

## **JULY MEETING, 2004**

*The University of Michigan  
Ann Arbor  
Thursday, July 15, 2004*

The Regents convened at 1:25 p.m. in the Regents' Room. Present were President Coleman and Regents Brandon, Maynard, McGowan, Newman, Richner, and White. Also present were Provost Courant, Executive Vice President Kelch, Vice President Krislov, Chancellor Little, Vice President May, Chancellor Mestas, Executive Vice President Slottow, Vice President and Secretary Tedesco, Vice President Ulaby, and Vice President Wilbanks. Regent Deitch and Regent Taylor were absent.

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

President Coleman called the meeting to order. She commented on the fiscal year 2005 budget, noting that it is a particularly challenging time, given the uncertainty of the state budget situation and the continued reduction in the University's appropriations funding. She pointed out that the Ann Arbor campus has had to cut nearly \$20 million more from the 2005 budget, in addition to the \$37 million cut last year.

President Coleman updated the Regents on recent developments surrounding the Sexual Assault, Prevention and Awareness Center (SAPAC). She noted that changes are being made to SAPAC that will enable it to enhance professional services in critical areas and to provide a greater degree of counseling for sexual assault survivors. In response to concerns that have been expressed at public comments and elsewhere, the University has decided to retain its campus crisis line, but to have it be staffed by full-time professionals with specialized training. In

addition, space modifications will be made within the counseling services area. Continued dialogue and feedback will be very important to ensure that community needs are being met.

President Coleman also noted that University Housing staff is exploring a range of options to accommodate the record first year class arriving in fall 2004. She said that there would be a detailed discussion in the fall of the Residential Life Initiative, which would include a plan for long-term comprehensive renewal of the residence hall system.

### **Introductory Comments - 2004-2005 Revenue and Expenditure Operating Budgets**

Executive Vice President Slottow stated that maintaining the University's financial health requires that the chief financial officer effectively track and manage financial performance, protect and strengthen the balance sheet, evaluate proposed operating budgets to ensure they maintain the University's overall financial health, and identify long-term financial challenges and develop alternative strategies. In addition, this officer is required to ensure adherence to core financial principles in difficult financial times.

Executive Vice President Slottow described how each of the responsibilities listed above are carried out. In the area of tracking and managing financial performance, he noted that there is a continued focus on financial controls and compliance, as illustrated by continued unqualified audit opinions, the oversight of the Regents' Finance, Audit and Investment Committee, and the operations of the Financial Controls Task Force, which has redefined many of the University's core transactions. The Financial Controls Task Force has also issued a fiscal responsibilities policy, which defines the core financial responsibilities of supervisors and managers at all levels of the University. He described some of the dozens of initiatives that are underway that continue to leverage administrative system investments in financial operations and student business

administration areas, including a number of areas which were formerly done on paper or in person that can now be accomplished on-line via the web.

Executive Vice President Slottow gave an update on strategic procurement activities. These include pre-negotiated prime vendor contracts, which save an average of 22% compared to prior prices or \$7.5 million annually; managed contracts for basic supplies purchased through MStores, which has resulted in \$9.7 million in savings annually; and in utilities, which has yielded \$4.6 million in savings annually. He also noted that the competitive procurement process for purchases over \$5,000 has saved approximately \$30 million over prices previously paid for those items.

Executive Vice President Slottow reviewed the balance sheet, noting that the relationship of total assets to total liabilities and of debt to financial resources is healthy. He also commented that liabilities do not include the \$1 billion commitment needed to fund retiree health benefits for active employees. Deferred maintenance needs of \$600 million to \$800 million are also not included in liabilities.

Mr. Slottow displayed a graph illustrating that the University continues to invest more money into existing facilities than in new facilities, which has contributed to the favorable ratio of total renovation costs versus replacement costs. He also described the savings and efficiencies yielded through practices in proactive cash management.

Mr. Slottow pointed out that human capital is one of the University's most valuable assets. He noted that representation of minorities and women on the University of Michigan staff is higher than that for the work forces of both the state and the local region. Among the investments being made in human capital are a redesign of the classification system, ongoing

benefits design, encouraging increased participation in flexible spending accounts, creation of the office of institutional equity, and successful completion of labor agreements.

Indications of prudent liability management include strong credit ratings, a prudent policy, aggressive interest expense management, and obtaining the lowest premium rates for insurance coverage. He noted that there are a number of key challenges in maintaining the University's healthy financial condition and pointed out that the annual operating budget is only one indicator of the University's financial condition. He concluded that the proposed budget is consistent with maintaining the University's overall financial health and quoted from a statement by Moody's Investors Service that the University's Aaa bond rating is based on the University's disciplined budget process, appropriate expense controls, powerful market draw, diversified revenue base, manageable plans for borrowing, and a capable management team.

#### **Ann Arbor Campus General Fund Operating Budget and Student Tuition and Fee Rates**

Provost Courant displayed a slide denoting the current funds budget totals by fund for all campuses for 2004-2005. Total revenues will total \$4.231 billion, while total expenditures will total \$4.287 billion. The seeming discrepancy in revenues and expenditures is due to a technicality in accounting methods for capital expenditures in the Auxiliary Activities Fund.

