

JULY MEETING, 2003

*The University of Michigan
Ann Arbor
Thursday, July 17, 2003*

The Regents convened at 1:05 p.m. in the Regents' Room. Present were President Coleman and Regents Brandon, Deitch, Maynard, McGowan, Newman, Richner, Taylor, and White. Also present were Provost Courant, Interim Executive Vice President Greenfield, Vice President Harper, Vice President Krislov, Chancellor Little, Vice President May, Chancellor Mestas, Vice President Rudgers, Executive Vice President Slottow, Vice President and Secretary Tedesco, Vice President Ulaby, and Vice President Wilbanks.

President Coleman called the meeting to order and announced that Public Comments would be divided into two sessions. The first session, covering topics related to the budget, would be the next order of business, and the second session would be held following the budget discussion and vote.

Public Comments

The Regents heard comments from the following people, on the topics indicated: Aaron Klein, alumnus, Martin Farnham and Miroslav Kummel, students, and Phil Roe, faculty member, on the closure of the student woodshop; Holly Burmeister, student and vice president of the Graduate Employees Organization (GEO), on health care for members of GEO; and Adele Smaill, student and member of the GEO, on issues regarding residence hall libraries.

Following a 5-minute break, President Coleman turned to the next item of business.

Introductory Comments - 2003-2004 Revenue and Expenditure Operating Budgets

President Coleman commented that this had been an extremely difficult year financially, with a significant downturn in the economy in the state and nation. To meet this challenge, the University had looked extremely hard at the budgets of all three campuses and had reduced costs as much as possible to become more efficient. She thanked all of the executive officers and Regents for their work in this area, noting that it had been a thoughtful, productive process. She called on Executive Vice President Slottow.

Mr. Slottow noted that the responsibilities of the executive vice president and chief financial officer are to effectively track and manage financial performance, protect and strengthen the balance sheet, evaluate the operating budgets to ensure they maintain the University's overall financial health, and to identify long-term financial challenges and strategies for meeting them. Another responsibility that has become increasingly important is to continue to focus on financial controls and compliance.

In the area of financial controls and compliance, Executive Vice President Slottow noted that the University continues to receive unqualified audit opinions, and has also received sound advice from the Regents' Finance, Audit and Investment Committee in this area. He reported that the Financial Controls Task Force has revamped nearly all of the University's financial controls, policies, and practices, including travel and hosting reimbursement, purchasing practices, and such areas as cash management and property disposition, among others. Work has also been done to simplify sponsored research administration and increase financial controls in this area.

He reported that the University has continued to make it easier for parents, students, and faculty to conduct business with the University via the web, including applications, registration,

bill payment, and many other areas. Supply chain management has also improved, with new prime vendor contracts having been negotiated and more procurement being done electronically.

Regarding the balance sheet, Executive Vice President Slottow commented that his office manages \$8.5 billion in assets, including \$2.4 billion in physical properties, \$5.5 billion in investments, and \$0.6 billion in other assets. He displayed a graph illustrating the University's investments in physical plant renewal, which shows that more funds continue to be invested in renovation than in new buildings and that the University continues to invest more in renovation than depreciation, thus illustrating the University's sustained commitment to renovation and infrastructure renewal. He pointed out that there are multi-year renewal plans in a number of areas, and that deferred maintenance needs are always addressed concurrent with programmatic renovation investments. Savings have been realized by subjecting construction expenses to a much more rigorous focus on requirements, which increases competition and lowers costs and has saved millions of dollars in new building construction.

Executive Vice President Slottow listed strategies being used to aggressively manage balance sheet assets and liabilities, noting that these have resulted in significant cost savings. He said that the University has a healthy ratio of assets to liabilities and of debt to financial assets, but pointed out that liabilities do not include the liability for future health benefits for retirees, and that the majority of financial assets are in endowment or have restrictions as to their use.

It is important, he noted, that the University continue to adhere to core financial principles, including focusing on financial controls, adhering to a prudent debt policy, enforcing the endowment spending rule and long-term investment strategy, and maintaining a commitment to infrastructure renewal and to a disciplined operating budget strategy.

He 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. Quoting from a Moody's Investors Service press release of February 2003, he stated that the University's financial health is due to a "disciplined budget process, appropriate expense controls... powerful market draw [due to] selective undergraduate and graduate programs... well-diversified revenue base... manageable plans for additional borrowing... [and a] capable management team."

President Coleman stated that the 2003-2004 Operating Budgets for all campuses would be presented next.

2003-2004 Ann Arbor Campus General Fund Operating Budget and Student Tuition and Fee Rates

Provost Courant reported that the proposed operating budget calls for total revenues of \$4.239 billion and total expenditures of \$4.268 billion. The deficit has to do with funds that the Medical School had been accruing over several years for specific purposes and which will be spent in fiscal year 2004.

He then gave a presentation about the proposed General Fund budget, which, he noted, was derived under the most severe fiscal challenges the University has faced in over a generation. He described the organizing principles on which the budget is based. First, to preserve access to the highest quality education despite a 10% cut in state appropriations, the University is increasing central financial aid for undergraduates and limiting the tuition increase to 6.5%, which is the lowest in the state and among the lowest in the Big Ten. Second, every unit is bearing some of the effect of budget cuts, with administrative units and activities bearing a disproportionately larger share. Lastly, the University will continue to focus on the long-term quality of the institution while managing short-term budgetary difficulties.

