

JUNE MEETING, 2009

*The University of Michigan
Ann Arbor
June 18, 2009*

The regents convened at 3:00 p.m. in Regents' Room. Present were President Coleman and Regents Darlow, Deitch, Maynard, Ilitch, Newman, Richner, Taylor, and White. Also present were Vice President and Secretary Churchill, Vice President Lampe, Chancellor Little, Vice President May, Chancellor Person, Executive Vice President Pescovitz, Vice President Scarnecchia, Executive Vice President Slottow, Provost Sullivan, and Vice President Wilbanks. Vice Presidents Forrest and Harper were absent.

Call to Order and President's Opening Remarks

President Coleman called the meeting to order, noting that this is the meeting at which the board considers the recommended budget for the upcoming fiscal year. She commented that given its national and international standing, its scholarly breadth, the top ranking of most of its schools and colleges, and the opportunities offered to students and to faculty, the University of Michigan stands alone among its peer public and private research institutions that are members of the Association of American Universities. She emphasized the importance of maintaining these strengths during this tough economic time when the University is critical to the future wellbeing of the state's youth and to its economic recovery.

President Coleman stressed that the University's financial condition is very stable because of the leadership of the Board of Regents and the diligence of the financial team, and that it is crucial not to lose this stability or the ability to attract top faculty, staff, and students. Noting that "where we place our resources shapes the future direction of the institution," she described four critical facets of University activity that have led to the University's current

stability and performance and that have influenced the decisions made in developing the budget. These include 1) being aggressively focused on “market presence,” which has resulted in strong admissions, steady growth in research funding, strong faculty hiring, and productive faculty; 2) generating record levels of funding, both for research and from donors, despite the economic downturn; 3) being insistent about controlling costs across all facets of the institution, including requiring all units to accept budget cuts of from 1 to 3 percent; and 4) maintaining a strong balance sheet, excellent bond rating, and prudent investment strategy.

President Coleman praised the leadership of the regents, noting that administrators have met repeatedly with board members over a period of many months to review the institution’s finances and that she has “never, ever worked with a governing board as engaged and thorough as ours” or who have shown such attention to detail. She thanked them for their hard work throughout the year and thanked Regent White for her leadership as chair during this extremely challenging year.

President Coleman noted that the budget recommendation was constructed with the goal of emerging as a stronger institution and advancing against our global peers. She pointed out that many deans were in attendance at the meeting, and that their leadership is critical to the University’s success.

Public Comments

The regents heard comments from Jonathan Ettinger, student, about lack of proper conduct by administrators at the University of Michigan-Flint.

Comments from Regent White

Regent White said that as this was her last meeting as chair of the Board of Regents, she wanted to thank the regents for being so gracious and working so well together and to thank

Regent Richner for his work as vice chair and for his oversight of the Personnel, Compensation and Governance Committee earlier in the year. She also thanked Regent Darlow for her outstanding leadership as chair of the Personnel, Compensation and Governance Committee and thanked President Coleman and the executive officers for their support throughout the year.

Election of Board Officers for 2009-2010. Regent White moved the nomination of Regent Andrew Richner as chair of the Board of Regents and Regent Julia Darlow as vice chair, effective July 1, 2009, through June 30, 2010. Regent Maynard seconded the motion.

Regent Richner commended Regent White's service as chair. He noted that the office of board chair is a relatively recent phenomenon at this university and that it is continually evolving. Regarding Regent White, he said "She has brought order to a disordered environment, and she has been fair, considerate and well-prepared. I really appreciate the work you've done as chair, and I will try to follow in your footsteps."

The vote was then taken, and Regent White's motion was approved unanimously.

Committee Reports

Finance, Audit and Investment Committee. Regent White reported that attendees at that morning's meeting had included Regents Ilitch and Maynard, Executive Vice President Slottow, and for part of the meeting, President Coleman. Agenda topics included a review of the FY 2009 Internal Audit Risk Assessment and FY2010 Audit Plan, with Carol Senneff, executive director of University audits, and Rowan Miranda, associate vice president for finance. The committee also conducted its annual review of the president's travel and hosting expenses.

Personnel, Compensation and Governance Committee. Regent Darlow, chair of the Personnel, Compensation and Governance Committee, reported that the committee had met that

morning with she and Regents Newman and Taylor in attendance, along with Vice President Churchill, Provost Sullivan, and for part of the meeting, President Coleman.

The committee reviewed with Provost Sullivan questions formulated by the Federal Integrated Postsecondary Educational Data System relating to race and ethnicity, which will be required on admissions applications in the future. The provost also reviewed a change in the reporting structure for the Digital Media Commons and gave a report on pending searches. Other agenda items included review of a two “housekeeping” bylaw amendments which will be posted in the near future, and reports from each campus’s Committee on the Economic Status of the Faculty (CESF). Professors Askari, Thouless, Dorfman, and Strandholm, CESF representatives from each campus, joined the committee for the CESF discussion, and they will present their reports at the formal board meeting in July.

President Coleman then turned to the consent agenda.

Consent Agenda

Minutes. Vice President Churchill submitted for approval the minutes of the meeting of May 14, 2009.