Provost Courant presented the General Fund budget for the Ann Arbor campus. He cautioned that the assumptions on which the budget is based may not hold, due to the fact that the higher education appropriation has not yet been approved by the state legislature. He said that the current understanding is that if campuses limit the increase in resident undergraduate tuition to 2.8%, 3% of the 5% midyear cut made in 2003-04 will be restored in their base appropriation. If tuition is not held to the incentive amount of 2.8%, campuses will receive a further 3% reduction to their base appropriations.

Provost Courant noted that the budget is based on six guiding principles. The most important of these is that the University will assure that students continue to have access to an excellent “Michigan” education despite an environment of decreasing revenues. This includes the long-standing commitment to meeting the demonstrated financial need of all resident undergraduate students. The focus on students is also demonstrated in the budget by increasing the number of sections for heavily subscribed courses, and by increasing expenditures for a number of vital programs in the Office of the Vice President for Student Affairs. Other guiding principles include assuring that the University is thoughtful and honest about budgeting and that it focuses on the long term. The result will be that once the budget crisis has eased, the University will have maintained its historical depth and breath of academic excellence.

Provost Courant noted that the total budget challenge amounts to \$50.7 million, including cost increases in general operating expenses, and essential new initiatives such as responding to increased demand for some courses, improving computer security, and increased costs surrounding the research enterprise and admissions procedures. This challenge is being met through expenditure reductions, including elimination of staff and faculty positions, reduction in the use of overtime, temporary employees, and consultants, and in other areas.

Provost Courant displayed graphs illustrating various factors in the relationship among General Fund revenues, state appropriation, and tuition over a period of decades. Comparing the University of Michigan’s 2004-05 tuition increase for resident undergraduates to those of the other Big Ten institutions, he pointed out that Michigan’s increase is the lowest among the Big Ten for the current year as well as the average for the past five years. He noted that three Big Ten institutions have higher tuition for resident freshmen students than Michigan.

Provost Courant gave further details of General Fund cost reductions that have been made in centralized operations, including \$20.1 million continued savings achieved in energy costs, pharmacy benefits, health insurance, and other areas; and non-centralized cost containment and expenditure reductions of \$19.8 million achieved in academic programs, academic support, and administrative areas.

Provost Courant then presented the recommended 2004-2005 General Fund budget of \$1,163,382,000.00 and a tuition and fee rate increase of 2.8% for resident undergraduate students and 5% for most other students. He noted that if the state's tuition restraint incentive changes materially, or if the state reneges on its appropriations/tuition increase proposal or enacts a mid-year funding recision, revisions to the tuition and fee rates will be requested.

Provost Courant commented that in the face of budgetary challenges, the University's primary obligation is to maintain its excellence and to insure its availability to students regardless of their financial circumstances. The focus on academic programs requires a high quality faculty and staff, and the requested budget and tuition and fee rates are designed to ensure that these goals are reached. To that end, he requested approval of proposed operating budget and tuition and fee rates.

Regent McGowan asked for an update on the current status of the budget within the legislative process. Vice President Wilbanks reported that there is still no resolution, as state policy makers have been working for several weeks to come to an agreement on what revenues will be available to support higher education as well as other budget priorities.

President Coleman commented that the Cherry Commission is dealing with the long term implications of some of these issues. The previous day she had had discussions with a number

of legislators and the lieutenant governor and it did not appear likely that there would be an immediate resolution.

### **Dearborn Campus General Fund Operating Budget and Student Tuition and Fee Rates**

Chancellor Little commented that maintaining academic quality is the main principle that guided preparation of the Dearborn campus budget. Other principles include preserving accessibility through maintaining current levels of financial aid, and continuing to create and nurture an equitable and humane workplace. He noted that there has been broad participation in developing a budget which would serve the campus's priorities while being consistent with fiscal realities.

Chancellor Little commented that enrollment growth is central to the campus's recent and continued success, and the 2004-2005 budget is based on an assumption of 1.5 percent enrollment growth of 1.5 percent, while aiming at 3.0 percent growth. Revenues raised through enrollment growth will fund a small number of new faculty positions as well as increases in financial aid greater than the increase in tuition. The budget also reflects a 2% reallocation (about \$1 million) from academic and other departments and a salary program of 1.5%.

### **Flint Campus General Fund Operating Budget and Student Tuition and Fee Rates**

Chancellor Mestas noted that the past year had been the most challenging in his experience and that the coming year promises to be equally challenging. During the past year, the combination of budget cuts and enrollment decline forced implementation of decisions that had a severe impact on the life of the University. He noted that although the Flint campus had been unable to provide salary increases, it had continued to function without a loss in academic quality and with a minimal disruption in services. He reported that resources provided by Vice President Rudgers and President Coleman had helped to alleviate the consequence of the large cut that had been made to Michigan Television.

Chancellor Mestas cautioned that the temporary sacrifices that were made during the past fiscal year could not be maintained without doing permanent harm to the Flint campus and to the education provided to its students. Specifically, it would be “inconceivable” to go another year without providing adequate compensation to faculty and staff. At the same time, he praised the solidarity shown by faculty and staff in the face of the drastic measures that had to be made last year.