Provost Courant noted that the reduction in state appropriation, combined with a reduction in interest income, cost increases, and commitments and essential initiatives, yield a total budget challenge of \$81.8 million. To partially meet this challenge, expenditures have been reduced by \$37.5 million. He displayed charts illustrating the annual percentage changes in General Fund revenues from state appropriation and tuition, noting that the growth in the FY 2004 proposed budget is negative. He pointed out that in the face of a 10% cut in state appropriation, the University's proposed resident tuition increase is substantially less than it was for FY 2003, when there was a zero percent increase in state appropriation.

Provost Courant commented that the fact that the University's proposed tuition increase is 4th lowest among Big Ten institutions, and the lowest of any Michigan public institution can be attributed to the success of ongoing efforts to cut costs and to responses to specific challenges faced for FY 2004. He enumerated specific areas of centralized and non-centralized cost reductions, cost containment, and expenditure reductions, both in centralized and non-centralized operations.

He noted that a major initiative is underway to reduce health care benefits costs both for the upcoming year and in the future. Beginning in January 2004, most employees will share in the cost of health insurance premiums, and a committee of faculty and staff has been working to examine the best ways to determine University and employee contribution formulas on an ongoing basis. Their report will be issued in September, and policy decisions based on this report will be implemented in January 2005.

He also described the multitude of cost-containment and expenditure reduction actions that have occurred in decentralized units across the campus, which have totaled \$26 million in academic programs and \$11 million in administrative areas. He stated that the reductions in

academic areas do not put the essentials of a Michigan education at risk, although some of them may be difficult to sustain and their consequences will be monitored.

Provost Courant pointed out that even after making cuts in activities and costs, most of the academic units will receive modest budget increases, most accounted for by tuition generated by increased numbers of students and increased volume of indirect cost recovery from sponsored research. General fund budgets for administrative units will be reduced.

Provost Courant concluded that although this budget is tighter than those of the recent past, the priorities--maintaining excellence and access--are unchanged, including meeting the demonstrated financial needs of all resident undergraduate students. He noted that financial aid resources have increased beyond the rise in tuition in the FY 2004 budget, and that administrative budgets are declining while academic budgets are rising. Faculty and staff quality, and the breadth and depth of academic offerings, will be maintained.

2003-2004 Dearborn Campus General Fund Operating Budget and Student Tuition and Fee Rates

Chancellor Little noted that the campus has experienced unavoidable cost increases, combined with a 10% reduction in state appropriation. He described the collaborative, principle-driven process that has guided development of the budget, with the highest principle being to preserve and enhance the academic quality of educational offerings at the University of Michigan-Dearborn. He noted that the Dearborn campus takes full advantage of all of the cost-savings systems developed on the Ann Arbor campus.

Chancellor Little noted that the 10% cut in state appropriations amounted to \$2.8 million for the Dearborn campus. The first action was to mandate a 2% budget reallocation across the campus, which yielded \$1 million. To ensure accessibility, additional funds were added to the financial aid budget above the amount necessary to match the tuition increases. The recommended

budget also involves a 1.5% merit-based salary program. Chancellor Little noted that enrollment growth has allowed for an increase of \$1 million in the base budget from additional tuition revenues. The recommended tuition increase is 9.5%, or \$232 per semester.

2003-2004 Flint Campus General Fund Operating Budget and Student Tuition and Fee Rates

Chancellor Mestas commented that a combination of factors has led to a particularly challenging situation for the Flint campus. These include the 10% cut in state appropriation, a 10% increase in fixed costs, and a projected 4% drop in enrollment, which is unique to the Flint campus. To meet these challenges, he said the FY2004 budget includes no faculty or staff salary increases, an 11% increase in tuition and fees, a corresponding 11% increase in student financial aid, and a total budget cut of \$4.0 million. He described how the budget reductions would be achieved, noting that teaching and other instructional activities are being protected as much as possible.

Despite the tuition increase, Chancellor Mestas observed that the University of Michigan-Flint is moving from the fifth most affordable institution in the state to the fourth most affordable, making it one of the best values in higher education.

2003-2004 University Health Service Fee

Vice President Harper noted that the University Health Service is a comprehensive, full-service outpatient facility that has 70,000 patient visits per year. The health service fee allows students to receive primary health care services without additional out-of-pocket expenses, and supports an extensive, campus-wide, educational program in addition to providing other health-related services. The proposed 2003-2004 fee increase for University Health Service is 5%, or \$6.20, yielding a total fee of \$130.35 per student per term.

2003-04 Fee Assessments for Michigan Student Assembly (MSA), Student Legal Services (SLS), and School/College Governments

Vice President Harper noted that the proposed fees for fiscal year 2003-04 for MSA, SLS, and school/college governments are the same as for 2002-03: \$6.69 per student per term for MSA; \$5.50 per student per term for SLS; and \$1.50 per student per term for school and college governments.

