

FEBRUARY MEETING, 2006

*The University of Michigan
Ann Arbor
February 17, 2006*

The Regents convened at 9:25 a.m. in the Regents' Room. Present were President Coleman and Regents Brandon, Deitch, Maynard, Newman, Richner, Taylor, and White. Also present were Vice President and Secretary Churchill, Vice President Forrest, Interim Provost Gramlich, Vice President Harper, Executive Vice President Kelch, Vice President Krislov, Chancellor Little, Vice President May, Chancellor Mestas, Vice President Rudgers, Executive Vice President Slottow, and Vice President Wilbanks. Regent McGowan was absent.

Call to Order

President Coleman called the meeting to order. She noted that during the past month she had addressed a meeting of the scholarly division of the American Association of Publishers in support of the University's participation in the "Google Book Search" project, and had attended a celebration of the opening of the Biomedical Sciences Research Building. She commented that Governor Granholm had included a 2% increase for higher education in her 2007 budget proposal, and called attention to the fact that Professor William Bolcolm's masterpiece, "Songs of Innocence and Experience," recorded at Hill Auditorium, had received four Grammy Awards. President Coleman also noted that the Children's and Women's Hospital replacement project, to be discussed later in the meeting, is assumed to be the largest single construction project in the state.

Presentation: “The Leaders and Best: What Makes Our School of Education Different?”

President Coleman introduced Dean Deborah Loewenberg Ball, dean of the School of Education. Dean Ball noted that inadequate education is a major issue facing the world in the 21st century, and that the University of Michigan is in a position to take the lead in offering solutions to this problem. She commented that almost half of the school’s students are involved in teacher certification programs at the undergraduate and master’s degree levels. The remainder of the school’s students are in non-teacher-certification programs, including masters programs in higher education and Ph.D. Programs.

Dean Ball said that School of Education faculty are of the highest quality, as indicated by the school’s overall ranking in 2005 of 9th nationally and first in the higher education program, and that research performed at the school is among the most widely cited and used research for policy-making and improvements in practice. She emphasized that the research being pursued by School of Education faculty focuses on core problems of education and studies, and develops solutions for those problems by examining the causes, designing and studying interventions, articulating policies, and contributing to the improvement of professional education.

Dean Ball commented that the school trains a number of different education professionals and described its efforts at educating teachers, including graduate student instructors, in addition to K-12 teachers. She pointed out that the best way to improve the performance of the nation’s teachers is to build a reliable system of teacher education and described the key elements necessary for this. She noted that the close relationship between School of Education faculty and faculty in the other schools and colleges helps to explain why the University of Michigan is positioned to take a leading role in this.

Dean Ball described some of the School of Education initiatives that are under development or under consideration to meet some of the challenges she described. She concluded by describing the school's priorities and challenges going forward and expressed confidence that the school is positioned to be able to make significant advances in the field.

Regent White complimented Dean Ball on her presentation. Regent Newman commented that everyone on the board deeply cares about education and urged Dean Ball to let the Regents know if there is anything they can do to be supportive and helpful. In response to a question from Regent Deitch about the reasons for the poor performance of American students in math and science achievement measures, she gave a number of reasons and said that the University is in a good position to make contributions toward improving this situation.

Annual Report on Research

Vice President Forrest stated that the mission of the Office of the Vice President for Research (OVPR) is to anticipate new research trends, to engage the diverse communities in the research enterprise, to expedite the diffusion of new knowledge into the classroom and the community, and to promote integrity in research and ensure compliance with government regulations. He noted that research expenditures at the University of Michigan have about doubled in the last 10 years to a total of about \$800 million in 2006, although the growth rate has flattened somewhat over the past few years.

He noted that approximately 75% of research expenditures derive from the federal government, about 14% from the University, and about 4.5% from industry. He described research expenditures by unit, noting that the Medical School (42%), College of Engineering (18%), College of LS&A (9%), and the Institute for Social Research (9%) make up the bulk of

the research expenditures. He reported that more than 2,000 undergraduates and 12,000 graduate students are involved in research.