Chancellor Mestas noted that the 2004-2005 budget had been developed with broad participation by the campus community and it reflects assumptions and planned expenditures addressing the top priorities. Assumptions include a flat enrollment and adhering to a tuition increase that is in accordance with the agreement reached by the state legislature. The budgetary priorities include enrollment growth to meet the campus’s capacity of 8,000 students, which will be challenging because the UM-Flint is a commuter campus in the middle of an area experiencing a population decline. The second priority is improving compensation for faculty and staff through a 3 percent salary increase. The third priority is to ensure that the amount of financial aid matches the increase in tuition. The fourth priority is to maintain the high quality of technology.

### **Comments from President Coleman**

President Coleman commented that the University supports the efforts of the legislature and governor to keep higher education affordable and is pleased that they have developed a plan that will restore a portion of its base funding. Restraining the rate of tuition increase has resulted in continuing cuts to programs across the University. However, she repeated that this is not a long-term funding model, and that a more sustainable model for higher education funding needs to be found that achieves not only affordability, but academic excellence. Tuition restraint, she



emphasized, must be coupled with more robust and predictable state support in addition to an emphasis on financial aid.

### **Division of Student Affairs Budget**

Vice President Harper noted that while the Division of Student Affairs was initially asked to plan for a budget reduction in 2004-2005 of up to 5 percent. However, due to her concern that a reduction of this magnitude would harm the University's ability to provide sufficient support to student communities, she has worked with President Coleman and Provost Courant to identify resources that would protect student affairs from student cuts and restore some funding that had been cut in previous years. Internal reallocation has led to increased funding for a number of efforts, including enhanced safe space for sexual assault survivors, restoration of funding for the Office of Multi-Ethnic Student Affairs programs and the Powwow; expanding a position in the Office of Lesbian, Gay, Bisexual, and Transgender Affairs; and additional support for student activities and leadership efforts and the International Center. She noted also that funding has been set aside from investment proceeds to provide infrastructure repairs and improvements, and interior and external enhancements for the William Monroe Trotter House Multicultural Center.

In addition, Vice President Harper noted that \$80,000 in recurring funds has been identified to support the long-term development of multicultural programs connected with the Trotter House. Due to this commitment, the leadership of Michigan Student Assembly decided not to bring forward a request for a \$1.00 student fee increase to support Trotter House.

### **2004-2005 Fee Assessments for Michigan Student Assembly (MSA), Student Legal Services (SLS), and School/College Governments**

Vice President Harper commented that the University is focusing its efforts on keeping student programs and services as strong as possible under current budget constraints. She noted that the recommended fees remain the same as the 2003-2004 rates 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/college governments.

### **Proposed FY 2005 University Health Service Fee**

Vice President Harper reported that the University Health Service fee allows students to have unlimited visits, laboratory testing, X-rays, and other services without additional out-of-pocket costs. It also supports extensive health education programming across the campus. Due to reductions in revenue streams, market-driven increases in salaries and commodities, and increased regulatory costs, a rate increase of 5.4%, to \$137.37, per term is being requested.

### **Michigan Student Assembly Financial Report**

Vice President Harper submitted the Michigan Student Assembly financial report for December 31, 2003 and December 31, 2002.

### **University of Michigan Hospitals and Health Centers (UMHHC) FY2005 Operating Budget**

Executive Vice President Kelch reported that the goals of the budget are to achieve an operating margin consistent with the 10-year financial plan to facilitate investments in new facilities, information technology, Medical School faculty, and routine capital requirements, and to support the goals and objectives of the Hospitals and Health Centers. Just to maintain these at current levels will require more than \$800 million over the next decade. He explained that senior leadership at UMHHC is focused on achieving moderate growth within capacity constraints; keeping fixed costs fixed plus inflation; limiting increases in variable costs to activity plus inflation; increasing prices according to a pricing plan; and making improvements in throughputs and capacity.

Executive Vice President Kelch displayed a chart illustrating the operating margin trend from FY 1999 through FY 2005. He commented that the expected operating margin for FY2005 will exceed the amount originally budgeted for. Dr. Kelch reviewed details of the FY 2005 operating budget of \$1.281 billion, which includes an operating margin of 4.0%. He noted that it is an ambitious, but achievable budget that is necessary to fulfill the mission, goals, and aspirations of the University of Michigan Health System.

Regent Brandon congratulated Dr. Kelch and his colleagues on the terrific job they have done in managing the Health System.

### **Discussion of 2004-2005 Budgets**

Regent McGowan moved approval of the following budgets: 2004-2005 Revenue and Expenditure Operating Budgets; Proposed Ann Arbor FY 2004-05 General Fund Operating Budget; Proposed Ann Arbor FY 2004-05 Student Tuition and Fee Rates; Proposed Dearborn Campus FY 2004-05 General Fund Operating Budget; Proposed Dearborn Campus FY 2004-05 Student Tuition and Fee Rates; Proposed Flint Campus FY 2004-05 General Fund Operating Budget; Proposed Flint Campus FY 2004-05 Student Tuition and Fee Rates; 2004-2005 Fee Assessments for Michigan Student Assembly (MSA), Student Legal Services (SLS), and School/College Governments; Proposed FY 2005 University Health Service Fee; Proposed FY 2005 University of Michigan Hospitals and Health Centers Operating Budget. Regent Newman seconded the motion.

