

DECEMBER MEETING, 2003

*The University of Michigan
Ann Arbor
Thursday, December 18, 2003*

The Regents convened at 2:15 p.m. in the Regents' Room. Present were President Coleman and Regents Brandon, Deitch, Maynard, McGowan, Newman, Richner, Taylor, and White. Also present were Provost Courant, Vice President Harper, Executive Vice President Kelch, Vice President Krislov, Chancellor Little, Vice President May, Chancellor Mestas, Vice President Rudgers, Executive Vice President Slottow, Vice President and Secretary Tedesco, Vice President Ulaby, and Vice President Wilbanks.

President Coleman called the meeting to order and announced that Public Comments would be the first order of business.

Public Comments

The Regents heard comments from the following people, on the topics indicated: Jim Mogensen, citizen, on the town-gown relationship; Daniel Rose, student and member of the All-Campus Labor Council, on health benefits; David Boyle, alumnus, on the Solomon Amendment; Cheryl McCreary, citizen and Council 25 Representative of AFSCME Local 1583, on health benefits; Patrick Anderson, alumnus, on urban high school academies; and Laura Rubin, president of the Huron River Watershed Council, on the Miller's Creek Plan.

A five-minute break followed, and the meeting reconvened at 2:50 p.m.

Comments from President Coleman

President Coleman commented on the state's continuing budget crisis and the second round of cuts to public higher education being made in the current fiscal year. She noted that the continued cuts threaten academic quality, as well as the long-standing covenant that exists among all of the state's public universities and state residents, and that the University needs to continue to speak out about the value that public higher education contributes to the state.

President Coleman observed that the recent cuts in state funding to higher education, comprising 15 percent (\$250 million) in one calendar year, are unprecedented. For all three University of Michigan campuses, this amounts to \$60 million in reduced funding this current year, or \$1,400 less per student on the Ann Arbor campus. She commented that the effect of the funding drop is "an unarticulated legislative policy that students and families will bear more of the burden of their education."

President Coleman observed that in 1970, state appropriations made up 70 percent of the University's general fund, whereas they currently comprise less than 27 percent of the general fund, and the balance must be paid by tuition. She said that higher education does not have the ability to cut costs as businesses do, as it is an intrinsically labor intensive endeavor. The demand for higher education continues to grow, with commensurate demands for more services, technology, and modern facilities infrastructure.

President Coleman commented that public higher education returns as much as \$26 to the state for every dollar invested in it, and that each citizen benefits from the high quality educated workforce and the economic benefits derived from research discoveries. She pointed out that the state increasingly depends on the research and progress created by higher education as it works to move from a manufacturing to a knowledge-based economy.

President Coleman noted that the University will continue to cut costs as much as possible and will monitor and reduce cost increases where possible. However, even though millions of dollars have been saved with cost-cutting measures, the magnitude of the current reductions from the state are so great that universities must now be on guard against an erosion of quality that will not be possible to recover once it is lost.

Regent Deitch commented on how lucky the University is to have the leadership of President Coleman, pointing out that early on in the budget crisis, she had decided to forego a salary increase for 2003-04, and the executive officers had followed suit. Noting the importance of private philanthropy in alleviating the budget situation, he thanked President Coleman and her husband for their “extraordinary” pledge to the capital campaign. Regent Deitch commented that “we’re all in this together,” and that the University “is very precious and we cannot allow it to be hurt in any way.” He stated that the goal is to maintain the University of Michigan’s unique quality, built up over a period of 150 years.

Regent Deitch observed that “the nation’s great public universities, of which the University of Michigan is the leader, are in my opinion the key differentiator between our society and almost every other society in terms of creating opportunities for people.” He noted that “we cannot allow a momentary problem to create an erosion in quality that was built up over 150 years.” He challenged everyone associated with the University to “unite and create a better understanding for the people of Michigan of what’s at stake,” by talking about it “insistently, ...loudly, ... to every member of the legislature, ... to alumni, and ... to the governor, and let people know that if we allow a deterioration of this precious legacy, this unique quality that exists at this university, we will have failed the challenge that’s in front of us.” He stated to President Coleman, that “we’re with you, and we do not intend to see that happen.”

Regent Newman commented that “the University community is obviously going to see cuts and obviously going to see changes. But what you will not see is a compromise on quality, because we’re not going to allow that. We will continue to pursue excellence, and we will not compromise the quality of this institution.”