Reports. Executive Vice President Slottow submitted the Investment Report, Plant Extension Report, and the University Human Resources Report. He reported that with the completion of the purchase of the Pfizer property, which includes 1500 surface parking spaces with 780 spaces in structures, the University plans to pause indefinitely its planning for the Wall Street parking deck and office building. The planned demolition of some buildings on Wall Street this summer will create an additional 200 parking spaces there, so this, along with the existing 360 spaces in that area, should meet the additional demand created by the opening the new Kellogg Eye Center in 2010. Executive Vice President Slottow also commented that Ann

Arbor city officials have approached the University about a potential collaboration to address mutual parking interests and the possible creation of a Fuller Road intermodal transportation station. Those ideas, along with placing a hold on the North Campus parking deck, will be presented during the parking and transportation update at the July regents' meeting.

Executive Vice President Slottow also announced that the house officers agreement has been ratified.

Litigation Report. Vice President Scarnecchia submitted the Litigation Report.

Research Report. The Report of Projects Established, May 1 – May 31, 2009 was submitted.

University of Michigan Health System. Executive Vice President Pescovitz reported that while hospitals across the country are facing unprecedented economic difficulties, the University of Michigan Health System is quite stable. Although it did not meet its economic target, she noted, the system is ending the year with a positive margin. She praised the contributions of the Health System's "excellent operational team."

Division of Student Affairs. In Vice President Harper's absence, Associate Vice President Anjali Anturkar reviewed the request for the University Health Service fee increase.

University of Michigan-Flint. Chancellor Person highlighted the recommended appointment of Barbara Kornblau as dean of the School of Health Professions and Studies and called attention to several other transitions occurring in the administrative leadership on the Flint campus. She reported on the status of the reaccreditation process currently underway on the Flint campus.

University of Michigan-Dearborn. There was no additional report from the Dearborn campus.

Michigan Student Assembly Report. Mr. Abhishek Mahanti, president of Michigan Student Assembly, reported that members of MSA intend to travel regularly to the state capital to reinforce the importance of funding for higher education.

Voluntary Support. Vice President May submitted the report of voluntary support for May 2009.

Personnel Actions/Personnel Reports. Provost Sullivan submitted a number of personnel actions and personnel reports. She called attention to the recommended reappointment of Frank Ascione as dean of the College of Pharmacy and the recommendation for the appointment of Gregory Carett as interim dean of the School of Kinesiology.

Retirement Memoirs. Vice President Churchill submitted 7 faculty retirement memoirs.

Memorials. No deaths of active faculty members 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 Newman, seconded by Regent White, the regents unanimously approved the consent agenda.

Report of University Internal Audits, March through April 2009

Executive Vice President Slottow submitted the report of the Office of University Audits activities for the period March through April 2009.

Alternative Asset Commitment

On a motion by Regent White, seconded by Regent Maynard, the regents unanimously approved commitment of \$7.5 million from the Long Term Portfolio to Andreessen Horowitz Fund I, L.P.

Engineering Programs Building Addition

On a motion by Regent White, seconded by Regent Maynard, the regents unanimously approved issuing the Engineering Programs Building Addition Project for bids and awarding construction contracts, providing that bids are within the approved budget.

George Granger Brown Memorial Laboratories Mechanical Engineering Addition

Executive Vice President Slottow observed that, although this project has been the highest priority in the University's state capital outlay request for a number of years, the decision has been made to go ahead with it independent of the capital outlay process. He said that funding for the project is dependent on receipt of a construction grant of \$10 million that has been applied for through the American Recovery and Reinvestment Act of 2009. On a motion by Regent White, seconded by Regent Maynard, the regents unanimously approved the George Granger Brown Memorial Laboratories Mechanical Engineering Addition Project as described, and authorized commissioning Perkins+Will and Integrated Design Solutions for its design.

Kresge Complex Demolition

On a motion by Regent White, seconded by Regent Maynard, the regents unanimously approved the Kresge Complex Demolition Project as described, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved project budget. It was noted that this project would take about 14 months to complete.

Intercollegiate Soccer Stadium

Executive Vice President Slottow introduced Derek W. Dinkeloo, senior associate of TMP Associates Inc., to present the proposed design of the soccer stadium. Mr. Dinkeloo displayed a site map indicating the location of the facility in relation to the tennis and gymnastics

facilities. It was noted that this stadium would be used for both men's and women's soccer competition. He then reviewed schematic designs for each portion of the project and displayed a rendering of the completed structure.

On a motion by Regent Taylor, seconded by Regent Deitch, the regents unanimously approved the schematic design for the Intercollegiate Soccer Stadium Project as presented at the meeting.

Conflict of Interest Items

President Coleman announced that the agenda includes 7 conflict of interest items, each of which requires 6 votes for approval. Because Regent Darlow requested to be recused from voting on one of these items, that item would be considered separately and the other six were considered as a block. On a motion by Regent Newman, seconded by Regent Taylor, the regents unanimously approved the following agreements, with Traverwood III, LLC, 1250 N. Main LLC, the University of Michigan Credit Union, Adaptive Materials, Inc., Seventh Sense Biosystems, Inc., and Arbor Photonics, Inc.:

Authorization to enter into a Lease Amendment Agreement with Traverwood III, LLC

The regents approved entering a lease amendment agreement for 27,443 square feet of property located at 2025 Traverwood, Ann Arbor, Michigan, to be leased from Traverwood III, LLC. Because William C. Martin, a University of Michigan employee, is also a member of Traverwood III, LLC, 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 amendment agreement are the Regents of the University of Michigan and Traverwood III, LLC.
2. The service to be provided is the lease amendment of 27,443 square feet in a building at 2025 Traverwood, Ann Arbor, Michigan for two years, beginning July 1, 2009 through June 30, 2011, at a monthly rate of \$52,599.00. Tenant will be responsible

for gas, electric, water and sewer usage plus janitorial service. Tenant will be responsible for a portion of the operating expenses of the building.

