A meeting of the Executive Board of the Trustees of the University of Pennsylvania was held for the purpose of discussion on Monday, February 10, 1975 between 10:00 a.m. and 12:15 p.m. 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. John W. Eckman, Dr. Carl Kaysen, Mr. Donald T. Regan, Bernard G. Segal, Esq., Mr. Woolcy A. Stanger, Jr., Robert L. Trechter, Esq., President Martin Meyerson, Provost Eliot Stellar, Vice Presidents Paul O. Gaddis, Thomas W. Langfitt, Harold E. Manley and E. Craig Sweeten; Dr. John N. Hobstetter, Dr. D. Bruce Johnstone, Mr. Curtis R. Reitz, Mr. Donald T. Sheehan, Dr. Jon S. Strauss, and Mr. William G. Owen (Secretary). John Ames Ballard, Esq. attended as Counsel.

President Meyerson addressed the subject of University fiscal affairs, reviewing initially the history of recent deficits. He said that the anticipated deficit for 1974-75, which was initially predicted to be on the order of $500,000, will be more like $3,000,000, primarily as the result of increased utility charges, a continued decline in the return from investments, and unexpected errors made in the estimates of certain major expenditures. He went on to describe the various steps which have been taken and others which are underway to bring about reductions in expenditures. The point was made that the administration is proceeding on the assumption that present economic difficulties are relatively temporary and that it will not be necessary to effectuate major adjustments in educational programs. Specifically he referred to such possibilities as increasing the ratio of students to faculty, reducing the amount of financial aid given to students, and cutting back on services provided by our hospitals. All of these, he said, would serve to impair the customized character of what the University of Pennsylvania has...
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Mr. Manley went on to explain the principal reasons for the increase in the expected deficit, and Dr. Hobstetter said that one of the major errors, which emanated from the financial aid distribution system, will not be repeated in the future. Mr. Meyerson observed that responsibility center budgeting has a certain character which, in the early stages, finds the academic deans having difficulty in comprehending that the budget process is "for real." Mr. Gaddis said that the auditors have been asked for advice as to how such errors can be avoided throughout the budget system. Dr. Strauss assured the trustees that in planning for fiscal 1976, undergraduate tuition income and expenses are being fixed for schools based upon what is known will occur next year.

In response to a question raised about energy consumption, Mr. Gaddis said that recent two to three per cent yearly increases in the consumption and demand of electric power are now being turned around; that there has been a downward spiral in the consumption of steam, but at the same time there have been sharp increases in its cost; and that the proposed excise tax on petroleum will result in additional costs to the University of $125,000 for each dollar of tax.

Referring to the likely situation in 1976, President Meyerson identified the following possibilities which are being taken into account in planning: (a) there will likely not be any increase in support from the Commonwealth, (b) the return from the AIF will be of the same order as in fiscal 1975; and (c) results of the development drive will have some impact, but likely not in a major way, until after fiscal 1976.

On the subject of relationships with the Commonwealth, Mr. Sweeten said that the fiscal climate is not particularly encouraging and the Governor has taken a stand against an increase in taxes. Mr. Reitz went on to discuss recent conversations with the chairman of the State Board on Education and Commissioner Ziegler. He reminded the trustees that the University, as a state-aided institution, enjoys a low priority after the state-
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owned and state-related institutions in terms of financial support from the Commonwealth and that this situation will likely deteriorate in the future. The University has suggested to the state, he said, that it think in terms of a "state-endowed" status for the University of Pennsylvania, in which cognizance would be officially taken of the annual support which has been given for a long period and which presently represents the return on an endowment fund of approximately $250,000,000. At the same time, Mr. Reitz reported, we have been endeavoring to interest the state in entering into contracts with the University for specific services provided, e.g., veterinary medicine, dental medicine, and hospital care.

Various questions were raised concerning several of the professional schools and their unique problems in attracting Commonwealth students and the incidence of their graduates remaining in the state to practice. In response to a question from Mr. Eckman concerning the real nature of statutory status for a professional school, President Meyerson said that, in the case of the veterinary school, we have already yielded our independence on the admission of students and the tuition rate and that the only remaining element in the school which has not been eroded is the research arm, which is funded largely from external dollars. Dr. Langfitt made the point that in the case of a "contract school", the University would remain the owner, whereas in the case of a "statutory school", the school would be owned by the Commonwealth.

Discussion ensued as to the importance of having a representative of the governor at meetings of the University trustees, and the president said that both the commissioner for higher education and the secretary of education have a standing invitation to attend all meetings. Mr. Segal cautioned against directing the University's interest exclusively to the governor's office in that this would make our position dependent upon a governor's relationships with the legislature.

