

## **MAY MEETING, 2004**

*The University of Michigan  
Ann Arbor  
Thursday, May 20, 2004*

The Regents convened at 1:30 p.m. in the Music Room, Henry Ford Estate - Fair Lane, on the campus of the University of Michigan-Dearborn. 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, Executive Vice President Slottow, Vice President and Secretary Tedesco, Vice President Ulaby, and Vice President Wilbanks. Vice President Rudgers was absent.

President Coleman called the meeting to order.

### **Public Comments**

The Regents heard comments from David Boyle, alumnus, on various University topics; and Peter Soppelsa and Jennifer Anderson, students and members of Our Voices Count, on proposed changes to SAPAC. Public comment was continued at the end of the meeting due to the late arrival of the speaker.

### **President's Opening Remarks**

President Coleman commented on the recent events marking the kickoff of the "Michigan Difference" capital campaign and the launching of the Life Sciences Institute. She also reported on recent accolades received by faculty members and on an upcoming event on the Dearborn campus.

## **University of Michigan-Dearborn Health Psychology Program**

Chancellor Little introduced Professor Richard Straub, associate professor of psychology, who had been asked to describe his work in the area of health psychology and outreach to the health care community in southeast Michigan. He noted that this is one example among many activities on the Dearborn campus where the intellectual capital of the campus is being brought to bear on pressing societal problems.

Professor Straub gave a presentation describing the nature and evolution of the graduate program in health psychology, discussing the campus's emerging role as a center for medical education and as a site for focusing the health care debate, and describing some of the research partnerships being developed with local teaching hospitals and medical residency programs.

## **2004-05 General Fund Budget Update**

Provost Courant summarized the current status of development of the 2004-05 General Fund Budget. He noted that the University will have experienced a base budget reduction of almost \$43 million since the beginning of fiscal year 2003-04, with additional one-time cuts of \$29.1 million. In response to this total budget challenge of \$81.8 million, the 2003-04 budget had included expenditure reductions of \$36.9 million and revenue increases of \$44.9 million. Expenditure reductions included elimination of 275 regular staff positions and 50 faculty positions, along with other reductions in a variety of areas. Reductions were also achieved through operating efficiencies in a business processes, energy conservation, and other business and financial operations.

For 2004-05, the governor has recommended a 2% reduction in state appropriation. This, combined with cost increases for continuing operations and other commitments and essential initiatives, totals \$50 million in additional budget challenges that will have to be met. Some

areas, however, will require additional expenditures, such as the Admissions Office and the College of Literature, Science, and the Arts, which will require providing additional class sections to meet the demand. There are also increased costs associated with compliance with government regulations in the research enterprise. Provost Courant reported that \$20 million in additional base reductions in General Fund expenditures are being identified, including 120 regular staff positions, 40 faculty positions, and other personnel cutbacks. Other examples of expenditure reductions include elimination of the Office of Information Technology Campus Initiatives, of the Periodic Health Appraisal Unit, and reduction of overtime and shift differentials. There will be fewer course sections offered and selective increases in class size, and the University Library will purchase fewer journal subscriptions and monographs and will reduce service hours.

Provost Courant observed that historically, philanthropy has been essential to the University's achieving and maintaining its status as one of the great public universities. However, philanthropy cannot be expected to cover the essential activities of teaching and learning and the essential infrastructure of classrooms, computers, wiring, and wireless networks that are needed for the best quality of undergraduate education. Thus, maintaining excellence requires both robust philanthropy and robust support from the state. The goals for the Michigan Difference capital campaign were developed with both in mind.

Regent Newman inquired about the impact on the budget of previously announced changes in the staff benefits program and planned reductions in funding for student services. Provost Courant responded that the benefits changes have been incorporated into the cuts for the current fiscal year and the coming fiscal year. Although benefits costs will increase in 2004-05,

the previously enacted changes are resulting in savings of \$3 million over what would otherwise would have been spent.

Regarding possible cuts in the student affairs budget, Provost Courant stated that no final decisions have yet been made in this area. The final budget will adhere to the operating principle of minimizing the impact on students. It was noted that the concerns that recently have been expressed by students relate not to the current fiscal year, but to anticipated cuts in the Division of Student Affairs that may be enacted for 2004-05. President Coleman emphasized that the magnitude of the budget cuts is such that almost every unit is being affected in some way. Contractual obligations and financial aid are the only two areas being held harmless.