3. The pecuniary interest arises from the fact that William C. Martin, a University of Michigan employee is a member of Traverwood III, LLC.

Authorization to enter into a Lease Amendment Agreement with 1250 N. Main LLC

The regents approved a lease amendment agreement for 14,000 square feet of property located at 1250 North Main Street, Ann Arbor, Michigan, to be leased from 1250 N. Main LLC. Because Peter T. Allen, a University of Michigan employee, is also a member of 1250 N. Main 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 lease amendment agreement are the Regents of the University of Michigan and 1250 N. Main LLC.
2. The service to be provided is the lease amendment of 14,000 square feet in a building at 1250 North Main Street, Ann Arbor, Michigan, for 45 days, beginning July 16, 2009 through August 29, 2009, at a monthly rate of 18,666.67. Tenant will be responsible for gas, electric, and water and sewer usage plus janitorial service. Tenant will be responsible for a portion of the operating expenses of the building.
3. The pecuniary interest arises from the fact that Peter T. Allen, University of Michigan employee, is a member of 1250 N. Main LLC.

Agreement with the University of Michigan Credit Union

The regents approved a program agreement between the Ross School of Business and the University of Michigan Credit Union (“UMCU”) whereby the UMCU would offer private educational loans to international MBA students. Because Terry K. Adams, M. Robert Fraser, Karen L. Gibbons, Paul S. Kirsch, and James W. Middlemas, University of Michigan employees, would be party to the contract as board members of UMCU (within which Mr. Fraser, Ms. Gibbons, and Mr. Middlemas serve as chair, secretary, and treasurer, respectively), 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 contract are the Regents of the University of Michigan and its Stephen M. Ross School of Business (“RSB”) and the University of Michigan Credit Union (“UMCU”).
2. The one year agreement is for the UMCU to issue private educational loans to 1st and 2nd year international MBA students for the 2009-2010 academic year, and for the RSB to guarantee each student loan up to 85% of the loan amount. Line of credit limits will be \$65,000 per student per academic year and may be adjusted as determined by the Financial Aid Office. The draw period will range from one to two years in order for 1st year students to complete the two-year program. The student loans will have a variable interest rate ranging from 4.5% to 18%, no origination nor prepayment fees and repayment terms of 20 years.
3. The pecuniary interest arises from the fact that University of Michigan employees Terry K. Adams, M. Robert Fraser, Karen L. Gibbons, Paul S. Kirsch, and James W. Middlemas, are board members of UMCU wherein Mr. Fraser, Ms. Gibbons and Mr. Middlemas are executive board members as chair, secretary and treasurer, respectively.

Subcontract Agreement between the University of Michigan and Adaptive Materials, Inc.

The regents approved a subcontract agreement with Adaptive Materials, Inc. (“Company”) which will enable the Company to subcontract a portion of the work involved in a contract it has received from the Defense Advanced Research Projects Agency to the University. The principle investigator of the work to be done at the University will be Andrew Tadd. Because Dr. John Halloran, a University of Michigan employee, is also co-founder and holder of a minority ownership interest in Adaptive Materials, Inc., 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 Adaptive Materials, Inc.
2. The University’s standard contract provisions will apply to the University’s part of the project. Under the project, a total subcontract of \$561,344 is anticipated to cover a period of thirty (30) months. Since agreements are often amended, the contract will include provisions for changes in time, amount, and scope of the project. University procedures for approval of these changes will be followed and additional conflict of interest review will be done as appropriate.
3. The pecuniary interest of Dr. Halloran arises from his status as co-founder and holder of minority ownership interest in Adaptive Materials, Inc.

Amendment to Patent License Agreement between the University of Michigan and Seventh Sense Biosystems, Inc.

The regents approved a patent license agreement with Seventh Sense Biosystems, Inc. (the “Company”) which will allow the Company to add one new technology file to its existing patent license agreement: UM OTT File #4260, “Multiphasic Microfibers for Spatially Guided Growth.” Because Dr. Joerg Lahann, a University of Michigan employee, is also part owner of the Company, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. Parties to the agreement are the Regents of the University of Michigan and Seventh Sense Biosystems, Inc.
2. License terms include giving the Company an exclusive license with the right to grant sublicenses. The Company will pay for ongoing patent expenses, perform technical diligence, pay royalties on sales and provide equity in the company to the University. The University will retain ownership of the licensed technology and may continue to further develop it and use it internally. No use of University services or facilities, nor any assignment of University employees, is obligated or contemplated under the agreement. Standard disclaimers of warranties and indemnification apply, and the contract may be amended by consent of the parties. University procedures for approval of these changes will be followed and additional review by the Conflict of Interest Review Committee will be done as appropriate.
3. Dr. Lahann’s pecuniary interest arises from his ownership interest in Seventh Sense Biosystems, Inc.

Equipment Loan Agreement between the University of Michigan and Arbor Photonics, Inc.

The regents approved an equipment loan agreement between the University of Michigan and Arbor Photonics, Inc. (“Company”) for a portion of work subcontracted to the University by the Company under a contract between the Company and the United States Navy. Because Dr. Almantas Galvanauskas, a University of Michigan employee, is also a part owner and member of the board of directors of the Company, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. Parties to the agreement are the Regents of the University of Michigan and Arbor Photonics, Inc.

