

## **JULY MEETING, 2002**

*The University of Michigan  
Ann Arbor  
Thursday, July 18, 2002*

The Regents convened at 1:40 p.m. in the Regents' Room. Present were Interim President White and Regents Brandon, Deitch, Horning, Maynard, Newman, Taylor, and White. Also present were Interim Provost Courant, Vice President Harper, Vice President and General Counsel Krislov, Chancellor Mestas, Executive Vice President Omenn, Vice President Rudgers, Interim Chief Financial Officer Slottow, Vice President and Secretary Tedesco, and Vice President Wilbanks. Regent McGowan was absent, as was Vice President Ulaby.

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

Interim President White called the meeting to order. He welcomed the family of Jim Gartenberg, '87: his wife, Jill Gartenberg, '89; their two children, Nicol and Jamie; his mother, Lois; and a friend, Jill Posnick, '89.

**September 11 Memorial Scholarship Program.** Interim President White noted that Jill Gartenberg and her family represent the families of the 18 known alumni who lost their lives during the September 11 terrorist attacks. He announced that to remember and honor these alumni the University of Michigan is establishing a scholarship program that will provide scholarship support for their children. Interim President White commented that the eligible children will need to be admissible under the conditions and procedures in effect at the time they apply, and that the scholarship will cover full undergraduate tuition and fees in any undergraduate program at the University for as long as the student maintains satisfactory progress toward his or her degree. Both first-year college students and transfer students will be eligible. He noted that

the scholarship has been registered with the September 11 Scholarship Alliance, and that there are 11 known descendants of UM alumni victims.

Interim President White commented that Jim Gartenberg had served “with tremendous enthusiasm, dedication, and effectiveness for 12 years as president of the UM Alumni Club of New York,” and that “he was a quality man in every way.” He expressed the hope that many of the eligible children will take advantage of the opportunity provided by the scholarship.

He called on Jill Gartenberg, who commented that she was honored to be here. She thanked Regents and others who had made it possible for her family to be present on this occasion, as well as Interim President White for initiating the scholarship program. She noted that as president of the UM Alumni Club of New York, her husband had become the spokesperson for alumni in the New York area. She commented that “My husband’s dedication and commitment to the University of Michigan was unparalleled. Since he’s no longer with us, I feel it is only appropriate that I become that spokesperson and that voice for the fellow alumni who we lost on September 11th in the terrorist attacks. We thank you for reaching out to us and to the future generation of Michigan. It gives us such a warm feeling knowing that the Michigan family has truly extended themselves, and we’re proud as ever to bleed maize and blue. Thank you, and Go Blue.”

Applause followed. Interim President White thanked staff who had help set up this project and the Regents for their support of it.

Interim President White called on Regent White, who read the following resolution:

***Regents’ Resolution***

*The Regents of the University of Michigan salute and express their appreciation to Gilbert S. Omenn, executive vice president for medical affairs, as he completes his administrative duties July 31, 2002, to focus full-time on scholarly pursuits.*

*Dr. Omenn has provided strong, effective leadership for the University of Michigan Health System, which consistently ranks in the top tier of the nation's hospitals, medical schools, and health plans. Strongly committed to the ideal of integrated health care, academic medicine, and education, Dr. Omenn maintained the Health System's financial well-being during a challenging period in academic medicine.*

*He championed Michigan's expansion in the life sciences and creation of the Life Sciences Institute. Dr. Omenn launched programs to expand biomedical research and centers for gene therapy and organogenesis research and enhanced the Medical School's academic core through faculty hiring and support, as well as initiatives such as the Biological Sciences Scholars Program. He broke ground for the Biomedical Sciences Research Building and laid the foundation for future capital projects, including the cardiovascular and depression centers, new women's and children's hospitals, and additions to the Kellogg Eye Center and ambulatory care services. He has forged partnerships to bring the University's world-class health care to residents throughout the state and has been extensively and meaningfully engaged with the community. As chair of the Institute of Medicine panel on quality oversight in federal health care, Dr. Omenn continues to make significant contributions to our nation's public health.*

*With respect and gratitude, the Regents commend Gilbert S. Omenn for his distinguished service as the University's first executive vice president for medical affairs and look forward to his continued friendship and contributions as a scholar and adviser.*

Regent White noted that “Gilbert Omenn is one of my best friends in the world,” and expressed her personal thanks as well as that of the Regents, for his service.

A round of applause followed. Executive Vice President Omenn commented that “this is a very meaningful recognition of the five years we’ve been at this together.” He commented that he is proud to have been the first person to have filled this position, and said that the Health System has significantly advanced over the past five years. He pointed out that there are significant challenges ahead, and that he strongly endorses the increased involvement of the Regents in Health System affairs that is likely to result from the Board’s new organizational structure. He thanked the Regents and executive officers for their support.

Interim President White noted that Executive Vice President Omenn and Regent White share the distinction of having served as White House Fellows.

He called on Regent Brandon, who read the following resolution:

### ***Regents' Resolution***

*The Regents of the University of Michigan commend and express their deep appreciation to B. Joseph White, the Wilbur K. Pierpont Collegiate Professor of Leadership in Management Education, as he completes his term as interim president July 31, 2002, and returns to the School of Business Administration.*

*Dr. White, who dedicated his service to the eighteen University alumni lost during the September 11 terrorist attacks, instilled confidence while providing continuity. He appointed talented interim leaders, advanced the Life Sciences Initiative, defended the University's commitment to diversity, and represented the University admirably, in Lansing and nationally.*

*Interim President White brought the same dedication, integrity, and personal warmth to the President's Office that marked his ten years as dean of the School of Business Administration. In a short time, he reached many members of our community—students, faculty, and staff—with his sincerity and openness. He considered it a great privilege to serve the people of the University of Michigan.*

*Together, Mary and Joe White hosted many ceremonial and social events and enlivened our community with their graciousness and hospitality.*

*With deep gratitude for their numerous contributions to the University, particularly for the clear, confident leadership they provided during a time of administrative transition, the Regents congratulate and extend their best wishes to two of the University's most loyal and distinguished citizens, Joe and Mary White.*

A round of applause followed.

