COMBINED MEETING
OF
THE EXECUTIVE BOARD
OF THE
TRUSTEES OF THE UNIVERSITY OF PENNSYLVANIA
AND THE
SELECT COMMITTEE ON THE BUDGET
Monday, May 10, 1976
Faculty Club, Lenape Room

Donald T. Regan
Presiding

The following Trustees attended the meeting: Mr. Samuel H. Ballam, Jr., Mr. Henry M. Chance II, Mr. Robert G. Dunlop (ice-Chairman), Mr. Carl Kaysen, Mr. Martin Meyerson (President) Mr. Donald T. Regan (Chairman), Bernard G. Segal, Esq., and Robert L. Trescher, Esq. Others present were: Stephen Burbank, Esq., Mr. Stuart Carroll, Mr. James Davis, Mr. Paul O. Gaddis, Ms. Karen Gaines, Dr. John Hobstetter, Mr. J. Jerrold Jackson, Dr. Bruce Johnstone, Dr. Thomas W. Langfitt, Mr. Mark S. Levitan, Mr. Harold E. Manley, Dr. Patricia McFate, Mr. John Pyne, Mr. Curtis R. Reitz, Mr. Gerald L. Robinson, Mr. Fred Shahel, Mr. Donald T. Sheehan (Secretary), Dr. Eliot Stellar (Provost), and Dr. Jon Strauss.

OPEN SESSION - 9:30 a.m.

The minutes of the April 12, 1976 meeting of the Executive Board Meeting in New York City were approved.

Provost Stellar at the request of President Meyerson introduced the following Health Affairs tenure resolution which was approved:

WHEREAS, there is in the University a need for the professional services of faculty whose primary interests and activities are in clinical practice and the transmission of medical and related health knowledge in a practice setting within the University and

WHEREAS, the Faculty Senate has approved in principle the establishment of an appointment category for such faculty,

BE IT RESOLVED, that there shall be established effective July 1, 1976 a category of appointment for full-time clinical faculty, who shall be neither tenured nor in tenure-probationary status, and shall carry titles of the form Professor (or Associate Professor or Assistant Professor) of (specialty) at the University Hospital (or other base hospital), and

SECRETARY
RESOLVED FURTHER, that the University of Pennsylvania shall not assume responsibility for the salaries and employee benefits of such faculty, which shall be limited to funds generated through clinical practice, and

RESOLVED FURTHER, that the President and Provost are authorized and directed to establish administrative procedures and regulations for the implementation of this resolution.

President Meyerson remarked that he would proceed to explore adoption of a similar tenure policy for other professional schools of the University.

Upon recommendation of the President and Provost, the following resolutions pertaining to tuition and fees in the Law School, Engineering Summer Graduate Courses, Wharton Graduate Summer, and Education Part-Time programs were approved:

WHEREAS, the Trustees directed that the proposed FY 1977 Law Tuition plus Fee total of $4,150 be reviewed in light of need for additional resources to support Biddle Law Library, and

WHEREAS, this review has taken place;

Therefore be it

RESOLVED, that the FY 1977 Law School tuition and general fee be approved as follows:

<table>
<thead>
<tr>
<th>Tuition</th>
<th>Fee</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 1976</td>
<td>FY 1977</td>
<td></td>
</tr>
<tr>
<td>Law (1st Year)</td>
<td>3,660</td>
<td>3,975</td>
</tr>
<tr>
<td></td>
<td>190</td>
<td>215</td>
</tr>
<tr>
<td></td>
<td>3,850</td>
<td>4,190</td>
</tr>
<tr>
<td>Law (2nd and 3rd Year)</td>
<td>3,610</td>
<td>3,975</td>
</tr>
<tr>
<td></td>
<td>190</td>
<td>215</td>
</tr>
<tr>
<td></td>
<td>3,800</td>
<td>4,190</td>
</tr>
</tbody>
</table>

WHEREAS, Two engineering graduate courses (SE 602 and SE 607) to be offered the Summer 1976 are planned for eight weeks, rather than the normal six weeks, and

WHEREAS, this increased duration entails additional expenses and therefore requires increased tuition;

Therefore be it

RESOLVED, that the course tuition for SE 602 and SE 607 for Summer 1976 be set at $400 per course rather than the standard Summer tuition of $300 per course.