### **Discussion of Proposed Budgets**

Regent Newman observed that she is troubled by the state being involved in the tuition-setting process for state universities, as this is the responsibility of the governing boards. She stated that while she understands why it is necessary to move forward and accept the offer made

by the legislature, she is concerned about having no choice but to vote in favor of this budget. She stated that she would support it but is troubled by the fact that it is happening. She believes it is a mistake on the part of the board to go along with it, and she would not support it in subsequent years.

Regent McGowan stated that she appreciates the tough choices the University was forced to make this year and she hopes that the legislature will eventually respond favorably to the Board's willingness to go along with its proposal. She noted that the Regents appreciate the efforts being made on each of the three campuses to not allow their effectiveness to be compromised.

Regent Brandon associated himself with the remarks of Regents Newman and McGowan, and noted that he will not respond favorably to any more proposals from the legislature that dictate tuition rates for the University. Regent Richner agreed, noting that this situation is unprecedented.

Regent Maynard commented that the budget situation was really difficult this year because of the proposal put forth by the legislature. She said she supported the proposed budget and respects that the excellence of the academic setting must never be sacrificed.

Regent White stated that Michigan citizens need to reevaluate their priorities and understand that there is a cost associated with high quality and to understand that taxes are necessary to provide necessities. She concurred that this is the last year the Board will be willing to accept deals from the legislature, and that after this year, quality will start to suffer if the fiscal situation does not improve.

The vote was then taken, and the motion to approve all of the 2004-2005 budgets was approved unanimously.

## **Conflict of Interest Items**

President Coleman announced that the agenda includes 13 conflict of interest items, each of which requires 6 votes for approval. On a motion by Regent Newman, seconded by Regent Brandon, the Regents unanimously approved each of the following items:

### **Amendment to Purchasing Contract with Valley View Farm**

The Regents approved an amendment to an existing purchasing contract with Valley View Farm to provide sheep for use in medical research projects. Because Douglas Doop, owner of Valley View Farm, is also a University of Michigan employee, this contract amendment 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 Department of Pediatric Endocrinology and Valley View Farm.
2. The service to be provided is boarding and breeding of sheep for the purpose of medical research. The service will be provided from September 1, 2003 through August 31, 2005, for a total of \$60,000.
3. The pecuniary interest arises from the fact that Mr. Doop, a University of Michigan Employee, owns Valley View Farm.

### **Purchasing Contract with ARTSearch**

The Regents approved a purchasing contract with ARTSearch to provide several pieces of artwork. Because Takeshi Takahara, an independent agent with ARTSearch, is also a University of Michigan employee, this contract falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. The parties to the contract are the Regents of the University of Michigan and its Life Sciences Institute and ARTSearch.
2. The products to be provided are four pieces of artwork for a total of \$1,147.50.

3. The pecuniary interest arises from the fact that Mr. Takahara, a University of Michigan Employee, is an indirect party to the agreement as an independent agent with ARTSearch.

### **Approval of Payment for Wonder Twins LLC**

The Regents approved a payment by the Medical Management Center for services provided by Wonder Twins LLC. Because Kendall Arbogast-Wilson, owner of Wonder Twins LLC, is also a University of Michigan employee, this purchase falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. The parties to the contract are the Regents of the University of Michigan and its Medical Management Center and Wonder Twins LLC.
2. The service provided was an advertisement and postcard design at a cost of \$2,456.
3. The pecuniary interest arises from the fact that Mr. Arbogast-Wilson, a University of Michigan Employee, owns Wonder Twins LLC.

### **Approval of Payment for Ann Arbor IT Zone (*School of Business Administration*)**

The Regents approved a payment by the School of Business Administration for services provided by Ann Arbor IT Zone. Because Kenneth Nisbet, chair of the board of directors of Ann Arbor IT Zone, is also a University of Michigan employee, this purchase falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. The parties to the contract are the Regents of the University of Michigan and its School of Business Administration and Ann Arbor IT Zone.
2. The services provided were conference services at a cost of \$56,600.
3. The pecuniary interest arises from the fact that Mr. Nisbet, a University of Michigan Employee, is chair of the board of directors of Ann Arbor IT Zone.

### **Purchasing Contract with Jan-Henrik Andersen**

The Regents approved a purchasing contract with Jan-Henrik Andersen to provide seven pieces of artwork. Because Jan-Henrik Andersen, an independent contractor, is also a University of Michigan employee, this contract falls under the State of Michigan Conflict of Interest Statute.

The following information is provided in compliance with statutory requirements:

1. The parties to the contract are the Regents of the University of Michigan and its Life Sciences Institute and Jan-Henrik Andersen.
2. The products to be provided are seven pieces of artwork for \$13,770.
3. The pecuniary interest arises from the fact that Mr. Andersen, a University of Michigan employee, is an independent contractor.