Regent Taylor observed that advocacy efforts should focus on the impression that the value of higher education generally has been missed in Lansing, not only with respect to the University of Michigan but for all schools and colleges. It is important to convey that all of the public higher education institutions are an important asset to the state as it seeks to retain manufacturing jobs and its economic base.

Regent Maynard commented that “I know all of us are with you in terms of all of the things that have been said, in terms of the essential nature of public education for the state and nation,” and the fact that “quality is essential to what we are as a public institution.”

Committee Reports

Finance, Audit, and Investment Committee. Regent Brandon reported that the committee had met that morning and had received information updates on several issues. These included the six-month report on University Audits (included also in the meeting agenda), about which Robert Moenart, executive director of University Audits, had reported that the level of support was outstanding, and that President Coleman had set a strong ethical tone.

The committee also met with candidates for external auditor, and was updated on the implications of the most recently announced cuts in state appropriations. Regent Brandon commented that both the committee and the board as a whole are more engaged with the efforts being undertaken by the administration to cut costs, curb cost increases, and deal with the current budget environment, than it has been in the past. He cautioned that the state needs to be mindful

of the aspects of its operations that are doing well, which include higher education, and expressed concern that the state will fail to understand the return on investments made in this sector. He noted that even though the state is in a difficult financial situation, the University remains in a very thriving, competitive environment, and expressed the hope that the state can be made to understand this and to continue to invest in it.

Compensation and Personnel Committee. Regent Maynard reported that the Compensation and Personnel Committee did not meet this month.

The Regents then turned to the regular agenda.

Consent Agenda

Minutes. Vice President Tedesco submitted for approval the minutes of the meeting of November 20, 2003.

Reports. Executive Vice President Slottow submitted the Investment Report, Plant Extension Report, and Human Resources and Affirmative Action Report.

Litigation Report. Vice President Krislov submitted the Litigation Report.

Research Report. Vice President Ulaby submitted the report of Projects Established, November 1 - November 30, 2003.

University of Michigan Health System. Executive Vice President Kelch highlighted the appointment of Larry Warren as director and chief executive officer of the University of Michigan Hospitals and Health Centers.

Division of Student Affairs. There was no additional report from the Division of Student Affairs.

University of Michigan-Dearborn. Chancellor Little pointed out that manufacturing is one of the contributions being made to the region and state by the University of

Michigan-Dearborn. He described several initiatives being pursued in this area. He noted that proposed changes in health insurance premiums contributions have been discussed broadly on the Dearborn campus. Finally, he reported that units should be moving into the former Fairlane Training and Development Center facility by the end of the month, and classes will be held there beginning in January.

University of Michigan-Flint. Chancellor Mestas commented that proposed health benefit changes have also been widely discussed on the Flint campus. He noted that Professor Fredric Jameson, from Duke University, would be serving as the Myron and Margaret Winegarten Visiting Professor on the Flint campus during the winter term.

Michigan Student Assembly Report. Ms. Monique Perry, vice president of Michigan Student Assembly, presented an end of semester report, describing a number of ongoing and new programs that are being pursued by MSA during the current academic year. Among these are sponsoring programs related to the upcoming theme semester on the Brown v Board of Education Supreme Court decision.

Voluntary Support. Vice President May described a bequest that had been made by alumna Anne L. Welch as an example of the importance of bequest intentions in capital campaigns. He noted that this would be a focus of the upcoming campaign.

Personnel Actions/Personnel Reports. Provost Courant submitted a number of personnel actions and personnel reports. Executive Vice President Slottow called attention to the appointment of Gloria Hage as interim associate vice president and chief human resource officer.

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

Memorials. No deaths were reported to the Regents this month.

Degrees. There are no actions with respect to degrees this month.

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

Six-Month Report on University Audits

The Regents received the six-month report on University Audits activities for the period April 1, 2003 through September 30, 2003.

Fiscal Year 2005 Capital Outlay Submission, All Campuses

Executive Vice President Slottow submitted information about the Fiscal Year 2005 Capital Outlay submission to the state.

Mary Markley Residence Hall Fire Alarm System Upgrade and Elevator Replacement

On a motion by Regent Taylor, seconded by Regent Maynard, the Regents approved the Mary Markley Residence Hall-Fire Alarm System Upgrade and Elevator Replacement Project as described in the Regents Communication, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget. Executive Vice President Slottow reported that a similar project for South Quad, approved last year, had come in at approximately 30% under budget, primarily due to the concerted efforts of staff overseeing the project.