WHEREAS, the FY 1977 Wharton MBA Summer tuitions and the FY 1977 Education Part Time tuitions were set and approved at higher figures than necessary and appropriate;
EXECUTIVE BOARD AND
SELECT COMMITTEE ON THE BUDGET

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Therefore be it

RESOLVED, that these tuition rates be approved as follows:

<table>
<thead>
<tr>
<th>Tuition Fee (per c.u.)</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 1976</td>
<td>FY 1977</td>
</tr>
<tr>
<td>Education</td>
<td></td>
</tr>
<tr>
<td>Part Time</td>
<td></td>
</tr>
<tr>
<td>480</td>
<td>500</td>
</tr>
<tr>
<td>490</td>
<td>525</td>
</tr>
</tbody>
</table>

Tuition (per c.u.)
Fee (per session)

Wharton MBA
430 485 12.79
25 25 0

Mr. Jackson introduced the following resolution related to the unrestricted overrecovery of employee benefit costs to be used in Fiscal Year 1977 which was approved.

WHEREAS, the University has negotiated with the Federal government the carry forward of the difference between employee benefit costs and the recovery of these costs through the employee benefit rate; and

WHEREAS, the University benefit costs incurred in fiscal year 1976 are less than those charged to the University budgets through the benefit rate; and

WHEREAS, the continuation of the carry forward technique will insure full recovery of future benefit costs from sponsors; therefore be it

RESOLVED, That the appropriate officers of the University are authorized to establish a restricted fund representing this year's unrestricted overrecovery to be used in Fiscal Year 1977.

Provost Stellar's recommendations for academic appointments and promotions for the period from March 26, 1976 to April 22, 1976 were approved.

The following resolution pertaining to the purchase of land for Graduate Hospital presented by Mr. Chance for the Finance and Operations Committee was approved:

WHEREAS, the Executive Board on April 12, 1976, approved the advance of $50,000 from Graduate Hospital funds to provide the 10% deposits on certain parcels of land in the vicinity of the hospital to be acquired for the purpose of building a new hospital facility; and

WHEREAS, the estimated cost of the parcels to be acquired is $500,000; and

WHEREAS, settlement for several parcels is scheduled for June 1, 1976; and

SECRETARY
WHEREAS, the Executive Board directed that the permanent financing of the properties be referred to the Trustees' Finance and Operations Committee before settlement is held; Therefore be it

RESOLVED, That funds as required for settlement for properties be acquired in the vicinity of the Graduate Hospital not to exceed $500,000, be advanced from current funds cash; and be it further

RESOLVED, That when all parcels of property have been acquired and settlements completed, the Vice President and Treasurer be authorized to negotiate a term loan covering the total cost of all properties plus settlement costs; and be it further

RESOLVED, That the terms of the loan be approved by the Chairman of the Finance and Operations Committee before it is finalized.

Also presented and approved was the following resolution authorizing the securing of a loan in connection with the purchase of land from the Penn Central Transportation Company for which a donor has pledged funds for the purchase:

WHEREAS, a generous donor has pledged funds to purchase from the Trustees of the Penn Central Transportation Company a triangular plot of ground north of the line of South Street and east of the railroad high line for approximately $600,000; and

WHEREAS, the donor has indicated his intention to pay a significant portion of the pledge in the near future, and

WHEREAS, the land to be acquired is valuable for use as a recreational area:

Therefore be it

RESOLVED, That the Vice President and Treasurer be, and he hereby is, authorized to take whatever actions are required or to sign whatever documentation is necessary to acquire from the Trustees of the Penn Central Transportation Company the Triangular plot of land located in the 27th Ward of the City of Philadelphia, more fully described in the report attached to the minutes of this meeting, for the sum of approximately $600,000; and be it further

RESOLVED, That the Vice President and Treasurer be, and he hereby is, authorized to secure a loan to finance the purchase, including settlement costs, until the donor's pledge is fully paid.

Mr. Sweeten, in Mr. Eckman's absence, reported for the Development Committee that the fiscal year's total of subscriptions and gifts, as of May 10, 1976 was $52,191,137.72 "Program for the Eighties" campaign progress stood at $68,012,387 as of April 30, 1976. The target for June 30, 1976 is $81,000,000, Mr. Sweeten noted.
The "open session" portion of the Executive Board meeting was then adjourned and the discussion session of the combined committee meeting began. At this juncture only those administrative staff members concerned with the agenda items for the discussion session remained.