### **Approval of Payment for Novalung**

The Regents approved a payment by the Institute for Entrepreneurial Studies for services from Novalung. Because Dr. Robert Bartlett, a stockholder in Novalung, is also a University of Michigan employee, this purchase falls under the State of Michigan Conflict of Interest Statute.

The following information is provided in compliance with statutory requirements:

1. The parties to the contract are the Regents of the University of Michigan and its Institute for Entrepreneurial Studies and Novalung.
2. The service to be provided is placement of a student intern at a cost of \$6,000 per intern.
3. The pecuniary interest arises from the fact that Dr. Bartlett, a University of Michigan Employee, is a stockholder in Novalung.

### **Approval of Payment for T/J Technologies, Inc.**

The Regents approved a payment by the Institute for Entrepreneurial Studies for services from T/J Technologies, Inc. Because Levi Thompson, chief technology officer and board chair of T/J Technologies, Inc., is also a University of Michigan employee, this purchase falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. The parties to the contract are the Regents of the University of Michigan and its Institute for Entrepreneurial Studies and T/J Technologies, Inc.
2. The service to be provided is placement of a student intern at a cost of \$6,000 per intern.
3. The pecuniary interest arises from the fact that Mr. Thompson, a University of Michigan Employee, is chief financial officer and board chair of T/J Technologies, Inc.

#### **Approval of Payment for Adaptive Materials, Inc.**

The Regents approved a payment by the Institute for Entrepreneurial Studies for services from Adaptive Materials, Inc. Because John Halloran, board member and co-founder of Adaptive Materials, Inc., is also a University of Michigan employee, this purchase falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. The parties to the contract are the Regents of the University of Michigan and its Institute for Entrepreneurial Studies and Adaptive Materials, Inc.
2. The service to be provided is placement of a student intern at a cost of \$6,000 per intern.
3. The pecuniary interest arises from the fact that Mr. Halloran, a University of Michigan Employee, is a board member and co-founder of Adaptive Materials, Inc.

#### **Approval of Payment for Soar Technology, Inc.**

The Regents approved a payment by the Institute for Entrepreneurial Studies for services from Soar Technology, Inc. Because John Laird, board member of Soar Technology, Inc., is also a University of Michigan employee, this purchase falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. The parties to the contract are the Regents of the University of Michigan and its Institute for Entrepreneurial Studies and Soar Technology, Inc.
2. The service to be provided is placement of a student intern at a cost of \$6,000 per intern.
3. The pecuniary interest arises from the fact that Mr. Laird, a University of Michigan Employee, is a board member of Soar Technology, Inc.



### **Approval of Payment for Ann Arbor IT Zone**

The Regents approved a payment by the Institute for Entrepreneurial Studies for services from Ann Arbor IT Zone. Because Kenneth Nisbet, chair of the board of directors of Ann Arbor IT Zone, is also a University of Michigan employee, this purchase falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. The parties to the contract are the Regents of the University of Michigan and its Institute for Entrepreneurial Studies and Ann Arbor IT Zone.
2. The service to be provided is placement of a student intern at a cost of \$6,000 per intern.
3. The pecuniary interest arises from the fact that Mr. Nisbet, a University of Michigan Employee, is chair of the board of directors of Ann Arbor IT Zone.

### **Research Agreement with Omni Sciences, Inc.**

The Regents approved a research agreement between the University of Michigan and Omni Sciences, Inc., to perform research under a prime contract between Omni Sciences, Inc., and the Army Research Office under the Small Business Technology Transfer Program Phase I. Because Dr. Mohammed N. Islam, owner of Omni Sciences, Inc., is also a University of Michigan employee, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. The parties to this agreement are the Regents of the University of Michigan and its Department of Electrical Engineering and Computer Sciences and Omni Sciences, Inc.
2. The terms of the proposed agreement conform to University policy. The project is to be conducted over a six-month period at an estimated cost of \$35,720. The subcontract includes a provision for extensions of the time and period of scope of work and is likely to be followed by a Phase II agreement. University of Michigan procedures for approval of these changes will be followed as appropriate.
3. The pecuniary interest arises from the fact that Dr. Islam, an employee of the University of Michigan, is owner of Omni Sciences, Inc.

### **Subcontract Agreement with ElectroDynamic Applications, Inc.**

The Regents approved a subcontract agreement with ElectroDynamic Applications, Inc. for funding a project in the College of Literature, Science, and the Arts. Because Drs. Alec Gallimore and Brian Gilchrist, co-founders and co-owners of ElectroDynamic Applications, Inc., are also 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. The parties to this agreement are the Regents of the University of Michigan and ElectroDynamic Applications, Inc.
2. The terms of the agreement conform to University policy. The period of performance for the project is seventeen (17) months, and the amount of funding support is \$449,997.
3. The pecuniary interest arises from the fact that Drs. Gallimore and Gilchrist, employees of the University of Michigan, are co-owners and co-founders of ElectroDynamic Applications, Inc.

### **License Agreement Amendment with GoKnow, Inc.**

The Regents approved an amendment to an existing license agreement with GoKnow, Inc. for UM File Nos. 2873, 2874, 2875, and 2876. Because Drs. Elliot Soloway, Ronald Marx, Joseph Krajcik, and Phyllis Blumenfield hold equity interest in GoKnow, Inc. and are also 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. The parties to this agreement are the Regents of the University of Michigan and GoKnow, Inc.
2. Licensing terms include addition of UM File Nos. 2873, 2874, 2875, and 2876 to the existing license agreement and assignment of rights to certain trademarks associated with these files. All other terms of the license will remain unchanged.