University of Michigan Hospitals and Health Centers (UMHHC) Proposed FY2004 Operating Budget

Interim Executive Vice President Greenfield commented that the UMHHC met its targeted FY2003 operating margin of 2%, and that the target margin for FY2004 is 3%. The major risks in achieving this margin are assumptions that market demand will remain strong and that physician and nurse capacity and plant capacity will be sufficient to meet the demand. Government responses to the economic market, sustainability of the payer mix, and the ability to continue to manage budgeted expenses constitute the other major risks of the proposed budget.

Dr. Greenfield displayed a chart giving activity assumptions for the 2002 (actual), 2003 (projected), and 2004 (proposed) budgets. Inpatient discharges, inpatient days, and onsite operating room cases are projected to increase above historical levels, while clinic visits are expected to increase at historical levels. It is projected that offsite operating room cases will remain flat, following an increase of more than 50% between FY2002 and FY2003. The average discharge length of stay will also remain relatively flat.

Dr. Greenfield noted that operating room capacity has been and will continue to be increased and that there will be increased recruiting of surgical faculty and nursing to support this increase. The major drivers of the FY2004 operating budget are a significant increase in surgical procedures, productivity improvements and supply management initiatives, and a competitive salary program. The budget calls for operating revenue of \$1.161 billion, (9.1% increase);

operating expenses of \$1.116 (7.0% increase), total expenses of 1.126 billion (8.0% increase); and an operating margin of \$34.8 million (3.0% increase).

FY2004 University of Michigan Athletic Department Operating Budget

President Coleman called on Mr. Bill Martin, athletic director. Mr. Martin reviewed the financial principles of the Athletic Department, noting that it is a self-supporting, auxiliary unit that funds all varsity sports to achieve success. The department strives to fulfill its gender equity goals, pursues limited commercialization, seeks a balanced budget over the long term, and strives to maintain the athletic campus consistent with available resources.

Regarding current budget realities, Mr. Martin noted that the department relies heavily on football attendance revenues, and that the scheduling of a seventh home football game in 2002 and 2003 has had a beneficial effect on the budget by providing an additional \$4 million in revenues for each of those two years. The department's annual fundraising efforts continue to lag behind its peers, and expenses throughout intercollegiate athletics continue to accelerate.

Mr. Martin reported that for FY 2003, the Athletic Department will have a projected operating surplus of over \$5 million. He said that fewer student season football tickets had been sold than budgeted, which was a significant positive factor in projected revenues. Mr. Martin reviewed expenses for FY2003, noting that there were significant increases in both facilities expenses and in operating and administrative expenses over budget. These were due to facilities repairs and repayment of funds to the NCAA as a result of basketball program infractions that had occurred a decade ago.

The FY2004 Athletic Department budget includes projections of \$58.9 million in revenue (5.1% increase), \$57.2 million in expenses (5.6% increase), and an operating budget surplus of 1.6 million. It is based on modest increases in football ticket prices and conservative budgets for

student ticket sales, licensing revenues, and annual fund giving. Expenses include a deferred maintenance fund transfer of \$2.25 million and a 7% increase in financial aid costs, a 7% market-rate increase in compensation, and a 7% increase in team and game expenses.

Mr. Martin reviewed planned capital projects, the most high priority of which is the planned Academic Success Center. He said that \$2.1 million in signed pledges has been received and commitments have been made for \$6.4 million. Other future projects include a new fieldhouse, baseball and softball stadiums, and a basketball and wrestling practice facility.

Regarding the balance sheet, Mr. Martin noted that a deferred maintenance fund was established in the current fiscal year with initial funding of \$2.25 million, and an additional allocation of \$2.25 million is planned for FY04. The department enjoys a relatively modest debt level of \$8.0 million. The market value of the scholarship endowment is \$20 million, and the market value of the quasi-endowment is \$15 million. There was a projected operating reserve of approximately \$5 million in June 2003.

The work plan for FY2004 includes creating a stabilized economic model that includes study and implementation of priority seating; beginning construction of the academic success center; continued fundraising efforts for other capital projects; continued study and analysis of press box renovation; and finally, continuing to work on cost control initiatives.

Discussion of Proposed FY2004 Budgets

Regarding the proposed Ann Arbor campus General Fund Budget, Regent Newman stated that the idea of raising costs at a time when families find it difficult to afford a Michigan education is difficult. She is concerned about rising costs, increasing financial aid, and affordability, and had hoped and believed that more could be done. However, in support of the other board members and the administration, she had decided to vote in favor of the tuition increases because

of the unprecedented scope of the budgetary challenge and because of the major effort that had been expended to pare the increase to the current figures. She predicted that the coming year would be equally difficult and noted that the institution had to find ways “to do more with less.”

Regent Deitch complimented President Coleman and her management team on their hard work in achieving the current budget recommendation. He noted that responsible budgets could have been achieved at either slightly higher or slightly lower levels of increase, but that on balance, the proposed budget “represents a Herculean effort” and good faith. He observed that the Board and administration have an ongoing commitment to the breadth, depth, and quality of a Michigan education. However, preserving access is always a concern. Although commitment to financial aid is strong, this is a complicated matter as the amount of financial aid represents both an increase and a shifting of dollars from the full rate-payers to others. He stated that he remains concerned about tuition and that the University needs to continue to focus on families who do not qualify for financial aid but find it difficult to afford tuition payments in the face of other familial obligations. He concluded that this challenge has been met with this budget proposal. He commended Regent Newman for the continuing concern she has expressed over the years about exercising restraint over tuition increases.