Conflict of Interest Items

President Coleman noted that the agenda includes 8 conflict of interest items (numbers 4-11), each of which requires 6 votes for approval. Regent Richner requested that item #5, "Option Agreement between the University of Michigan and Innovative Biotherapies, Inc.," be

considered separately. On a motion by Regent Deitch, seconded by Regent Brandon, the Regents unanimously approved each of the following items:

Purchasing Contract with M. W. ProctorGroup LLC

The Regents approved a purchasing contract with M. W. ProctorGroup LLC for development and preparation of a research proposal. However, because Mary C. Proctor, an Equal Member of M. W. ProctorGroup LLC, is also a University of Michigan employee, this purchasing 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 Department of Emergency Medicine and M. W. ProctorGroup LLC.
2. The service provided is development and preparation of a research proposal, for a time period of 6 to 9 months, for a total dollar amount of \$10,000.00.
3. The pecuniary interest arises from the fact that Mary C. Proctor, a University of Michigan employee, is an Equal Member of M. W. ProctorGroup LLC.

Subcontract Agreement between the University of Michigan and Michigan Aerospace Corporation

The Regents approved a subcontract agreement with Michigan Aerospace Corporation (“Company”) in connection with the project “Phoenix Meteorology (MET) Experiment.” Because Dr. Lennard Fisk, is a partial owner of the Company 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 University of Michigan and Michigan Aerospace Corporation.
2. The terms of the Agreement conform to University policy. The period of performance is from January 1, 2003 through July 31, 2007, and the amount of the agreement to Michigan Aerospace Corporation is not to exceed \$300,000. The University’s standard subcontract provisions will apply. Since research agreements are often amended, the subcontract includes provisions for changes in time, amount, and scope. University of

Michigan procedures for approval of these changes will be followed and additional review by the Conflict of Interest Committee will be done as appropriate.

3. Dr. Fisk's pecuniary interest arises from his partial ownership of Michigan Aerospace Corporation. He is not involved in the project at either the University of Michigan or at Michigan Aerospace Corporation.

Agreement between the University of Michigan and Mechanical Systems Corporation

The Regents approved an agreement between the University of Michigan and Mechanical Systems Corporation (MSC) to support the Ph.D. thesis of Steven Karamihas, at the University of Michigan Transportation Research Institute (UMTRI). Because Thomas Gillespie, a University of Michigan employee, also is a director and stockholder in MSC, 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 Systems Corporation.
2. The terms of the proposed agreement are acceptable and conform to University policy. The amount of the agreements with four affiliate sponsors and the University will total approximately \$200,000. The period of performance is two years with the possibility for renewal and extension. Dr. Gillespie will act as principal investigator for the University's project, receiving minimal support from project funds which are intended to support Mr. Karamihas as an UMTRI employee and Ph.D. student. The affiliate agreement gives no rights to the various sponsors for a commercially acceptable software product incorporated into TruckSim.
3. Dr. Gillespie's pecuniary interest arises from his status as director and stockholder in MSC.

Research Agreement between the University of Michigan and Michigan Aerospace Corporation

The Regents approved a research agreement between the University of Michigan and Michigan Aerospace Corporation ("Company") for funding of a research proposal. Because Lennard Fisk is both a partial owner of the Company 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 University of Michigan and Michigan Aerospace Corporation.
2. The University's Research Roundtable Agreement, which conforms with University policies, was previously used for the initial research and will be used for the proposed research continuation. The amount of the agreement to the University is \$100,000. The period of performance is 12 months. Since research agreements are often amended, the subcontract includes provisions for changes in time, amount, and scope. University of Michigan procedures for approval of these changes will be followed and additional review by the Conflict of Interest Committee will be done as appropriate.
3. Dr. Fisk's pecuniary interest arises from his status as partial owner of Michigan Aerospace Corporation. He is not involved in the research, either at the University or at the Company.

Subcontract Agreement between the University of Michigan and Molecular Therapeutics, Inc.

The Regents approved a subcontract agreement between the University of Michigan and Molecular Therapeutics, Inc. involving collaboration on the research project, "Cancer Diagnosis and Therapy with Dynamic Nanoplatfoms." Because the owners of Molecular Therapeutics, Dr. Brian Ross and Dr. Alnawaz Rehemtulla, 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 Molecular Therapeutics, Inc.
2. The total award to the University of Michigan will be \$7,039,188. A total subcontract of approximately \$4,292,665 is planned for Molecular Therapeutics, Inc., covering the period September 30, 2003, through September 29, 2006. The University's standard subcontract provisions will apply. Since research agreements are often amended, the subcontract includes provisions for changes in time, amount, and scope. University of Michigan procedures for approval of these changes will be followed and additional review by the Conflict of Interest Committee will be done as appropriate.
3. Drs. Ross and Rehemtulla's pecuniary interest arises from their status as owners of Molecular Therapeutics, Inc. Neither is involved in the project.

