MARCH MEETING, 2002

The University of Michigan
Ann Arbor
Thursday, March 14, 2002

The Regents convened at 1:30 p.m. in the Regents' Room. Present were Interim President White and Regents Brandon, Deitch, Horning, McGowan, Newman, Taylor, and White. 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 Maynard was absent.

President's Opening Remarks

Interim President White called the meeting to order. He announced that he and Vice President Wilbanks would be meeting the next day with the mayor of Detroit to discuss the relationship between the University and the city of Detroit. He commented on the accomplishments and awards of a number of University students, faculty, staff, and alumni and highlighted some upcoming campus events. He also announced the deaths of Professor Lemuel Johnson and of philanthropist Elizabeth Kennedy. He then turned to the Consent Agenda.

Consent Agenda

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

Reports. Executive Vice President Kasdin submitted reports of Investment, Plant Extension, and Human Resources and Affirmative Action. He announced that a settlement had been reached and a contract signed with the International Union of Operating Engineers (IUOE).

Litigation Report. Vice President Krislov submitted the Litigation Report. He also announced that Associate Vice President and Deputy General Counsel Elizabeth Barry would be taking a new position as managing director of the Life Sciences Institute. He acknowledged her accomplishments at the University and within the Office of the General Counsel. A round of applause followed.

Research Report. Vice President Ulaby submitted the Report of Projects Established for February 1 - February 28, 2002.

University of Michigan Health System. Executive Vice President Omenn said he would reserve his comments until his scheduled report later in the meeting.

Division of Student Affairs. Vice President Harper called attention to the appointment of Dr. Robert Winfield as director of the University Health Service.

University of Michigan-Dearborn. Chancellor Little introduced Urana Gray, president of the University of Michigan-Dearborn student government. Ms. Gray spoke to the Regents about the nature of the student body and campus community at the University of Michigan-Dearborn. In response to a question from Interim President White, she stated that the number one issue for students on the Dearborn campus is the cost of education and the desire to keep tuition at a reasonable level.

MSA Report. Interim President White noted that this would be the last time MSA president Matt Nolan would be attending a Regents' Meeting in his role as president of MSA.

Mr. Nolan noted that since he last addressed the board, a decision had been made not to place a cap on student season football tickets. This has been viewed very favorably by the student body. He reported that the biggest issue for students on the Ann Arbor campus is access, in the sense of offices and services being open more hours and more resources being available on line. He said that among the accomplishments of his administration had been the "amazing" working relationships that had been established within the University. He thanked the Regents and administration for all of their support during his tenure.

Regent Deitch commented that Matt Nolan stands out along with other past MSA presidents who have been spectacular leaders and have gone on to further distinguish themselves as University of Michigan alumni. A round of applause followed for Mr. Nolan.

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

Personnel Actions/Personnel Reports. Interim Provost Courant and Chancellor Mestas submitted personnel actions and personnel reports.

University of Michigan-Flint. Chancellor Mestas noted that a financial feasibility study for student housing is being conducted and results will be available at the end of the summer. He also reported that the William S. White Building has been completed and move-in is underway. A dedication ceremony will be held in June.

Chancellor Mestas also reported that the mayor of Flint had been recalled and a special election had been scheduled to choose his replacement, and commented on the deep-seated financial difficulties facing the city. Because the UM-Flint is a healthy institution in sound financial shape, it has been called upon to help with the solution of the city's problems, without losing sight of the fact that the University's most important contribution to the city and the region is to provide education for its citizens.

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

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

Degrees. Interim President White submitted recommendations for the award of honorary degrees to the following individuals: Donald Glaser (Doctor of Science); William H. Gray III (Doctor of Laws), John Rich (Doctor of Humane Letters), Donna Shalala (Doctor of Laws).

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

Supplemental Information to the Certified Audited Financial Report of the Board in Control of Intercollegiate Athletics of The University of Michigan for the Year Ended June 30, 2001

Executive Vice President Kasdin submitted Supplemental Information to the Certified Audited Financial Report of the Board in Control of Intercollegiate Athletics of The University of Michigan for the Year Ended June 30, 2001.

State Auditor General Report and Response -- Performance Audit of the University of Michigan-Dearborn, #33-210-01;

State Auditor General Report and Response -- Performance Audit of the University of Michigan-Flint, #33-220-01

Chancellors Mestas and Little pointed out that both reports were as a whole very complimentary, with constructive comments about minor areas where improvement could be made.

On a motion by Regent Newman, seconded by Regent White, the Regents unanimously approved acceptance of the State Auditor General Reports and Responses #33-210-01 and #33-220-01, for the University of Michigan-Dearborn and University of Michigan-Flint, respectively.

Financing of New Projects and Refinancing of a Portion of the Commercial Paper

On a motion by Regent White, seconded by Regent Brandon, the Regents unanimously adopted the following resolution authorizing the executive vice president and chief financial officer or the associate vice president for finance or the treasurer to 1) Develop the terms, and negotiate and execute the legal documentation for the financing with the assistance of the underwriter and outside legal counsel; 2) Combine General Revenues and patient care revenues for future debt issuance; 3) Obtain and approve a final proposal for the bonds, any derivatives, and any liquidity requirements for the University's variable rate debt; and 4) Reduce the size of the commercial paper program by $50 million.