Vice President Forrest observed that the OVPR attempts to catalyze research ideas from disparate groups to make the whole greater than the sum of its parts, and said that the Michigan Nanotechnology Institute for Medicine and Biological Sciences is an example of this. He announced a new OVPR initiative on energy science, technology, and its impacts, with the goal of the University becoming one of the world's leading universities in energy research. He explained the importance of industry research and technology transfer to the University and the state, noting that while the University ranks 8th in annual licensing revenue and in annual licensing revenue, industry research funding as a percentage of total research funding (4.5%) is very low, ranking only 96th nationally. Thus, he pointed out that industry research and partnerships provide the largest opportunity for continued growth in research volume and listed some of the University's strategies for doing so.

Vice President Forrest concluded by recognizing the highly competitive, global nature of research, and described the vision of the OVPR as working to anticipate and meet future opportunities and challenges. He then responded to questions regarding how the University shares in the profits generated when it collaborates with industry, explaining that this is done in a variety of ways, including taking an equity position in a company and receiving royalties. The exact agreement is specific to each situation, but the most important thing is to establish an agreement with a company. He noted that the University makes every effort to ensure that companies it is involved with are located in Michigan.

Committee Reports

Finance, Audit and Investment Committee. Regent Brandon reviewed the topics the committee had covered during its meeting the day before. The first agenda topic involved a review of policies, practices, trends, and benchmark comparisons regarding the endowment. The committee next reviewed the activities and structure of the Michigan Health Corporation (MHC), a not-for-profit membership corporation wholly owned by the Regents. The committee then had a preliminary look at the FY07 General Fund budget. Finally, the committee had a continuation of its January regular bimonthly audit meeting and also met privately with the internal auditors to inquire about the level of cooperation and support they are receiving from the University. The committee had also received a written quarterly report on the Life Sciences Institute.

Personnel, Compensation and Governance Committee. Regent Richner presented the report of this committee, because the chair, Regent Taylor, had been unable to attend. Regent Richner noted that Regents Newman and Maynard had attended this meeting in the absence of the other committee members. The Regents had reviewed information on the increasing challenge related to the costs of health care benefits and expressed support for the efforts of the administration. They also learned about the “Michigan Healthy Community” initiative which is encouraging healthier lifestyles on campus, and noted that the Regents were encouraged to participate in the fitness challenge. The Regents also were updated about the University’s federally-mandated affirmative action plan for recruiting and retaining minority and women faculty and staff.

The Regents then turned to the consent agenda.

Consent Agenda

Minutes. Vice President Churchill submitted for approval the minutes of the meeting of January 20, 2006.

Reports. Executive Vice President Slottow submitted the Investment Report, the Plant Extension Report, and the Human Resources and Affirmative Action (HRAA) Report.

Litigation Report. Vice President Krislov submitted the Litigation Report.

Research Report. Vice President Forrest submitted the Report of Projects Established, January - January 31, 2006.

University of Michigan Health System. There was no additional report.

Division of Student Affairs. No report was submitted.

University of Michigan-Dearborn. No report was submitted.

University of Michigan-Flint. No report was submitted.

Michigan Student Assembly Report. MSA President Jesse Levine informed the Regents about the Lease Signing Ordinance which is currently being considered by the Ann Arbor City Council. This ordinance would prevent landlords from showing properties for the first quarter of the lease and would also prevent students from signing a lease until the first third of the lease has been completed. A vote is scheduled for March 6, 2006.

Mr. Levine also reported that MSA elections will be held March 6-22 and a lot of interest has been expressed. Finally, he distributed a document from the president of the University of Michigan-Dearborn student government concerning campus safety officer certification.

Voluntary Support. Vice President May submitted the Report of Voluntary Support for January 2006.

