Report. Vice President Krislov submitted the Litigation Report.

Research Report. Vice President Ulaby submitted the Report of Projects Established for March 1 - March 31, 2002. He commented that research awards to date are \$225 million higher than they were the same time last year, a 53% increase.

University of Michigan Health System. Executive Vice President Omenn noted that the Medical School commencement is scheduled for June 7, 2002, that a tentative agreement had been reached on a contract with the House Officers Association; and that the Hospitals and

Health System had received one of three national awards given by the organization Hospitals for a Healthy Environment.

Division of Student Affairs. Vice President Harper thanked the Regents, president, and executive officers for their efforts during the past year to be available to students, enriching their experience at the University.

University of Michigan-Dearborn. Chancellor Little commented that the Dearborn Campus has begun the process for updating the campus master plan, which was last updated in 1991. He also noted that the campus has engaged a consultant to assist in conducting a study of the feasibility of providing on-campus housing. Finally, he observed that the campus will be conducting a master historic preservation plan for the Henry Ford Estate-Fair Lane, with the assistance of Quinn Evans Associates.

University of Michigan-Flint. Chancellor Mestas called attention to several gifts that had been received from the C.S. Mott Foundation for the William S. White Building. These gifts will provide for an Urban Health Awareness Center and an Early Childhood Development Center. Other gifts from this foundation include funding for an analysis of regional disparities in the Flint-Genesee County area. He commented that the Flint Campus and community are very grateful to the C.S. Mott Foundation and its chair, William S. White, for their support of the University.

MSA Report. Vice President Harper introduced newly-elected MSA president Sarah Boot. She noted that Sarah is in her junior year, and has been on the dean's list every semester but one.

Ms. Boot thanked everyone for "fostering a great working relationship between MSA and the administration," and said she looked forward to continuing that relationship. She outlined

some of MSA's plans for the upcoming year. Among these are transportation, including to and from the airport; advocating for minority issues; and establishing a student group outreach program to ensure that MSA is aware of student concerns and receptive to input from the student body.

Voluntary Support. Interim Vice President Wilbanks submitted the Report of Voluntary Support for March 2002.

Personnel Actions/Personnel Reports. Interim Provost Courant submitted personnel actions and personnel reports. He noted that Pamela Raymond would be completing her appointment as associate provost for academic and faculty affairs and that Valerie Castle, M.D., was being recommended as Professor Raymond's replacement and Professor Janet Weiss would be assuming some of his own responsibilities as associate provost.

Interim President White called attention to the appointment of Timothy Slottow as interim chief financial officer, noting that he would be replacing Executive Vice President Kasdin at Regents' Meetings.

Executive Vice President Kasdin commented on the appointment of Gregory Tewksbury as interim treasurer.

Vice President Krislov called attention to the appointments of Gloria Hage and Daniel Sharphorn as associate vice president and deputy general counsel.

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

Memorials. Vice President Tedesco submitted a memorial statement for Lemuel A. Johnson, professor of English language and literature. Interim Provost Courant commented on Professor Johnson and noted he stood out among faculty members. Associate Provost Lester

Monts commented that Professor Johnson would be receiving the Johnson Diversity in Service Award posthumously, and described the accomplishments that led to his being selected for this award. He also introduced Professor Johnson's wife, Marian Johnson.

A round of applause followed.

Degrees. Interim President White submitted a recommendation for the award of honorary degrees to Stephen K. Hamp (Doctor of Laws) and William A. McClain (Doctor of Laws) (no document submitted).

Interim Provost Courant submitted for approval the April 26, 2002 Doctoral Degree List and changes to previously approved degree lists, noting that the lists are on file in the Office of the Vice President and Secretary of the University.

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

Financial Statements and Reports Pursuant to Federal Office of Management and Budget (OMB) Circular A-133

Executive Vice President Kasdin submitted financial statements and reports as required by the Federal Office of Management and Budget (OMB) Circular A-133.