Interim President White responded that he and his wife, Mary “both feel it’s been an extraordinary privilege to serve during this transition. We had a great love of the University prior to this experience; we leave with an even greater love and equally, a greater appreciation for our University. It’s really a magnificent institution, comprised of thousands and thousands of extraordinary, outstanding people.” He pointed out that the job has been a tremendous reward in itself, and has been an experience he and Mary would not have missed.

Interim President White called on Representative Christopher Kolb, who presented him with a resolution from the Michigan House of Representatives honoring his tenure as interim president. He noted that Interim President White had accomplished the three goals he’d set forth upon assuming the position: assuring that the University move forward; that it would be left in the best shape possible for the next president; and that his service would be dedicated to

Michigan alumni who perished on September 11. Representative Kolb observed that Interim President White had done an outstanding job of representing the University to the legislative leaders in Lansing, and thanked him for his service on behalf of the entire House of Representatives.

Interim President White thanked Representative Kolb for the resolution and for his service.

### **Introductory Comments - 2002-2003 Revenue and Expenditure Operating Budgets**

Interim Chief Financial Officer Slottow commented that maintaining the University's financial health involves four sets of activities: effectively tracking and managing financial performance; protecting and strengthening the balance sheet; evaluating proposed operating budgets; and identifying long-term financial challenges and developing alternative strategies.

Mr. Slottow further detailed the actions involved in carrying out each of these activities. These include continuing to focus on financial controls and compliance; continuing to gain benefits from administrative system investments; increasing the use of web-based business procedures; continuing to focus on assets, including renewal of the physical plant and aggressive management of financial assets; implementing cash management best practices; and adhering to prudent debt management and aggressive interest expense policies.

Eight key financial challenges for the future were emphasized: 1) meet the continuing demand for new space while maintaining the quality of existing facilities and infrastructure; 2) understand and make strategic information technology investments; 3) respond to uncertainty and volatility in capital markets over time; 4) cope with rising costs of employee health benefits, including retiree dependent benefits; 5) meet the growing demands of research administration and compliance in a more complex regulatory environment; 6) maintain focus on environmental

stewardship; 7) maintain the ongoing focus on medium- and long-term community and regional infrastructure planning; 8) deliver first-class patient care and research while maintaining excellent financial health of the Hospitals and Health System.

Mr. Slottow concluded that the annual operating budget is only one indicator of the University's financial condition, and that the proposed budget is consistent with maintaining the University's overall financial health.

### **Proposed Ann Arbor FY 2002-03 General Fund Operating Budget and Student Tuition and Fee Rates**

Interim Provost Courant commented that the proposed Ann Arbor FY 2002-03 General Fund Operating Budget has the full support of President Elect Coleman. He noted that the total current funds budget for 2002-03 (General Fund, Designated Fund, Auxiliary Activities Fund, and Expendable Restricted Fund) for all three campuses calls for revenues of \$3.959 billion and expenditures of \$3.955 billion.

Interim Provost Courant described the budget building process and thanked everyone involved in it. He noted that among Interim President White's goals when he assumed his position were to maintain the University's momentum and continuity and to assure that the University would be in the best possible health when a new president was named. This budget, he noted, achieves those goals by continuing momentum in the life sciences, in an improved undergraduate experience, in information technology, and in the quality and strength of the institution in terms of research and scholarship. It supports the infrastructure of physical capital, programs, and outstanding faculty and staff that are requisites to providing a superb education. The 2002-03 General Fund Ann Arbor Campus Operating Budget equals \$1,100,600,000.

Interim Provost Courant displayed a chart illustrating the percentage change in the tuition increase compared with the percentage increase in state appropriation over time. He noted that

the proposed 7.9% tuition increase in undergraduate tuition equals \$550 per year per student for a lower division LS&A student with in-state residency.

Interim Provost Courant noted that with many public institutions nation-wide facing budget cuts, the University is grateful for the zero percent appropriations increase being provided by the state, and pointed out that the 7.9% tuition increase being requested is within the 8.5% limit requested by the state. Compared with tuition and fee increases both at other Big Ten universities and at other Michigan public universities, the University is next to last in both categories. He said that the University is unique in guaranteeing sufficient financial aid to cover the need of all resident undergraduate students.

Interim Provost Courant gave examples of how the budget will sustain momentum in the areas of continuing priority, which include the life sciences, undergraduate initiatives, information technology, and maintaining the strength of the faculty through a competitive faculty salary program and improved physical facilities.

Interim Provost Courant commented on the factors that continue to create budgetary pressures. These include benefits costs, administrative information systems, changes in the student mix or in the programs in which students enroll, insurance premiums, physical infrastructure, and conservation and innovation. He described the budget-building process, which every year requires the University to retain faculty and staff, cover benefits increases, increase financial aid to cover tuition increases, cover library acquisition cost increases, meet the year's special challenges, and cover inflation on the rest of the expenditures, and then fund new initiatives.

