

Minutes of 2 October 2006
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MINUTES OF THE SACUA MEETING OF 2 OCTOBER 2006

Present: Combi, Frier, Giordani, MacAdam, Potter, Riles, Seabury, Smith (Chair);
Lehman, Leu, Schneider
Absent: Meerkov
Guests: T. Slottow, E. Lundberg, R. Kelch, R. Fraser, D. Gershman

MATERIALS DISTRIBUTED:

1. Draft Agenda
2. Draft minutes of the SACUA meeting of 25 September 2006
3. Subcommittee Draft of Bylaws of the Selection Committee of the Davis-Markert-Nickerson Visiting Professorship on Academic and Intellectual Freedom
4. [Draft Agenda](#) for Monday, Oct 9, 2006, Fall Summit on Diversity "A Day Without"
5. Memorandum to Dr. Charles B. Smith, SACUA Chair, from Dan Sharphorn, Associate Vice President and Deputy General Counsel dated September 29, 2006, regarding a pending RB 5.09 proceeding
6. Draft of a second letter to Dan Sharphorn
7. Electronic mail message exchange between K. Riles, B. Frier, and D. Potter dated between 29 September 2006 and 30 September 2006 regarding replying to Sharphorn
8. [Memorandum to Charles B. Smith](#), SACUA Chair, from Teresa A. Sullivan dated 25 September 2006 regarding Chief/Assistant Chief Marshal Nominees
9. Electronic mail message exchange between T. Schneider and Jim Kulik dated 28 September 2006 regarding on-line course evaluations
10. Academic Program Group Meeting Summary of 7 September 2006
11. "Anticipating Federal Report, Higher-Education groups Suggest 'Next Steps' for Colleges" by Kelly Field, in *The Chronicle Daily News: 09/22/2006*, THE CHRONICLE OF HIGHER EDUCATION
12. Electronic mail message from K. Riles to SACUA dated 25 September 2006 regarding draft Information Update for the Regents Meeting of October 2006 with the draft document attached
13. Tentative General Administration Issues Form questions for the Fall 2006 AEC Administration Evaluation survey

14. Electronic mail message exchange between K. Riles and C. B. Smith dated 26 September 2006 regarding suggested questions for the Regent Candidates Forum
15. Draft format for the 30 October 2006 Regent Candidates Forum
16. Endowment Spending Policy report dated June 2006
17. SACUA/Senate Assembly Planning Schedule, updated 29 September 2006

Chair Smith convened the meeting at 2:30 P.M.; the draft agenda was approved.

CONSIDERATION OF MINUTES

The minutes of 25 September 2006 were corrected and approved.

ANNOUNCEMENTS

The chair announced:

1. A Diversity Summit will be held in the Michigan League next Monday
2. SACUA will meet next Monday in the Koessler Room, on the 3rd Floor of the Michigan League at 2:30 P.M.
3. The provost has requested (distributed item 8) that SACUA nominate candidates for Grand Marshal and Assistant Chief Marshal before Thanksgiving.
4. Implementation of on-line evaluation of academic instructors has been postponed until Spring 2007 at the earliest.
5. APG minutes are included in the packet of distributed items.
6. The CIC conference is upcoming at Penn State; SACUA members are invited to attend.
7. Professors Smith and Riles will attend a regularly scheduled private meeting with the president on 5 October, from 11 to 11:30 A.M.

SACUA LETTER TO D. SHARPHORN SACUA finalized as committee of the whole a reply to distributed item 5 from D. Sharphorn.

ACTION OF SACUA 100206 -1 Professor Potter moved that SACUA approves the transmittal of a letter to Deputy General Counsel Sharphorn (Giordani seconded).
Vote on the active motion: The motion was approved by unanimous vote.

OCTOBER REGENTS' UPDATE

ACTION OF SACUA 100206-2 Professor MacAdam moved that SACUA approves its October 2006 Faculty Governance Update to the U-M Board of Regents (Riles seconded).
Vote on the active motion: The motion was approved by unanimous vote.

REGENT CANDIDATES' QUESTIONS SACUA members discussed a slate of potential questions for Regents candidates.

VISIT OF CHIEF FINANCIAL OFFICER AND CHIEF INVESTMENT OFFICER

The guests arrived at 3 P.M. After a round of introductions, Chair Smith inquired if VP Slottow had written the reply to the CESF report that was delivered by the provost to the Board of

Regents. The vice president acknowledged that he was indeed the author.