Regents Serving as Trustee of Charitable Remainder Trusts with Multiple Charitable Remainder Beneficiaries

Executive Vice President Kasdin submitted information regarding a change in the University's guidelines so that they will now permit the irrevocable grant of a trust to the benefit of the University provided that at least 51% of the assets go to the University, as described in the Regents Communication. The acceptance criteria follow:

CHARITABLE REMAINDER TRUSTS WITH MULTIPLE CHARITABLE REMAINDER BENEFICIARIES ACCEPTANCE CRITERIA

For gifts of charitable remainder trusts in which the University of Michigan is asked to serve as trustee and in which the donor has expressed a desire to name other charitable organizations as

charitable remainder beneficiaries in addition to the University of Michigan, the following acceptance criteria will apply:

- The University of Michigan must be the beneficiary of a minimum of 51 percent of the remainder of the trust. The University's remainder designation must be irrevocable.
- The donor may name other, multiple charitable organizations as charitable remainder beneficiaries for the rest of the remainder interest. The donor may retain the right to change the other charities' remainder interest as the law allows.
- The donor may designate any organization described in section 170(c) of the Internal Revenue Code as a remainder beneficiary, including a donor's private foundation. However, the purposes of any other beneficiary of the trust must not be inconsistent with the objects and purposes of the University, as determined by the University's Vice President for Development. Further, no beneficiary should have as its primary purpose the influencing of legislation or the support of political candidates or ballot propositions.
- The initial trust funding amount allocated for the University of Michigan must be \$100,000 or more. Additional charitable beneficiaries may be named under the terms of the trust, resulting in a proportionately larger total amount required for the initial trust funding. As an example, if a donor wishes to name the University as a two-thirds remainder beneficiary with another charity as a one-third remainder beneficiary, the minimum amount required for the initial trust funding would be \$150,000.
- Minimum age of income beneficiaries is 50 years or older at the time the trust is established.
- The University may charge fair and reasonable management fees for charitable remainder trusts having multiple remainder beneficiaries. A fee schedule will be developed. It will be shared with donors prior to completion of their trusts.
- The charitable remainder trust document should clearly specify the distribution arrangements for charitable remainder beneficiaries as well as the triggering events for such distributions.
- In addition to the information and accountings provided to noncharitable beneficiaries, the University will provide annual accountings and a copy of the charitable remainder trust document to the charitable organizations that have been named as revocable or irrevocable beneficiaries. However the University will not provide information or accountings to a charitable organization named as a revocable beneficiary, if the donor so directs in writing.
- The University will not require donors to notify other charitable organizations named by the donors as designated remainder beneficiaries before the trusts are completed.

Alternative Asset Commitment (*Yorktown Energy Partners V, L.P.*)

Executive Vice President Kasdin informed the Regents of a recent commitment of \$15.0 million from the Long Term Portfolio to Yorktown Energy Partners V, L.P., a follow-on energy fund.

Alternative Asset Commitments (*BPG Investment Partnership, VI, L.P.*)

On a motion by Regent McGowan, seconded by Regent Maynard, the Regents unanimously approved commitment of \$15.0 million from the Long Term Portfolio to BPG Investment Partnership VI, L.P., a real estate fund.

Alternative Asset Commitments (*Spear Street Capital, L.P.*)

On a motion by Regent Maynard, seconded by Regent McGowan, the Regents unanimously approved commitment of \$15.0 million from the Long Term Portfolio to Spear Street Capital, L.P., a real estate fund. Regent Horning was absent for this and the following six votes.

Appointment of Auditors for 2001-02

On a motion by Regent Newman, seconded by Regent McGowan, the Regents unanimously approved reappointment of PricewaterhouseCoopers LLP as auditors for 2001-02.

Restructuring the University of Michigan Business School Foundation Limited

On a motion by Regent Maynard, seconded by Regent White, the Regents unanimously approved restructuring the University of Michigan Business School Foundation Limited by directing the foundation and general counsel to: 1) Change the foundation's name to "University of Michigan Hong Kong." 2) Change the "Members" of the foundation to the Regents of the University of Michigan and the dean of the School of Business Administration; 3) Change the "Directors" of the foundation to be the Regents of the University of Michigan, the dean of the School of Business Administration and the associate dean of executive education. Approval was also granted for the chief financial officer of the University or that person's designee, to represent the Regents' interests as director.