RESOLUTION OF THE REGENTS OF THE UNIVERSITY OF MICHIGAN AUTHORIZING THE ISSUANCE OF GENERAL REVENUE BONDS AND PROVIDING FOR OTHER MATTERS RELATING THERETO

WHEREAS, the Regents of the University of Michigan (the "Issuer") is a constitutional body corporate established pursuant to Article VIII, Section 5 of the Michigan Constitution of 1963, as amended, with general supervision of the University of Michigan (the "University") and the control and direction of all expenditures from the University's funds; and

WHEREAS, in the exercise of its constitutional duties and in order to properly serve the needs of students attending the University, the Issuer has authorized the acquisition, construction, installation and equipping of the capital improvements described in Exhibit A (collectively, the "Project"); and

WHEREAS, the Issuer has previously issued and has outstanding bonds, notes or other obligations (collectively, the "Senior Lien Indebtedness") payable from and secured by liens on certain revenue streams of the University, including Student Fees, Housing System Revenues, Parking System Revenues, and Medical Service Plan Revenues (sometimes known as Patient Care Revenues); and

WHEREAS, the Issuer has issued and has outstanding Commercial Paper Notes, Series C (the "Series C Notes"), which are payable from and secured by a portion of General Revenues, as hereinafter defined, and it may be appropriate and economic to refinance all or a part of the outstanding principal of the Series C Notes; and

WHEREAS, the financing of a portion of the Project through the issuance of General Revenue Bonds will serve proper and appropriate public purposes; and

WHEREAS, in the exercise of its constitutional duties, and in order to control and direct prudently expenditures from the University's funds, the Issuer determines it is necessary and desirable to authorize the issuance of General Revenue Bonds (the "Bonds") in order to provide funds which, together with other available funds, will be used to pay all or part of the costs of the Project, the costs of refinancing all or a portion of the Series C Notes, and costs incidental to the issuance of the Bonds and the refinancing; and

WHEREAS, a trust indenture (the "Trust Indenture") must be entered into by and between the Issuer and a trustee (the "Trustee") to be designated by an Authorized Officer (hereinafter defined), pursuant to which the Bonds will be issued and secured; and

WHEREAS, it is necessary to authorize the Authorized Officers to negotiate the sale of the Bonds with an underwriter or group of underwriters to be selected by an Authorized Officer (collectively, the "Underwriter") and to enter into a bond purchase agreement (the "Bond Purchase Agreement") and, if deemed appropriate, a Remarketing Agreement (the "Remarketing Agreement") or a Broker Dealer Agreement (the "Broker Dealer Agreement") with the Underwriter setting forth the terms and conditions upon which the Underwriter will agree to purchase the Bonds and the interest rates thereof and the purchase price therefor; and

WHEREAS, in order to be able to market the Bonds at the most opportune time, it is necessary for the Issuer to authorize the Executive Vice President and Chief Financial Officer, the Associate Vice President for

Finance and the Treasurer (each an "Authorized Officer") or any one of them individually, to negotiate, execute and deliver on behalf of the Issuer, the Trust Indenture, the Bond Purchase Agreement, the Remarketing Agreement or Broker Dealer Agreement, and other related documents, to establish the specific terms of the Bonds and to accept the offer of the Underwriter to purchase the Bonds, all within the limitations set forth herein; and

WHEREAS, the Issuer has full power under its constitutional authority for supervision of the University, and control and direction of expenditures from the University funds, to acquire, construct, furnish and equip the Project, to pay all or a portion of the costs of the Project and the costs of refinancing the Series C Notes by issuance of the Bonds, and to pledge General Revenues (as hereinafter defined) for payment of the Bonds;

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

1. Any Authorized Officer is authorized to determine (i) the specific amount of the cost of each component of the Project to be financed from the proceeds of the Bonds and (ii) the portion of the Series C Notes to be refinanced using the proceeds of the Bonds.

2. The Issuer hereby authorizes the issuance, execution and delivery of the Bonds in one or more series to be designated GENERAL REVENUE BONDS, with appropriate series designations, if any, in the aggregate original principal amount to be established by an Authorized Officer, but not to exceed the principal amount necessary to produce proceeds of One Hundred Fifty Million Dollars ($150,000,000). The Bonds shall be dated as of the date or dates established by an Authorized Officer, and shall be issued for the purpose of providing funds which, together with other available funds, will be used to pay all or a portion of the costs of the Project, all or a portion of the costs of refinancing the Series C Notes, and the costs related to the issuance of the Bonds and the refinancing, including capitalized interest, if any for such period as an Authorized Officer may determine appropriate, and bond insurance premiums, if appropriate. The Bonds shall be serial Bonds or term Bonds, which may be subject to redemption requirements, or both, as shall be established by an Authorized Officer, but the first maturity shall be no earlier than October 1, 2002 and the last maturity shall be no later than December 31, 2037. The Bonds may bear no interest or may bear interest at stated fixed rates for the respective maturities thereof as shall be established by an Authorized Officer, but the highest yield (computed using the stated coupon and the stated original offering price) for any maturity shall not exceed 7.0% per annum, and the Bonds may be issued in whole or in part as capital appreciation bonds, which for their term or any part thereof bear no interest but appreciate in principal amount over time at compounded rates (not in excess of 7.0% per annum) to be determined by an Authorized Officer. Alternatively, all or part of the Bonds may bear interest at a variable rate of interest for all or a portion of their term, and the variable rate of interest shall not exceed the lesser of the maximum rate permitted by law or the maximum rate, if any, to be specified in the Trust Indenture. In addition, all or part of the Bonds may be issued in related series, one of which bears interest at a variable rate and one of which bears interest at a residual rate determined by subtracting the variable rate from the fixed rate paid by the Issuer, but the combined rate on such Bonds, taking the two related series together, which shall be determined by an Authorized Officer, shall not exceed 7.0% per annum. The Bonds may be subject to redemption or call for purchase prior to maturity at the times and prices and in the manner as shall be established by an Authorized Officer, but no redemption premium shall exceed 3% of the principal amount being redeemed. Interest on the Bonds shall be payable at such times as shall be specified by an Authorized Officer. The Bonds shall be issued in fully registered form in denominations, shall be payable as to principal and interest in the manner, shall be subject to transfer and exchange, and shall be executed and authenticated, all as shall be provided in the Trust Indenture. The Bonds shall be sold to the Underwriter pursuant to the Bond Purchase Agreement for a price to be established by an Authorized Officer (but the Underwriter's discount, exclusive of original issue discount, shall not exceed 0.8% of the principal amount thereof) plus accrued interest, if any, from the dated date of the Bonds to the date of delivery thereof.