VP Slottow explained that he wanted to use the time of his visit to review policy and procedure pertaining to the management of endowment funds. The vice president said that Mr. Lundberg works with a group of 9 staff who are deeply engaged with the U-M endowment. Mr. Lundberg called attention to distributed item 16: Endowment Spending Policy, dated June 2006. He reviewed multiple pages of charts and figures.

Key points of information

1. The endowment now stands at \$5.7 billion, the result of investment returns and gifts.
2. \$190 million was distributed to units in 2006.
3. The largest recipients were the U-M Hospital and Medical School.
4. There are 5000 separate endowment accounts, but the money is invested collectively
5. Distributions are directed either by donors or by deans; more flexibility would be desirable.
6. The operating margins for the hospital have been better than 3 or 4 % per year recently.
7. The hospital generated \$80 million in the past year.
8. The U-M endowment returns compare favorably to top endowment returns nationally.
9. The U-M maintains 20% of its assets in hedge funds, but avoids overly aggressive ones, and had no investments in Amaranth.
10. Salaries of investment office staff include incentives for performance.
11. The philosophy of management is to maintain broad diversified exposure, global coverage, mainly equity investments, with long term perspective; the aim is to sustain a minimum of 5% return above inflation, and also to grow in real terms.
12. The investment office thinks that future returns will be lower than in the recent past.
13. Management involves long term strategy, but individual managers might change portfolios in anticipation of recession if it is looming.
14. Tuition increases have been the means for closing the gap between appropriation declines and investment revenue.

New Spending Rule

The vice president stated that maintaining stability of endowment returns becomes more important as endowment becomes a larger fraction of the operating budget. He noted that \$54M has been cut from the U-M state appropriation since 2002; if the appropriation had merely kept up with the Consumer Price Index, the U-M would have gained \$85M. He pointed out that the U-M is less affected by the appropriation cuts than other Michigan colleges because the U-M is less dependent on the appropriation as sole source of operating funds. He said the goal is to become less dependent on state appropriations over the next 10 to 30 years. He said the main leverage is in investment rules and in development activities, as well as potentially in space utilization, as well.

VP Slottow reported that investment distributions are presently capped at an annual rate of 5.3 % of current market value. He proposed that the Regents adopt the policy of calculating average market value using a 7 year moving average rather than the 3 year window that is current practice. Professor Seabury asked if the investment office buys advice. Mr. Lundberg replied that the office does not pay advisors, but they do pay a consulting firm in Cambridge for

research information.

Investment Restrictions

Mr. Lundberg pointed out that at one time there was a restriction imposed by the Regents on investing in South Africa, and that there is presently a restriction on tobacco stocks. The vice president added that to the extent there are concerns about industry-wide or sector-wide issues it is incumbent upon the Regents to form an ad hoc faculty-based committee to formulate a recommended policy.

The guests left the meeting at 4 P.M.

VISIT OF EVPMA

The guest joined the meeting at 4 P.M. After a round of introductions EVPMA Kelch said that he would provide SACUA with a copy of the presentation that he made to the Board of Regents. He then reviewed the decision to sell M-Care.

The EVPMA said that the decision was "mission-focused" and had been given a lot of thought. He said he thought it will do no harm to U-M employees. He explained that 15 to 20 years ago it was thought that we needed a vertically integrated system, so that insurance would dictate where people would go. He said that belief subsequently went up in smoke, and Americans in general said they wanted choice. He cited by example the total failure of the Clinton health plan based on a managed care model. Now, he said, there is a strong movement toward customer-driven health care. Now banks are getting involved. Small and medium sized companies are amalgamating and merging. The U-M would have needed much more capital investment to survive in the new environment.

The EVPMA said that the administration structured the proposed sale so that there would be no negative economic effects for the university or university employees. He said there would be no changes in 2007. In 2008, the U-M will design an HMO as close to the current structure of M-Care as possible, but BCBS will do the administration. The U-M will continue to take the insurance risk. Professor Frier asked whether there would be changes in patient-physician relationships. The EVPMA replied that patients can keep same their physician, but they would have a BCBS card, and maybe a wider range of possible providers.

Dr. Fraser reported that a board member of the Blue Care network told him that customer care is a concern. EVPMA Kelch replied that the U-M has a Third Party Customer Services contract over the next 4 years, and that it could be changed that in the future. He said there are incentives for meeting customer care goals.

Professor Seabury noted that several years ago, M-Care dropped its point of service coverage west of Chelsea, and that his family was forced to take a BCBS that was much more expensive; he added that he suspected costs will rise for all U-M employees. The EVPMA replied that M-Care made a tough decision as an insurance company about point of service for that region. He added that both Blue Cross and M-Care subsequently introduced PPOs, which give more choice at slightly more expense than an HMO.