University of Michigan Business School Growth Fund and Wolverine Venture Fund

On a motion by Regent Newman, seconded by Regent White, the Regents unanimously approved taking the following measures with respect to the University of Michigan Business School Growth Fund and Wolverine Venture Fund (WVF), as described in the Regents Communication:

1. The governance and administration of the Wolverine Venture Fund as established by the Board of Regents on June 13, 1997 will be transferred effective immediately to the Samuel Zell and Robert H. Lurie Institute for Entrepreneurial Studies. The executive director of the institute and an alumni investment manager will monitor and direct the activities of the WVF, in consultation with the dean of the University of Michigan School of Business Administration and the University's executive vice president and chief financial officer. Future revisions to the operating policies and procedures of the WVF will be the responsibility of the Advisory Committee of the Institute.
2. Mary Lincoln Campbell will be appointed as alumni investment manager of the WVF. Ms. Campbell will to replace David Shelby, the alumni manager for WVF since 1997.
3. The following individuals will be appointed members of the WVF Advisory Board: Mary Ann Bovay Alter, Paul Brentlinger, Hal Davis, William Johnson, James D. Price, Margot Shapiro, and David T. Shelby. Mr. Shelby is the previous alumni manager and will be serving his first term on the Advisory Board. Other members will be serving their second term.
4. The University of Michigan Business School Growth Fund (UMBS GF) liquidated assets will be transferred to the Samuel Zell and Robert H. Lurie Institute for Entrepreneurial Studies.
5. The UMBS GF will be terminated and any non-liquid assets remaining in the GF will be invested for the benefit of the Institute and UMBS as determined by the dean.

University Real Estate

On a motion by Regent Newman, seconded by Regent McGowan, the Regents unanimously approved that the executive vice president and chief financial officer have authority to review the University's real estate policies and adopt new policies provided they are consistent with the Regents' Bylaws governing real estate ownership, acceptance, management and disposition.

1304 Gardner, Ann Arbor, Michigan

On a motion by Regent Deitch, seconded by Regent Newman, the Regents unanimously approved offering the property at 1304 Gardner in Ann Arbor for sale, and accepting the highest bid above the appraised price, as noted in the Regents Communication.

Law School Addition and Renovation Project

On a motion by Regent Newman, seconded by Regent McGowan, the Regents unanimously approved the Law School Addition and Renovation Project as described and authorized commissioning the Renzo Piano Building Workshop for its design.

Regent Deitch observed that one of the great accomplishments of former President Bollinger and Executive Vice President Kasdin was bringing some of the world's great architects to the campus, and he expressed the hope that this would continue.

Fletcher Parking Deck Elevated Connection to Palmer Drive Development

Executive Vice President Kasdin commented that this walkway would provide a connection between the Fletcher Parking Structure with the Life Sciences Institute Building and the Power Center. On a motion by Regent Maynard, seconded by Regent Horning, the Regents unanimously approved the Fletcher Parking Deck Elevated Connection to Palmer Drive Development project as described, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

Institute for Social Research Miscellaneous Renovations for the Library and Multiple Departments

On a motion by Regent Maynard, seconded by Regent Newman, the Regents unanimously approved the Institute for Social Research--Miscellaneous Renovations for the Library

and Multiple Departments Project as described, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

Medical Science II Building Miscellaneous Research Laboratory Renovations

On a motion by Regent Newman, seconded by Regent Horning, the Regents unanimously approved the Medical Science II Building Miscellaneous Research Laboratory Renovations Project as described, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

Mosher-Jordan Halls Fire Alarm Replacement

On a motion by Regent Horning, seconded by Regent Deitch, the Regents unanimously approved the Mosher-Jordan Halls Fire Alarm Replacement Project as described, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