Regent Brandon stated that as chair of the Finance, Audit, and Investment Committee, he is proud to report that he is in full support of the budget. He said that the committee has learned more about this budget than any previous budget, and noted that the process has been transparent and open. The questions asked and responses received from senior administrators were important in achieving the final budget proposal. He commended the executive officers and staff for their openness, candor, and communication flow that was instrumental in reaching this point.

Regent McGowan noted that she had been skeptical when the Board had established the committee system over a year ago. Since that time, she has come to the conclusion that under the guidance of Regent Brandon as chair and the participation of fellow Finance, Audit, and Investment Committee member Regent Taylor, along with the rest of the Board and with the assistance of the executive officers, the committee had functioned “remarkably well and responsively and responsibly.” She thanked Regent Brandon for his leadership.

Regent Maynard commented that “this is probably one of the more painful budgets that I’ve experienced.” However, she said that “it has also been the best vetted budget process that I’ve been through since I’ve been a Regent.” Speaking as one who is not a member of the Finance, Audit, and Investment Committee, she complimented that committee for their work in ensuring that all of the Regents were thoroughly informed about all aspects of the budget process. She complimented President Coleman, Provost Courant, and Executive Vice President Slottow for all of their efforts in developing the budget recommendations. Regent Maynard observed that in light of the much larger tuition increases at other institutions, combined with the University of Michigan’s strong commitment to a commensurate increase in financial aid, she feels good about the budget being put forth at this meeting.

Regent White applauded the administration’s commitment to meeting the demonstrated financial aid needs of resident undergraduate students.

Regent Richner commented that as a state legislator prior to being elected to the Board, he had looked forward to having an opportunity to limit annual tuition rate increases. However, since joining the Board, he realized that his preconceptions had been unrealistic, and that in light of the 10% cut in state appropriations the University, had developed “the most reasonable budget we could possibly come up with.” He noted that it is significant that the percentage of tuition increase

is at a lower level than the state budget cut, indicating that serious efforts had been made to reduce costs and improve efficiencies in the budget. He applauded the administration for having taken this course.

2003-2004 Revenue and Expenditure Operating Budgets; Proposed Ann Arbor FY 2003-04 General Fund Operating Budget and Student Tuition and Fee Rates

Regent Taylor moved approval of the 2003-2004 Revenue and Expenditure Operating Budgets, the proposed Ann Arbor FY 2003-04 General Fund Operating Budget, and the proposed Ann Arbor FY 2003-04 student tuition and fee rates, as described in the Regents Communications. Regent Brandon seconded the motion and it was approved unanimously.

President Coleman commented that the financial situations on the Dearborn and Flint campuses are very different from those on the Ann Arbor campus, so that the Ann Arbor campus has a much better ability to withstand state budget cuts. She stated that the Regents and executive officers fully recognize this and understand that the branch campuses have worked just as hard as the Ann Arbor campus to cope with the economic situation. She also expressed the hope that the state will begin increasing its support of higher education once the economy improves. She thanked the executive officers for their willingness to forego any salary increases for the 2003-2004 fiscal year.

Proposed Dearborn Campus FY 2003-04 General Fund Operating Budget and Student Tuition and Fee Rates

Regent Brandon moved approval of the proposed Dearborn Campus FY 2003-04 General Fund Operating Budget and student tuition and fee rates, as described in the Regents Communication. Regent McGowan seconded the motion, and it was approved unanimously.

Proposed Flint Campus FY 2003-04 General Fund Operating Budget and Student Tuition and Fee Rates

Regent Maynard moved approval of the proposed Flint Campus FY 2003-04 General Fund Operating Budget and student tuition and fee rates, as described in the Regents Communications. Regent White seconded the motion, and it was approved unanimously.

2003-2004 Fee Assessments for Michigan Student Assembly (MSA), Student Legal Services (SLS), and School/College Governments

On a motion by Regent White, seconded by Regent McGowan, the Regents unanimously approved fee assessments of \$6.69 per student per term for MSA, \$5.50 per student per term for SLS, and \$1.50 per student per term for school and college governments. All of these rates are unchanged from those for 2002-2003.

2003-2004 University Health Service Fee

On a motion by Regent Brandon, seconded by Regent McGowan, the Regents unanimously approved a 5.0% increase (\$6.20 per student per term) in the University Health Service fee for 2003-2004. The new fee will be \$130.35 per student per term.

University of Michigan Hospitals and Health Centers (UMHHC) Proposed FY2004 Operating Budget

President Coleman commended UMHHC officials for their excellent work in managing the UMHHC and preparing the operating budget. Regent Brandon observed that the Hospitals and Health Centers were one of the first units examined by the Regents' Finance, Audit, and Investment Committee. The current 2% operating margin and the 3% operating margin in the 2004 budget is a real accomplishment, he noted. It makes a statement about the UMHHC leadership, and illustrates the high degree of competence of everyone involved. Regent Deitch agreed, noting that he "can't imagine that there is a better hospital administrator in this country than Mr. Warren" and the other health system leaders.

President Coleman suggested that this would be an appropriate time to recognize the accomplishments of Dr. Greenfield in leading the health system during this past year as interim executive vice president for medical affairs. She called on Regent Newman.