On the subject of reimbursement from the Commonwealth for
indigent care in the hospitals, Dr. Langfitt referred to the modest increase in the reimbursement rate which was effectuated within the past year and to the fact that the promised demonstration projects from the Commonwealth have not been carried out. He said that the initiative is now being taken in the hospitals to transfer outpatient clinic operations into the various departments in order to realize economies; he said that whereas outpatient visits in the clinics presently cost on the order of $16, it may be possible to bring this down, when performed in the departments, to around $9.

President Meyerson and Mr. Reitz reported briefly on certain difficulties which are being encountered in the funding of a special lecturership in the Fels Center of Government.

Provost Stellar gave brief reports on the status of various personnel searches. The president said that a person has been selected to fill the new position of university counsel and will commence service in September.

In a brief report on collective bargaining, Mr. Gaddis voiced the need for cohesion among the several groups on the campus which are, or might be, affected; he said that various of the employee groups have been addressed, some of the critical questions have been asked, and the administration is pursuing a realistic approach. Provost Stellar reported that he has received information reports from the University's advisers on collective bargaining about the national academic scene as well as information from specialists on the faculty. In addition, he said, a meeting will soon be held with the administrator at Temple University who is concerned with faculty unionization activities there. Mr. Gaddis concluded by indicating that the 10 present unions will likely make a strong drive in the spring for percentage increases in total compensation and some assurance about the contracting for outside services by University departments.

On behalf of the Finance and Operations Committee, Mr. Chance referred to the following statement contained in a report issued by Coopers and Lybrand:
"During fiscal 1974, the University changed certain actuarial assumptions in connection with its noncontributory pension plan for non-academic employees as described in Note 8. As of July 1, 1973, the University had accrued, but not funded, pension costs under the previous actuarial assumptions of $1,465,000. The change in actuarial assumptions caused the plan to have an actuarial surplus; therefore, the previously accrued costs would not be required to fund the pension plan. Accounting Principles Board Opinion No. 8 requires that the unfunded pension accrual, since it is an actuarial gain, be spread over the current year and future years (over a period of 10 to 20 years) as a reduction of normal pension costs. The University's treatment of the total unfunded accrual as a reduction of the current year's cost is not in accordance with generally accepted accounting principles."

It was indicated that Messrs. Chance, Dunlop and Mayer support the position of the administration that this notation in the final audit should be accepted.

Mr. Regan reported on behalf of the Development Policy Committee that initial solicitation of the nucleus fund had brought encouraging results and that nearly $14 million has been identified from among five life trustees. He said that solicitation of the fund would continue during the ensuing weeks and that a final report will be made at the time of the June meeting. He reminded members of the board that they had received copies of a revised case statement for the use of trustees in visits with one another on nucleus fund solicitations and in the conduct of interviews associated with the second market survey; he encouraged trustees to send their reactions to Mr. Sweeten.

For the Investment Committee, Mr. Stanger gave the following report: The Committee, with the consent of the trustees has continued to maintain the portfolio approximately 50% in bonds, cash and equivalent and 50% in equities. He noted that projected twelve months' gross income of the Associated Investments Fund is on the order of $5,200,000.

Mr. Stanger recalled an earlier discussion within the Executive Board concerning the possibility of protecting members of
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the Investment Committee by means of insurance coverage and by shifting the liability of trustees from surcharge by turning over management of the portfolio to a trust company. He reported that as the result of interviews with the representatives of five Pennsylvania banks, it has been determined that portfolio management by a financial institution would cost on the order of $60,000 to $75,000 annually. He identified varying points of view on the subject among members of the Investment Committee, noting that two of the voting members and one ex officio member support the move of entering into a relationship with a trust company or bank.

Mr. Ballard addressed the subject of liability insurance coverage against the risk of having the trustees individually 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 noted that such coverage is quite nominal in cost and he has requested a letter from an insurance carrier in order to delineate clearly what is intended. He said that funds in which there is a third-party interest cannot be given over to a fiduciary and that, although such funds do not now total a large amount, this is something which should be examined carefully in terms of the forthcoming fund drive.

It was proposed by Messrs. Gates and Regan that, in view of the complexity and seriousness of the matter, Mr. Stanger and the Investment Committee should formulate a working paper which will delineate prospective costs and reflect points of view within the committee; this paper will be given to members of the Executive Board well in advance of the April meeting; formal action will be taken in public session at that time.

Adjourned.

(During luncheon, Vice President Langfitt presented an interim report on the future of Graduate Hospital, having distributed in advance a document on this subject. In this report he reviewed the five options which have been identified, the basic assumptions regarding them, and the interim conclusions.}

Secretary
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which have been reached. Various questions were answered).

William G. Owen
Secretary