School of Information North Building Second Floor Renovations

On a motion by Regent Newman, seconded by Regent Horning, the Regents unanimously approved the School of Information North Building Second Floor Renovations Project as described, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

University of Michigan Hospitals and Health Centers (UMHHC) University Hospital Underground Diesel Fuel Storage Tank Replacement Project

On a motion by Regent Horning, seconded by Regent Deitch, the Regents unanimously approved the UMHHC University Hospital Underground Diesel Fuel Storage Tank Replacement Project as described, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

Central Power Plant South End Tunnel Services Interface Modifications

On a motion by Regent Horning, seconded by Regent Maynard, the Regents unanimously approved the Central Power Plant South End Tunnel Services Interface Modifications Project as described, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

Museum of Anthropology's Deaccession and Return of a Collection of Materials

Vice President Ulaby submitted information about the deaccession and return of a collection of materials from the Museum of Anthropology.

Approval of the 2002-2003 University Housing Residence Hall and Family Housing Rates

Regent Newman moved approval of a 4.95% average rate increase for University Housing residence halls and 4.0% average rate increase for family housing for FY 2002. She commented that the briefing materials that had been presented to the Regents earlier had been well done and had convinced her of the necessity of the increases. Regent Horning seconded the motion and it was approved unanimously.

Establishment of Thirty Additional Unendowed School/College Professorships

On a motion by Regent Newman, seconded by Regent Horning, the Regents unanimously approved the establishment of thirty additional unendowed school/college professorships.

Residency Classification Guidelines

Regent McGowan pointed out that Regent Taylor had been outspoken about his concerns with the residency classification guidelines and suggested that since he was not present, the discussion might be delayed until the following month.

Interim Provost Courant commented that he had discussed the changes with Regent Taylor at length and had received his verbal assurance that he was comfortable with having the issue go forward at this meeting. Interim President White stated that Regent Taylor had also told him he was comfortable with the matter proceeding in his absence. It was pointed out that a number of the changes involve liberalizing of the rules, and that students whose cases would benefit from the liberalized rules are on hold awaiting a decision. Interim President White reiterated that Regent Taylor expects the board to take up the issue at this meeting.

Interim Provost Courant observed that the guidelines had been under consideration for a number of months. He noted that there are two aspects of the proposed revisions: clarification of existing policy so as to make it more friendly, transparent, and understandable; and liberalization of some segments of the existing guidelines. He commented that the underlying principle of the guidelines is that residency decisions are based on clear and convincing evidence that an applicant intends to reside in the state indefinitely. One of the important clarifications is to state this, and to note that all information possible is used to make this judgment; another clarification is the incorporation of explicit wording that applicants claiming residency based on the applicant's own employment or that of a family member or partner must establish that employment is the primary reason for the family's presence in the state.

Substantive changes include changing the penalty for missing the filing deadline to a late fee rather than an entire semester of nonresident tuition if residency is established. Another change involves increasing from one year to three years the allowable period of absence from the state for residents who engage in activities that would contribute to their further studies. The third substantive change allows active duty military personnel who are on assignment in Michigan, and their family members, to be eligible for in-state tuition rates.

Interim Provost Courant noted that no staff from the Residency Classification Office are members of the Residency Appeals Committee, which enables it to provide a totally fresh, unbiased review of each case to determine applicants' intent to reside in the state indefinitely.

Regent Horning moved approval of the amended Residency Classification Guidelines, effective Spring Term 2002. Regent Deitch seconded the motion.

Regent Deitch commented that although Regent Taylor had been the driving force behind initiating revisions to the guidelines, the established processes in place at the University for this type of review worked. During the review of the guidelines, it emerged that the system as currently administered is administered fairly. He noted that "these are well thought out and narrowly tailored improvements, clarifications, and revisions that will make the system work better." Regent Newman pointed out that one of the improvements in the new guidelines is the fact that they clarify explicitly some issues that had caused confusion among people applying for residency, such as the employment of a spouse.