He noted that at least \$10 million in cost reduction is incorporated into this budget prior to undertaking new initiatives, and provided specific examples, such as requiring units to mount

salary programs and cover inflationary cost increases with budget increases of one percent or less; freezing searches for faculty and staff positions; filling vacancies at the senior level with junior faculty instead; and not replacing retiring staff. He then presented the recommended General Fund budget of \$1,100,600,000 for FY 2003. Revenues include state appropriation of \$363.6 million (0.0% increase); tuition and fees of \$593.5 million (\$52.1 million increase); indirect cost recovery of \$131.8 million (\$6.9 million increase); and other revenue of \$11.8 million (\$1.2 million decrease). Expenditures include \$629.3 million for Schools and Colleges (\$41.7 million increase); \$47.9 million for University academic units (\$1.3 million increase); \$7.8 million for research units (\$0.2 million increase); \$34.4 million for academic program support (\$6.5 million increase); \$212.9 million for executive officer and service units (\$5.8 million increase); and \$168.3 million for University items (\$2.2 million increase). Detailed charts are included in the Regents Communication.

Interim Provost Courant concluded that the budget was developed to articulate a vision of the modern public research university and the roles it can play in the education of undergraduates, the development of knowledge, service to society, and the interactions among these activities.

### **Proposed Dearborn Campus FY 2002-03 General Fund Operating Budget and Student Tuition and Fee Rates**

Chancellor Little announced that the recommended tuition and fee increase for University of Michigan-Dearborn undergraduate and graduate students is 8.5%. This yields total revenues of \$73,458,941 (an increase of \$3,869,000). He expressed gratitude to the governor for his continued commitment to higher education. He noted that universities are very people-intensive and that the budget calls for a modest 3.5% salary program, along with continuation of a program to increase compensation for adjunct faculty. He also highlighted the need for the

campus to be responsive to the community it serves by offering programs of interest to that community. The current budget incorporates these needs by providing funding for expansion in certain programs that have experienced enrollment growth and curriculum balance. Chancellor Little also commented that to ensure accessibility, the Dearborn Campus is committed to increasing financial aid by an amount commensurate with the tuition and fee increase.

### **Proposed Flint Campus FY 2002-03 General Fund Operating Budget and Student Tuition and Fee Rates**

Chancellor Mestas noted that the Flint Campus operating budget was the result of an open, consultative process. He expressed regret that as financial support from the state diminishes, the burden on students increases, leading to the increasing privatization of public education. He announced a proposed tuition and fee increase of \$425 for FY 2002-03. This would be mitigated by a 9.4% increase in financial aid, the same percentage increase as tuition and fees. The proposed overall budget for the Flint campus will be increased by \$2,573,310, with the total going from \$49,704,091 to \$52,277,401.

Chancellor Mestas observed that the Flint campus regrets it does not have additional resources that could be used to reduce the financial burden on students. However, the current budget enables the campus to provide a rich and supportive academic environment; to enhance the competitiveness of faculty and staff compensation; to maintain the campus's physical plant; and to fulfill its civic responsibilities to the city of Flint and the region it serves.

Interim President White commented that he would be leaving the interim presidency with a much enhanced view of the University of Michigan campuses at Dearborn and Flint, and praised the leadership provided by the chancellors.

### **Michigan Student Assembly (MSA) Financial Report**

Vice President Harper noted that the staff of the Division of Student Affairs works with the leadership of Michigan Student Assembly to insure that there is sound financial management of the resources provided by student fees. She called attention to the financial report included with the agenda, which highlights expenditures of MSA fees as of December 31, 2000 and December 31, 2001.

### **2002-03 Fee Assessments for Michigan Student Assembly (MSA), Student Legal Services (SLS), and School/College Governments**

For the 2002-03 fiscal year, Vice President Harper commented that she is supporting an increase of \$1.00 in the fee assessment for MSA (from \$5.69 per student per term to \$6.69 per student per term). This will allow MSA to improve its ability to provide support to student organizations, allowing them to strengthen the leadership capabilities across campus. The recommendation of \$5.50 per student per term for Student Legal Services and \$1.50 per student per term for school and college governments remains unchanged from the previous year.

### **2002-2003 University Health Service Fee**

Vice President Harper presented the recommendation for a 4.8% increase (\$5.65) in the UHS fee, which will yield \$124.15 per student per term. The additional funds will cover inflation plus a variety of educational and preventive campus-wide initiatives. She also introduced Dr. Robert Winfield, director of University Health Service (UHS).

### **Proposed FY2003 University of Michigan Hospitals and Health Centers Operating Budget**

Executive Vice President Omenn referred to the operating budget assumptions included in the Regents Communication. They include a 4.1% growth in adult discharges and a growth of nearly 8% in outpatient charges. The salary program includes a 5.2% salary program for nursing staff and a 3.0% program for other staff. The cost per adjusted case is expected to increase by

only 2.2%, which indicates that productivity gains have been achieved. The operating margin target is 2.0%.

Executive Vice President Omenn stated that the proposed FY2003 budget of \$1,002,900,000 represents a 7.7% increase over the previous year, and includes a projected \$21.2 million operating margin.

### **FY 2003 University of Michigan Department of Athletics Operating Budgets**

Mr. William C. Martin, Donald R. Shepherd Director of Athletics, presented for information the FY 2003 Department of Athletics operating budgets. He observed that the Athletic Department aspires to be the best academically, ethically, athletically, and financially. He pointed out that the fundamental financial principles which undergird the Athletic Department are that it has historically been self-supporting; that it provides adequate funding for all varsity sports to compete nationally, which results in significant grant-in-aid costs, that it fully meets equity goals; and that it has historically relied on limited commercialization.