Regent Newman recalled an encounter she had had as a patient of Dr. Greenfield, noting that he had been kind and caring, and although a surgeon, he had recommended an alternative course of treatment other than surgery. These traits, of being kind, caring, and thorough, had carried through during his service as interim executive vice president, and she said the Regents would miss him. She then read the following resolution:

Regents' Resolution

The Regents of the University of Michigan commend Lazar J. Greenfield as he completes his term as interim executive vice president for medical affairs.

During his year of service as executive vice president, Dr. Greenfield, professor of surgery and former F.A. Coller Professor of Surgery and chair of the Department of Surgery, oversaw the operations of the Medical School, the University of Michigan Hospitals and Health Centers, M-CARE, and the Michigan Health Corporation. In a time of great turmoil in the health-care industry, Dr. Greenfield maintained the fiscal vitality of the Health System by directing it through simultaneous cost containment efforts and expansion in capacity, and by shepherding development of major capital projects. The Regents relied on his incisive vision when considering approval of the Cardiovascular Center, which soon will stand as a new jewel in the crown of the University of Michigan Health System. He was also instrumental in the significant advancement of other capital projects, including the Depression Center, operating room expansion, and the Biomedical Science Research Building. He initiated development of the highly regarded website, "Genetics: The Symphony of Life," a multidisciplinary tour of both the beauty and vital nature of genetics research at the University of Michigan. Dr. Greenfield guided the Health System's comprehensive effort to meet both the letter and spirit of the new Health Insurance Portability and Accountability Act requirements, and he was instrumental in achieving full preparedness to meet emerging public health concerns, such as SARS and West Nile virus.

The Regents now express their deepest appreciation to Lazar J. Greenfield for his exemplary service as interim executive vice president for medical affairs and wish him well as he returns to his role as a distinguished faculty member in the Department of Surgery.

A standing ovation followed. Dr. Greenfield thanked the Regents, noting “what a privilege and pleasure it’s been to work with you.” He also commented about how much the Health System appreciates the Regents’ endorsement and support.

University of Michigan Hospitals and Health Centers (UMHHC) Proposed FY2004 Operating Budget

On a motion by Regent McGowan, seconded by Regent Maynard, the Regents unanimously approved the proposed FY2004 University of Michigan Hospitals and Health Centers’ Operating Budget.

A ten minute break followed, beginning at 3:00 p.m. Regent McGowan left the meeting at 3:00.

Public Comments

The Regents reconvened at 3:10 p.m. and heard comments from the following speakers, on the topics indicated: Chetly Zarko, alumnus, on transparency in creating a new admissions process; Jim Mogensen, citizen, on the town-gown relationship for the handicapped; David Noel, citizen and member of V.O.I.C.E., on trespassing by the poor and homeless; Emily Russell and Chelsea Stroh, students and members of Anti-War Action!, on the Army Institute for Collaborative Biotechnologies.

Comments Regarding Supreme Court Admissions Cases

President Coleman commented that this is the first meeting since the announcement of the Supreme Court decision on June 23, 2003. She made the following statement:

I certainly believe that this is a watershed time for our country. The University of Michigan, and I was so proud of the University, has helped lead the nation in a critical dialog and in a powerful recommitment to the value of diversity. The Supreme Court recognized what we as educators have long known, the educational benefits of diversity in the classroom are vast. They have a ripple effect on every part of American society, from corporations to our national defense. This year it’s been a real privilege for me to take the cases across the finish line. But my contribution is a very small part of the

monumental effort during the course of the litigation, including Jim Duderstadt, Lee Bollinger, Nancy Cantor, Jeff Lehman, social scientist Pat Gurin and her faculty colleagues. Of course, I'm reminded that this university's commitment to diversity has been long and deep, with many tireless leaders in the effort over decades building the foundation on which we stand today.

Today I'd like to recognize the contributions of some of the people who played a role in that effort. Our general counsel, Marvin Krislov, led a spectacular legal team with outside counsels John Payton and Maureen Mahoney. He was the architect of the defense. The University committed to a vigorous public awareness effort as well, and that was handled in-house by our communications team, and I've received so many positive comments nationally about the skill and the expertise of that whole communications team. Our alumni and our current students provided important support. They shared their own voices as well as their personal experiences about what makes a Michigan education so valuable. But above all, today, I want to acknowledge the long-standing support of the University's Board of Regents, past and present. That support has been unwavering, and without it we couldn't have led one of the most important national debates of our lifetime.

There is much to do now. We've had a little time of celebration and that's been great, but we're already hard at work. We know the challenges are there. The Supreme Court provided us with guidance about how to consider race as one of many factors in selective admissions processes. And as a result, we're in the process now of redesigning our undergraduate admissions program to comply with that ruling. We will be ready for students who wish to apply to the University this autumn.

She then invited comments from the Regents.

Regent Deitch commented that “those of us who were in the Supreme Court that day found it an incredible experience as Americans, to think that difficult, contentious issues are resolved through thoughtful debate and interaction.” He noted that President Coleman had skillfully assumed leadership of the cause upon her arrival. He expressed confidence that the University “will meet [coming] challenges wherever they'll be, and I'm very proud to be associated with it.”