The vote was then taken, and the revised Residency Classification Guidelines were approved unanimously. Interim President White thanked Regent Taylor for the leadership role he played in the revision process. The revised Guidelines are included as an appendix to these proceedings. GUIDELINES TO BE INCLUDED AS APPENDIX TO PROCEEDINGS.

Change in Name of Master of Arts in Adult Instruction Performance Technology Program at University of Michigan-Dearborn

On a motion by Regent Newman, seconded by Regent Maynard, the Regents unanimously approved changing the name of "Master of Arts in Adult Instruction Performance Technology" program at University of Michigan-Dearborn to the "Master of Arts in Performance Improvement and Instructional Design."

Public Comments

Regent Newman suggested that for one-day meetings, Public Comments be held prior to consideration of the regular agenda, to give people an opportunity to comment on agenda action items before they are voted on. Regent Maynard expressed concern that changing the public comment time to earlier in the day might be a deterrent to student participation due to class schedules.

Vice President Tedesco commented that the deadline for signing up for Public Comments is 4:00 p.m. on the Wednesday before the meeting. If someone signs up to speak on an agenda-related topic, the president would be asked to delay the vote on that item until after that person has spoken.

Regent Horning left the meeting at this point.

Following a three-minute break, the meeting reconvened at 3:25 p.m.

University of Michigan Hospitals and Health Centers Financial Performance

Executive Vice President Omenn reviewed the data in the Regents Communication that had been presented at the previous meeting as well as charts indicating sources of revenue, balance sheets, and cash flow for the entire University of Michigan Health System (UMHS), which includes the Medical School and M-Care (all documents referred to can be found in the agenda materials). He noted that additional information was being provided about the 14 *U.S. News and World Report* top-ranked hospitals, including whether the facility is university owned, university-affiliated, or independent. With respect to operating margin, he stated that the University of Michigan was ranked sixth at 0.6% for FY2000. For FY2001, the University's operating margin of 1.3% would be ranked third if the others remained about the same as in

2000. In any case, the University of Michigan ranks in the upper half in the category of operating margin.

It was noted that the University of Michigan Hospitals and Health Centers (UMHHC) has an extremely strong balance sheet, and that the challenge is in the annual operating margin. Regarding the operating margin, it was noted that a positive operating margin is desirable for providing capital for upgrades and growth and for maintaining the outstanding bond ratings. It also reinforces financial security and long-term stability, as well as resources for transfers to the academic and research programs. Certain important responsibilities of the Health System put downward pressure on the operating margin: maintaining a broad array of patients for education and research; accepting patients from the poorest payers, especially Medicaid; accepting patients from payers who do not include payments for graduate medical education, including M-Care; and investing in efforts to enhance quality, safety, patient satisfaction, and staff and faculty satisfaction.

Among the steps that have been taken to increase the operating margin are being more selective about the payer mix and proactive about payment rates. Executive Vice President Omenn commented that a lot of negotiation takes place between UMHHS personnel and third party payers about reimbursement issues.

Regent Newman observed that, according to the chart on page one, both revenues and expenses have been increasing each year, and asked what is being done to control expenses. Executive Vice President Omenn responded that expenses have been contained very substantially by net cost reductions and by spreading fixed costs over more volume. The question was raised as to whether inpatient capacity needs to be increased in order to increase volume, and if so, what areas should be targeted for growth.

Regent Newman observed that so far, the hospital has done well, but that almost everything possible has already been done to decrease expenses and increase volume, leaving the situation stagnant. Thus, the issue is how the institution can continue to increase revenue in the future while maintaining current assets. She commented that the areas that produce the most revenue are those in which there is no more capacity for growth, and unless this is addressed now, it will be difficult to grow in the future.

Regent McGowan called attention to the “Patient Activity Trends” chart, noting that there are a number of areas, including adult cardiovascular, cancer care, and organ transplants, in which lack of growth is a concern. She noted that the issue of expanding facilities for cardiovascular care has been on the table for years, but never seems to move beyond the discussion stage. She expressed frustration at the complications that appear to stymie building projects necessary for expansion of revenue producing clinical facilities such as cardiovascular care and cancer care.