2. Under the Equipment Loan Agreement, the Company will house the Ultrafast Fiber Laser System (“Equipment”) for a period of three (3) years. The Company will be responsible for the cost of transportation, installation and maintenance of the Equipment, other costs and liabilities related to the Equipment, and shall maintain insurance thereon naming the regents as an additional insured. The terms of the Equipment Loan Agreement will conform to University policy
3. Dr. Galvanauskas’ pecuniary interest arises from his status as part owner and member of the board of directors of the Company.

Exclusive License Agreement between the University of Michigan and Securus Medical, LLC

On a motion by Regent Newman, seconded by Regent White, the regents approved an exclusive license agreement with Securus Medical, LLC (“Company”) that will allow the company to license from the University of Michigan its rights associated with the following technology: UM OTT File No. 3829, “Noncontact Infrared Fiberoptic Device for the Prevention of Esophageal Thermal Injury during Radiofrequency Catheter Ablation.” Regent Darlow abstained from voting due.

Because Professors Hakan Oral and Fred Morady, University of Michigan employees, are also partial owners of the company, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. Parties to the agreement are the Regents of the University of Michigan and Securus Medical, LLC.
2. Agreement terms include granting the Company an exclusive license with the right to grant sublicenses. The Company will pay a royalty on sales and reimburse patent costs. The University will retain ownership of the licensed technology and may continue to further develop it and use it internally. No use of University services or facilities, nor any assignment of University employees, is obligated or contemplated under the agreement. Standard disclaimers of warranties and indemnification apply, and the agreement may be amended by consent of the parties. University procedures for approval of these changes will be followed and additional conflict of interest review will be done as appropriate.
3. The pecuniary interests of Drs. Oral and Morady arise from their ownership interest in Securus Medical, LLC.

Technology Transfer Policy Changes

The Office of the Vice President for Research and the Office of Technology Transfer submitted proposed modifications to the current Technology Transfer Policy that was last modified effective January 1, 2007. The most substantive change modifies ownership provisions for intellectual property created by students in an effort to promote student entrepreneurship. Other changes are outlined in the Regents Communication. The revised Technology Transfer Policy will be printed as an appendix to the Regents Proceedings for June 2009. [INSERT POLICY IN APPENDIX.]

Modification to the Organization of the Depression Center

Executive Vice President Pescovitz reported on certain organizational changes that have been made in the organization of the Depression Center. Among these changes are that the executive director of the Depression Center will now report to the chair of the Department of Psychiatry instead of the dean of the Medical School.

Center for the Study of Complex Systems, College of Literature, Science, and the Arts

On a motion by Regent Taylor, seconded by Regent Maynard, the regents authorized the Center for the Study of Complex Systems to become a unit that can recommend faculty for tenured appointments and serve as a tenure home for these faculty.

Michigan Health Corporation (MHC) Annual Business Plan

On a motion by Regent White, seconded by Regent Maynard, the regents unanimously approved the MHC FY2010 Annual Business Plan and Budget.

Approval of Academic Calendars for 2010-2011 and 2011-2012 for the University of Michigan-Dearborn Campus

On a motion by Regent White, seconded by Regent Maynard, the regents unanimously approved the academic calendars for 2010-2011 and 2011-2012 for the University of Michigan-Dearborn campus.

New Undergraduate Degree Program, “Bachelor of Social Work,” School of Education and Human Services, University of Michigan-Flint

On a motion by Regent Newman, seconded by Regent Maynard, the regents unanimously approved establishment of a “Bachelor of Social Work” degree, to be offered by the School of Education and Human Services at the University of Michigan-Flint. This degree replaces the degree, “Bachelor of Arts in Social Work.”

New Graduate Degree Program, “Master of Arts in Art Administration,” College of Arts and Sciences, University of Michigan-Flint

On a motion by Regent Maynard, seconded by Regent Darlow, the regents unanimously approved establishment of a new degree program, “Master of Arts in Art Administration,” to be offered by the College of Arts and Sciences at the University of Michigan-Flint.

Approval of the University of Michigan-Flint 2009-2010 Housing Residence Hall Rates

On a motion by Regent Taylor, seconded by Regent White, the regents unanimously approved a proposed average room rate increase of 1.75% for University of Michigan-Flint Housing residence hall rates, as described in the Regents Communication.

Following a five-minute break, the regents turned to consideration of the 2009-2010 operating budgets.

Chief Financial Officer’s Report: 2009-2010 Revenue and Expenditure Operating Budgets

Executive Vice President Slottow observed that there are two fundamental concepts that protect the strength of the balance sheet: adhering to core financial principles (conservative

utilization of debt, adherence to a long-range capital investment strategy with emphasis on infrastructure renewal, preservation of endowment funds by adhering to the spending rule, disciplined operating budget strategy, sustained focus on cost controls, and diversifying revenue streams), and maintaining a strong internal control environment. He said that considerable progress has been made over the past five years in adopting best practices as outlined in the Sarbanes-Oxley Act.

Executive Vice President Slottow displayed the University's balance sheet as projected for June 30, 2009. He noted that the positive ratio of assets to liabilities, with net assets of \$8.3 billion, is very healthy, and the relationship of financial assets to debt is also very positive. On the other hand, the newly booked liability of \$1.5 billion in "Other Post-Employment Benefits" (OPEB) is significant, as is the amount of deferred maintenance represented by the physical properties. He pointed out that threats to the balance sheet include the future, quantifiable, liabilities already mentioned and such uncertain risks as the volatility of capital markets, the state of the Michigan economy, rising health care costs, continued growth in energy costs, and competitive pressures in such areas as faculty recruitment and retention, financial aid, and external research funding.