Regent Maynard associated herself with Regent Deitch's comments. She thanked President Coleman for her “articulate and strong leadership” as well as everyone else who contributed to the case's success. She stated that she was particularly appreciative of all of the amicus briefs that had been filed, which spoke to the national impact of the cases. She agreed with Regent Deitch that this is a marker in a long process, with much remaining to be done before racial inclusion is achieved. She paraphrased a report about the case that had appeared in a recent issue of the

Chronicle for Higher Education, which stated that there is a need to embrace an expanded role for higher education so that it works in partnership with primary and secondary educators to improve the quality of education for poor children and children of color. It calls on institutions to “redouble our efforts to ensure that everyone who enrolls in this university experiences a rigorous, horizon-expanding and intellectually challenging education and to make sure that every student learns about the struggles for full inclusion in our democracy that have been a crucial part in our nation’s history.”

Regent Maynard said that “it is my hope and it is certainly my commitment that everybody at the University is committed to taking on these challenges, because there is much work to be done.”

Regent White agreed with the remarks of Regents Deitch and Maynard. She noted that in the preface of the book, *The Shape of the River*, by Derok Bok and William Bowen, the authors compare Mark Twain’s image of the Mississippi River as central to the progress of our country, to the image of the flow of talent moving through the higher education system, particularly that of underrepresented minorities. The image is often compared to a pipeline, but rather than being straight, it bends and curves like the shape of the Mississippi River. They note that the college admissions process and educational experience are complex in a similar fashion to the shape of the Mississippi River. “Surely,” Regent White said, “We are looking to do more than just predict first year grades and even graduation rates when we are looking to admit people to this institution. It is the contributions that individuals make through their lives and the broader impact of higher education on society as a whole that is finally most relevant.”

Regent Taylor congratulated all members of the team who had brought this matter to a successful conclusion, noting that former president Bollinger had “done a magnificent job” in

assembling the legal team and the amicus briefs. He expressed pride at how successful the University had been in this effort.

Regent McGowan had pointed out in comments prepared prior to having left the meeting that moments after the announcement of the decision an observation had been made that the country was fortunate that the defense of the use of race as a contributing factor in admissions to colleges and universities had fallen to the University of Michigan, due to the University's commitment, achievements, resources, and will to sustain and succeed in this effort. She thanked everyone involved for the broad array of research, skills, and personal commitment brought to this effort, concluding that "It has been a long and remarkable road--and I am proud to have been a part of it." The complete text of these comments is on file in the Office of the Vice President and Secretary of the University.

Vice President Krislov acknowledged the contributions of University staff and outside counsel who had been involved in the litigation throughout the process. He also thanked the Regents for their steadfast support.

Committee Reports

Finance, Audit, and Investment Committee. Regent Brandon reported that the committee had met that morning and received information on three topics: the economic impact of the Supreme Court decision; M-Care financial performance; and recent internal audits.

Compensation and Personnel Committee. Regent Maynard noted that following last month's executive session, the committee had concluded its evaluation of President Coleman which had resulted in a very positive appraisal of her first year in office. She said that the committee would be meeting with President Coleman in September to set the agenda for the coming academic year.

The Regents then turned to the regular agenda.

Consent Agenda

Minutes. Vice President Tedesco submitted for approval the minutes of the meeting of June 19, 2003.

Reports. Executive Vice President Slottow submitted the Investment Report; the Plant Extension Report; the Regents Quarterly Report on Non-Competitive Purchases over \$5,000 from Single Sources, March 16-June 15, 2003; and the Human Resources and Affirmative Action Report. He noted that for the first time in three years, marketable securities have shown a positive trend. He also pointed out that there were no non-competitive purchases over \$5,000 for the period covered in this report.

Litigation Report. Vice President Krislov submitted the Litigation Report.

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

University of Michigan Health System. Interim Executive Vice President Greenfield noted that *U.S. News and World Report* would soon be announcing that the University of Michigan Hospitals is included in the list of the top ten hospitals in the country.

Division of Student Affairs. No additional report was submitted

University of Michigan-Dearborn. Chancellor Little reported that the past year had been an upbeat year at the University of Michigan-Dearborn, despite the difficult fiscal situation. He described several ongoing projects on campus and reported on other newsworthy events.

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

Michigan Student Assembly Report. President Coleman pointed out the report on campus climate issues that had been submitted by Michigan Student Assembly, noting the president had been present earlier but had been unable to remain at the meeting.

Voluntary Support. Vice President May commented that the final report for the 2002-2003 fiscal year would be presented at the September meeting. He noted that preliminary information indicates that private support for FY2003 had increased by 9.4% and that individual giving had increased by 14%.

Personnel Actions/Personnel Reports. Provost Courant submitted a number of personnel actions and personnel reports. He called attention to recommendations for the appointment of Evan Caminker as dean of the Law School and recommendations for four appointments to distinguished university professorships, which represent the highest honor that a faculty member can receive.

Retirement Memoirs. Vice President Tedesco submitted memoirs for 6 retiring faculty members. She noted that one of the retirees, Professor William Drake, had died less than two weeks after retiring.

Provost Courant called attention to the retirement of Professor Carl Berger, former dean of the School of Education.