Interim President White responded that these issues of expanding capacity are currently under discussion by the UMHHC Executive Board. Regents Newman and McGowan pointed out that such discussions have been underway for a number of years but don’t seem to get resolved, and now is the time to plan for future growth if deficits are to be avoided.

Regarding the Cardiovascular Center, Regent McGowan asked whether a timetable has been set for bringing this proposal to the board, and urged that it be planned as a clinical facility without associated research and office space. Executive Vice President Omenn responded that the Cardiovascular Center’s proposal for a clinical facility has been developed with a number of departments to be the equivalent of a “heart hospital.” It is to be located at the “Old Main” site

and would connect to the Cancer Center and the Main Hospital, with 216,000 square feet devoted to clinical services.

Interim President White proposed that the previous plan for discussion of health system financial issues be revised and that at the May meeting the Regents could be presented with the current plans for new clinical facilities. It was noted that issues involving faculty office space and laboratory space have slowed progress somewhat on advancing these plans. Regent McGowan suggested that office space and laboratory space be considered on a different track from clinical facilities so that development of the revenue-producing aspect--the clinical facilities--can be accelerated.

Regent Deitch agreed that if the market analysis shows that construction of such a facility will be a profitable venture, then it should proceed. He pointed out, however, that as a teaching and research institution, the University of Michigan also needs to be concerned with the entire spectrum of diseases, some of which may not be profitable. Regent Newman reiterated that the concern is that planning for the future is critical to ensuring that the hospital remains in a healthy financial position.

Discussion then followed about how the Certificate of Need process affects facilities planning. It was noted that Michigan is one of 15 states that require every additional hospital bed, procedure room, operating room, imaging facility, etc., to be approved at the state level. Although there has been discussion about eliminating this process, it has been improved in recent years and does have positive aspects.

Executive Vice President Omenn commented that the core model of the health system has historically been to integrate clinical, research, and patient care activities. Nevertheless, the most recent thinking about the Cardiovascular Center building is that serious consideration needs

to be given to construction of two separate facilities, one for clinical use and one for nonclinical needs. This approach would enable the clinical facility to get underway much sooner.

Regent McGowan commented that the Regents' concerns stem from past discussions of these issues with UMHS officials, so that they are now convinced that the revenue-producing clinical facilities are essential for maintaining the health of the institution. Regent Newman suggested that there be an examination of trends to establish possible future directions for the hospital and continued review of efforts being made to control costs.

Regent Newman raised the issue of how the University's liability for health benefits for retirees impacts the hospitals, and asked whether that has been factored in to future expense calculations. It was noted that this liability is about \$650 million and is nonfunded. Executive Vice President Kasdin pointed out that national accounting standards may require that this liability be funded in the future.

Regent Newman asked whether the funding for retirement benefits of new employees should be raised as an item for discussion.

Regent Deitch observed that the reason that no university that has a hospital associated with it would ever receive a AAA bond rating from S&P is because these are large institutions with slim margins and a lot of risk. He noted that the sense of urgency in this discussion is based not on the current healthy financial situation, but on the desire to remain ahead of the curve and plan for the future. The operating margin is important because it creates reserves and financial strength, and he agrees that it is important to move forward from the current position of strength. He noted that this was central to the reasoning behind creating the position of executive vice president and chief financial officer six years ago. The issue of ensuring that the hospital retains its ability to contribute to the Medical School was also raised.

Executive Vice President Kasdin reiterated that the University of Michigan Hospitals and Health Centers have an extraordinarily strong balance sheet and recurring, although admittedly thin, positive operating margins, thanks to the leadership of Executive Vice President Omenn and his staff, and it is important to view this discussion in that context.

For future discussions, Regent Maynard said it will be important to spend time considering the five most important areas confronting the UMHHC, as originally proposed, because there may be other issues beyond those raised today that deserve consideration.