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

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

3. The pecuniary interest arises from the fact that Drs. Soloway, Marx, Krajcik, and Blumenfield, employees of the University of Michigan, hold equity interest in GoKnow, Inc.

### **FY 2005 Athletic Department Operating Budget**

Athletic Director Bill Martin next presented the FY 2005 Athletic Department operating budget. He noted that in 2003 the graduation rate for Michigan student-athletes (82%) was almost the same as that for the general student body (84%). In the area of athletic performance, he reported that Michigan had come in second to Stanford University in the prestigious Directors Cup for 2003-04, and that Michigan had won 8 Big Ten championships and the CCHA hockey championship. Seven of the Big Ten championships were won by women's teams.

Mr. Martin reviewed historical financial trends and the FY 2003-2004 financial performance for the Athletic Department. Since 2001, the department has maintained an operating surplus, with a projected surplus for 2003-2004 of about \$8.0 million. The projected surplus for 2004-2005 will be about \$2.3 million. He reviewed revenues and expenses for FY 2003-2004, noting that projected revenues from gifts increased by more than 26%. Increased sales of student football tickets have led to a decrease in ticket revenue due to the lower price charged for these tickets. However, he emphasized that student ticket demand will continue to be fulfilled. He also pointed out that expenses are impacted by the need for the department to fund out-of-state tuition for the 70% of student athletes who are not Michigan residents.

Mr. Martin noted that the balance sheet is in good shape, with \$11.7 million in operating reserves, \$25 million in scholarship endowment, a quasi-endowment fund of \$16 million, and a deferred maintenance fund which provides a stable resource for facility renewal.

Mr. Martin noted that the work plan for Fiscal Year 2004-2005 includes implementation of the priority seating program, construction of the Academic Center, continued focus on fundraising for capital projects and scholarship endowment, and continued study and analysis of press box and stadium renovation.

Regent White left the meeting at this point, at 2:55 p.m.

### **Medical School Update**

Provost Courant noted that Dean Lichter had recently been reappointed for another five-year term as dean of the Medical School, and observed that the school had recently been reaccredited with extraordinarily high scores. Executive Vice President Kelch commented that the school is thriving under Dean Lichter's leadership, and that he has never been part of a reaccreditation review that had received such strong recommendations.

Dean Lichter noted that the Medical School, the Hospitals and Health Centers, and M-Care have been integrated into a single organization, the University of Michigan Health System, which, through its executive group, reviews all major decisions, allocates resources, settles issues among the main units, and sets a unified strategy. Dean Lichter described the new Medical School curriculum that was implemented in 2003-04, noting that it features earlier clinical experiences and is web-enhanced for distance and time-independent learning. He described the "Family Centered Experience" in which pairs of students are matched with volunteer patient families for ongoing home visits and discussions of experiences with chronic or serious illness. Following each home visit, students participate in theme-based discussions facilitated by trained faculty.

Dean Lichter noted that this past year the Medical School had undergone a review by the Liaison Committee on Medical Education (LCME) which resulted in an extraordinarily positive

review. He described some of the areas of research currently underway in which the Medical School is a national leader. He noted that in 2003 the Medical School ranked 11th among medical schools in NIH funding in a field of extraordinarily stiff competition, and described how these rankings have changed over time among the leading institutions. Dean Lichter expressed excitement about progress being made toward completion of the Biomedical Sciences Research Building (BSRB), but noted that a good deal of additional space is still needed to house the expanding research faculty who have been recruited.

Dean Lichter then turned to measures that can be used to assess the quality of clinical operations, which include process, outcome, safety, and appropriateness. In all of these measures, the University is at or near the top of the scale compared to other leading institutions. In addition, the Medical School was ranked seventh in a recent national ranking. He expressed confidence that in all of the areas discussed the University of Michigan Medical School will advance further and continue to enhance its reputation in the years to come.

A five-minute break followed, from 3:20-3:25 p.m.

### **Public Comments**

The Regents heard comments from the following individuals, on the topics indicated: David Johnson, student, Steven Albee-Scott, student, John Norton, student, on changes in family housing; Jim Mogensen, citizen, on the town-gown relationship; Carol Dunitz, alumna, on her book, *Louder Than Thunder*; Mark Hindelang, student and president of the University Activities Center (UAC), on the Regents' support of UAC; and David Boyle, alumnus, on second-best SAPAC solutions.

## **Committee Reports**

Regent McGowan announced committee appointments for the coming year. Regent Brandon will continue as chair of the Finance, Audit and Investment Committee, and Regent Maynard will continue as chair of the Compensation and Personnel Committee. She stated that in general, the committee chair assignments will circulate among the Regents, but given the current juncture of each committee in pursuing its work, she felt it was important that the current leadership remain in place for the coming year. The other members of the Finance, Audit and Investment Committee will be Regent White and Regent Taylor. Regent Richner and Regent Deitch will serve on the Compensation and Personnel Committee.