Vice President Wilbanks commented that the University is hopeful that the state will be able to meet its previously stated goals with respect to the University's budget, but the situation is evolving and will need to be monitored closely.

### **Annual Promotions to the Ranks of Professor and Associate Professor**

Provost Courant described the annual promotions review process. He reviewed the dossiers of four faculty members as representative of the depth and range of promotion recommendations: Mercedes Pascual, recommended for promotion to associate professor of ecology and evolutionary biology, with tenure, in the College of Literature, Science, and the Arts; William V. Giannobile, recommended for promotion to professor of dentistry, with tenure, in the School of Dentistry; Martin A. Philbert, recommended for promotion to professor of toxicology with tenure in the School of Public Health; and Carol B. Bardenstein, recommended for promotion to associate professor of Arabic languages and cultures, with tenure, in the College of Literature, Science, and the Arts.

Executive Vice President Kelch commented on extraordinary accomplishments of faculty in the Medical School, and highlighted the promotion recommendations for Dr. John Park as associate professor of urology with tenure and Dr. Karin M. Muraszko as professor of neurosurgery with tenure, professor of surgery without tenure, and professor of pediatrics and communicable diseases without tenure.

Chancellor Little noted that the promotions process is the most important element in improving the quality of the Dearborn campus. He highlighted the promotion recommendations for Georgina Hickey as associate professor of history with tenure, and Pravansu S. Mohanty as associate professor of mechanical engineering with tenure.

Chancellor Mestas reported that the Flint campus has recommended 11 candidates for promotion. He highlighted the recommendations of Marva J. Furman for promotion to professor of English with tenure; Steven F. Myers for promotion to professor of biology with tenure; Steven M. Ralston as professor of communication with tenure; and Kirk Aamot for promotion to associate professor of music with tenure.

## **Committee Reports**

**Finance, Audit, and Investment Committee.** Regent Brandon reported that the committee had met that morning. Members received a regular bimonthly update on audit activities from Fred White, interim director of University audits, and discussed the FY05 internal audit plan. He stated that the committee had met privately with Mr. White to inquire as to the level of cooperation he was receiving from University units and management, and were pleased by his response that there was a very receptive environment to the department's internal audit activities.

The committee also was updated on development of the 2004-05 General Fund budget, and received an analysis by University staff members and PricewaterhouseCoopers LLP staff on

the Sarbanes-Oxley legislation, and specifically how the University's current practices compare with "best practices" in the current regulatory environment. He noted that one result of this analysis is that the current charter for the Finance, Audit and Investment Committee will be revised to more closely reflect the new legislation and current "best practices." Regent Brandon also noted that the committee received a regular update on the Life Sciences Initiative.

**Compensation and Personnel Committee.** Regent Maynard reported that the committee had met with President Coleman and then with Provost Courant to discuss personnel issues.

Regent Deitch commented that the entire board shares the view that "bringing ourselves up to the level of best practices and leadership in financial reporting and ethical business standards is a commitment we all have."

The Regents then turned to the regular agenda.

## **Consent Agenda**

**Minutes.** Vice President Tedesco submitted for approval the minutes of the meeting of April 22, 2004.

**Reports.** Executive Vice President Slottow submitted the Investment Report, Plant Extension Report, and the Human Resources and Affirmative Action Report. He noted that the Ann Arbor campus recently received an award from the U.S. Department of Transportation and the Environmental Protection Agency as one of the best places to work as a commuter. The University is the first and only Big Ten institution to receive this award, which recognizes the University's efforts in reducing emissions and reducing the number of cars on campus.

**Litigation Report.** Vice President Krislov submitted the Litigation Report.

**Research Report.** Vice President Ulaby submitted the report of Projects Established, April 1-April 30, 2004.

**University of Michigan Health System.** Executive Vice President Kelch called attention to the recommended appointment of Raymond Ruddon, Jr., M.D., Ph.D. as professor of pharmacology with tenure and senior associate dean for research and graduate studies in the Medical School.

