

FEBRUARY MEETING, 2003

*The University of Michigan
Ann Arbor
Thursday, February 20, 2003*

The Regents convened at 1:30 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, Interim Executive Vice President Greenfield, Vice President Harper, Vice President Krislov, Chancellor Little, Vice President Rudgers, Interim Chief Financial Officer Slottow, Vice President and Secretary Tedesco, and Vice President Ulaby. Vice President Wilbanks and Chancellor Mestas were absent; Provost McLaughlin participated on behalf of Chancellor Mestas.

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 individuals, on the topics indicated: Barry Borgerson, citizen, and Stephanie Steele and Tom Flynn, alumni, in support of the Reach-Out! program; Jonathan Prokup and Chris Ongena, students, on the real estate development at Washington and State Streets; Audrey L. Jackson, alumna, on affirmative action policies at the University of Michigan; Ian Robinson, faculty, on the Lecturer Employees Organization; and David Boyle, alumnus, on affirmative action.

A five minute break followed. Regent Richner left the meeting at this point.

President's Opening Remarks

The meeting reconvened at 2:15 p.m. President Coleman reported on a number of faculty achievements and on recognition received by the University during the past month. She also recognized the efforts of Vice President Rudgers and her team for their extraordinary efforts in setting up a satellite transmission on very short notice for a speech delivered to the annual meeting of the American Council on Education that had to be delivered from Ann Arbor due to a snowstorm that prevented travel to Washington, D.C. President Coleman also commended Vice President Wilbanks for her efforts in working with the state legislature to minimize funding cuts for the Life Sciences Corridor.

President Coleman called on Regent Brandon to comment on recent reports from bonding agencies.

University of Michigan Bond Ratings. Regent Brandon commented that within the past week, both major financial credit agencies in New York had issued press releases that were extremely favorable to the University, particularly considering today's economic situation and outlook. He noted that Standard & Poor's had assigned a long-term rating of AA+ to the University's revenue bonds and reaffirmed the University's commercial paper rating. Quoting from the press release, he stated, "The ratings on the bonds and commercial paper reflect the University's premiere standing in Michigan's ("AAA") higher education funding hierarchy, strong financial operations, substantial liquidity, revenue diversity, and impressive student-demand trends."

Concurrent with that announcement, Regent Brandon noted that Moody's Investors Service had reaffirmed its very strong rating of the University's credit, noting that their reaffirmation of the University's strong credit position was based on its "superior financial resources, strong market position, excellent operating results derived from a well-diversified

revenue base, manageable plans for additional borrowing, and ample liquid investments and capable management team providing strong liquidity support for variable rate demand bonds and commercial paper.” Given today’s environment, Regent Brandon commented that this is a “very, very significant, positive outcome for the University that will clearly have a positive impact on our borrowing capacity and rates going forward.” On behalf of the Finance, Audit and Investment Committee and of the entire Board of Regents, he commended President Coleman and Interim CFO Slottow and their teams for continuing to position the University very well in the financial marketplace.

President Coleman echoed Regent Brandon’s sentiments, noting that these ratings make it less expensive for the University to do business, which is very important during these times of limited resources.

President Coleman concluded her remarks by calling attention to several upcoming events, including the residency of the Royal Shakespeare Company.

Remarks on the University’s Response to the State’s Budget Shortfall

President Coleman made the following comments:

We’re planning not only for the cuts this year, but for next year’s state budget shortfall that we’ve been hearing a lot about, and that you’ve read about in the newspapers. We have a lot of work to do in the upcoming months. We are going to work closely with the governor and the legislature to manage our share of the cuts to University General Fund appropriations. We will do our fair share. We know it won’t be easy but we are going to have to make the tough choices--and we will--that will enable us to accomplish the goals this state expects of us.

We must preserve the core quality of the classroom experience and the academic environment for our students - both the current students and future generations of students. We have to strike the right balance to guarantee the quality that we have always had here, while we minimize the tuition burden for our students and families as much as possible--and to continue the special commitment we make to the demonstrated financial need of all resident undergraduate students.