Personnel Actions and Personnel Reports. Provost Gramlich called attention to a request to extend the period of appointment for the Thurnau Professorships through the period of active appointment at the University. Upon approval, the Thurnau Professorship title will be permanently reinstated for all past Thurnau professors who lost this designation after 3 years. He also noted that 6 new individuals are being recommended for approval as Thurnau professors effective July 1, 2006.

Retirement Memoirs. Vice President Churchill submitted memoirs for 2 retiring faculty members.

Vice President Churchill also announced that this would be the last meeting for Carol Volker of her staff, as Ms. Volker and her husband will be moving to Virginia.

Memorials. Vice President Churchill submitted a memorial statement for David Fleischer, associate professor of pharmacological sciences.

Degrees. Provost Gramlich submitted final degree lists for the December 2005 commencements as well as changes to previously approved degree lists. Copies of all of the degree lists are on file in the Office of the Vice President and Secretary of the University.

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

The Regents then turned to consideration of the regular agenda.

University of Michigan Hospitals and Health Centers (UMHHC) C.S. Mott Children's and Women's Hospital Replacement Project

Executive Vice President Slottow commented that since completion of the schematic design for this project, the size has increased by approximately 100,000 gross square feet, to approximately 1,100,000 gross square feet, and it is recommended that the budget be increased

by 5% to accommodate increased programming, to achieve LEED (“Leadership in Energy and Environmental Design”) certification, and to meet the increased cost of some of the materials. He noted that the UMHHC has updated its strategic 10-year capital plan and the increased budget and scope is entirely consistent with that plan. He said that Ms. Pat Warner, associate director and chief administrative officer of C.S. Mott Children’s Hospital, would be assisting with the schematic design presentation.

Executive Vice President Kelch commented that he is “thrilled by the project,” and stated that it is an excellent representation of the Health System’s commitment to growth and investment in one of its strategic principles. He noted that the entire health system will benefit from the project through prudent use of the facilities that will be liberated by it. He observed that the costs associated with seeking LEED certification for this particular project will be warranted over the long term.

Ms. Warner reported that numerous individuals had been involved in the design of this project, including more than 450 faculty, staff, and students and more than 40 families and patients, all of whom will remain involved during the operational planning stage. She thanked the Regents on behalf of all who have been involved in the project “for the opportunity to create one of the most innovative and exciting children’s and women’s hospital, not only in this country, but, I think, in the world.” She also thanked Dr. Kelch for his leadership and Regent Brandon for his role as a philanthropic leader in the project.

Ms. Warner introduced Mr. Ronald W. Dennis, principal of HKS Architects, P.C. and head of its health care section, and Mr. Douglas Compton, senior vice president with HKS and lead designer. Mr. Compton displayed the site plan, noting that the Arboretum is located along the east and southeastern border. He said that the footprint of the structure has been maximized

on the site in the shape of an “L”, consisting of the hospital portion of the structure (850,000 square feet and 12 stories high) and the clinical and outpatient functions (250,000 square feet and 9 stories high). He described the functions that would occur at the various levels of the structure, noting that patient rooms would have a view of the arboretum and river valley and that extensive landscaping is planned. There will be a sky bridge connecting the parking structure to the hospital and a connector from this building to the second level of University Hospitals and clinics. There will be a separate drive and entrance point for emergency vehicles and walk-in traffic.

Mr. Compton displayed and described floor plans for the 2nd floor, which includes the main lobby, retail food and gift shops, and a family resource center, the 4th floor (diagnostic and treatment areas); and the 12th floor (representing a nursing unit). Ms. Warner pointed out that locating the family resource center in the hub of the public space is an innovative feature of the UM facility. Mr. Compton noted that there will be separate elevator banks for the different user groups in the facility and that a regional infectious disease containment unit will be located on the 12th floor. Another feature is that all rooms, including those in the intensive care units, will be single rooms. There will also be undeveloped shell space on each floor, providing room for growth.