In relation to the debt service on the Bonds any of the Authorized Officers may, at any time, on behalf of and as the act of the Issuer, enter into an interest rate swap, cap or similar agreement or agreements (collectively, the "Swap Agreement") with a counter-party or counter-parties to be selected by the Authorized Officer. Such Swap Agreement shall provide for payments between the Issuer and the counter-party related to interest on all or a portion of the Bonds, or to indexed or market established rates. If the Swap Agreement is entered into in connection with the issuance of the Bonds, the expected effective interest rates on the Bonds, taking into account the effect of the Swap Agreement, shall be within the limitations set forth herein.

Any or all of the Bonds may be made subject to tender for purchase at the option of the holder thereof. The obligation of the Issuer to purchase any Bonds subject to tender options may be made payable from General Revenues, from available cash reserves of the University, subject to such limitations as may be specified in the Trust Indenture, or from a letter of credit, line of credit, standby bond purchase agreement or other liquidity device, or one or more of the same, or any combination thereof (collectively, the "Liquidity Device"), all as shall be determined by an Authorized Officer. The Liquidity Device, or any part thereof, may also be used to provide liquidity for any other indebtedness or obligations of the Issuer, including the Series C Notes, any variable rate Senior Lien Indebtedness and any variable rate Hospital Revenue Bonds. Any reimbursement obligation for draws under the Liquidity Device shall be a limited and not a general obligation of the Issuer, payable from and secured by a pledge of General Revenues. Any portion of the Liquidity Device which provides liquidity for any Senior Lien Indebtedness or Hospital Revenue Bonds may, but shall not be required to, be additionally payable from and secured by a lien on any revenue stream securing the obligations for which the liquidity is provided. Any Authorized Officer is authorized to execute and deliver, for and on behalf of the Issuer, any agreements or instruments necessary to obtain, maintain, renew or replace, and provide for repayments under, any Liquidity Device deemed by such officer to be required for the purposes of this Resolution. In the alternative, any or all of the Bonds may be subject to rights on behalf of the holders thereof to tender their Bonds for purchase by the market through a dutch auction procedure, subject to a specified maximum interest rate not in excess of the lesser of the maximum rate specified by law or the rate specified in the Trust Indenture.

3. The Bonds, and the obligations of the Issuer under the Swap Agreement and the Liquidity Device, if any (except as specifically provided otherwise in Section 2 hereof), shall be limited and not general obligations of the Issuer payable from and secured, by a lien on the General Revenues (as shall be defined in the Trust Indenture in a manner generally consistent with the definition thereof contained in the Issuance Certificate pursuant to which the Series C Notes were issued, but shall include Medical Service Plan Revenues, which are sometimes known as Patient Care Revenues), subject only to the senior liens on portions of General Revenues securing the respective series of Senior Lien Indebtedness (until each respective series of such Senior Lien Indebtedness is paid or defeased in accordance with its terms). The lien on General Revenues securing the Bonds shall be on a parity basis with the lien securing the Series C Notes, except that Medical Service Plan Revenues do not currently secure the Series C Notes. The Bonds and the obligations of the Issuer under the Swap Agreement and the Liquidity Device, if any may also be payable from and secured by a lien on moneys, securities or other investments from time to time on deposit in certain funds created pursuant to the Trust Indenture or agreements entered into in connection with the Swap Agreement or Liquidity Device.

No recourse shall be had for the payment of the principal amount of or interest or premium on the Bonds, the Swap Agreement or the Liquidity Device, or any claim based thereon against the State of Michigan, or any officer or agent thereof or of the Issuer or the University, as individuals, either directly or indirectly, nor, except as specifically provided in the Trust Indenture or the instruments entered into in connection with the Swap Agreement or the Liquidity Device, if any, against the Issuer, nor shall the Bonds and interest with respect thereto, or any obligations of the Issuer in connection with the Swap agreement or Liquidity Device, if any (except as otherwise specifically provided in Section 2 hereof), become a lien on or be secured by any property, real, personal or mixed of the State of Michigan or the Issuer, other than the General Revenues and the moneys from time to time on deposit in all or part of the funds established by the Trust Indenture or the agreements entered into in connection with the Swap Agreement or Liquidity Device, if any.

Any pledge of General Revenues, and funds specified in the Trust Indenture or agreements entered into in connection with the Swap Agreement or Liquidity Device, if any, shall be valid and binding from the date of the issuance and delivery of the Bonds or such agreements, and all moneys or properties subject thereto which are thereafter received shall immediately be subject to the lien of the pledge without physical delivery or further act. The lien of said pledge shall be valid and binding against all parties (other than the holders of any outstanding bonds, notes or other obligations secured by a senior or parity lien on any portion General Revenues) having a claim in tort, contract or otherwise against the Issuer, irrespective of whether such parties have notice of the lien.