Executive Vice President Omenn commented that additional beds have been opened in the past five years and the hospital is actually licensed for more beds than are staffed. There was discussion of what is being done to solve the nursing shortage; the Regents expressed an interest in learning more about that issue.

Executive Vice President Omenn noted that existing inpatient and outpatient services have been expanding. Additional beds have been opened in the Emergency Room, and inpatient-related medical services have been expanded. In the area of cancer treatment, he explained that the reason that the number of discharges is flat is because there has been an enormous increase in cancer care done on an outpatient basis. He pointed out that \$120 million per year is being spent on capital investment.

Regent McGowan inquired about the array of services offered for cardiac care. Executive Vice President Omenn responded that there is a preventive cardiology program in place. However, the vast majority of the outpatients have serious congestive heart failure, previous myocardial infarction, high risk factor cardiovascular disease, or are undergoing procedures such as echocardiography, electrocardiography, electrophysiology, and others. A very significant amount of cardiac surgery is also being performed, including the most complex referral cases.

He pointed out that the market share for cardiac care and cardiac surgery care is very diffused in the state of Michigan; there is likely to be a gradual concentration of procedures over the next several years as people recognize that the centers with the most volume and best outcomes are the most desirable places to choose to receive care, which will favor the planned expansion of the current Cardiovascular Center programs.

Regarding transplants, he noted that, although they result in a positive margin, there is a shortage of donors. In addition, they involve more than just surgical cases, as many very ill patients with complex diseases must be taken care of for every one that becomes a transplant recipient. Thus, the contribution to margin provided by transplants needs to be considered against the base of all of the potential transplant patient population. The health system has analyzed the transplant issue and has concluded that, even though it is less profitable than generally believed, it is still desirable to undertake because of the cutting edge procedures involved.

Regarding cancer treatment, Executive Vice President Omenn stated that the margin is currently quite attractive for many procedures, but this fact has also been recognized by the payers, who are now attempting to sharply reduce reimbursement rates.

In summary, he pointed out that the Health System has done advance planning on the Cardiovascular Center, on Psychiatry consolidation and the Depression Research Center, on expansion of the Kellogg Eye Center, and on a replacement facility for the Children's and Women's Hospitals.

In response to a question about poor payment rates for the care of children, he responded that the University's Center for Women's Health is nationally prominent and the obstetric service has been greatly enhanced and expanded in recent years, yet these services provide little or no margin. However, over the long term they are important for building the University's

reputation with families for future health care needs. Women are the key decision-makers, he said. In general, primary care is a money-losing proposition. The theory is that a well-run, highly efficient, patient-friendly, primary care service cannot be expected to cover all of its cost, but the system gets benefits downstream from ancillary services and from complex conditions that lead to specialty services that are better reimbursed. He pointed out that hospital officials themselves are asking the same questions as the Regents: how do we manage to meet all of these needs and all of these complexities while ensuring that all is being done to justify the higher paying services without neglecting the other areas?

Executive Vice President Kasdin pointed out that the integrated structure among UMHS officials and central administration, along with oversight by the Board of Regents, is important to the rating agencies.

Regent McGowan reiterated that the message that should be taken to UMHHS officials from today's discussion should be that "whatever it is we're choosing, let's get going on it, let's figure out how we're going to do it, and let's remove the ancillary, non-revenue-related items from the discussion" so they don't get in the way of making progress.

Interim President White thanked the Regents and Executive Vice President Omenn for the thoughtful discussion and said that plans for the future will be presented at the next session scheduled for these matters.

Public Comments

The Regents heard comments from the following individuals, on the topics indicated: Ken Stewart and Stephen Rassi, students, on United Way solicitation at the University; Jeff Irwin, alumnus, on the student fee proposal for the Ann Arbor Tenants Union; Cedric de Leon,

student, on the Graduate Employees Organization labor negotiations; and David Boyle, student, on democracy on the Board of Regents and at the University.

There being no further business, the meeting was adjourned at 4:50 p.m. The next meeting will take place May 18-19, 2002.