Mr. Martin reported that due to a 7-game home football schedule in 2002 and 2003, there will be a projected operating surplus for the next two fiscal years, as each extra home game adds \$4 million to the budget. He announced that a deferred maintenance fund will be established in FY 2003 with initial funding of \$2.2 million. In addition, the department has a relatively modest level of debt (\$13 million), a \$20 million endowment fund, and a \$15 million quasi-endowment fund. For FY 2002 the operating surplus of \$5.5 million was \$4.4 million over budget.

Mr. Martin then discussed the less favorable aspects of the department's financial situation. These include the fact that \$10 million to \$40 million is required for facility renewal, and there is a heavy reliance on football attendance and a seventh home game in FY 2003 and FY 2004. In addition, the department's fundraising results lag those of its peers, expenses within

collegiate athletics overall continue to accelerate, and if there are no changes in the status quo, it will be difficult to achieve a balanced budget in the future.

With respect to fundraising, Mr. Martin pointed out that Michigan lags significantly behind peer institutions, and it is crucial that this situation be improved. The University also has the highest expenses for grant-in-aid among its peers. The first priority for a capital campaign will be construction of an academic success center; the goal is to have this project underway by this time next year. Additional capital campaign priorities include a new fieldhouse, new baseball and softball stadiums, a basketball and wrestling practice facility, and Crisler Arena infrastructure improvements.

Mr. Martin noted that the Fiscal Year 2003 budget of \$56,059,000 includes an operating surplus of \$1,825,000. He reviewed facilities needs and projected operating results for the next few years, noting that the lack of stable funding sources make it difficult to make such projections. Financial challenges include no projected surpluses beyond FY 2004, and the need for significant investment in the physical plant. The latter will require continuing development efforts and continuing exploration of revenue generating opportunities, such as voluntary seat donations, enclosed seating in Michigan Stadium, and expanded sponsorship. Regarding revenue generating opportunities, Mr. Martin observed that fan surveys had argued against mandatory licenses.

In conclusion, Mr. Martin stated that within the next several months, the department would be developing a strategic plan that will create a stabilized annual budget model and provides for continuous facility renewal or replacement. The department's overall work plan also calls for developing a response to the operating challenge created by the return to a 6-game

home football schedule in FY 2005, raising a scholarship endowment of between \$120 and \$200 million, and raising between \$150 and \$300 million for facilities.

Observing that no one had signed up to speak at Public Comments about budget issues, Interim President White suggested voting on the budget items at this time.

### **2002-2003 Revenue and Expenditure Operating Budgets**

Regent Deitch moved approval of the FY 2002-2003 revenue and expenditure operating budgets; Regent Horning seconded the motion. Regent Newman thanked everyone who had worked so hard at putting the budget together, but stated she would be voting against it, due to her belief that it is important to keep each campus affordable. Although the proposed tuition increase may be the lowest in the state in percentage terms, the University is also starting from the highest base tuition rate. “We have to do better for our students,” she commented. “We can’t make access to the institution over cost an issue.” Therefore she urged administrators to make even tougher choices in an effort to keep tuition down.

The vote was then taken, and the motion was approved on a vote of six to one, with Regent Newman opposed.

### **Proposed Ann Arbor FY 2002-03 General Fund Operating Budget**

On a motion by Regent White, seconded by Regent Deitch, the Regents approved the proposed Ann Arbor FY 2002-03 General Fund operating budget on a vote of six to one, with Regent Newman opposed.

### **Proposed Ann Arbor FY 2002-03 Student Tuition and Fee Rates**

On a motion by Regent White, seconded by Regent Maynard, the Regents approved the proposed Ann Arbor FY 2002-03 student tuition and fee rates on a vote of six to one, with Regent Newman opposed.

### **Proposed Dearborn Campus FY 2002-03 General Fund Operating Budget**

On a motion by Regent White, seconded by Regent Deitch, the Regents approved the proposed Dearborn Campus FY 2002-03 General Fund operating budget on a vote of six to one, with Regent Newman opposed.

### **Proposed Dearborn Campus FY 2002-03 Student Tuition and Fee Rates**

On a motion by Regent White, seconded by Regent Horning, the Regents approved the proposed Dearborn Campus FY 2002-03 student tuition and fee rates on a vote of six to one, with Regent Newman opposed.

### **Proposed Flint Campus FY 2002-03 General Fund Operating Budget**

On a motion by Regent Maynard, seconded by Regent Horning, the Regents approved the proposed Flint Campus FY 2002-03 General Fund operating budget on a vote of six to one, with Regent Newman opposed.

### **Proposed Flint Campus FY 2002-03 Student Tuition and Fee Rates**

On a motion by Regent Brandon, seconded by Regent Taylor, the Regents approved the proposed Flint Campus FY 2002-03 student tuition and fee rates on a vote of six to one, with Regent Newman opposed.

### **2002-2003 Fee Assessments for Michigan Student Assembly (MSA), Student Legal Services (SLS), and School/College Governments**

On a motion by Regent Horning, seconded by Regent White, the Regents approved 2002-2003 fee assessments of \$6.69 per student per term for Michigan Student Assembly (an increase of \$1.00), \$5.50 per student per term for Student Legal Services (no change from the previous year), and \$1.50 per student per term for school/college governments (no change). The vote was six to one, with Regent Newman opposed.

### **2002-2003 University Health Service Fee**

On a motion by Regent White, seconded by Regent Horning, the Regents unanimously approved an increase of 4.8% in the University Health Service fee for FY 2002-2003.

### **Proposed FY 2003 University of Michigan Hospitals and Health Centers Operating Budget**

On a motion by Regent Maynard, seconded by Regent White, the Regents unanimously approved the proposed FY 2003 University of Michigan Hospitals and Health Centers operating budget, as described in the Regents Communication.