Mr. Compton displayed photos showing views of the facility from various points on campus, noting that it will be a visible and recognizable feature within the medical complex. He noted that the exterior materials and coloration will be reflective of existing campus architecture. The patient rooms and other areas of the facility will incorporate extensive amounts of glass to provide natural light and outdoor views.

In response to a question from Regent Maynard about the use of the old women’s and children’s facility, Dr. Kelch said that it will be renovated for use by adult services programs,

allowing for expansion of the old hospital and growth in adult services, which will enable the entire health system to thrive. It was noted that construction of the new facility is projected to be completed at the end of 2010 and move-in is scheduled for Spring, 2011.

President Coleman pointed out that the space provided for the regional infectious disease containment unit will be key to pandemic planning for the entire region. Dr. Kelch noted that the building has been designed to address security concerns and will feature limited and controllable access. In the worse case scenario, the entire hospital could be turned into a controlled access, specialized use, facility. Ms. Warner commented that at every entrance, individuals will be greeted by a human being. All entrances will be staffed either 24 hours per day, or during all of the hours that the entrance is open.

Regent Brandon stated that it was 26 years ago that his identical twin sons were rushed to Mott Hospital where their lives were saved, so he is especially gratified to see this project come to fruition. He announced that the original goal of \$50 million for the philanthropic campaign for this facility that he and Coach Carr and their spouses are leading has been raised to \$75 million. "I would take great pride in moving this item for approval," he said. Regent Taylor seconded the motion, and the motion to approve the revised budget, and scope, and schematic design for the University of Michigan Hospitals and Health Centers C.S. Mott Children's and Women's Hospitals Replacement Project as presented at the meeting was approved unanimously. A round of applause followed.

Alternative Asset Commitment (Graham Partners II Co. Investment, L.P.)

The Regents were informed that a \$20 million follow-on private equity commitment had been made to Graham Partners II Co-Investment, L.P.

Alternative Asset Commitments (ARC Energy Fund V, L.P.; Rubenstein Properties Fund, L.P.; Altor Fund II, L.P.)

On a motion by Regent White, seconded by Regent Maynard, the Regents unanimously approved the following commitments: \$13 million (Canadian dollars) from the Long Term Portfolio to ARC Energy Fund V, L.P.; \$20 million from the Long Term Portfolio to Rubenstein Properties Fund, L.P.; and €7 million from the Long Term Portfolio to Altor Fund II, L.P.

Long Term Portfolio Asset Allocation

Executive Vice President Slottow explained that this is a request to widen the range of the fixed income allocation in the Long Term Portfolio to allow for variances in the fixed income allocation relative to the model portfolio approved in 2000, and to make it consistent to the current investment environment. On a motion by Regent Brandon, seconded by Regent Maynard, the Regents unanimously approved widening the allowable range for fixed income allocation to 10 percent to 35 percent, which would allow for variances in the fixed income allocation relative to the model portfolio that are more consistent with that of other asset classes.

Regent Newman expressed appreciation to Mr. Erik Lundberg, the University's chief investment officer, for all of his efforts in managing the University's investments.

Hutchins Hall Classroom 138 and Administrative Office Space Renovation

On a motion by Regent Maynard, seconded by Regent White, the Regents unanimously approved the Hutchins Hall Classroom 138 and Administrative Office Space 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) Cancer and Geriatrics Centers Building Cancer Center Infusion Expansion

On a motion by Regent Maynard, seconded by Regent White, the Regents unanimously approved the University of Michigan Hospitals and Health Centers (UMHHC) Cancer and Geriatrics Centers Building Cancer Center Infusion Expansion Project as described, authorized commissioning of the architectural firm of Ann Arbor Architects Collaborative for its design, 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) University Hospital Clinical Laboratory Renovation

On a motion by Regent Brandon, seconded by Regent Richner, the Regents unanimously approved the University of Michigan Hospitals and Health Centers (UMHHC) University Hospital Clinical Laboratory Renovation project as described, authorized commissioning the architectural firm of SSOE Inc. For its design, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