**Finance, Audit, and Investment Committee.** Regent Brandon reported that the committee had met that morning, and that both Regent White and Regent Taylor had been present. The committee received a regular bimonthly update from the interim director of University audits, Fred White, who assured the committee that there were no irregularities and that he was receiving a high level of cooperation from the administration. Other topics included a review of risk management and an update on the Sarbannes-Oxley work plan. He reported that the committee was continuing work on a draft of a new, more comprehensive charter.

**Compensation and Personnel Committee.** Regent Maynard reported that she and Regent Richner had met that morning; Regent Deitch had been unable to attend. They met with the president and provost to discuss processes established for succession within the University leadership, and began discussion of a work plan for September 2004.

The Regents then turned to the regular agenda.

## **Consent Agenda**

**Minutes.** Vice President Tedesco submitted for approval the minutes of the meeting of June 17, 2004.

**Reports.** Executive Vice President Slottow submitted the Investment Report, Plant Extension Report, the Quarterly Report on Non-Competitive Purchases over \$5,000 from Single Sources, and the Human Resources and Affirmative Action Report. Regarding the Plant Extension report, Executive Vice President Slottow reported that since the installation of the million gallon storm water retention basin under the Palmer Drive parking deck and the new storm water collection system on North Campus, no flooding has occurred and sediment has been removed from the discharge that flows into the Huron River.

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

**Research Report.** Vice President Ulaby submitted the report of projects established, June 1-June 30, 2004. He updated the Board on research expenditures. He noted that the University ranked third nationally in 2001 and second in 2002. He displayed charts showing that the University's technology transfer activities have increased in a variety of measures, including disclosures, the number of patents issued, license agreements, and new business startups. Total revenues have increased from \$3.5 million in 1999 to \$11.7 million in 2003.

Vice President Ulaby observed that so far this year, total research expenditures have increased about 1.4%, but that federal spending for research has dropped significantly and will continue to do so next year. To compensate, the number of research proposals submitted by University researchers has increased significantly. He reviewed federal research expenditure projections for FY 2005, noting that the overall budget will decrease about 4%. Challenges

include greater competition among universities and the fact that less money is available at the University to invest in facilities and infrastructure.

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

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

**University of Michigan-Dearborn.** No additional report was submitted.

**University of Michigan-Flint.** Chancellor Mestas reported that Professor Richard Gull been selected as the 2004 recipient of the University's Jackie Lawson Memorial Award, which recognizes exceptional distinction in faculty governance service.

**Michigan Student Assembly Report.** MSA President Jason Mironov informed the Regents about the Housing Information Storage Center, an MSA-sponsored website containing information about off-campus housing. He noted for a number of reasons, there are major problems with off-campus housing, and the website is meant to alleviate many of these problems. The website will include reviews of off-campus housing units by students who have lived in them, along with advertisements by landlords about their units.

**Voluntary Support.** Vice President May noted that the reports for Fiscal Year 2003-04, and for June and July 2003 will be submitted at the September meeting. He called attention to the recent gift from Edwin and Mary Meader in support of the Kelsey Museum.

**Personnel Actions/Personnel Reports.** Provost Courant submitted a number of personnel actions and personnel reports. He noted that five faculty members were being recommended for appointment as distinguished university professor, and said that it is one of the highest honors that the University bestows.

**Retirement Memoirs.** Vice President Tedesco submitted 3 faculty retirement memoirs.

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



**Degrees.** Provost Courant submitted for approval the final degree lists for the spring 2004 commencements and changes to previously approved degree lists.

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

***Alternative Asset Commitments (Summit Subordinated Debt Fund III, L.P.)***

Executive Vice President Slottow informed the Regents about the commitment of \$10 million to Summit SubDeb III, L.P., a private equity limited partnership.

***Alternative Asset Commitments (Merit Energy Partners X, L.P. and EnCap Energy Capital Fund V, L.P.)***

Executive Vice President Slottow informed the Regents about recent follow-on energy commitments of \$25 million to Merit Energy Partners X, L.P., and \$30 million to EnCap Energy Capital Fund V, L.P.

***Absolute Return Investment (Protégé Partners)***

On a motion by Regent Brandon, seconded by Regent McGowan, the Regents unanimously approved Protégé Partners as an absolute return investment with initial funding of up to \$60 million.

***Absolute Return Investment (Lazard Emerging Income)***

On a motion by Regent Brandon, seconded by Regent McGowan, the Regents unanimously approved Lazard Emerging Income with initial funding of up to \$60 million.

***Alternative Asset Commitment (Sprout Healthcare Venture I, L.P.)***

On a motion by Regent Maynard, seconded by Regent McGowan, the Regents unanimously approved commitment of up to \$20 million from the Long Term Portfolio to Sprout Healthcare Ventures I, L.P., a venture capital fund.

### **Alternative Asset Commitment (*Formative Ventures Emerging Technologies Fund, L.P.*)**

On a motion by Regent Newman, seconded by Regent Brandon, the Regents unanimously approved commitment of \$10 million from the Long Term Portfolio to Formative Ventures Emerging Technologies Fund, L.P.