Notwithstanding anything herein to the contrary, any obligations of the Issuer under the Swap Agreement or any agreement with respect to the Liquidity Device may, if determined appropriate by an Authorized Officer, be payable and secured on a subordinated basis to the Bonds and other General Revenue obligations of the Issuer.

4. The right is reserved to issue additional bonds, notes or other obligations payable from and secured on a parity basis with the Bonds from the General Revenues, upon compliance with the terms and conditions, if any, as shall be set forth in the Trust Indenture.

5. Any Authorized Officer is hereby authorized and directed, in the name and on behalf of the Issuer, and as its corporate act and deed, to select the Trustee, and to negotiate, execute and deliver the Trust Indenture. The Trust Indenture may contain such covenants on behalf of the Issuer and terms as such officers deem appropriate, including, but not limited to, covenants with respect to the establishment of General Revenues at levels expressed as a percentage of debt service on the Bonds or all General Revenue Bonds, with respect to the issuance of additional bonds, notes or other obligations payable from and secured by General Revenues, and with respect to limitations on or prohibitions against the issuance of additional Senior Lien Indebtedness. In addition, any Authorized Officer is hereby authorized, empowered and directed to negotiate, if necessary and expedient for the issuance of the Bonds, for acquisition of bond insurance and to execute and deliver an insurance commitment or other documents or instruments required in connection with such insurance.

6. Any Authorized Officer is hereby authorized and directed, in the name and on behalf of the Issuer and as its corporate act and deed, to select the Underwriter and to negotiate, execute and deliver the Bond Purchase Agreement and Remarketing Agreement or Broker Dealer Agreement, if necessary, with the Underwriter setting forth the terms of the Bonds and the sale thereof, all within the limitations set forth herein.

7. The Executive Vice President and Chief Financial Officer, or in the event of his unavailability, the President or any one of the other Authorized Officers, is hereby authorized, empowered and directed, in the name and on behalf of the Issuer, and as its corporate act and deed, to execute the Bonds by placing his or her facsimile or manual signature thereon, and to deliver or cause to be delivered the Bonds to the Underwriter in exchange for the purchase price thereof, as provided in the Bond Purchase Agreement.

8. Any Authorized Officer is hereby authorized to solicit ratings on the Bonds from any national rating service which the Authorized Officer deems appropriate and to cause the preparation of a Preliminary Official Statement, if necessary, and an Official Statement with respect to the Bonds, and to execute and deliver the Official Statement. The Underwriter is authorized to circulate and use, in accordance with applicable law, the Preliminary Official Statement, if any, and the Official Statement in connection with the offering, marketing and sale of the Bonds.

9. The President, the Authorized Officers, the Secretary or Assistant Secretary, the Vice President and General Counsel and any associate general counsel, and any other appropriate officer of the Issuer or the University are hereby authorized to perform all acts and deeds and to execute and deliver for and on behalf of the Issuer all instruments and documents required by this resolution, the Trust Indenture, or the Bond Purchase Agreement, or necessary, expedient and proper in connection with the issuance, sale and delivery of the Bonds, as contemplated hereby. Any reference to an officer of the Issuer or the University herein shall include any interim or acting officer appointed by the Issuer. Any action required under the Trust Indenture, Bond Purchase Agreement, Swap Agreement, agreement entered into in connection with the Liquidity Device or other instrument related to the Bonds may be taken by and on behalf of the Issuer by any Authorized Officer.

10. In accordance with the requirements of Rule 15c2-12 of the United States Securities and Exchange Commission, the Issuer may be required in connection with the issuance of the Bonds to enter into a Disclosure Undertaking for the benefit of the holders and beneficial owners of the Bonds. Any Authorized Officer is authorized to cause to be prepared and to execute and deliver, on behalf of the Issuer, the Undertaking.

11. All resolutions or parts of resolutions or other proceedings of the Issuer in conflict herewith be and the same are hereby repealed insofar as such conflict exists.

EXHIBIT A
PROJECT

The Project consists of the components set forth below.

- Biomedical Science Research Building and Related Projects
- Forest Avenue Parking Structure
- Hill Auditorium Renewal Project and Related Projects

- Palmer Drive Parking Structure
- Horace H. Rackham School of Graduate Studies Building Renovation
- University of Michigan-Dearborn General Campus Renovation Phase III – University Mall Renovation

Campus Communications Infrastructure Replacement/Expansion North Campus to East Campus Communications Connector at Arbor Lakes

On a motion by Regent McGowan, seconded by Regent White, the Regents unanimously approved the Campus Communications Infrastructure Replacement/Expansion North Campus to East Campus Communications Connector at Arbor Lakes project as described, and authorized issuing the project for bids and awarding construction contracts, providing that bids are within the approved budget.

Cook Legal Research Library Smith Library Renovation Project

On a motion by Regent Horning, seconded by Regent Newman, the Regents unanimously approved the Smith Library Renovation 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.

East Quadrangle Replacement of South Roof, Deck and Rooftop Exhaust Fans

On a motion by Regent White, seconded by Regent Taylor, the Regents unanimously approved a project for replacement of the south roof, deck, and rooftop exhaust fans at East Quadrangle, and authorized issuing the project for bids and awarding construction contracts, providing that bids are within the approved budget.