### **Consent Agenda**

**Minutes.** Vice President Tedesco submitted for approval the minutes of the meeting of June 20, 2002.

**Reports.** Interim Chief Financial Officer Slottow submitted reports of Investment, Plant Extension, and the Quarterly Report on Non-Competitive Purchases over \$5,000 from Single Sources, March 16-June 15, 2002.

Interim Provost Courant submitted the Human Resources and Affirmative Action Report. He noted that the ratification vote for a new contract with the Police Officers Association of Michigan failed to win approval, so negotiations will continue.

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

**Research Report.** The Report of Projects Established for the period of June 1 - June 30, 2002 was submitted.

**University of Michigan Health System.** No additional report was submitted.

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

**University of Michigan-Dearborn.** Chancellor Little commented that the Dearborn Campus has been very grateful for the attention and consideration given to the campus by Interim President White during his tenure. He then gave an example of the responsiveness of the campus to the changing needs of its constituencies through the development of the health psychology program, and highlighted student accomplishments.

**University of Michigan-Flint.** Chancellor Mestas expressed to Interim President White the gratitude of the Flint campus community for understanding so well the importance of the campus to the community, and thanked him for his service on behalf of the Flint campus.

**Michigan Student Assembly Report.** MSA President Sarah Boot introduced MSA treasurer Liz Moline. Ms. Moline thanked the Regents for approving the MSA fee increase, noting that it will allow the organization to offer much needed additional support to student groups.

On behalf of the student body and of MSA, Ms. Boot thanked Interim President White for his outstanding service during the past six months. She then presented him with a quilt that had been made by a student, crafted from t-shirts of student organizations. A round of applause followed; Interim President White thanked the students for the unique gift and noted that “the interaction with students is really a reward in itself.”

**Voluntary Support.** Interim Vice President Wilbanks submitted the Report of Voluntary Support for June 2002. She noted that the final report for the fiscal year ending June 30, 2002 would be presented in September.

**Personnel Actions/Personnel Reports.** Interim Provost Courant submitted personnel actions and personnel reports. He highlighted the reappointment of Douglas Kelbaugh as dean of the Alfred A. Taubman College of Architecture and Urban Planning.

**Retirement Memoirs.** Vice President Tedesco submitted memoirs for 11 retiring faculty members.

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

**Degrees.** Interim Provost Courant submitted for approval the August 2002 doctoral degree list, final degree lists for the May and June 2002 commencements, and changes to previously approved degree lists. These will be kept on file in the Office of the Vice President and Secretary of the University.

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

### **State Building Authority Financing of University of Michigan-Ann Arbor West Hall Project**

On a motion by Regent Horning, seconded by Regent Maynard, the Regents unanimously approved the following resolution and authorized the appropriate officers to: 1) on or prior to the SBA's issuance of commercial paper notes, execute the Construction and Completion Assurance Agreement and Bill of Sale for the project; 2) At or near completion of the project and prior to the issuance of the SBA's bonds, execute the respective Lease, convey title to the property,

and execute any necessary easement agreements; 3) Execute any other documentation required for the financing of the project by the SBA.

**RESOLUTION OF THE REGENTS OF THE UNIVERSITY OF MICHIGAN  
APPROVING A CONSTRUCTION AND COMPLETION ASSURANCE AGREEMENT,  
A CONVEYANCE OF PROPERTY, A LEASE AND AN EASEMENT AGREEMENT,  
IF NECESSARY, FOR THE UNIVERSITY OF MICHIGAN - ANN ARBOR CENTRAL  
CAMPUS RENOVATION PHASE II WEST HALL**

A RESOLUTION of the Regents of the University of Michigan (i) approving (a) a form of construction and completion assurance agreement (the "Construction and Completion Assurance Agreement"), by and among the State Building Authority (the "Authority"), the State of Michigan (the "State") and the Regents of the University of Michigan, a Michigan constitutional body corporate (the "Educational Institution"), providing for the rights, duties and obligations of the Authority, the State and the Educational Institution with respect to the Educational Institution's Ann Arbor Central Campus Renovation Phase II West Hall and the site therefor (the "Facility") during the construction, renovation and/or equipping of the Facility and prior to the conveyance of the Facility to the Authority, (b) the conveyance of the Facility to the Authority, (c) a lease (the "Lease"), by and among the Authority, the Educational Institution and the State, for the purpose of leasing the Facility to the State and the Educational Institution and (d) an easement and/or other agreement (the "Easement Agreement") between the Authority and the Educational Institution, if necessary and/or desirable in connection with access, parking, utilities, pedestrians, encroachments, and/or other matters pertaining to the interactions between the Facility and real property owned by the Educational Institution, and (ii) providing for other matters related thereto.

WHEREAS, the Authority has been incorporated under and pursuant to the provisions of Act No. 183, Public Acts of Michigan, 1964, as amended ("Act 183"), for the purpose of acquiring, constructing, furnishing, equipping, owning, improving, enlarging, operating, mortgaging and maintaining buildings, necessary parking structures or lots and facilities, and sites therefor, for the use of the State, including institutions of higher education created pursuant to Section 4, 5, 6 or 7 of Article 8 of the Michigan Constitution of 1963 (the "State Constitution"), or any of its agencies; and

WHEREAS, the Educational Institution has been maintained and created pursuant to Sections 4 and 5 of Article 8 of the State Constitution; and

WHEREAS, the State and the Educational Institution desire that the Authority finance the acquisition, construction, renovation and/or equipping of the Facility in consideration of (i) the Educational Institution granting a license to the Authority to enter upon the site of the Facility (the "Site") in order to undertake such construction, renovation and/or equipping, (ii) the Educational Institution undertaking on behalf of the Authority the oversight of such construction, renovation and/or equipping and (iii) the Educational Institution conveying the Facility to the Authority on or prior to the date of its completion, and the Authority is willing to provide such financing in consideration of the items described above; and