He stated that there are three types of assets: financial assets, physical assets, and human capital. Financial assets consist of short-term working capital and the long-term pool, the latter of which primarily consists of endowments. He recalled that, at the suggestion of Regent Newman, a number of years ago the University started an endowment for the General Fund. This fund has generated \$223 million in new endowment over the last four years and over the long term will have a significant impact in helping to mitigate reduced state appropriation. Other revenue strategies that have been adopted to supplement the General Fund include increasing the federal

indirect cost recovery rate, restructuring or redirecting non-General Fund revenues to support General Fund activities, and internal reallocations. The total impact of using other revenue strategies has been \$60 million on an annual basis.

Executive Vice President Slottow then reviewed the University's commitment to renewal of the physical plant, noting that about \$250 million per year is spent on renovation and that close attention is paid to renovation and maintenance needs for all existing buildings. He also illustrated some of the ways that the University invests in its human capital (faculty and staff).

Prudent liability management has led to the University's receiving the highest possible credit ratings from Standard & Poor's and Moody's, and, due to a prudent debt management policy, a 1.44% cost of debt. In conclusion, he stated that while the annual operating budget is only one indicator of the University's financial condition, the proposed budget is consistent with maintaining the University's overall financial health.

Proposed Ann Arbor General Fund Operating Budget and Student Tuition and Fee Rates for FY 2009-2010

Provost Sullivan recognized Associate Provost Phil Hanlon and other members of the budget team for their extraordinary efforts in developing the budget, and recognized the deans, many of whom were in attendance, who will be charged with helping to implement the budget. She reported that total operating revenues in the current funds budget, which includes all three campuses, will increase from \$5.3 billion to \$5.4 billion (about 3%), and total expenditures will be slightly less, due to the fact that auxiliary activities are allowed to operate with a margin.

Provost Sullivan reported that the General Fund, which supports the University's primary academic missions and represents 28% of the current funds on the Ann Arbor campus, receives revenues from three main sources: state appropriation, tuition and fees, and indirect cost recovery on sponsored research activity. Due to the widespread impact of the global economic

downturn, development of the FY2010 General Fund budget has been particularly complex. The budget proposal incorporates a significant level of cost-reductions and reallocation and incorporates a multi-year view of cost and revenue projections in the face of the dramatic financial challenges the University will face during FY2011 and FY2012. Without proper planning and action this year, she emphasized, the institution will be faced with a situation that would dramatically undermine its quality and mission within a short period of time.

Provost Sullivan listed the five priorities that drove the preparation of the FY2010 General Fund budget: access for students through increases in financial aid; providing modest support for faculty and staff compensation; improved efficiency, with reduced expenditures and cost containment; funding select innovations and new initiatives through reallocation, with a particular focus on economic development activities; and prudent planning in the face of the uncertain state budget situation.

The FY2010 budget includes a 9.5% increase, over \$10 million, in centrally awarded financial aid, bringing the total to almost \$118 million. She noted that given the 2010 and 2011 federal tax credit for tuition, many students and their families will pay less in tuition in 2009-2010 than they did the previous year, even with a tuition increase.

To maintain the University's competitive position, the budget provides modest resources for supporting the faculty and protects the ongoing initiative to reduce the student/faculty ratio by hiring over 100 new faculty members over the next several years. Provost Sullivan reported that the cost containment efforts in the areas of health benefits costs, energy usage, and space utilization that have occurred during the past few years have begun to have an impact, as evidenced by the fact that there will be minimal cost increases or even decreases in costs in these areas in FY2010.

Provost Sullivan reported that all units have been asked to reduce expenditures by 1%, for a total of \$15.2 million. There will be reductions in faculty and staff compensation costs created by the loss of some instructional and staff positions, and innovative organizational models will be explored that will use human resources more efficiently. The budget includes academic program initiatives which are critical elements of a top university; these initiatives will be funded through internal reallocation of resources. Provost Sullivan stated that the University is committed to playing a leadership role in enhancing the economic vitality of the state and the nation, and the FY2010 budget supports a variety of programs that focus on the challenges of innovation and economic development.

Provost Sullivan observed that the FY2010 budget proposal assumes a 3% reduction in state appropriation from that enacted in FY2010, and recognizes the possibility of further reductions in FY2011 or FY2012. She noted that state appropriation will comprise only 22% of General Fund revenue in FY2010, compared to 65% from tuition and fees and 13% from indirect cost recovery and other sources. She also pointed out that the expected state appropriation of \$317 million in FY2010 is \$46 million less than that appropriated in FY2002, and \$104 million less when adjusted for inflation.

The recommended undergraduate tuition increase for FY2010 for the Ann Arbor campus is 5.6% for both residents and non-residents, amounting to an annual increase of \$622 and \$1,868, respectively. Graduate tuition in all categories will also increase by 5.6%. Provost Sullivan compared these rates with those at peer public institutions, most of which face higher percentage increases. In response to a question from Regent Deitch, it was noted that for the past five years, the state of Michigan has ranked 49th out of the 50 states in terms of increases in appropriations to university operating budgets, with increases in funding averaging 3.9% in

Michigan during that period, compared to a national average of 29.2%. Provost Sullivan also pointed out that the proposed tuition rates for non-resident undergraduates are less than those at most peer private institutions. The recommended FY2010 General Fund budget will total \$1,455,010,000, an increase of 3.3%.