Pierpont Commons Renovation Project

On a motion by Regent Newman, seconded by Regent Taylor, the Regents unanimously approved issuing the Pierpont Commons Renovation for bids and awarding a construction contract, providing the project remains within the budget.

Regent Newman requested that she receive a copy of the University's bidding procedures.

Naming of Engineering Facility and Addition in Honor of Carl and Esther Gerstacker

On a motion by Regent Newman, seconded by Regent McGowan, the Regents unanimously approved identifying the Institute of Science and Technology High Bay Building Engineering Facility and its addition as the Carl and Esther Gerstacker Building.

University of Michigan Hospitals and Health Centers (UMHHC) Computed Tomography (CT) Scanner Acquisitions and Site Preparation Projects

It was noted that this project would provide a seventh CT scanner for UMHHC and would upgrade three existing CT scanners. On a motion by Regent Brandon, seconded by Regent White, the Regents unanimously approved the UMHHC Computed Tomography (CT) Scanner Acquisitions and Site Preparation Projects, as described, and authorized issuing the project for bids and awarding construction contracts, provided that the bids are within the approved budgets.

Lease Agreement with Chelsea Internal Medicine Corporation

On a motion by Regent Brandon, seconded by Regent Taylor, the Regents unanimously approved a lease agreement with Chelsea Internal Medicine Corporation for property located at 128 Van Buren, Chelsea. Because the owner of the Building, Steven A. Yarows, 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 contract are the Regents of the University of Michigan and its Health System and Chelsea Internal Medicine Corporation.

2. The service to be provided is a lease. The lease for 128 Van Buren, Chelsea, began on October 15, 2001, for a period of 1 year, 8 months, terminating on June 30, 2003, at a cost of $9,900 per month.

3. The pecuniary interest arises from the fact that Steven A. Yarows, a University of Michigan employee, is the building owner of the space occupied by Chelsea Internal Medicine Corporation.

Extension of Lease Agreement with First Martin Corporation *(520 E. Liberty, Suite 300)*

On a motion by Regent Horning, seconded by Regent Newman, the Regents unanimously approved extension of a lease agreement with First Martin Corporation for property located at 520 E. Liberty, Suite 300. Because the president of First Martin Corporation, William C. Martin, 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 contract are the Regents of the University of Michigan and its Office of Budget and Planning and First Martin Corporation.

2. The service to be provided is a lease extension. The lease extension for 520 E. Liberty, Suite 300, will begin on July 1, 2002, for a period of 5 years, terminating on June 30, 2007, at a cost of $7,478.38 per month.

3. The pecuniary interest arises from the fact that William C. Martin, a University of Michigan employee, is the president of First Martin Corporation.

Extension of Lease Agreement with First Martin Corporation *(2101 Commonwealth, Suite A)*

On a motion by Regent Horning, seconded by Regent Newman, the Regents unanimously approved extension of a lease agreement with First Martin Corporation for property located at 2101 Commonwealth, Suite A. Because the president of First Martin Corporation, William C. Martin, 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 contract are the Regents of the University of Michigan and its Hospitals and Health Centers and First Martin Corporation.

2. The service to be provided is a lease extension. The lease extension for 2101 Commonwealth, Suite A, will begin on April 1, 2002, for a period of 7 years, terminating on March 31, 2009, at a cost of $16,166.66 per month.

3. The pecuniary interest arises from the fact that William C. Martin, a University of Michigan employee, is the president of First Martin Corporation.

Reassignment Agreement with Dr. Victor C. Yang and Dr. Youngro Byun

On a motion by Regent Brandon, seconded by Regent White, the Regents unanimously approved a reassignment agreement between the University of Michigan and Dr. Victor C. Yang and Dr. Youngro Byun. Because Drs. Yang and Byun are both 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 Drs. Yang and Byun.

2. Contract terms include:

   - Reimbursement to the University for all patent expenses;

   - Payment to the University of 15% of any royalties, equity, or other value received by Drs. Yang and Byun through subsequent marketing and licensing of the invention;

   - The University retains an irrevocable, royalty-free license to use and practice the invention internally; and

   - No continuing development of the Invention will take place with the use of University funds, facilities, or funds administered by the University, unless appropriate formal University approvals are obtained.

3. The pecuniary interests of Drs. Yang and Byun arise from their involvement in future commercialization efforts of the invention.

Subcontract Agreement between the University of Michigan and Ohio University

On a motion by Regent Taylor, seconded by Regent Newman, the Regents unanimously approved a subcontract agreement between the University of Michigan and Ohio University involving collaboration with Dr. Gholam-Abbas Nazri at Ohio University. Because Dr. Nazri also holds an adjunct professorship 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 Ohio University.
2. Under the terms of the project, a total subcontract of approximately $84,000 is anticipated to cover the period March 1, 2002, through February 28, 2003. The University's standard subcontract provisions will apply.
3. Dr. Nazri has no pecuniary interest in the agreement; his appointment at the University of Michigan is without compensation.

License Agreement between the University of Michigan and ForeSee Results, Inc.

On a motion by Regent Newman, seconded by Regent White, the Regents unanimously approved a license agreement between the University of Michigan and ForeSee Results, Inc., involving licensing of the trademark of the American Customer Satisfaction Index (ASCI). Because Dr. Claes Fornell is both an owner of ForeSee Results, Inc. and a University of Michigan employee, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements.