Medical Sciences Research Building I (MSRB I)

On a motion by Regent Newman, seconded by Regent White, the Regents unanimously approved the Medical Sciences Research Building I Mass Spectrometer Laboratory Project as described, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

Stephen M. Ross School of Business Facilities Enhancement Project

Executive Vice President Slottow reported that Dean Dolan and colleagues have raised \$40 million in 9 months in order to support this project and successfully meet the full financial commitment required by the \$145 million budget. On a motion by Regent Brandon, seconded by

Regent White, the Regents unanimously authorized issuing bids and awarding construction contracts for demolition and early procurement packages for the Stephen M. Ross School of Business Facilities Enhancement Project provided that bids are within the approved budget.

Conflict of Interest Items

President Coleman announced that the agenda includes 3 conflict of interest items, each of which requires 6 votes for approval. On a motion by Regent Newman, seconded by Regent White, the Regents unanimously approved each of the following items:

License Agreement with Cielo MedSolutions, LLC

The Regents approved a license agreement with Cielo MedSolutions, LLC, for the technology entitled “ClinfoTracker” (UM File No. 2860). Because James Price, part owner of Cielo MedSolutions, LLC, is also a University of Michigan employee, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. The parties to the contract are the Regents of the University of Michigan and Cielo MedSolutions, LLC.
2. The license terms include giving Cielo an exclusive license with the right to grant sub-licenses. Cielo will pay a royalty on sales. The University will retain ownership of the licensed technology and may continue to further develop it and use it internally.

No use of University services or facilities, nor any assignment of University employees, is obligated or contemplated under the agreement. Standard disclaimers of warranties and indemnification apply, and the contract may be amended by consent of the parties. Additional review by the Conflict of Interest Board will be done as appropriate.

3. The pecuniary interest arises from the fact that Mr. James Price, a University of Michigan employee, is part owner of Cielo MedSolutions, LLC. He is not an inventor of the licensed technology and is not entitled to any personal participation in the sharing of revenue received by the University.

First Amendment to Patent Option Agreement with Incept BioSystems

The Regents approved the first amendment to a patent option agreement with Incept BioSystems, for the technology entitled “Handheld Recirculation System and Customized Media for Microfluidic Cell Culture” (UM File No. 3297). Because Drs. Shuichi Takayama and Gary Smith, partial owners of Incept BioSystems, 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 the agreement are the Regents of the University of Michigan and Incept BioSystems.
2. The agreement terms include giving Incept BioSystems a twelve-month option (extendable by six months) to negotiate an exclusive license with the right to grant sublicenses. A term sheet for the patent license agreement to be negotiated is attached to the patent option agreement that contains terms for a royalty on sales and reimbursement of patent expenses. The University will retain ownership of the licensed technology and may continue to further develop it and use it internally.

No use of University services or facilities, nor any assignment of University employees, is obligated or contemplated under the agreement. Standard disclaimers of warranties and indemnification apply, and the contract may be amended by consent of the parties. University procedures for approval of these changes will be followed and additional review by the Conflict of Interest Board will be done as appropriate.

3. The pecuniary interest arises from the fact that Drs. Takayama and Smith, University of Michigan employees, are also part owners of Incept BioSystems. They have waived any personal participation in the sharing of revenue received by the University.

Research Agreements with Ascenta Therapeutics, Inc.

The Regents approved research agreements with Ascenta Therapeutics, Inc., for projects that involve study and testing to further develop promising small molecule inhibitors for use against various cancers. Because Drs. Marc Lippman, Shaomeng Wang, and Dajun Yang, University of Michigan employees, also are partial owners of Ascenta Therapeutics, Inc.; Drs. Lippman and Wang are also directors and members of the company’s scientific advisory board; and Dr. Yang is also an employee and officer of the company. Therefore, this agreement falls

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

1. The parties to the agreement are the Regents of the University of Michigan and Ascenta Therapeutics, Inc.
2. The terms of the agreements conform to University Policy. Dr. Liang Xu, who is an inventor of the technology licensed to the company but has no direct financial interest in the company, will direct one of the projects over an initial one-year period at an estimated cost of \$100,000. Dr. Wang is participating as a co-investigator at the University.