Proposed Dearborn Campus General Fund Operating Budget and Student Tuition and Fee Rates for FY 2009-2010

Chancellor Little observed that many of the background assumptions described by Provost Sullivan also apply to the Dearborn campus. He reported that the budget preparation process has undergone the same rigorous process, in a financially constrained environment, for the past six years, and follows the principles of maintaining academic quality, maintaining access for all qualified students, and maintaining a fair, supportive, and encouraging work environment for faculty and staff. Broad input has been solicited from interested parties across campus, and the importance of examining cost containment, cost deferral, and other ways of achieving the budget priorities have been emphasized.

Chancellor Little commented that the aura of years of financial strain is pervasive on the Dearborn campus, and the proposed FY2010 budget is no exception. While it is a very minimal budget with very few new items, it will enable the campus to deliver quality services and provide a high level of access over the next couple of years without severe tuition increases. The recommended tuition and fee increase is 6.7% for undergraduate students and 3.0% for graduate students, with a corresponding increase in financial aid and an additional amount for urgent financial aid needs. The budget also includes a minimal, 2% salary program.

Proposed Flint Campus General Fund Operating Budget and Student Tuition and Fee Rates for FY 2009-2010

Chancellor Person reported that she and her budget team considered multi-year scenarios when constructing the budget. About half of the \$82 million budget is allocated to academic units, 37% is directed to administrative support costs, including student financial aid, and 13% is allocated to costs such as utilities, debt service, and general administrative services. The budget is focused on maintaining academic quality and access, providing a 3% salary program, continued focus on campus health and safety, investment in strategic academic program areas, and an increase of 8.5% in financial aid. The proposed tuition increase is 6.5% for undergraduate students and 4.9% for graduate students.

2009-2010 Fee Assessments for Michigan Student Assembly (MSA), Student Legal Services (SLS), and School/College Governments

Associate Vice President Anturkar submitted a recommendation from Vice President Harper to maintain fee assessments at their current levels of \$7.19 per student per term for MSA, \$6.00 per student preterm for SLS, and \$1.50 per student per term for school/college governments for 2009-2010.

2009-2010 University Health Service Fee

Associate Vice President Anturkar submitted a recommendation from Vice President Harper for an increase of 1.6% (\$2.70) in the University Health Service fee for FY2010, for a new fee of \$171.20 per student per term.

Proposed University of Michigan Hospitals and Health Centers (UMHHC) FY2010 Operating Budget

Mr. Doug Strong, director and chief executive officer, University of Michigan Hospitals and Health Centers, gave a presentation regarding the proposed FY2010 operating budget. He noted that the UMHHC has been listed by Thompson and Reuters as one of the Top 100

hospitals for the fifth straight year, and has been recognized by the Leapfrog Group as one of only 33 hospitals to have met its standards for patient safety. Continuing activity increases and other measures indicate the UMHHC continues to be a provider of choice, and the fact that it has won two “best places to work” awards indicates it is also being recognized as an employer of choice. Mr. Strong said that the UMHHC is proud of its increasing level of commitment to the community.

Mr. Strong emphasized that in FY2008, the University of Michigan Health System (UMHS) served patients from every county in the state, so it continues to be a strong resource for the state of Michigan. The institution had robust growth in discharges and observation in FY2009, and is budgeting for continued growth in FY2010. Other categories of patient activity are also forecasted to grow, confirming the institution’s status as a provider of choice. The FY2010 budget calls for increased capacity to meet the increasing demand.

Challenges for FY2010 include the worsening economy, which leads to increases in charity care and bad debt and decreases in reimbursement rates. At the same time, the institution must focus on maintaining quality and improving patient satisfaction rates while improving the cost per case. Other challenges include increased intensity of competition, the continuing shift of inpatient business to an outpatient setting, aligning staffing levels to changes in activity levels, improving supply utilization, and the uncertainty of the effect of healthcare reform.

Mr. Strong reported that the FY2009 budget called for an operating margin of 3.0%, but is expected to reach only between 0.8% and 1%. The proposed FY2010 budget calls for total operating revenue of \$1.914 billion (an increase of 4.4%) and total expenses of \$1.881 billion (an increase of 3.4%), and a margin of 1.7%. He pointed out that the expense and revenue increases are much lower than in previous years, necessitated by changes in the health care industry. Mr.

Strong concluded with the observation that the Health System remains financially strong, and that it expects continued improvement in patient care quality and safety, patient satisfaction, faculty and staff satisfaction, and financial performance.

FY2010 University of Michigan Athletic Department Budget

Mr. Bill Martin, William R. Shepherd Director of Intercollegiate Athletics, presented the FY2010 Athletic Department budget. He reported that the Michigan Athletic Department has developed a sustainable economic model, operating as one of the very few in the country that is totally self-sufficient, with no funding from the university. The budget will continue to have a surplus, and the department continues to increase revenues from new media contracts and corporate sponsorships. He announced that the Michigan Stadium expansion project is on target for completion in Fall 2010, and the last remaining large capital project involves the renovation of Crisler Arena, which is currently in the planning stages.