1. Parties to the agreement are the Regents of the University of Michigan and ForeSee Results, Inc.
2. Licensing terms include a non-exclusive grant, a license fee to be paid in annual installments of $300,000, and a ten-year term that may be terminated early upon consent by the parties. The University will retain ownership of the licensed trademark and may continue to license it (non-exclusively) to others. No use of University services or facilities, nor any assignment of University employees, is obligated under the agreement.
3. The pecuniary interest of Dr. Fornell arises from his ownership interest in ForeSee Results, Inc. He has waived any personal participation in the sharing of revenue received by the University from the company.

License Agreement between the University of Michigan and Quantum Signal LLC

On a motion by Regent Newman, seconded by Regent Horning, the Regents unanimously approved a license agreement between the University of Michigan and Quantum Signal LLC for commercialization of the inventions known as "System for Detecting Reduced Interference Time-Frequency Distribution" (UM File No. 0474) and "Method and System for Extracting

Features in a Pattern Recognition System" (UM File No. 1307). Because Dr. William J. Williams is both a University of Michigan employee and a limited partner in Quantum Signal, LLC, 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 Quantum Signal, LLC.

2. Licensing terms include all fields of use except human speaker recognition and speech verification; exclusive grant; a $25,000 license fee; and royalties of 4% of net sales, 10% of gross sublicensing revenues, with minimum royalties beginning in 2005. Specified milestones must be met in order to maintain the rights granted by the license.

   The University will retain ownership of the licensed technology and may continue to further develop it and use it for research and academic purposes.

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

3. Dr. Williams' pecuniary interest arises from his ownership interest in Quantum Signal. He has waived any personal participation in the sharing of revenue received by the University from the company.

Reassignment Agreement between the University of Michigan and David Porter

On a motion by Regent Newman, seconded by Regent Horning, the Regents unanimously approved a reassignment agreement with David Porter for the program, "Clavis Sinica Program" (UM File No. 1310). Because David Porter 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 David Porter.

2. Under terms of the contract, Dr. Porter will be responsible for paying all expenses to protect the copyright in the program; Dr. Porter will provide an annual report of all activities related to the program; the University will maintain a royalty free license to use the program for research and academic purposes; and the University waives the 15% share of any income received by Dr. Porter.

3. Dr. Porter's pecuniary interest arises from his ownership of the technology.

Subcontract Agreement between the University of Michigan and the Great Lakes Environmental Research Laboratory

On a motion by Regent Newman, seconded by Regent Horning, the Regents unanimously approved a subcontract agreement between the University of Michigan and the Great Lakes Environmental Research Laboratory (GLERL), under a grant awarded to the University of Michigan. Because Dr. Doran Mason, an employee of GLERL who will be directing the GLERL portion of the project, and Dr. Stephen Brandt, director of GLERL, both have adjunct appointments 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 the Great Lakes Environmental Research Laboratory.
2. Under the terms of the agreement, a total subcontract of $129,680 is anticipated to cover the period January 1, 2002, through December 31, 2004. The University's standard subcontract provisions will apply.
3. Both Doran Mason's and Stephen Brandt's appointments are unrelated to the work proposed in the grant.

Regent Newman commented that it is very important that these types of conflict of interest agreements come before the Board and before the public, and she recognized the work of the staff who are involved in analyzing and formulating the agreements. Vice President Ulaby noted that faculty spend hours reviewing each potential agreement. Regent Newman expressed the sentiment of the Board that they appreciate and value the amount of effort that goes into developing each agreement.

Proposed Changes to Academic Calendars for Summer Terms 2002, 2003, and 2004 for University of Michigan-Dearborn Campus

On a motion by Regent Newman, seconded by Regent Brandon, the Regents unanimously approved changes to the academic calendars of the University of Michigan-Dearborn, as described in the Regents Communication.

Regent Horning left the meeting at this point, at 2:15 p.m.

University of Michigan Hospitals and Health Centers Financial Update

Interim President White noted that a major presentation on the University of Michigan Health System (UMHS) would be presented at the April meeting. In preparation for that, he had requested that Executive Vice President Omenn prepare a brief presentation, focusing mostly on financial matters for this current meeting, in order to identify issues for further discussion. The next presentation would also focus on operational and quality matters.

Executive Vice President Omenn noted that Larry Warren, executive director of University of Michigan Hospitals and Health Centers (UMHHC), and Douglas Strong, associate vice president for finance and strategy and interim chief financial officer of the hospitals, were present. He distributed a handout outlining the issues to be discussed.

Executive Vice President Omenn noted that the research, education, and patient care missions of the University of Michigan Health System (UMHS) are highly integrated. The patient care activities have to balance three aims: quality, cost containment, and access. The UMHS generates a total of $2 billion in revenue from the hospitals, from professional fees, from Medical School tuition, sponsored research, and M-Care. He displayed a chart of "Historical Margin Performance" for the HHC from 1996-2001, noting that in each of the years, beginning with 1997, total operating revenues have exceeded total operating expenses. He noted that the figures do not include physician salaries, which are reflected in the Medical School's financial statements. It was requested that a balance sheet be included in the April presentation.

Executive Vice President Omenn pointed out that the UMHHC makes substantial annual equity transfers to UMHS units and made a very significant contribution to the Life Sciences Institute.

He then turned to a chart illustrating "patient activity trends" in areas such as inpatient admissions, discharges, patient days, surgeries, emergency room visits, and other outpatient visits. Regent McGowan observed that these figures do not show whether the growth is occurring in areas that are most profitable or have favorable reimbursement rates. For the upcoming discussion, she requested that trends be shown in such areas as cardiac surgery, cancer, and liver transplants, to illustrate what the growth areas would be if the case mix were different. Executive Vice President Omenn pointed out that there has been significant growth in newborn services, which are important in building community support, but that these are low-margin activities. It was decided that an upcoming discussion would focus on the five or six areas most important to the future.