**Division of Student Affairs.** No additional report was submitted.

**University of Michigan-Dearborn.** Chancellor Little reported that the Dearborn campus had had a fabulous campus-wide campaign kickoff event. He said that he views the upcoming campaign as an opportunity to think about the campus's mission and its relationship with metropolitan Detroit and southeast Michigan. Campaign planning has also prompted exploration of growth of the campus in response to the governor's recommendation for increasing the number of undergraduate students being served state-wide.

**University of Michigan-Flint.** Chancellor Mestas stated that he was in support of Chancellor Little's comments.

**Michigan Student Assembly Report.** MSA President Jason Mironov reported that the student government is pleased at the successful campaign kickoff event. They are also pleased by President Coleman's personal commitment to development of the Trotter House. He expressed disappointment that students have not been brought into the process of budget development, and said that he hopes that student involvement in this process will become institutionalized to further student understanding. Mr. Mironov reported on planning being done for upcoming events and information gathering and dissemination on issues of importance to students. He addressed concerns that have been expressed about buses sent to Washington and funded by MSA in support of a March for Choice. He noted that efforts are being made to emphasize the assembly's support for students of all political views.

The Regents expressed support for the idea of involving students from all three campuses in the budget process.

**Voluntary Support.** Vice President May submitted the report of voluntary support. He reviewed the objectives of the Michigan Difference campaign, noting that the goals are a minimum of \$400 million toward student scholarships and fellowships; \$425 million in faculty support; funding for a wide array of research support programs; in excess of \$500 million for buildings and facilities; and \$150 million for laboratories infrastructure. He also commented on the importance of bequests, noting that the goal was to receive at least \$400 million in bequest intentions.

**Personnel Actions/Personnel Reports.** Provost Courant submitted a number of personnel actions and personnel reports.

**Retirement Memoirs.** Vice President Tedesco submitted 20 faculty retirement memoirs. Provost Courant called attention to the retirements of Richard Crawford, professor in the School of Music, and Reynolds Farley, professor of sociology.

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

**Degrees.** There were 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.

#### **Alternative Asset Commitment (DCM IV L.P.)**

On a motion by Regent Brandon, seconded by Regent Deitch, the Regents unanimously approved commitment of \$10.0 million from the Long Term Portfolio to DCM IV L.P., a venture capital limited partnership.



### **Alternative Asset Commitment (*Emergence Capital Partners, L.P.*)**

On a motion by Regent Brandon, seconded by Regent Deitch, the Regents approved commitment of \$5.0 million from the Long Term Portfolio to Emergence Capital Partners, L.P., a Silicon Valley-based venture capital fund that will provide growth capital to early and development stage technology-enabled service companies.

### **Alternative Asset Commitment (*Europa Fund II, L.P.*)**

On a motion by Regent Deitch, seconded by Regent White, the Regents unanimously approved commitment of up to €20.0 million from the Long Term Portfolio to Europa Fund II, L.P., a pan-European real estate fund.

### **Alternative Asset Commitment (*HEI Hospitality Fund, L.P.*)**

On a motion by Regent Brandon, seconded by Regent Taylor, the Regents unanimously approved commitment of \$15.0 million from the Long Term Portfolio to HEI Hospitality Fund, L.P., a \$275 million real estate fund.

### **206 Glen Avenue, Ann Arbor, Michigan**

On a motion by Regent White, seconded by Regent Brandon, the Regents unanimously approved acquisition of the property at 206 Glen Avenue, Ann Arbor, Michigan at the negotiated price of \$425,000, subject to the University's satisfying itself with the environmental condition of the site and otherwise completing due diligence.

### **Edward Henry Kraus Building Elevators 1 and 3 Replacement**

On a motion by Regent Maynard, seconded by Regent McGowan, the Regents unanimously approved a project for replacement of Elevators 1 and 3 in the Edward Henry Kraus

Building 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) East Ann Arbor Ambulatory Surgery and Medical Procedures Center**

Executive Vice President Slottow introduced Scott Haywood of Albert Kahn Associates. Mr. Haywood displayed a site plan of the East Ann Arbor properties. He noted that the goals of the project were to create as efficient a floor plan as possible; to create a state of the art facility; and to create a building that blends in and is reflective of the existing architecture while displaying its own unique identity. He noted that the building will be primarily on one level with mechanical and electrical space situated in a lower level. He reviewed the floor plan and then displayed images of the exterior of the building.