WHEREAS, in accordance with the Construction and Completion Assurance Agreement, the State and the Educational Institution desire that the Authority acquire the Facility on or prior to the date of its completion, and lease the same to the State and the Educational Institution, and the Authority is willing to acquire the Facility and lease the same to the State and the Educational Institution; and

WHEREAS, the Site is presently owned by the Educational Institution, the Facility will be constructed by the Educational Institution on behalf of the Authority, and it is intended that the Site and the Facility be conveyed to the Authority by the Educational Institution; and

WHEREAS, the acquisition of the Facility by the Authority for use by and lease to the Educational Institution and the State is necessary in order for the State and the Educational Institution to carry out necessary governmental functions and to provide necessary services to the people of the State as mandated or permitted by constitution and law, and the use of Act 183 to accomplish such acquisition represents the most practical means to that end at the lowest cost to the State and the Educational Institution; and

WHEREAS, Section 7 of Act 183 provides that the Lease shall be approved by the Authority, by the State Administrative Board of the State and by concurrent resolution of the Legislature of the State concurred in by a majority of the members elected to and serving in each house and if the Lease is for an institution of higher education existing or created pursuant to Section 4, 5, 6 or 7 of Article 8 of the State Constitution, then in addition, the Lease shall be authorized by the institution of higher education and signed by its authorized officer and, accordingly, it is necessary that the Educational Institution authorize and approve the Lease; and

WHEREAS, if it is determined that (i) the Authority will require an easement from a public road to the Facility over real property owned by the Educational Institution so that the Authority has access to the Facility, (ii) the Educational Institution will require for future use certain easements through the Facility, (iii) the Authority and the Educational Institution will require an agreement to share a common structural wall, (iv) the Authority will require an easement over real property owned by the Educational Institution so that the Authority has sufficient parking available in connection with the reasonable use of the Facility, and/or (v) the Authority and/or the Educational Institution will require other easements and/or agreements pertaining to the Facility and/or real property owned by the Educational Institution (such as, but without limitation, easements and/or agreements pertaining to pedestrian traffic, utility lines, and/or encroachments), then in order to meet any such requirement, it may be necessary for an authorized officer of the Educational Institution to approve an Easement Agreement or Easement Agreements to provide for such easements and/or agreements;

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

1. The plans for the Facility, as filed with the Educational Institution, are hereby approved.
2. The Educational Institution hereby authorizes and approves the Construction and Completion Assurance Agreement in substantially the form attached as Exhibit A, and the Executive Vice President and Chief Financial Officer of the Educational Institution is hereby authorized and directed to execute and deliver, at the appropriate time, the Construction and Completion Assurance Agreement in substantially the form attached as Exhibit A for and on behalf of the Educational Institution. Such officer is hereby authorized to approve such changes in and modifications to the Construction and Completion Assurance Agreement as do not materially adversely affect the Educational Institution.
3. The conveyance of the Site and the Facility to the Authority in accordance with the Construction and Completion Assurance Agreement is hereby approved, and the then seated President and the Executive Vice President and Chief Financial Officer of the Educational Institution are hereby authorized and directed to execute and deliver a warranty deed in substantially the form attached as Exhibit B and bills of sale to accomplish such conveyance in such form as may be from time to time approved by such officers.
4. The Educational Institution hereby authorizes and approves the Lease in substantially the form attached as Exhibit C, and the Executive Vice President and Chief Financial Officer of the Educational Institution is hereby authorized and directed to execute and deliver the Lease in accordance with the Construction and Completion Assurance Agreement and in substantially the form attached as Exhibit C for and on behalf of the Educational Institution and such officer is hereby designated as an authorized officer of the Educational Institution for purposes of Section 7 of Act 183. Such officer is hereby authorized to approve such changes in and modifications to the Lease as do not materially alter the substance and intent thereof as expressed in the Lease and the request for action submitted to the Regents in connection therewith; provided such officer is not hereby authorized to approve a change in the Lease with respect to the range of rental, the description of the Facility or the material financial obligations of the Educational Institution contained in the Lease approved herein. The Educational Institution hereby determines that the maximum rental in the amount described below is reasonable and the authorized officer is hereby authorized to approve in the Lease, as executed, rental in annual amounts determined by the final appraisal of "True Rental," but not exceeding \$915,000 in any 12 month period and a lease term of not exceeding 40 years.
5. If in connection with the entering into of the Lease, and if the Executive Vice President and Chief Financial Officer of the Educational Institution determines that (i) the Authority will require an easement from a public road to the Facility over real property owned by the Educational Institution so that the Authority has access to the Facility, (ii) the Educational Institution will require for future use certain easements through the Facility, (iii) the Authority and the Educational Institution will require an agreement to share a common structural wall, (iv) the Authority will require an easement over real property owned by the Educational Institution so that the

Authority has sufficient parking available in connection with the reasonable use of the Facility, and/or (v) the Authority and/or the Educational Institution will require other easements and/or agreements pertaining to the Facility and/or real property owned by the Educational Institution (such as, but without limitation, easements and/or agreements pertaining to pedestrian traffic, utility lines, and/or encroachments), then such officer is hereby authorized and directed to execute and deliver an Easement Agreement or Easement Agreements if necessary in order to meet any such requirement.

6. The Executive Vice President and Chief Financial Officer of the Educational Institution is hereby authorized and directed to take or cause to be taken all other actions, including, without limitation, making requests of and approving requests from the Authority and the State and signing certificates, documents or other instruments, on behalf of the Educational Institution, as he deems necessary or desirable under the circumstances to accomplish the purposes of the transactions authorized in this Resolution.