### **Athletic Department Events Center**

On a motion by Regent Newman, seconded by Regent Maynard, the Regents unanimously approved the Athletic Department Events Center project as described in the Regents Communication and authorized commissioning Rossetti Architects for its design.

### **Utility Tunnel Piping Project**

On a motion by Regent Brandon, seconded by Regent Newman, the Regents unanimously approved the Utility Tunnel Piping Project between the Central Power Plant and the Victor Vaughn Building as described, authorized commissioning the firm of Black and Veatch for its design, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

### **Newberry Hall - Kelsey Museum Addition and Renovation Project**

On a motion by Regent McGowan, seconded by Regent Brandon, the Regents unanimously approved the Newberry Hall - Kelsey Museum Addition and Renovation Project as described and authorized commissioning Hammond Beeby Rupert Ainge Architects, Inc. for its design.

### **University of Michigan-Dearborn Science Building Addition, Phase One of the Science and Engineering Expansion and Renovation Project**

On a motion by Regent Newman, seconded by Regent Maynard, the Regents unanimously approved issuing the University of Michigan-Dearborn Science Building Addition

Project for bids and awarding construction contracts providing that bids are within the approved budget.

### **Perry Building Addition Project**

On a motion by Regent Brandon, seconded by Regent Maynard, the Regents unanimously authorized issuing the Perry Building Addition Project for bids and awarding construction contracts providing that bids are within the approved budget.

### **Institute for Social Research Chiller Replacement**

On a motion by Regent Brandon, seconded by Regent Newman, the Regents unanimously approved a chiller replacement project for the Institute for Social Research 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.

### **Vacant Lot in Rochester Hills, Michigan**

On a motion by Regent Maynard, seconded by Regent McGowan, the Regents unanimously approved accepting a gift of a vacant 0.47-acre unimproved lot in Rochester Hills, Michigan, which would then be sold as described in the Regents Communication.

### **University of Michigan Hospitals and Health Centers (UMHHC) C.S. Mott Children's Hospital Pediatric Cardiology Biplane Catheterization Laboratory**

On a motion by Regent Newman, seconded by Regent Brandon, the Regents unanimously approved the University of Michigan Hospitals and Health Centers (UMHHC) C.S. Mott Children's Hospital Pediatric Cardiology Biplane Catheterization Laboratory Project as described, authorized commissioning the architectural firm of HarleyEllis for its design, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

### **Lapeer Street Annex Building, Flint, Michigan**

On a motion by Regent Maynard, seconded by Regent Brandon, the Regents unanimously approved sale of the Lapeer Street Annex Building in Flint, Michigan, for the negotiated price of \$375,000 upon terms and conditions acceptable to the University.

### **Reappointment of Juan Mestas as Chancellor of University of Michigan-Flint**

President Coleman noted that the personnel actions had included a recommendation for the reappointment of Juan Mestas as chancellor of the University of Michigan-Flint for a second five-year term. She said that Chancellor Mestas' reappointment had been the subject of an enthusiastic editorial by the *Flint Journal*, and she said she was very pleased that he would be continuing to serve.

### **Merger of the Institute of Gerontology with the Geriatrics Center**

Vice President Ulaby informed the Regents that the Institute of Gerontology has been merged with the Geriatrics Center in the Medical School.

### **M-Care Bylaws**

On a motion by Regent Maynard, seconded by Regent Richner, the Regents unanimously approved a revision to Article IV, Section 4.02, Paragraph 1 of the M-Care bylaws, as described in the Regents Communication.

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

On a motion by Regent Maynard, seconded by Regent Newman, the Regents unanimously approved the MHC FY2005 annual business plan and budget.

**New Degree Program, University of Michigan-Dearborn College of Arts, Sciences, and Letters (“Master of Arts in Public Policy”)**

On a motion by Regent Newman, seconded by Regent Maynard, the Regents unanimously approved a new degree program, “Master of Arts in Public Policy,” to be offered by the College of Arts, Sciences, and Letters at the University of Michigan-Dearborn.

**Change in Name of “Bachelor of General Studies” program at University of Michigan Flint to “Bachelor of Interdisciplinary Studies”**

On a motion by Regent Maynard, seconded by Regent Newman, the Regents unanimously approved a change in the name of the “Bachelor of General Studies” degree program to “Bachelor of Interdisciplinary Studies,” as described in the Regents Communication.

**New Degree Program, University of Michigan-Flint College of Arts and Sciences (“Master of Science Degree in Computer and Information Systems”)**

On a motion by Regent Newman, seconded by Regent Maynard, the Regents unanimously approved a new degree program, “Master of Science Degree in Computer and Information Systems,” to be offered in the College of Arts and Sciences at the University of Michigan-Flint.

**Regents’ Meeting Schedule for 2005**

On a motion by Regent McGowan, seconded by Regent Maynard, the Regents unanimously approved the following meeting schedule for 2005:

January 20

February 17

March 17

April 21

May 19 (Held at UM-Dearborn)

June 16

July 21

September 15

October 21 (Friday) (Held at UM-Flint)

November 17

December 15

There being no further business, the meeting was adjourned at 4:35 p.m. The next meeting is scheduled for September 23, 2004.