Subcontract Agreement between the University of Michigan and Veridian Systems Division, Inc.

The Regents approved a subcontract agreement between the University of Michigan and Veridian Systems Division, Inc., involving collaboration with Dr. David Walker of Veridian

Systems Division, Inc. Because Dr. Walker also holds a 0% appointment 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 Veridian Systems Division, Inc.
2. The ONR contract contains standard terms and conditions. The subcontract to Veridian Systems Division, Inc., is for \$325,088 for the period covering November 26, 2002 through December 31, 2003. The period of performance on the prime award with the University of Michigan has been extended to 31 January 2004 and Dr. Ceccio would like to add an additional month without an increase in funding to the agreement with Veridian. The University's standard subcontract provisions will apply. Since research agreements are often amended, the subcontract includes provisions for changes in time, amount, and scope. University of Michigan procedures for approval of these changes will be followed and additional review by the Conflict of Interest Committee will be done as appropriate.
3. Dr. Walker's pecuniary interest arises from his status as an employee of Veridian Systems Division, Inc.

Reassignment Agreement between the University of Michigan and Richard Solomon

The Regents approved a reassignment agreement with Richard Solomon involving rights to the invention, "PLAY Project Level One Workshop CD-ROM." Because Dr. Solomon is 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 Richard Solomon ("Inventor").
2. Reassignment terms include:

The Inventor will be responsible for paying all patent or copyright expenses to protect the technology.

The Inventor 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.

The University will obtain a 15% share of any income received by the Inventor.

3. The pecuniary interest of Dr. Solomon arises from his ownership of the technology.

Option Agreement between the University of Michigan and Innovative Biotherapies, Inc.

On a motion by Regent McGowan, seconded by Regent Brandon, the Regents approved an option agreement between the University of Michigan and Innovative Biotherapies, Inc. Regent Richner did not participate in the vote, due to a conflict of interest. Because Dr. H. David Humes holds an equity interest in Innovative Biotherapies, Inc. and is also a University of Michigan employee, this option 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 Innovative Biotherapies, Inc.
2. License terms include:

Field of Use: All fields

Grant: Exclusive for 12 months, can be extended an additional 12 months upon payment of extension fee in addition to the option fee paid at signing of the agreement.

Patent Expenses: Innovative Biotherapies will reimburse UM's patent expenses incurred during the option period.

Exercise: Prior to OTT entering into license negotiations with Innovative Biotherapies, the company will need to demonstrate: i) an identified and committed experienced and capable management team; ii) an appropriate commercialization strategy; and iii) a capitalization plan indicating sufficient access to capital to enable the commercialization plan to be executed.

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

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

3. Dr. Humes' pecuniary interests arise from his ownership interest in Innovative Biotherapies. He has waived any personal participation in the sharing of revenue received by the University from the company.

University of Michigan Hospitals and Health Centers (UMHHC) East Ann Arbor Ambulatory Surgery and Medical Procedures Center

On a motion by Regent McGowan, seconded by Regent Brandon, the Regents unanimously approved the East Ann Arbor Ambulatory Surgery and Medical Procedures Center

Project as described in the Regents Communication, and authorized commissioning Albert Kahn Associates for its design.

Health Insurance Plan Designs and Premium Structures

Provost Courant commented that the University's share of health insurance premiums has increased from \$85 million to nearly \$175 million over the past 5 years. He noted that throughout the deliberations of the faculty-led committee appointed to make recommendations regarding the future design of the University's health care insurance premium structure, the message has been clear that the goal is to curtail the rise in health care costs without sacrificing high-quality, comprehensive and competitive health benefits. He reviewed the premium structure changes that will be put in place for implementation in January 2005:

- v The University will provide a higher share of the cost of coverage for employees and retirees than for dependents, and will provide a higher share of the cost of coverage in lower-cost plans than for more expensive plans.
- v The University contribution to health insurance premiums for employees will be 95% of the average premium cost for the two lowest-cost comprehensive plans, and after figuring the average cost of all individuals covered--including employees, retirees, and their covered dependents--the aggregate University payment in 2005 will be 85% of the premium cost.
- v We will move from a three-tier (single employees, two-person households, and families of three or more people) to a four-tier (the addition of a category consisting of one adult with any number of children) structure of coverage. Since on average, children are less expensive to cover than adults, this will lower the total cost of coverage from what it otherwise would have been for the households which fit into the fourth tier.