7. The Educational Institution further confirms its obligations to perform the duties and obligations specified in the Construction and Completion Assurance Agreement (only upon its execution by the authorized officer of the Educational Institution) and the Lease (only upon its execution by the authorized officer of the Educational Institution) and acknowledges that such obligations do not depend upon passage of title to the Facility to the Educational Institution without consideration upon termination of the Lease. The Educational Institution hereby recognizes that it would execute and deliver the Lease even if title to the Facility would not pass upon termination of the Lease.

8. The Educational Institution recognizes that the Authority shall pay for costs of the Facility in an amount not in excess of \$9,230,769.

9. All ordinances, resolutions and orders or parts thereof in conflict with the provisions of this Resolution are, to the extent of such conflict, hereby repealed.

10. This Resolution shall be effective immediately upon its adoption.

### **Naming of Engineering Facility**

On a motion by Regent Brandon, seconded by Regent Maynard, the Regents unanimously approved changing the name of the Institute of Science and Technology High Bay Building and its new wing from the Carl and Esther Gerstacker Building, as approved in March 2002, to the Carl A. Gerstacker Building.

### **University of Michigan Hospitals and Health Centers (UMHHC) University Hospital Interventional Radiology Room Project**

On a motion by Regent Taylor, seconded by Regent Brandon, the Regents unanimously approved the UMHHC University Hospital and Health Centers University Hospital Interventional Radiology Room 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.

### **Purchasing Agreement with Clark MXR**

On a motion by Regent Brandon, seconded by Regent Taylor, the Regents unanimously approved a purchasing agreement with Clark MXR for purchase of a replacement scanner. Because Gerard Mourou is both a University employee and a stockholder and board member of Clark MXR, 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 Center for Ultrafast Optical Science and Clark MXR.
2. The product to be provided is a replacement scanner. The cost for the scanner is \$7,200.
3. The pecuniary interest arises from the fact that Gerard Mourou, a University of Michigan employee, is a stockholder and board member of Clark MXR.

### **Purchasing Contract between the University of Michigan and HealthMedia, Inc.**

On a motion by Regent Taylor, seconded by Regent Brandon, the Regents unanimously approved a purchasing contract with HealthMedia Inc. Because Victor Strecher is both a University of Michigan employee and is vice president, chief science officer, and stockholder in Health Media Inc., 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 M-Care Inc., and HealthMedia Inc.
2. The service to be provided is an online smoking cessation program, to be conducted from July 1, 2002 through June 30, 2003, at a total cost of \$8,250.
3. The pecuniary interest arises from the fact that Victor Strecher, a University of Michigan employee, is vice president and stockholder of HealthMedia Inc.

### **License Agreement between the University of Michigan and Michigan Oncology, Inc.**

On a motion by Regent Horning, seconded by Regent Brandon, the Regents unanimously approved a license agreement between the University of Michigan and Michigan Oncology, Inc.

through which Michigan Oncology will practice and commercialize a portfolio of inventions jointly developed and owned by the University of Michigan and Georgetown University. Because Drs. Marc Lippman, Shaomeng Wang, and Dajun Yang are partial owners of Michigan Oncology, Inc. and University of Michigan employees, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. Parties to the agreement are the University of Michigan and Michigan Oncology, Inc.

2. Licensing terms:

Field of Use: Therapeutics

Grant: Exclusive, Worldwide in the Field of Use

Patent Costs: Michigan Oncology will reimburse the University for costs incurred during the license. Back patent costs incurred by Georgetown will be reimbursed in two phases: \$35K at signing and the remainder (\$47K) within 12 months.

Equity: 3% of the outstanding shares at first round of financing of at least \$8 million. 2% to be held by the University of Michigan and 1% to be held by Georgetown.

Royalties: One percent (1%) of Net Sales on the first two hundred million dollars (\$200M) of annual Net Sales; Two percent (2%) of Net Sales on all annual Net Sales in excess of two hundred million dollars (\$200M) and less than five hundred million dollars (\$500M); Three percent (3%) of Net Sales on all annual Net Sales in excess of five hundred million dollars (\$500M) and less than one billion dollars (\$1,000M); Five percent (5%) of Net Sales on all annual Net Sales in excess of one billion dollars (\$1,000M).

Sliding percentage of sublicense income from 20% down to 10% depending on certain triggers.

Performance criteria: Specific milestones must be met in order to maintain the rights granted by the license. Milestone payments will be due upon successful completion of milestones.

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

Term of the agreement is for the life of the patents. No use of University services or facilities is obligated under the license agreement. A Sponsored Research Agreement will be put into effect upon executive of the license agreement.

3. The pecuniary interests of Drs. Marc Lippman, Shaomeng Want and Dajun Yang arise from their ownership interest in Michigan Oncology, Inc. They have waived any

personal participation in the sharing of revenue received by the University from the company.

**Research Agreement between the University of Michigan and Soar Technology, Inc.**  
*(“Organization of Dynamic Intelligence eNtities (ODEN)”)*

On a motion by Regent Horning, seconded by Regent Taylor, the Regents unanimously approved a research agreement between the University of Michigan and Soar Technology, Inc. (“Company”) by means of which the Company will fund a research project entitled “Organization of Dynamic Intelligence eNtities (ODEN),” to be directed by Dragomir R. Radev, assistant professor of electrical engineering and computer science. Because John Laird is a University of Michigan employee and also has an ownership interest in 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 University of Michigan and Soar Technology, Inc.
2. Under terms of the agreement, Professor Radev will direct the research project in the Department of Electrical Engineering and Computer Science over a period of three years and three months at an estimated cost of \$668,000, including indirect costs at applicable federal rates.
3. John Laird’s pecuniary interest arises from his ownership interest in Soar Technology, Inc.