We have another very big challenge in front of us. We must do a better job of demonstrating to the residents of this state that our universities allocate our state funding efficiently and just as important, that the money the state invests in its public universities is crucial to Michigan's long-term economic recovery and well-being. We educate the state's workforce, our faculty discoveries turn into new products and businesses, and our hospitals and medical staff care for many, many thousands of Michigan families every year.

I have asked Paul to talk about how we will guide the budgeting process during this very challenging time. I have asked him, and have told our University community, that we must do our best to make judicious budgeting decisions and preserve our highest priorities. We will reduce costs everywhere we can -- from big-ticket items such as the energy bill and program dollars to smaller areas like cell phone use -- because everything counts as we're going forward.

And at the end of the day we must keep our long-term strength, and our state's long-term strength, at the top of our priority list.

Provost Courant noted that there have been two executive orders reducing the state appropriation. The first, in December 2002, was a 2% cut, and the second, announced yesterday, was for a 1.5% cut. The two cuts total \$12.7 million for the Ann Arbor campus General Fund appropriation.

Provost Courant noted that these cuts had been expected, and that \$7.2 million in centrally-held funds have been applied to mitigate them. The remaining \$5.5 million in cuts would come from General Fund reductions of 1.0% in administrative units and .5% in academic units. Tuition will not be increased during the current academic year.

Provost Courant commented that for fiscal year 2004, the state appropriation could be as low as 85% of the FY 2002 appropriation, which would amount to a reduction of \$54.5 million. Therefore, administrative units are being asked to plan for cuts of 6.5% and academic units, 6.0%. Financial aid will be protected from any cuts. He noted that the first priority will be to protect the quality of students' learning environment while maintaining the accessibility.

He highlighted some of the areas in which expenditure reductions can be sought, including travel, equipment replacement, energy use, and in personnel areas. He pointed out that at the

same time, the demands on the University (“volume of business”), in terms of numbers of students, sponsored research volume, and such measures as salaries, utility costs, and health benefits, are increasing so that reductions must take place in the range of activities without sacrificing quality.

Provost Courant concluded by noting that the University is continually engaged in examining its activities in an effort to increase the most important activities at the expense of the less important ones. The current fiscal situation will lead to an acceleration of this practice, with the end result that some activities will be cut. Opportunities will also continue to be sought in areas where savings have already been made, such as purchasing and utilities management. He said that he will continue to update the Board on these issues in the coming months.

Regent Deitch expressed his “high degree of confidence in the president, provost, and the rest of our leadership team as we face these challenges.” He noted that “this will not be a time of easy choices” but will be “a time of serious, thoughtful work” that will constitute one of the greatest challenges of his tenure on the board. He continued that “we are going to do the best we can to make the best decisions we can to maintain the quality and excellence and accessibility of our University.”

President Coleman observed that she had received excellent cooperation from Chancellor Little and Chancellor Mestas, and they are also informing their respective communities of the implications of the budget situation. Chancellor Little commented that his campus is very mindful of it, having already dealt with the first budget cut and anticipating how to incorporate the next one. He pointed out that the Dearborn and Flint campuses have traditionally “done a lot with not very much,” as they do not have large reserves and expendable program activities. Reductions of the magnitude being contemplated are going to be “very, very hard to achieve

while keeping our commitment to maintaining our academic quality.” He noted that he is committed to preserving the academic quality that is a “tremendous economic driver and civic life driver” to the region served by the Dearborn campus.

Provost McLaughlin commented that the Flint campus had accommodated the 2% cut for the current fiscal year and is working on how to cut the additional 1.5%. For next year, she noted that every unit will have a plan for how to accommodate a cut of up to 6%, and these plans will involve layoffs.