Mr. Martin pointed out that since 2002, the department's net assets have seen an annual growth of 16.5%, to a level of \$296 million as of June 2008. The department has operating reserves of about \$27 million and an endowment balance of approximately \$46 million. He reviewed the operating results, noting that in FY 2010 revenue will continue to grow, but investment income will decrease. The department also will transfer \$4.5 million to the deferred maintenance fund. He reported that the renewal rate for season football ticket holders whose seats are subject to the personal seat donation (PSD) is 95%, indicating the stability of the fan base.

A review of the FY2008-2009 operating results indicates that the results will be aligned with the budgeted amounts. The FY2009-2008 budget calls for \$94,449,000 in revenue (an increase of about \$4 million) and \$85,625,000 in expenses (an increase of about \$5.4 million),

with an operating surplus of \$8,824,000, which is a decrease of about \$1.4 million. Much of the increase in expenses is associated with debt service for the various projects underway on the athletic campus.

Mr. Martin explained the reasons why the operating surplus has decreased since reaching a peak in 2006. He noted this is due largely to a one-time offer made to football season ticket holders that generated about \$8 million, to decreases in investment income, and to contributions to the University's general fund for need-based financial aid that has totaled about \$5 million so far.

Discussion of Budget Proposals

Each regent then commented on the budget proposals.

Regent White praised the efforts of Vice Provost Phil Hanlon, Associate Vice Provost Glenna Schweitzer, Assistant Vice Provost Ann Behrens, and all staff members who had participated in development of the budgets for having done a superb job. She said that the approach of taking a long-term view of the effects of the anticipated continuing decline of state appropriation was a wise one. "Insuring the future of this institution is a responsibility we take very seriously," she noted, "and we know the choices we make today will affect generations to come." In expressing her support for the proposed budgets, she expressed pride in the fact that they reflect the University's historical commitment to academic excellence, accessibility, and to playing a leadership role in the state's economic development.

Regent Maynard commented that this has been the most challenging budget process she has participated in since becoming a regent. She said that in view of the fact that budget planning has taken a multi-year approach, that the state appropriation in FY2010 will decrease,

and that the amount of centrally-awarded financial aid will increase substantially, she will vote in support of the proposed tuition increases for all three campuses.

Regent Richner observed that having a son who is entering his senior year in high school, he is mindful of the challenges facing parents and families in the area of the affordability of higher education. He pointed out that decisions about tuition always involve the competing interests of maintaining access and affordability versus providing the resources necessary to sustain the quality of the institution. It is the quality of the outstanding faculty and the opportunities afforded the students who benefit so greatly from these faculty that makes the University great, he said, and it is having adequate financial resources, which are obtained largely from state appropriations and tuition, that enables the University to attract outstanding faculty. Regent Richner stated that he will support the budget proposals because he believes they are based on a set of reasonable assumptions and that they include an appropriate balance of funding to preserve quality while also preserving access and affordability.

Regent Ilitch stated that she would vote against the proposed tuition increases on all three campuses because the current economic crisis requires that the University reevaluate its priorities and budgets and fix its budget crisis from within. She expressed her belief that it is possible to make tough cuts without compromising quality or losing talent. To do this, we need to find new revenue sources and new ways to contain costs, identify additional efficiencies, centralize more functions, and shed units that are ancillary to our core mission. She said that the University cannot operate as if it was immune to the economic crisis, but rather, must “pave the way for innovation and do everything we can to maintain the quality of our university while not passing these costs onto the backs of our students.”

Regent Darlow said that her top priority is to support Michigan undergraduate students and their families. Holding down tuition for undergraduate resident students does not mean undermining the University's substantial investments in new facilities, outstanding interdisciplinary programs, new faculty initiatives and substantial compensation increases in recent years. She pointed out that the amount of revenues to be gained from the proposed undergraduate resident tuition increase is relatively small. For example, a tuition increase of 5.6% for resident undergraduates would raise about \$13 million in additional revenues, or less than 1% of the proposed Ann Arbor campus General Fund budget. She also called attention to the large discrepancy between tuition increases during the past decade and the average annual median income growth in Michigan, and expressed concern about increasing levels of student debt. Regent Darlow also pointed to statistics indicating the increasing stratification of college students, with less privileged Americans with the highest test scores attending college at substantially lower rates than those with higher incomes with the same test scores. While she praised the administration's focus on improving accessibility by increasing need-based financial aid in recent years and in the proposed budget, she said that there are two components to accessibility: financial aid and tuition restraint, and this year the University should provide the benefit of tuition restraint to our Michigan undergraduates and their families.

Noting that this is the first year of his third term as a member of the board, and his 17th budget meeting, Regent Deitch described four reasons why he would be supporting the budget. First, as a devoted alumnus, he believes the University of Michigan is a "unique treasure" and its multi-faceted excellence makes it worth the financial sacrifice of families and students. Second, as a Michigan native who is deeply concerned about both the state and the University, he is convinced that the "wrenching readjustment in the fundamental underpinnings of the state's

economy” that is underway depends on a “superb and vibrant” and excellent University of Michigan, not one that is just another public university. Regent Deitch also cited the outstanding leadership of President Coleman, the executive officers, and other members of the leadership team, and stated that he supports them during these difficult economic times. Finally, he stated that he is willing to “take the heat” in supporting the difficult decision to raise tuition on all three campuses in the face of the current economic reality because the regents’ constitutionally established autonomy requires them to “preserve, protect, and defend the University” by taking a “long and independent view” of what is best for it over the long haul.