**Research Agreement between the University of Michigan and Soar Technology, Inc.**  
*(“Human-Agent Speech Interface Architecture”)*

On a motion by Regent Horning, seconded by Regent Taylor, the Regents unanimously approved a research agreement between the University of Michigan and Soar Technology, Inc. (“Company”) to fund a research project entitled “Human-Agent Speech Interface Architecture” in the School of Information, to be directed by Professor Dragomir R. Radev. Because John Laird is both a University of Michigan employee and has an ownership interest in the Company, this agreement falls under the State 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 Soar Technology, Inc.
2. Under terms of the agreement, Professor Radev will direct the research project in the Department of Electrical Engineering and Computer Science over a period of nine months at an estimated cost of \$30,982, including indirect costs at applicable federal rates.
3. John Laird's pecuniary interest arises from his partial ownership of Soar Technology, Inc.

### **1121 and 1127 East Ann Street, Ann Arbor, Michigan**

On a motion by Regent Maynard, seconded by Regent Brandon, the Regents unanimously authorized purchase of the properties at 1121 and 1127 East Ann Street at the negotiated price of \$2.49 million, subject to the University's satisfaction with the terms of the sale, including environmental condition of the site and additional due diligence. Land procurement funds will be used to complete the purchase.

### **Henry Russel Lecturer for 2003**

Interim President White informed the Regents of the selection of Rowena G. Matthews, G. Robert Greenberg Distinguished University Professor of Biological Chemistry, professor of biological chemistry in the Medical School, and senior research scientist in the Biophysics Research Division, as the Henry Russel Lecturer for 2003.

### **New Certificate Program to be offered by the Department of Epidemiology, School of Public Health (*"Certification of Academic Competencies in Epidemiology"*)**

On a motion by Regent Horning, seconded by Regent Maynard, the Regents unanimously approved a new certificate program, "Certification of Academic Competencies in Epidemiology," to be offered by the School of Public Health.

### **Michigan Health Corporation (MHC) Annual Business Plan**

On a motion by Regent Taylor, seconded by Regent Brandon, the Regents unanimously approved the FY 2003 annual business plan and budget for the Michigan Health Corporation.

## **Michigan Health Corporation (MHC) Bylaws**

On a motion by Regent Brandon, seconded by Regent Horning, the Regents unanimously approved restatement and amendment of the MHC bylaws, as described in the Regents Communication.

## **Revision of Regents' Bylaws Sections 11.13 and 11.131**

On a motion by Regent White, seconded by Regent Horning, the Regents unanimously approved revision of Regents' Bylaws Sections 11.13 and 11.131, expanding the Medical School's executive faculty membership and the membership of its executive committee. The revised bylaws follow:

### **Regents' Bylaw Sec. 11.13. The Medical School: The Executive Faculty**

*The executive faculty shall consist of all faculty members of the rank of professor, associate professor, assistant professor, clinical professor, clinical associate professor, clinical assistant professor, senior research scientist, senior associate research scientist, and assistant research scientist. The executive faculty shall also include instructors, clinical instructors, and lecturers who have appointments of halftime or more and who have been appointed for more than one year. It shall perform the duties assigned to the governing faculties of other schools and colleges.*

### **Regents' Bylaw Sec. 11.131. The Medical School Executive Committee**

*The executive committee shall consist of the dean, the executive director of the University of Michigan Hospitals and Health Centers, and eight members of the executive faculty (four instructional, one research, one clinical, and two department chairs) to be appointed by the Board of Regents on the recommendation by the president. The executive vice president for medical affairs may attend the executive committee meetings as an invited observer, but may not vote on matters before the executive committee. The appointed members shall hold office for three years and shall not be eligible for reappointment until after the lapse of one year. The terms shall be staggered so as to provide continuity of membership. The dean shall chair the committee.*

## **New Degree Program for the University of Michigan-Dearborn (“Master of Science in Psychology with a Specialization in Health Psychology”)**

On a motion by Regent Horning, seconded by Regent Brandon, the Regents unanimously approved a new graduate degree program, “Master of Science in Psychology with a Specialization in Health Psychology,” to be offered by the College of Arts, Sciences, and Letters of the University of Michigan-Dearborn.

### **New Degree Program for the University of Michigan-Dearborn** (*“Master of Science in Science Education”*)

On a motion by Regent Brandon, seconded by Regent Taylor, the Regents unanimously approved a new graduate degree program, “Master of Science in Science Education,” to be offered by the School of Education at the University of Michigan-Dearborn.

### **Comments from Interim President White**

Interim President White thanked the Board of Regents for “putting their faith, confidence, and trust in me to lead our organization and serve the University during this period of time.” He also thanked the executive officers, noting that the experience had been very rewarding. Finally, he thanked his wife, Mary, emphasizing that she had served the University at least as well as he had. A round of applause followed.

There was a five minute break.

### **Public Comments**

The Regents reconvened for Public Comments at 4:10 p.m. They heard comments from the following individuals, on the topics indicated: Jane Hall, staff member, regarding employment at the School of Art and Design; Doug Marcum, representing Marlin Aircraft Management, on a proposal to establish a flight department at the University; and the following speakers on the topic of fundraising at the University for the Boy Scouts of America: Ann M. Merriwether, faculty member, Leslie Davis, staff member, Glenn Klipp, alumnus and executive director of the Washtenaw Rainbow Action Project, and Stephen Rassi, student.

There being no further business, the meeting was adjourned at 4:45 p.m. The next meeting will take place September 19-20, 2002.