It was noted that after the completion of this building and the Rachel Upjohn Building, the entire site could accommodate approximately 800,000 square feet of additional building space, while preserving the natural features of the site.

On a motion by Regent Deitch, seconded by Regent Maynard, the Regents unanimously approved the schematic design for the University of Michigan Hospital and Health Centers' East Ann Arbor Ambulatory Surgery and Medical Procedures Center Project as presented at the meeting.

### **Conflict of Interest Items**

President Coleman announced that the agenda includes 5 conflict of interest items, each of which requires 6 votes for approval. On a motion by Regent Brandon, seconded by Regent Newman, the Regents unanimously approved each of the following items:

### **Lease Amendment with Dong-Soo Kim**

The Regents approved an amendment to an existing lease for property located at 711 Byron Road, Howell, Michigan, owned by Dong-Soo Kim. Because Dong-Soo Kim is also a University of Michigan employee, this lease amendment 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 Dong-Soo Kim, M.D.
2. The current lease between Dr. Kim and the University of Michigan is set to expire on April 30, 2004. The amendment will extend the term of the lease by an additional twenty-four months until April 30, 2006. The University will pay a monthly rate of \$5,197.50 for the remainder of the amended term.
3. The pecuniary interest arises from the fact of Dr. Kim's 100% ownership of the building being leased. Dr. Kim will receive revenues generated by the leasing of the property to the University.

### **Purchasing Contract with Measurement Systems, Inc.**

The Regents approved a purchasing contract with Measurement Systems, Inc. to purchase a four-channel EMG amplifier and power supply. Because Charles B. Woolley, president and shareholder of Measurement Systems, Inc., is also a University of Michigan employee, 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 Biomechanics Research Laboratory, and Measurement Systems, Inc.
2. The product to be provided is an EMG amplifier and power supply at a cost of \$1,480.00.
3. Charles B. Woolley's pecuniary interest arises from his status as president and shareholder of Measurement Systems, Inc.

### **Lease with C-3 Partners**

The Regents approved a lease agreement with C-3 Partners for property located at 535 W. William Street. Because William C. Martin, a partner in C-3 Partners, 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. The parties to the lease agreement are the Regents of the University of Michigan and C-3 Partners.
2. The service to be provided is the lease of the fourth floor at 535 W. William for a period of five years, beginning June 1, 2004 through May 31, 2009, at a monthly rate of \$11,111.00.
3. The pecuniary interest arises from the fact that William C. Martin, a University of Michigan employee, is a partner of C-3 Partners.

### **Amendment to License Agreements between the University of Michigan and Keracure, LLC**

The Regents approved an amendment to two license agreements with Keracure, LLC, to provide for the date upon which the University of Michigan and Wayne State University receive equity in Keracure, certain milestone payments, and payments of patent costs. Because Dr. Riley Rees, a University of Michigan employee, also holds an equity interest in Keracure, this license agreement amendment 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 Keracure, LLC.
2. Licensing terms include:
  - Transfer of equity to Michigan upon closing of the required financing round in June 2004.
  - Payment of a license fee upon first commercial sale.
  - Payment of annual fees and gross sublicensing revenues, of which one-half may be credited prior to first commercial sale.
  - Diligence terms and milestone payments.

3. Dr. Rees' pecuniary interest arises from his ownership interest in Keracure. 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 OncoImmune**

The Regents approved a license agreement with OncoImmune to practice and commercialize a patented invention developed and owned by the University of Michigan, known as "The mammalian target of rapamycin (mTOR) and S6K as targets for tuberous sclerosis" (UM File No. 2404). Because Dr. Kunliang Guan holds an equity interest in OncoImmune and 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 Regents of the University of Michigan and OncoImmune.

2. Licensing terms include:

Equity in the company at a defined valuation.

Royalties to the University scaling down as Net Sales increase.

Royalties of the same on sublicense revenue.

Exclusive right to practice and commercialize the technology, subject to certain rights reserved by the University to practice it for research and educational purposes. The University retains ownership.

Minimum annual royalties beginning in 2011.

Term of the agreement is for the life of the patent.

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

3. The pecuniary interests of Dr. Guan arises from his ownership interest in OncoImmune. He waived any personal participation in the sharing of royalties received by the University from the company.