Environmental Stewardship Update

Terry Alexander, director of the Office of Safety and Environmental Health (OSEH) gave a report on the current status of the University’s efforts in environmental stewardship. He noted that there are currently 200 environmental stewardship projects underway. He gave examples of projects in four areas--energy, transportation, water, and green purchasing--providing data indicating the progress that has been made. He pointed out that for the most part, environmental stewardship not only protects the environment, but also saves money.

Mr. Alexander introduced Ms. Sara Archer, the University’s recycling coordinator, whose efforts resulted in the University’s being awarded the “2001 Outstanding School Program Award” by the National Recycling Coalition.

Interim CFO Slottow commented that making progress in this area is the result of a great deal of work by many individuals from across the campus, and thanked everyone for their efforts.

President Coleman welcomed Vice President Jerry May to his first Regents’ Meeting.

Consent Agenda

Minutes. Vice President Tedesco submitted for approval the minutes of the meeting of January 16, 2003.

Reports. Interim Chief Financial Officer Slottow submitted reports on investment and plant extension. Provost Courant submitted the 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, December 19, 2002 - January 31, 2003.

University of Michigan Health System. No report was submitted.

Division of Student Affairs. No report was submitted.

University of Michigan-Dearborn. Chancellor Little noted that Lora Bex Lempert, associate professor of sociology and assistant research scientist, would be receiving the Dearborn Campus's annual Susan B. Anthony Award, in addition to having recently received the University's Sarah Goddard Power Award. He also gave a status report on the Detroit Arab American Study and updated the Regents on recent student accomplishments.

University of Michigan-Flint. Provost McLaughlin reported on the recent residency on the Flint campus of Wole Soyinka, Nobel Prize Winning author and playwright.

Michigan Student Assembly Report. MSA President Sarah Boot reported on MSA activities and accomplishments during the past month and described some upcoming activities. She noted that the bus transportation system to the airport for spring break is so popular that it is being offered at a reduced rate, and that MSA plans to institutionalize this program.

Ms. Boot also described a “viewpoint neutral” campus-wide event organized by the MSA Peace and Justice Commission, to educate students about affirmative action at the University. She noted that the MSA External Relations Committee is coordinating a student-led effort to lobby the state legislature to oppose a decrease in higher education funding. Finally, she reported that the annual MSA elections will take place in March.

Voluntary Support. Vice President May submitted the report of voluntary support for January 2003. He thanked Vice President Wilbanks for her leadership in the role of interim vice president for development during the past year.

Personnel Actions/Personnel Reports. Provost Courant submitted a number of personnel actions and personnel reports. He called attention to the appointment of Peter Polverini as dean of the School of Dentistry. He noted that five faculty members were being recommended for appointment as Thurnau professors, in recognition of their outstanding efforts in undergraduate teaching. He highlighted the extraordinary contributions of one of these faculty, Timothy R. B. Johnson, M.D. Regent Newman noted that she is personally acquainted with Dr. Johnson and attested to his love of teaching. She also pointed out that Dr. Johnson has the additional assignment of chair of the search committee for the executive vice president for medical affairs.

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. Provost Courant submitted final degree lists for the December 2002 commencement and changes to previously approved degree lists. Copies of these documents are on file in the Office of the Vice President and Secretary of the University.

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

Sale of Tax Exempt Commercial Paper to Finance University Projects

On a motion by Regent McGowan, seconded by Regent Brandon, the Regents unanimously authorized an increase of up to \$4.5 million in the amount outstanding under the commercial paper program. The total amount outstanding after this approval will be \$117 million, which is within the \$120 authorized.

Alternative Asset Commitment (*Avenue Special Situations Fund III, L.P.*)

On a motion by Regent McGowan, seconded by Regent Maynard, the Regents unanimously approved commitment of \$30.0 million from the Long Term Portfolio to Avenue Special Situations Fund III, L.P., a distressed debt fund.

Alternative Asset Commitment (*LBA Realty Fund, Inc.*)

On a motion by Regent McGowan, seconded by Regent Deitch, the Regents unanimously approved commitment of \$15.0 million from the Long Term Portfolio to LBA Realty fund, Inc., a real estate fund.

