THE EXECUTIVE BOARD
OF THE
TRUSTEES OF THE UNIVERSITY OF PENNSYLVANIA

December 9, 1974

A meeting of the Executive Board of the Trustees of the University of Pennsylvania was held for the purpose of discussion, on Monday, December 9, 1974 between 10:00 a.m. and 12:00 noon in Room E-106 Dietrich Hall.

Present were: Mr. Thomas S. Gates (Chairman), Mr. Samuel H. Ballam, Jr., Mr. Henry M. Chance, II, Mr. Charles D. Dickey, Jr., Mr. Robert G. Dunlop, Mr. John W. Eckman, Dr. Carl Kaysen, Mr. Donald T. Regan, Mr. Wesley A. Stanger, Jr., Robert L. Trescher, Esq., Mr. Paul O. Gaddis, Mr. Wm. Richard Gordon, Mr. John C. Hetherston, Dr. John N. Hobstetter, Dr. Thomas W. Langfitt, Mr. Scott C. Lederman, Mr. Harold E. Manley, President Martin Meyerson, Mr. Curtis R. Reitz, Dr. Eliot Stellar, Mr. E. Craig Sweeten and Mr. William G. Owen (Secretary). John Ames Ballard, Esq. attended as Counsel.

President Meyerson reported upon the following matters:

1. Two reports which were given to the visitation team of the Middle States Association of Colleges and Secondary Schools will be sent to all Trustees; as well as two simultaneously released fall and winter issues of Daedalus, in which articles written by the President appear. Distribution was made at the meeting of the original Yale campaign statement; a short article, "The Doctor's Dilemma," which appeared in a recent issue of News About Medical Education; and a compilation of United States Steel Corporation advertisements which relate in various ways to University persons.

2. Fiscal results for 1973-74 resulted in a deficit in University operations of $211,000 after the application of income received from the sale of real estate; a deficit of $702,000 in the Graduate Hospital after the utilization of...
available reserves; and a deficit of $619,000 in the operation of the New Residence Complex (High Rise). For the present fiscal year, operations are currently at the rate of a $2 million deficit after the application of major contingency savings of approximately $1 million.

In looking ahead to 1975-76, the guidelines which are presently being considered call for an undergraduate tuition increase on the order of $325 and salary adjustments for the faculty and supporting staff of 6% across the board plus a 2% discretionary fund to be utilized by budget administrators on a merit basis.

In response to questions, it was indicated that these salary figures are generally in line with similar institutions and that the academic deans tend to be conservative in the utilization of salary discretionary funds.

Mr. Eckman suggested that the administration give consideration to applying 6% and 8% salary adjustment figures in terms of salary levels. Concerns were expressed about the expectations for salary changes on the part of the faculty and the risk of encouraging collective bargaining efforts at some time in the future. Messrs. Eckman and Kaysen referred to the growing power of the AAUP in organizational efforts. The President responded to the point made by Mr. Gates that the administration should prepare a plan in anticipation of any serious organizational effort by stating that in February the administration will report to the Executive Board on various kinds of contingency plans relating to the fiscal situation and that the concern expressed here will be addressed also at that time.

3. Recent discussions with the Commonwealth Commissioner of Higher Education and the Chairman of the Council on Higher Education in Pennsylvania dealt with alternative approaches to be taken to the future relationship between the University and the Commonwealth. These include state-relatedness;
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a formula approach based upon a percentage of the monies received by the state-related universities; and a "package" of conditions which would include contract or statutory status for certain of the health care schools.

Mr. Reitz referred to the hopeful attitude on the part of Messrs. Wray and Ziegler which characterized these discussions; he described Mr. Wray's inclinations as being for a contract arrangement for services rendered which would extend over a period of possibly 50 years; he said that Commissioner Ziegler is interested in separating out the University and its needs from the rather diverse collection of institutions which presently receive state aid. In response to questions, it was suggested that the Finance and Operations Committee should continue to seek administrative relief in the short range, that legislative action would ultimately be necessary in terms of a changed relationship, and that a contract arrangement with health care schools is now being costed out. By way of summary, the President said that emphasis is being placed on creating a special category for the University in terms of its relationship with the Commonwealth.

4. By means of visual material, Mr. Hetherston described plans for a proposed plaza in front of The Annenberg School of Communications and extending eastward to 36th Street, the point being made that Mr. Annenberg has expressed a desire to underwrite the total cost of the project, including expenses for relocation of the Hillel Center. No objections were voiced to the information presented.

5. Lists were distributed of persons who are being asked to accept membership on the Wharton School Board of Overseers and the Board of Overseers for the College of Engineering and Applied Science. The thoughts of Trustees were solicited.

6. The trustees of the Richard King Mellon Foundation have

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John A. Mayer Fellowship Program in Wharton School

approved a grant of $600,000 to the University for the purpose of endowing the John A. Mayer Fellowship Program for Graduate Students in the Wharton School. President Meyerson pointed to this gift as a good example of how Trustees can be most helpful in cultivating the interest of friends and associates in making gifts to the University.