Executive Vice President Omenn displayed a chart illustrating the gap in revenue from the amount of reimbursement that would have been received since 1996 under the reimbursement policies then in effect, compared to what has actually been received, a difference of almost $200 million. During the same period, expenditures were constrained by a total of $224 million compared to what volume-adjusted expenditures would otherwise have grown to be. That relative expense decrease was achieved almost entirely (95%) by a combination of net cost reductions (52.3%) and spreading fixed costs over more volume (42.7%). It was requested that there be a chart illustrating the increase in full-time equivalent employees as well as the effect of productivity increases and technology improvements at the next presentation.

The discussion then turned to a comparison of the UMHHC with 13 other institutions cited in 2001 as "Honor Roll Hospitals" by *U.S. News & World Report*, with respect to operating margin, total margin, total cash flow margin, days cash on hand, and debt to capital. The University is first in the latter three categories, and is sixth in the "operating margin" category. A discussion followed about the differences between UMHHC and the institutions that are leading in operating margin. Regent Deitch commented that there is no reason UMHHC should not have as its goal to be number one in this category as well. Executive Vice President Omenn described some of the pressures that impact these figures, such as the necessity for paying competitive salaries and to provide adequate staffing. Interim President White suggested that next month's report address the implications of striving to be number one in the operating margin category.

Executive Vice President Omenn then reviewed FY2002 operating performance to date. Four of the five indicators are favorable to budget, with the exception being "total expenses compared to volume-adjusted budget." Next he discussed "Budget challenges for the rest of FY02 and FY03." These include managing costs, specifically in view of labor shortages and wage settlements, pharmaceutical advances and patient demand, and continuing cost reductions. Regarding the issue of labor shortages, it was noted that elimination of the shortage of nursing staff would save about $5 million, due to the reduction of overtime.

Regent Newman requested that the next presentation address sources of funding.

Executive Vice President Omenn pointed out that pharmaceutical costs have the greatest impact on inpatient services, as specific drugs purchased by and administered at the hospital are costs that have to be absorbed within fixed reimbursement rates. The costs of outpatient prescriptions, however, are the responsibility of patients and their insurers, if fee for service; however, those costs are largely absorbed by the Health System for capitated patients, primarily M-Care and Medicaid.

Executive Vice President Omenn noted that the other budget challenge is increasing revenues and margins, from the perspective of providing increased capacity for inpatient and outpatient activity and negotiating from strength with payers.

Discussion then turned to which of the *U.S. News & World Report* "honor roll" institutions are part of the university with which they are affiliated, as opposed to having been "spun off" to become independent institutions or being independent for a long period of time. Regent Deitch noted that the University had made a conscious decision in the late 1990s to retain ownership of the health system. He commented it is timely for the Regents to focus on this issue because the margins are so thin and the amount of money involved is so large. Even though historically, it has been a "fantastic benefit" to the University to have the linkage with the health system, the risks for the University are equally great, he noted.

Interim President White stated that in keeping with Regent Deitch's comments, and due to the fact that the UMHHC budget accounts for more than half of the total University budget, and because it is so important to maintain the quality of the Health System, he wanted to proceed in a manner that allows the Regents to feel "comfortable, confident, and contributing" in their stewardship of the UMHS. For this reason, he said it would probably be necessary to spend time on Health System issues at nearly every meeting. To do this, a plan will be developed to guide these discussions covering a number of months into the future.

The April meeting will consist of a follow-up to the current meeting, with responses given to the financial questions raised. It will include a spreadsheet with relevant data on peer medical centers. Future discussions will focus on managing costs; increasing revenues and margins, including a focus on capacity constraints and how they can be eased; and quality, including data ranging from patient outcomes to patient satisfaction. He said he would provide a proposed outline for future discussions to Regent Deitch before the next meeting.

Regent Deitch observed that the effort made by the Board in 1996, focusing on issues then facing the Health System, was an important experience in the tenure of Regents then serving. Subsequently, the Board has had a good deal of confidence in the management of the health system. Regent Newman commented that the Board has no cause for concern; the reason for the current focus is that people are much more conscious now of the cost of health care, and, as part of the Board's fiduciary responsibility, it needs to keep on top of the situation before it becomes an issue. She also expressed her concern about another important area of focus, namely not losing sight of customers and simplifying access to the health system.

Regent Deitch noted that the perception of UMHHC in general is one of superlative care. But for individual patients and their families, the notion of quality is also affected by such details as telephone access, cleanliness, ease of making appointments, helpfulness of staff, and similar factors.

Executive Vice President Kasdin pointed out that audited year-end financial statements for the University of Michigan Hospitals and Health Centers are made public every year. He also cautioned that mid-year data could reflect month-to-month volatility, and trends for the entire year should not necessarily be drawn from such data. Interim President White stated that in response to requests by Regents McGowan and Brandon, respectively, balance sheet data, cash flow statements, and capital expenditure data would be included in future discussions. He emphasized that the renewed focus on these issues is occurring as a result of pride and confidence in the health system, recognition of its importance to the University of Michigan, and a desire for it to stay that way.

Video Presentation: "And You Can Quote Me On That"

Interim President White commented that he had seen the video, "And You Can Quote Me On That," about the experience of students with disabilities at the University of Michigan, some time ago, and had found it arresting, due to its candor, the fact that it consists of students speaking directly to the viewer, and the broader than usual definition of disability that is encompassed by the film. The video was then presented.