Parking Services Year 2003 Annual Maintenance Program

On a motion by Regent White, seconded by Regent Maynard, the Regents unanimously approved the Parking Services Year 2003 Annual Maintenance Program 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 Hall Neuroscience Program Expansion

On a motion by Regent White, seconded by Regent Taylor, the Regents unanimously approved the East Hall Neuroscience Program Expansion 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) 2101 Commonwealth Building Ambulatory Adult Psychiatry Services Leasehold Improvements

Interim Executive Vice President Greenfield clarified that the estimated cost of the project is \$1.9 million. On a motion by Regent Brandon, seconded by Regent Taylor, the Regents unanimously approved the University of Michigan Hospitals and Health Centers Ambulatory Adult Psychiatry Services Leasehold Improvements Project as described in the Regents Communication.

Authorization for University to Amend a Lease with First Properties Associates for Leasehold Improvements

On a motion by Regent McGowan, seconded by Regent White, the Regents unanimously approved amendment of an existing lease with First Properties Associates for property located at 2101 Commonwealth Boulevard in order to add 6,619 gross square feet of space to the existing lease, as described in the Regents Communication. Because William C. Martin, University of Michigan athletic director, is also a partner in First Properties Associates and president of First Martin Corporation, which is general partner, this contract and leasehold improvements fall under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements.

1. The parties to the lease, which provides some residual benefit after expiration of the six-year lease to the Landlord, First Properties Associates, are the Regents of the University of Michigan and its Ambulatory Adult Psychiatry Services, and First Properties Associates.

2. The service to be provided is the lease of 6,619 additional gross square feet of space at 2101 Commonwealth Boulevard, Ann Arbor, MI for six years, beginning January 01, 2003 through March 31, 2009, at an incremental monthly rate of \$11,062. The leasehold improvement may provide residual benefit to the Landlord after expiration of the six-year lease. The estimated cost of the leasehold improvements is \$1,215,000 and will be reimbursed by the University.
3. William C. Martin's pecuniary interest arises from the fact that he is a partner in First Properties Associates and president of First Martin Corporation, the General Partner.

Purchasing Contract with Monoky & Associates

On a motion by Regent McGowan, seconded by Regent White, the Regents unanimously approved a purchasing contract with Monoky & Associates. Because John F. Monoky is a University of Michigan employee and is also the principal consultant of Monoky & Associates, 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 School of Business Administration's Executive Education Center and Monoky & Associates.
2. The product provided is textbooks, purchased during the time period beginning July 1, 2002 and ending June 30, 2003, at a total cost not to exceed \$7000.00.
3. The pecuniary interest arises from the fact that John F. Monoky, a University of Michigan employee, is principal consultant of Monoky & Associates.

Approval of Payment for Gladwin Center

On a motion by Regent Brandon, seconded by Regent Deitch, the Regents unanimously approved payment by the plant department of a facility fee to Gladwin Center. Because the owner of Gladwin Center, Thomas Gladwin, 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 Plant Extension Department, and Gladwin Center.
2. The service provided was a facility rental for a retreat conducted on December 2, 2002, for a total dollar amount of \$90.00.

3. Thomas Gladwin's pecuniary interest arises from the fact that he is the sole owner of Gladwin Center.

Research Agreement between the University of Michigan and the Transplantation Society of Michigan

On a motion by Regent White, seconded by Regent Maynard, the Regents unanimously approved a research agreement between the University of Michigan and the Transplantation Society of Michigan. Because Dr. Akinlolu Ojo, a University of Michigan employee who is principal investigator of the project, also hold positions as a member of the board of directors, vice chair of the Scientific Affairs Committee, and treasurer for the Transplantation Society 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 Transplantation Society of Michigan.
2. Under terms of the agreement, the total award to the University of Michigan will be \$918,300. A total subcontract of approximately \$385,000 is planned for the Transplantation Society of Michigan covering the period July 1, 2002, through June 30, 2007.
3. Dr. Akinlolu Ojo has no pecuniary interest in the agreement, as his positions at the Transplantation Society of Michigan are without compensation.