Regent Newman commented that as part of the multi-year approach to the budget preparation process this year, it was pointed out that budget forecasters say we could expect a drop of 20% in state appropriation by FY2011, and she does not want to have to face a tuition increase of that magnitude in one year. As a committed “tuition hawk,” Regent Newman emphasized that while she believes the University can do more and she is not happy with the necessity for a tuition increase, she thinks it is important to support students who come to the University of Michigan because of what it is, and to support faculty, staff, deans, and administrators. She pointed out that one of the consequences of consolidation and centralization often is layoffs, which the University has mostly managed to avoid. Noting that people’s lives are at stake in the community and in the state, and that students and families continue to believe that the sacrifices they make to attend the University are worth it, she said she would support the budget.

Regent Taylor stated that he was pleased that in view of the steep increases being enacted at other institutions, the University would be able to hold its tuition increase at 5.6%. This amounts to an increase of \$311 per semester, or \$622 per year, and that if a Michigan resident

were to attend a peer institution in another state their total cost would be 300-400% more than it would cost to attend the University of Michigan. He emphasized that because the budget also calls for \$118 million in centrally-awarded financial aid, a substantial increase over the previous year, the tuition increase would be offset for many of the most needy students. Regent Taylor pointed out the importance of the University Research Corridor, which consists of the University of Michigan and the state's two other leading research institutions, to the state's economic recovery. He cautioned that while it has taken many decades to build the University's reputation as a leading public research university, regents need to be mindful that cutting budgets, closing departments, and instituting layoffs would mean that the University of Michigan would become a different kind of institution. He said he would support the budget as "the right thing to do."

Revenue and Expenditure Operating Budgets for FY 2009-2010

On a motion by Regent Deitch, seconded by Regent Taylor, the regents approved the revenue and expenditure operating budgets for all three campuses for FY2009-2010, with Regents Deitch, Maynard, Newman, Richner, Taylor, and White in favor, and Regents Darlow and Ilitch opposed.

Proposed Ann Arbor General Fund Operating Budget for FY 2009-2010

On a motion by Regent Taylor, seconded by Regent Deitch, the regents approved the proposed Ann Arbor General Fund operating budget for FY 2009-2010, with Regents Deitch, Maynard, Newman, Richner, Taylor, and White in favor, and Regents Darlow and Ilitch opposed.

Proposed Ann Arbor FY 2009-2010 Student Tuition and Fee Rates

On a motion by Regent White, seconded by Regent Deitch, the regents approved the proposed Ann Arbor FY 2009-2010 student tuition and fee rates, as described in the Regents Communication, with Regents Deitch, Maynard, Newman, Richner, Taylor, and White in favor, and Regents Darlow and Ilitch opposed.

Proposed Dearborn Campus FY 2009-2010 General Fund Operating Budget

On a motion by Regent Deitch, seconded by Regent Richner, the regents approved the proposed Dearborn campus FY 2009-2010 General Fund operating budget, with Regents Deitch, Maynard, Newman, Richner, Taylor, and White in favor, and Regents Darlow and Ilitch opposed.

Proposed Dearborn Campus FY 2009-2010 Student Tuition and Fee Rates

On a motion by Regent Maynard, seconded by Regent Taylor, the regents approved the proposed Dearborn campus FY 2009-2010 student tuition and fee rates, with Regents Deitch, Maynard, Newman, Richner, Taylor, and White in favor, and Regents Darlow and Ilitch opposed.

Proposed Flint Campus FY 2009-2010 General Fund Operating Budget

On a motion by Regent White, seconded by Regent Taylor, the regents approved the proposed Flint campus FY 2009-2010 General Fund operating budget, with Regents Deitch, Maynard, Newman, Richner, Taylor, and White in favor, and Regents Darlow and Ilitch opposed.

Proposed Flint Campus FY 2009-2010 Student Tuition and Fee Rates

On a motion by Regent Taylor, seconded by Regent Maynard, the regents approved the Flint campus FY 2009-2010 student tuition and fee rates, with Regents Deitch, Maynard, Newman, Richner, Taylor, and White in favor, and Regents Darlow and Ilitch opposed.

2009-2010 Fee Assessments for Michigan Student Assembly (MSA), Student Legal Services (SLS), and School/College Governments

On a motion by Regent Newman, seconded by Regent Taylor, the regents unanimously approved the 2009-2010 fee assessments for Michigan Student Assembly (MSA) (\$7.19 per student per term), Student Legal Services (SLS) (\$6.00 per student per term), and school/college governments (\$1.50 per student per term). It was noted that these fees are unchanged from 2008-2009.

Proposed 2009-2010 University Health Service Fee

On a motion by Regent Deitch, seconded by Regent Taylor, the regents unanimously approved an increase of 1.6% (\$2.70) in the University Health Service fee for 2009-2010. The new fee will be \$171.20 per student per term.

Proposed University of Michigan Hospitals and Health Centers (UMHHC) FY 2010 Operating Budget

On a motion by Regent Maynard, seconded by Regent Richner, the regents unanimously approved the proposed FY 2010 University of Michigan Hospitals and Health Centers (UMHHC) FY 2010 operating budget, as described in the Regents Communication.

FY 2010 University of Michigan Department of Athletics Operating Budgets

The regents received information regarding the FY 2010 University of Michigan Department of Athletics operating budgets.

Michigan Student Assembly (MSA) Financial Report

The regents received the MSA financial report for December 31, 2008 and December 31, 2007.

There being no further business, the meeting was adjourned at 5:40 p.m. The next meeting will take place July 15, 2009.