Dr. Fraser said that faculty would have felt better if the administration had consulted with faculty governance sooner than 8 P.M. the night before the public announcement. The EVPMA replied that given the legal dimensions of the deal, there could not be public discussion. Chair Smith suggested that a benefits oversight committee might have provided a suitable vehicle. Kelch said there would still be problems with that.

Co-premiums

The EVPMA stated that in 2008 the U-M will be sharing risk through a central pool and becoming more and more self insured. He noted that Care Choices passes on their community experience, and that it is also being considered for sale, which he said is driving up its rates. He explained that BCBS is non-profit, but that it has a positive operating margin. He said that large for-profit companies want to come into Michigan, and that the non-profits are concerned about their market share. He said that the third party administrator is not going to determine the cost of insurance. The U-M will maintain control of its benefit design. He said that the university decision will be how the benefits should be paid: how much the university can afford, and how much the employees will have to bear. Professor Giordani suggested that if faculty are involved in that decision making, there might be better trust in the outcome.

The EVPMA said that the administration has already carved out the pharmacy benefits from health care services, and saved a lot of money. Maybe if things change, he said, we may want to put the two pieces back together again.

Professor Riles inquired about the M-Care revenue stream. EVPMA Kelch replied that M-Care generates about one-half billion dollars each year for 200,000 covered lives. He said that the \$240M price tag for M-Care puts this at the high end of comparable deals in the recent past. He said that part of what BCBS is paying for is to set up a separate company to work with the U-M in joint ventures in health care research.

Professor MacAdam said that people would like to know that the combination of research, access to health care, and insurance will not be adversely affected by the business deal. The EVPMA replied that the administration has been trying to communicate that message, but that maybe it has not succeeded. Professor Giordani suggested that a faculty advisory committee could help assuage concerns. Kelch pointed out that president Coleman is a national spokesperson on health issues. He said the U-M emphasizes wellness, and initiated a focus on diabetes. He said there is a need to continue pilot studies, and he added that he has asked the university president to construct a benefits design taskforce. He noted that more than half of all U-M employees work for the health care system. He said that better decisions come from consulting broadly.

Dr. Fraser reported that an economist colleague told him that the language used to convey the M-Care sale was identical to the language used by Ford Motor Co. when it divested Visteon and other subsidiaries. Subsequently, the benefits nosedived. EVPMA Kelch replied that he thought the university will always be more generous than the rest of the free market world because of its culture. He noted that CHIPD came out with the original proposal to share costs. He said that having a group that can work with the Regents would be good way to go.

The guest left the meeting at 4:48 P.M.

COMMITTEE LIAISON REPORTS

AAAC- Professor Riles reported that AAAC is transmitting to SACUA a resolution passed by the Senate Assembly in Jan 2000 regarding faculty involvement in tenure decisions at the level of the provost. The AAAC asks why the recommendations were never implemented. SACUA members suggested that staff try to get information about the numbers of adverse decisions made at the level of provost from the office of the provost. Riles also reported that a AAAC subcommittee is developing a response to the revised McDonald-Weiss report.

Tenure- Professor Frier reported that the committee would meet the following day and would review the committee's role in Regents' Bylaw 5.09 proceedings.

Grievance Procedures Taskforce- Chair Smith said that the group would hold its first meeting the following day.

OLD/NEW BUSINESS

Chair Smith pointed out that he has distributed by e-mail revised draft bylaws for the Davis-Markert-Nickerson professorship. SACUA members recommended that Professors Smith and Riles discuss the recommendations with the president on Thursday.

Secretary Lehman reported an inquiry from his counterpart at Ohio State University regarding compensation practices for faculty governance service. He said he would formulate a response in consultation with the chair and vice chair.

Professor Frier reported about a Court of Claims case based on the nature of a contract existing between a faculty member and the university. He suggested that SACUA invite Professor Emeritus St. Antoine to visit and talk about the nature of such a contract.

The meeting adjourned at 5:45 P.M.

Respectfully submitted,

John Lehman
Senate Secretary

University of Michigan Bylaws of the Board of Regents, Sec. 5.02:

Governing Bodies in Schools and Colleges

In each school, college, or degree granting division of the University, including those at the University of Michigan-Dearborn and at the University of Michigan-Flint, the governing faculty shall be in charge of the affairs of the school, college, or division, except as delegated to the executive committee, if any, and except that in the School of Graduate Studies the governing board shall be the executive board, and in the Medical School shall be the executive faculty.