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

On a motion by Regent White, seconded by Regent Maynard, the Regents unanimously approved a subcontract agreement with Veridian Systems Division, Inc., involving a contract received by the University from the Office of Naval Research for the project, "Design of a High-Speed Friction Drag Reduction Experiment Using the William B. Morgan Large Cavitation Channel." Because Dr. David Walker of Veridian Systems Division, Inc., who will be a key collaborator on this project, also holds a 0% appointment as an associate research scientist 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 Office of Naval Research contract contains standard terms and conditions. The proposed subcontract to Veridian Systems Division, Inc., is for \$325,088 for the period covering November 26, 2002 through April 26, 2003. The University's standard subcontract provisions will apply.
3. Dr. Walker has no pecuniary interest in the agreement.

Subcontract Agreement between the University of Michigan and KeraCure, L.L.C.

On a motion by Regent Brandon, seconded by Regent Maynard, the Regents unanimously approved a subcontract agreement between the University of Michigan and KeraCure, L.L.C., through which KeraCure wishes to fund a project with the University for research to be conducted in the Department of Pathology. Because Dr. Riley Rees, a University of Michigan employee, is also co-founder, co-owner, chief technology officer, and consultant to KeraCure, 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 KeraCure, L.L.C.
2. The terms of the agreement conform to University policy. The period of performance for the project is six months and the amount of funding support is \$7,200.
3. Dr. Rees' pecuniary interest arises from his status as an owner, officer, and consultant to KeraCure, L.L.C.

Option Agreements between the University of Michigan and Dentigenix, LLC

On a motion by Regent Maynard, seconded by Regent Brandon, the Regents unanimously approved two option agreements to obtain exclusive worldwide license agreements with Dentigenix for use in the field of dental and cranio-facial tissue regeneration and replacement. Because Drs. Robert Rutherford, William Giannobile, Paul Krebsbach, and David Mooney, all University of Michigan employees, will also ultimately hold an equity interest in Dentigenix,

LLC, these agreements fall under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. Parties to the agreements are the University of Michigan and Dentigenix LLC.
2. Contract terms include:

Field of Use: Dental and cranio-facial tissue regeneration and replacement.

Grant: Option to obtain an exclusive, worldwide license in the field of use.

Option Fee: \$9,000

Patent Costs: Licensee will reimburse the University for costs incurred during the option for UM File No. 1704.

Option Term: Nine months from effective date of December 10, 2002.

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

No use of University services or facilities is obligated under the license agreement.

3. The pecuniary interests of Drs. Rutherford, Giannobile, Kresbach, and Mooney arise from their future ownership interest in Dentigenix. They will waive any personal participation in the sharing of revenue received by the University from the company.

Henry Russel Awards for 2003

President Coleman informed the Regents that the following five faculty members have been selected to receive Henry Russel Awards for 2003: William V. Giannobile, associate professor of dentistry; Scott J. Hollister, associate professor of surgery in the Medical School, and associate professor of mechanical engineering and applied mechanics and associate professor of biomedical engineering in the College of Engineering; Denise Kirschner, associate professor of microbiology and immunology in the Medical School; John V. Moran, assistant professor of human genetics and assistant professor of internal medicine in the Medical School; and Michael J. Solomon, Dow Corning Assistant Professor of Chemical Engineering, assistant professor of chemical engineering, and assistant professor of macromolecular science and engineering in the College of Engineering.

Change in Reporting Relationship of the Michigan Sea Grant Program

Provost Courant informed the Regents that the administrative and physical home of the Michigan Sea Grant Program is being moved from the College of Engineering on North Campus to the School of Natural Resources and Environment on Central Campus, as described in the Regents Communication.

There being no further business, the meeting was adjourned at 3:10 p.m. The next meeting will take place March 20, 2003.