Memorials. No deaths of active faculty were reported this month. However, President Coleman reported that Professor Paul Pintrich, professor of education and professor of psychology, had died of a stroke the previous week at age 49.

Degrees. Provost Courant submitted for approval the August 2003 doctoral degree list, final degree lists for the May and June 2003 commencements, and approval of changes to previously approved degree lists.

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

Sale of Gifted Real Estate

Executive Vice President Slottow informed the Regents of the sale of property located in the Cannon Bay Subdivision, Freeport, Grand Bahama.

Sale of Taxable Commercial Paper to Finance University Projects

On a motion by Regent Brandon, seconded by Regent White, the Regents unanimously approved an increase of up to \$8.2 million in the amount approved to be outstanding under the taxable commercial paper program. The amount approved to be outstanding of the total commercial paper after this approval will increase to \$92 million, which is within the \$120 million authorized.

Alternative Asset Commitment

On a motion by Regent White, seconded by Regent Maynard, the Regents unanimously approved commitment of £10.0 million (approximately \$16.5 million) from the Long Term Portfolio to Highcross Regional U.K. Partners L.P.

Private Equity Investment (*Charterhouse Capital Partners VII, L.P.*)

On a motion by Regent Brandon, seconded by Regent White, the Regents approved a commitment of up to €20.0 million (approximately \$23.0 million) from the Long Term Portfolio to Charterhouse Capital Partners VII, L.P. Regent Deitch abstained from voting due to a conflict of interest.

Private Equity Investment (*M.D. Sass Financial Strategies, L.P.*)

On a motion by Regent Taylor, seconded by Regent White, the Regents unanimously approved commitment of up to \$20.0 million from the Long Term Portfolio to M.D. Sass Financial Strategies, L.P.

School of Public Health Buildings Renovation

On a motion by Regent White, seconded by Regent Brandon, the Regents unanimously approved a revised project budget, from \$70,000,000 to \$68,500,000, and authorized issuing the School of Public Health Buildings Renovation Project for bids and awarding construction contracts providing that bids are within the approved budget.

Central Campus Recreation Building (CCRB) Kinesiology Basement Laboratory Renovation

On a motion by Regent Richner, seconded by Regent White, the Regents unanimously approved the Central Campus Recreation Building - Kinesiology Basement Laboratory Renovation Project as described, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

University of Michigan Hospitals and Health Centers (UMHHC) Sleep Disorders Center Expansion Project Leasehold Improvements

On a motion by Regent Brandon, seconded by Regent Maynard, the Regents unanimously approved the UMHHC Sleep Disorders Center Expansion Project Leasehold Improvements as described in the Regents Communication.

University of Michigan Hospitals and Health Centers (UMHHC) Taubman Health Center Office Renovation Project

On a motion by Regent Brandon, seconded by Regent Taylor, the Regents unanimously approved the UMHHC Taubman Health Center Office Renovation Project as described, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

University of Michigan Hospitals and Health Centers (UMHHC) Cardiovascular Center Project - Phase I

On a motion by Regent Maynard, seconded by Regent White, the Regents unanimously approved issuing the UMHHC Cardiovascular Center Project - Phase I for bids and awarding construction contracts providing that bids are within the approved budget.

University of Michigan Hospitals and Health Centers (UMHHC) Depression Center and Ambulatory Psychiatry New Facility and Infrastructure Improvements

On a motion by Regent White, seconded by Regent Deitch, the Regents unanimously approved the (UMHHC) Depression Center and Ambulatory Psychiatry New Facility and Infrastructure Improvements Project as described in the Regents Communication, and authorized commissioning Albert Kahn Associates for its design. Executive Vice President Slottow noted that UMHHC officials are very close to realizing their fundraising goal for this project, and he commended them for their efforts.

Purchasing Agreement between the University of Michigan and Wright Medical Technology

On a motion by Regent Brandon, seconded by Regent Richner, the Regents unanimously approved a purchasing contract with Wright Medical Technology for hip and knee implant systems. Because Dr. J. David Blaha is a University of Michigan employee and is also a stockholder in Wright Medical Technology, 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 contract are the Regents of the University of Michigan and its Medical School's Department of Orthopaedic Surgery and Wright Medical Technology.
2. The goods provided are knee and hip implant systems. The systems are to be provided for the period beginning July 1, 2003 and ending June 30, 2005, for a total dollar amount of \$1,000,000.00.
3. The pecuniary interest arises from the fact that Dr. J. David Blaha, a University of Michigan employee, is a stockholder in Wright Medical Technology.

Purchasing Contract between the University of Michigan and Xoran Technologies

On a motion by Regent Deitch, seconded by Regent Maynard, the Regents unanimously approved a purchasing contract with Xoran Technologies to assist Xoran Technologies with continued development of a mini-CAT scanner and flat panel detector. Because Neal Clinthorne is both a University of Michigan employee and a stockholder in and vice president of Xoran

Technologies, this contract falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. Parties to the contract are the Regents of the University of Michigan and its Department of Technology Transfer and Xoran Technologies, Inc.
2. The service provided is continued development of a mini-CAT scanner and flat panel detector, for a total dollar amount of \$175,000.00.
3. The pecuniary interest arises from the fact that Neal Clinthorne, a University of Michigan employee, is a stockholder in and vice president of Xoran Technologies, Inc.