Although the committee recommended that co-premiums for prescription drugs and for health insurance be calculated separately, to simplify plan design and administration, they will be calculated together. Another recommendation, that the University maintain the aggregate University contribution at 85% for three years, may not be possible to achieve in the current health care environment. However, the University is committed to providing the community

with significant advance notice before the implementation of any changes, to allow for campus discussion and to give employees the opportunity to plan ahead.

Provost Courant commented on the feedback received from the campus community about this plan. Many expressed concern that the lowest-paid employees bear more of a burden when costs are increased. After considerable review and discussion, the administration agreed with the committee's assessment that trying to find a solution for different levels of employee income is not feasible and raises issues of fairness, consistency, and benefits administration. Issues related to the lowest-paid staff need to be addressed more comprehensively, and the administration will continue to work to address these challenges.

Provost Courant expressed his appreciation for the work of the health insurance premium redesign committee, and expressed confidence that the changes to be implemented in January 2005 that are based on the committee's recommendations will enable the University community to maintain high-quality benefits in the years ahead.

Executive Vice President Kelch observed that escalation in health care costs is not likely to abate soon, and that the committee's recommendations reflect the reality of the national landscape while upholding the commitment to employees to provide a robust benefits package, which is essential to recruiting and retaining faculty and staff. He noted that changes in the premium structure will mean that employees will begin to consider cost as a factor in their decision, and that should lead in a mitigation of the total cost for health insurance coverage. Dr. Kelch commented that as both an insurer and a health care provider, the University of Michigan Health System has a special responsibility to control costs.

Dr. Kelch pointed out that research shows that encouraging healthier lifestyles and wellness practices can help to control health care costs. He said the M-Care and M-Fit units

should take leadership roles in helping the University to develop new worksite health and education programs for University employees.

Executive Vice President Slottow commented that decisions regarding health insurance premiums will be communicated to the campus community in January 2004. This will be followed by negotiations with vendors in February, distribution of descriptive materials in late summer, and open enrollment in October, with the new rates to be in place beginning January 2005. The new rate structure will also be incorporated into negotiations with labor unions as their current contracts expire. He pointed out that insurance premiums are paid with pretax dollars, which lowers the net cost to employees. He also noted that employees have been encouraged to take advantage of flexible spending account programs, which use pretax dollars to pay for out-of-pocket health care costs.

Executive Vice President Slottow commented that the committee had recommended consideration of an additional portable comprehensive plan other than Blue Cross/Blue Shield, and that this recommendation is being pursued. He stated that the administration is “absolutely committed” to developing mechanisms for providing ongoing opportunities for input from the campus community and all key stakeholders on issues surrounding health benefit design.

Regent Deitch commented that the process outlined by the executive vice presidents and in the Regents Communication will provide opportunities for thoughtful discussions and dialog with the constituency before recommendations are made regarding health insurance plans and premium structures. He moved the following: That the 1988 Regental action item that has been used to determine health insurance premium sharing be replaced by a process that will allow the University administration the authority and flexibility to create each year the best possible approach to the development of premiums. Annually, the administration will report to the Board

on the major trends and issues surrounding health insurance and the University's offerings and premium structures for the following benefit year. This discussion will precede the open enrollment period and will be an occasion for announcing changes to the University community. Such report shall be made sufficiently in advance of the commencement of the open enrollment period to allow Regental action to be taken to modify the recommendation should that be the decision of the Board of Regents. In the development of its plans and understanding of the issues, the University would draw widely upon the expertise, knowledge, and opinions of all segments of the University community.

Regent McGowan seconded the motion. Regent Maynard commented that she is pleased that there will be an ongoing study of how health care is handled at the University, including examination of adding a wellness component.

The vote was then taken, and the motion was approved unanimously.

Comments from President Coleman

President Coleman commented about upcoming events, which include the Brown versus Board of Education Theme Semester, the annual Martin Luther King Day symposium, and the reopening of Hill Auditorium.

There being no further business, the meeting was adjourned at 3:55 p.m. The next meeting will be held January 15, 2004.