## **New Intellectual Property Revenue Distribution Policy**

On a motion by Regent White, seconded by Regent Newman, the Regents unanimously approved a revision of the 1996 intellectual property revenue distribution policy. The revised policy follows:

### **Distribution of Revenue from Royalties or Sale of Equity Interest**

#### **Revenue Distribution Plan**

The goals of this revenue distribution plan include creating a strong incentive for faculty participation in technology transfer and supporting further investment in research and technology transfer activities generally. All net revenues, aside from those going to inventors, resulting from this plan should be used broadly for research and educational purposes. The distribution formula is divided into three revenue categories:

- (a) Net revenue derived from intellectual property up to \$200,000 will be distributed as follows: 50% to the inventors, 17% to the originating department, 18% to the originating school or college, and 15% to the central administration.
- (b) Net revenue derived from intellectual property over \$200,000 and up to \$2 million will be distributed as follows: 30% to the inventors, 20% to the originating department, 25% to the originating school or college, and 25% to the central administration.
- (c) Net revenue derived from intellectual property over \$2 million will be distributed as follows: 30% to the inventors, 35% to the originating school or college, and 35% to the central administration.

The foregoing revised revenue distribution plan will apply only to licenses (including options) and assignments that are granted after the Regents approve this revised plan. This revised distribution plan may be applied to existing licenses and assignments by agreement between the Vice President for Research and the relevant unit(s) provided that the inventor's share will not thereby be disadvantaged.

Insofar as the overall allocation of revenues derived from intellectual property between faculty and the University remains as described above, Executive Officers may determine how to allocate the University portion in accord with University budget authority. Any change in the overall allocation between inventors and the University will require Regental approval.

#### **Faculty Option to Redirect Personal Portion of Revenue Distribution**

Faculty will have the option of directing the University to allocate all or some portion of their personal share to a University unit.

#### **Patent Cost Recovery**

Beginning in FY2005, patent expenses above the annual central budget allocation, such allocation not to fall below \$800,000 in any fiscal year, will be recovered from all IP revenues prior to any distribution, thus sharing this expense across all inventors and units.

#### **Faculty Ownership of Equity**

In cases where an inventor obtains ownership interests in a business entity as a result of a grant of intellectual property rights by the University to the entity and/or as compensation for consulting by the inventor associated with a transfer of Intellectual Property rights, and in cases of reassignment to inventors, any resulting revenues to the University as the result of such grant will be distributed only to the originating unit(s), the Schools or Colleges, and the central administration.

The inventor(s)' potential for revenue under the University's standard distribution plan outlined above is exchanged for the potential rewards from the license or assignment.

#### **Exceptions**

In exceptional cases, in order to benefit the University, the vice president for research, in consultation with the relevant unit(s), may make modifications in this distribution plan and shall record a description of the exceptional circumstances.

Equity received by the University as a result of technology transfer shall be treated in accordance with applicable University policy.

### **Approval of Academic Calendar for 2006-2007**

On a motion by Regent White, seconded by Regent Taylor, the Regents unanimously approved the 2006-2007 academic calendar for the Ann Arbor campus.

### **Approval of Changes to Academic Calendars for 2004-2005 and 2005-2006**

Provost Courant submitted a request to revise previously approved academic calendars for Winter terms 2005 and 2006 to eliminate the overlap of the Horace H. Rackham School of Graduate Studies commencement exercises and the last day of final exams.

Regent McGowan inquired whether the dates of the 2005 winter vacation correspond to the dates of the Ann Arbor Public Schools (AAPS) winter vacation. Provost Courant responded that the dates of the two vacations are always coordinated and that they were the same but he would check again and report back.

Regent McGowan said that “on that condition” she would move approval of the changes to the academic calendars for 2004-2005 and 2005-2006, as described. Regent Deitch seconded the motion, and it was approved unanimously. [Note: Subsequent to the meeting it was learned that the 2005 AAPS set its winter vacation so as not to coincide with the University’s vacation, due to the early occurrence of Easter in 2005.]

### **Public Comments, Continued**

The Regents heard comments from Jon Manning, vice president of Flint STRIVE, regarding proposed purchase of 1108 Lapeer Street in Flint from the University of Michigan-Flint.

The Regents requested feedback from the administration on the proposal put forth by Mr. Manning.

There being no further business, the meeting was adjourned at 3:40 p.m. The next meeting is scheduled for June 17, 2004.