The other projects will be directed by Dr. Thomas Carey of the Department of Otolaryngology and Dr. Kenneth Pienta of the Department of Internal Medicine. Dr. Yang is not participating in any of the projects as a University employee but will be the principal investigator at the company for Dr. Xu's project.

The contracts include a provision allowing extension and modification of the projects upon mutual agreement of the parties. University procedures for approval of these changes will be followed, and additional review by the Conflict of Interest Board will be done as appropriate.

3. The pecuniary interests of Drs. Marc Lippman, Shaomeng Wang, and Dajun Yang arise from the fact they are both University of Michigan employees, and partial owners of Ascenta Therapeutics, Inc.

Electrical Engineering and Computer Science Building Solid State Electronics Lab Addition and Renovation

Executive Vice President Slottow noted that the original project approved by the Regents in February 2005 involved a project budget of \$28 million. Since that time, the scope of the project has increased in size in order to accommodate the research needs of a newly recruited faculty member and a \$70 million grant to support nanotechnology research. In addition, when the bids were analyzed, it was determined that the complexity, safety standards, and some of the materials costs had not been adequately recognized by the team of outside expert estimators in setting the original budget. All of these factors have required an increase in the project budget to \$48 million.

Executive Vice President Slottow pointed out that this is only the second time in the past five years and more than 100 projects that it has been necessary to seek a budget increase after

the project has gone out to bid. The increased cost will be funded by the College of Engineering, and the increased scope will be funded from investment income.

Regent Brandon commented that the Finance, Audit and Investment Committee takes these matters very seriously, and this situation has generated much discussion within the committee. In addition to the change in scope and market factors, the project estimating had not been up to the University's usual standards, and this will lead to a re-evaluation of the estimating process. However, given these considerations, he said he is convinced that the right thing to do is to move forward despite the increase in the cost of the project.

Regent Deitch observed that the University has a huge volume of construction and that he has great admiration for the talents of Associate Vice President Baier. He observed, however, that given the current volume of construction, it may be worth considering increasing the staffing in this area going forward.

Regent White pointed out that this project is unique in that it would be difficult to scale it back given all of the safety issues and specialized equipment it involves. However, if this were a different kind of project, there may have been some leeway in eliminating some of the features.

Executive Vice President Slottow agreed that this project has very unique technical requirements that require specialized expertise, and said that the comments are well taken and will be carefully considered.

On a motion by Regent Deitch, seconded by Regent Brandon, the Regents unanimously approved the revised project scope and budget for the Electrical Engineering and Computer Science Building Solid State Electronics Lab Addition and Renovation Project as described in the Regents Communication, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

UM-Dearborn Safety Office

Chancellor Little commented that the certification of the public safety officers on the Dearborn campus is planned to occur in a staged fashion over a period of four years. He noted that there has been much discussion of this proposal on campus, and believes this is a prudent step to take. On a motion by Regent Taylor, seconded by Regent Brandon, the Regents unanimously approved the licensing of UM-Dearborn campus safety officers pursuant to Public Act 120.

A five-minute break followed.

Public Comments

The Public Comments session began at 11:50 a.m. The Regents heard comments from the following individuals, on the topics indicated: Jim Mogensen, citizen, on the town/gown relationship; Alice Ralph, alumna, on the Gordon Hall Historic District; David Boyle, alumnus, on UM neglect toward minorities; Andrea Dewees, student, on support for international students and workers who encounter problems entering the US; Rese Fox, student and member of the Michigan Student Assembly, on general student concerns; and Elizabeth Neilson, student, on the University of Michigan Dance Marathon.

There being no further business, the meeting was adjourned at 12:15 p.m. The next meeting is scheduled for March 17, 2006.