Purchasing Contract between the University of Michigan and Clark-MXR, Inc. (*Maintenance of Pumplasers*)

On a motion by Regent White, seconded by Regent Deitch, the Regents unanimously approved a purchasing contract with Clark-MXR, Inc. for maintenance of pumplasers purchased in 1997. Because Professor Gerard Mourou is both a University of Michigan employee and a stockholder and board member of Clark-MSR, Inc., this contract falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements.

1. Parties to the contract are the Regents of the University of Michigan and its Department of Mechanical Engineering and Applied Mechanics and Clark-MXR, Inc.
2. The service provided is maintenance and parts for pumplasers, for a total dollar amount not to exceed \$2,000.00.
3. The pecuniary interest arises from the fact that Professor Gerard Mourou, a University of Michigan employee, is a stockholder and board member of Clark-MXR, Inc.

Purchasing Contract between the University of Michigan and Clark-MXR, Inc. (*Scanning Optical Display Line*)

On a motion by Regent White, seconded by Regent Brandon, the Regents unanimously approved a purchasing contract with Clark-MXR, Inc. for a scanning optical display line for use in pump-probe experiments. Because Professor Gerard Mourou is both a University of Michigan employee and a stockholder and board member of Clark-MSR, Inc., this contract falls under the

State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements.

1. Parties to the contract are the Regents of the University of Michigan and its Department of Physics and Clark-MXR, Inc.
2. The goods provided are a scanning optical display line for a total dollar amount of \$12,000.00.
3. The pecuniary interest arises from the fact that Professor Gerard Mourou, a University of Michigan employee, is a stockholder and board member of Clark-MXR, Inc.

Option Agreement between the University of Michigan and Mobius Microsystems

On a motion by Regent Brandon, seconded by Regent Taylor, the Regents unanimously approved an option agreement with Mobius Microsystems (“Mobius”) for several inventions developed and owned by the University of Michigan. Two of the inventors, Richard B. Brown and Michael McCorquodale, are University of Michigan employees who also are associated with Mobius Microsystems as a partial owner (Richard B. Brown) and holder of an ownership interest (Michael McCorquodale). Therefore, 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 Mobius.
2. Contract terms include:

Field of Use: All Fields

Grant: Exclusive for 6 months

Option Fee: \$3,000

Exercise: Prior to OTT entering into license negotiations with Mobius, the company will need to demonstrate:

- i. an identified and committed, experienced and capable management team;
- ii. an appropriate commercialization strategy;
- iii. a capitalization plan indicating sufficient access to capital to enable the commercialization plan to be executed.

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

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

3. The pecuniary interests of Dr. Brown and Mr. McCorquodale arise from their ownership interest in Mobius. 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 Molecular Therapeutics, Inc.

On a motion by Regent Maynard, seconded by Regent White, the Regents unanimously approved a research agreement between the University of Michigan and Molecular Therapeutics, Inc. Because Drs. Brian Ross and Alnawaz Rehemtulla are both owners of Molecular Therapeutics, 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 Molecular Therapeutics, Inc.
2. Under the project a total subcontract of approximately \$1,156,026 is anticipated to cover the period September 30, 2000 through September 29, 2003. The subcontract was originally approved by the Regents in February 2001 for \$871,000. This action represents additional funding in the amount of \$285,026. The University's standard subcontract provisions will apply.
3. Brian Ross's and Alnawaz Rehemtulla's pecuniary interest arises from their ownership interest in Molecular Therapeutics, Inc.

Amendment to License Agreement between the University of Michigan and Sensicore, Inc.

On a motion by Regent Brandon, seconded by Regent Richner, the Regents unanimously approved an amendment to a license agreement between the University of Michigan and Sensicore, Inc. (originally known as SENSation) the purpose of which is to clarify the definition of "Gross Non-Product Revenues" and to modify a milestone obligation. Because Richard B. Brown is a University of Michigan employee and also partial owner of Sensicore, Inc., this amendment falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

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

2. Contract terms include modification of a milestone date to give the company until June 30, 2004 to meet the original milestone regarding commercial shipment of Product. The term "Gross Non Product Revenues" (Article 30.4) is amended to limit the scope of consideration and revenues received by Sensicore in return for the transfer of rights granted to Sensicore under Article 3 of the License Agreement. All other terms of the license will remain unchanged.
3. The pecuniary interest of Dr. Brown arises from his ownership interest in Sensicore. He has waived any personal participation in the sharing of revenue received by the University from the company.

Michigan Health Corporation (MHC) Annual Business Plan and Budget

On a motion by Regent Maynard, seconded by Regent Taylor, the Regents unanimously approved the Michigan Health Corporation (MHC) FY2004 annual business plan and budget.

Regents' Meeting Schedule for 2004

On a motion by Regent White, seconded by Regent Brandon, the Regents unanimously approved the following schedule of meetings for 2004.

January 15	July 15
February 19	September 23
March 18	October 21 (<i>Held at UM-Flint</i>)
April 22	November 18
May 20 (<i>Held at UM-Dearborn</i>)	December 16
June 17	

There being no further business, the meeting was adjourned at 4:20 p.m. The next meeting will be held September 18, 2003.