7. At the forthcoming meeting of the Ivy Group presidents, one major question will relate to whether or not the Ivy colleges should adhere to the new financial need tables issued by the College Scholarship Service in an attempt to give middle-income families some relief in the allocation of financial aid. A second agenda item will be an attempt to realize substantial savings through a reduction in the number of coaches permitted in various sports.

8. The academic head of the University of Edinburgh will visit the University next week for a continuation of discussions which look toward an exchange of faculty and students between the two universities.

9. Plans for the 1975 commencement call for the presence of the academic heads of all of the American and British universities which existed at the time of the American Revolution; Prime Minister Harold Wilson has been invited to deliver the major address, but no response has yet been received.

Provost Stellar reported upon the work of the consultative committees for the deanships of law, medicine, graduate education, public and urban policy, and admissions and the directorship of the University Museum. He noted that the arrangement for the latter search is complicated by the fact that the constitution for the Museum places the selection responsibility on the museum's board of managers, whereas it is generally understood that the director should have academic credentials which will qualify him for a faculty appointment. As a result, the board of managers has
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established a small committee to advise it and the president has appointed a consultative committee which will assume the usual role of screening candidates; these efforts will be coordinated.

With the assistance of visual material, Mr. Gaddis discussed long-range financial projections, including data on changes in disposable per capita income and implicit price deflator, real growth of the gross national product based upon data provided from various econometric models, percentage of change in University income components and in University expense components, and University of Pennsylvania cumulative requirements and resources for the period 1974-75 to 1978-79.

Dr. Langfitt addressed himself to the highlights of a document concerning Graduate Hospital which was distributed to the Trustees. As noted therein, concerns have been expressed for many years about the mission of Graduate Hospital and whether it should be kept as a University-owned teaching hospital. He said that finances were not as pressing an issue then as today, because the hospital has been able to cover its costs from its own resources. Decisions during recent years were made on the assumption that Graduate would be able to pay its own way, he said; at no time in the past has a decision been made to subsidize the hospital if it could not meet its cost from operating revenues and other sources of income. It is now known that the cost to the University in fiscal 1974 approached $700,000. Dr. Langfitt then referred to five options which have been identified for consideration:

1. Continuation of the present programs at Graduate;
2. Change the programs at Graduate toward those of the community hospitals;
3. Complete merger of Graduate and HUP;
4. Sell Graduate Hospital;
5. Close the hospital.

Mr. Ballam commented that all of the essential data has now been pulled together and that a constructive session was held last Saturday with all of the persons from Graduate Hospital who have handled financial statements.
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Graduate Hospital

Dr. Langfitt expressed the hope that a firm resolution can be made by next March at the latest.

Reporting for the Development Policy Committee, Mr. Regan said that although the state of the national economy is recognized as a deterrent to fund-raising, the University's needs are viewed as pressing and there appears no viable approach except to proceed with an aggressive program to meet them. He said that a nucleus fund is the initial step in a campaign, as is also the role of the governing board in the assembling of the nucleus fund. It has been agreed therefore to proceed with the solicitation of Life Trustees and others for a total fund of $15 million. This solicitation, he said, will be on a "give or get" basis, and on a firm commitment predicated on today's circumstances plus a hope pledge over and beyond the firm commitment, based on the assumption of future circumstances favorable to the donor. Based upon the results of the initial solicitation of the nucleus fund, he said, the next step in the decision-making process concerning the overall fund effort will be taken at the January meetings. He urged his colleagues to give serious consideration to their own role both in terms of personal gifts and possibilities for securing the participation of foundations, corporations, and other individuals.

It was reported by Mr. Enzman that subscriptions and gifts to the Development Fund as of December 6 totalled in excess of $9,700,000.

For the Investment Committee, Mr. Stanger reviewed the present structure of the portfolio, noting that some $37 million or 50% of its current value of approximately $73 million is maintained in bonds and cash or equivalent.

Mr. Ballard was asked to indicate the nature of his response to a request from the chairman of the Investment Committee as to whether there are any legal risks if the University effects security transactions through brokerage firms in which members of the Investment Committee have an interest, and also concerning the legal risks involved in arrangements under which a brokerage firm is paid an
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advisory fee and also receives commission on transactions effected in the account. He stated that his basic opinion with respect to both questions is the same, i.e., these practices and arrangements, while not in themselves illegal or improper, do increase the risk that the University or its trustees individually may be surcharged in the event that large trading losses are suffered in the security portfolios being invested by the Investment Committee or managed by the investment advisor, as the case may be. He suggested that consideration be given to changing the status of all members of the Investment Committee who are connected with firms to whom brokerage might be allocated so that these members become advisory members who do not have any right to make final determinations concerning investments of the portfolio. He recommends also the discontinuance of arrangements whereby an investment advisory fee is paid to a firm which also takes a substantial amount of brokerage from the transactions in the portfolio under its care.

Mr. Ballard also said that he is looking into the possibility of protecting the members of the Investment Committee by means of insurance coverage and of shifting the liability by turning over management of the portfolio to a trust company.

Adjourned.

William G. Owen
Secretary

The President met in executive session with the Executive Board after adjournment.