Following the video presentation, there was a discussion with Mr. Jack Bernard, chair of the University's Council for Disabilities Concerns and member of the steering committee of "UMINDS," the initiative to develop a disabilities studies program at the University of Michigan. He is also legally blind. He commented that the University is generally doing very well in providing services for students with disabilities through the use of adaptive technology and tremendous growth in other services, enabling more and more such students are able to take advantage of more aspects of life at the University.

Current issues for students with disabilities include the desire for even more access and opportunities to become involved in programs such as internships, research, and study abroad that have previously been unavailable to these students. It was noted that although insensitivity on the part of faculty and staff is sometimes an issue, it has also become easier to respond to such instances as they occur. Mr. Bernard introduced Mr. Sam Goodin, director of the Office of Services for Students with Disabilities, noting that he has done an outstanding job in improving the situation for these students.

Mr. Bernard commented that broadening the definition of disability to include mental illness has been a positive step, although it does not prevent the issues that emerge in people with hidden disabilities. It was noted that it is often difficult to know how to assist a person with a mental disability, so it is important to educate the non-disabled population on such issues.

Interim President White commented that the first priority of the University's new Depression Center will be to reduce the stigma of depression. It was also noted that efforts need to be made to engage the student body in exploring their feelings toward people with disabilities and to allow people to gain new perspectives by learning from others' experiences. Vice President Harper observed that a mental health task team has been formed to explore ways to deal with these issues. She offered to update the Regents about the array of programs and services currently in place that focus on these issues.

Interim President White expressed the gratitude of the University community to Mr. Bernard, Mr. Goodin, and colleagues, for their efforts in making the environment as hospitable as possible.

Residence Hall Safety and Security

Interim President White stated that Vice President Harper and Mr. Bill Bess, director of the Department of Public Safety, would update the Regents about the current situation with regard to residence hall safety and security. Vice President Harper commented that although many steps have been taken to ensure safety in the residence halls, there is still more that can be done. She pointed out the paradox in the fact that a good deal of time is spent with new students in talking about a sense of community and encouraging them to be being open and receptive to others, while on the other hand, encouraging them to be careful. Residence halls are laid out in such a way as to encourage interaction and community building, which presents challenges for improving security. She also pointed out that most first year students come to a communal residence hall living situation from a home environment where parents are responsible for their physical safety. The expectations of a community that on the one hand, values and expects openness, ease of transportation, freedom, and congeniality, while at the same time expecting a high level of personal safety, create a tension between the two sets of values. The goal has been to convey the understanding among students that personal safety is both an institutional responsibility and a personal responsibility.

Mr. Bess enumerated the unlawful activities that have recently occurred in some residence halls, noting that this is unacceptable behavior and pledging that the perpetrators would be apprehended. He described measures that have been taken to confront this situation and to prevent further incidents from occurring, including increasing patrols, holding town hall safety meetings and formation of a multi-division task force. He said that incidents have been aggressively investigated, and 21 cases have been cleared through arrests. The Department of Public Safety, he noted, takes this situation very seriously, and it will not be tolerated.

Regent Newman commented that residence hall safety is one of her primary concerns, and she is interested in learning about additional measures that can be undertaken to protect students. Executive Vice President Kasdin observed that security measures were immediately increased when the increased illegal activity occurred. He reiterated the difficulty of maintaining a balance between doing what is required to stop the activity without destroying the sense of community.

Regent Deitch concurred, and stated that he has “a great deal of confidence in the people who are working on this,” and that it is the responsibility of everyone to think through how best to confront these issues.

Regent McGowan noted that during the summer middle school and high school aged children are housed in the residence halls for summer camps, and inquired about plans for addressing safety and security issues for these children. Vice President Harper responded that a safety review committee was formed some time ago to look at safety issues in summer camps. She noted that a different approach is taken in this situation which involves under-age children during the summer months, since the University is expected to take care of these students and ensure their safety. She said that there is a higher ratio of adults to students and more of an adult presence in the residence halls for the summer programs.

Mr. Bill Zeller, director of University Housing, commented that there is close collaboration with the athletic department in dealing with safety and security concerns over the summer. Coaches also spend evenings in the halls. The safety review committee is continuing to meet, he noted, and is discussing, among other issues, how the 24-hour controlled access policy will be handled over the summer.

It was noted that this issue will be revisited in the next couple of months.

A five-minute break followed, after which the Regents reconvened to hear Public Comments at 4:10 p.m.

Public Comments

The Regents heard comments from the following individuals on the topics indicated: Jeffrey D. Harold, staff member and president of the Association of Black Professionals, Administrators, Faculty, and Staff, on the University's commitment to affirmative action; Debra Hamann, alumna and Reach Out! coordinator, Stephanie Steele, student and Reach Out! coordinator, Robert Galardi, citizen, and David Coleman, student and Reach Out! site coordinator, on Reach Out! funding; Misty Fewel, student, on her residency classification status; and Stephen Rassi, student, Rev. John S. Nieman, citizen, Rev. Dr. Diane Christopherson, United Church of Christ, Rev. Thomas Firestone, St. Mary's Student Parish, and Rabbi Robert Dobrusin, citizen, on United Way solicitation at the University.

Interim President White stated that further information would be provided to the Regents regarding the Reach Out! funding situation, and that Ms. Fewel would receive written correspondence about her residency status by the time of the April board meeting.

There being no further business, the meeting was adjourned at 5:00 p.m. The next meeting will take place April 18-19, 2002.