Following introductory remarks by Mr. Gaddis, Mr. Jackson and Mr. Strauss reported on the status of FY 1976 operations and the FY 1977 budget, respectively.

Calling attention to the "Actual to Budget Forecast Statement" for 1975-1976, which he had distributed, Mr. Jackson noted that the actual projected favorable balance of $460,000 was "holding steady". He noted that the financial operations statement of the University had been prepared on what was considered to be a conservative basis and was presented this time on such a basis. As the year progressed, he said; it has been possible to make more accurate forecasts of revenue, and the administration has been exercising restrictions on expenses through the internal accounting controls. While there are still two more months, it appears at this time that the University's expense will be lower than previously forecast due to savings in both salaries and operating expenses. The exact value of these savings will not be known until July.

In preparation for the year end closing, the various fund advances and reserves in relation to the current operations have been examined. The insurance reserve, if not replenished, will be at an unrealistically low level at year end, he pointed out.

It appears to be most appropriate to use these savings, when they are determined, to revise the level of reserves for overdrafts, bad debts and insurance to more realistic levels and to start to attack the substantial problem of current fund advances to plant. It is believed that Coopers & Lybrand would encourage this position. This procedure will not cause a deviation from the reported position.

Mr. Dunlop commended the University administration for having the courage "to take a strike" last fall and stand behind
Mr. Regan asked if it could be assumed that the budget forecast by Mr. Jackson will hold. Mr. Meyerson assured him that there would be "no surprises."

Dr. Strauss reviewed the FY 1977 Budget document that the had sent out prior to the meeting. Following a brief overview of the organization and content of the document, he reviewed in some detail the ten figures enclosed in the document. The real emphasis of his presentation however was on the performance aspects of the budget as shown in the first two figures.

In particular, he stressed that the FY 1977 performance figure of $1,082,000 deficit shown in Figure 1 needs further qualification. The subvention resources shown on Figure 2 have been overcommitted by $319,000. This can be offset by $50,000 in additional TIF income and $85,000 in additional AAG income authorized by the President. The net of all these effects is a new perceived expected deficit of $1,226,000 assuming that all centers perform as budgeted.

He then listed the negative and positive factors that could change this between now and July 1, 1977 as follows:

**Negative:**

1. Commonwealth Appropriations -- None of the Commonwealth appropriations have been passed. They are all at risk, but to varying degrees. The Governor's budget did not include funds for the Veterinary appropriation increase, the Dental appropriation, the General University appropriation increase or the PHEAA IAG program. Development is confident of restoring the Dental appropriation and the PHEAA IAG. They are less sanguine about the General University appropriation increase and expect that the Veterinary appropriation increase will be closer to $1 million than to the requested $1.75 million.

2. Federal Capitation -- The Health Affairs budgets are based on a 30% reduction in Federal capitation support to instruction. This should be conservative, but an element
of risk remains.

3. Enrollments -- The student related incomes (Tuition, General Fee, Residences, and Dining) are all based on certain enrollment assumptions -- typically no change in enrollment. There will be a point when increasing tuition rates will hurt enrollments. This has not happened yet, but it is difficult to assess risk.

Positive:

1. Veterinary Appropriation -- The Commonwealth appropriation could be increased by the requested $1.75 million.

2. Salary Savings -- The presented unrestricted compensation budgets should represent upper limits. Unfilled positions and shifts to restricted budgets should provide significant salary savings. The intent is to save at least $500,000 in this area. The following controls have been introduced to assure the $500,000 savings:
   1. No transfers of salary savings for other expenses,
   2. Strict hiring review procedure, and
   3. Continued pressure for restricted budget relief.

3. Energy Savings -- If utility rates do not increase dramatically, if FY 1977 weather is no more extreme than in FY 1976, and if consumption control can be maintained, it should be possible to realize significant savings in budgeted costs.

4. Investment Income -- All investment income has been budgeted based on the $7.49 net yield income only (after the 19.1% overhead charge) experienced in FY 1975. Current projections suggest that the FY 1976 yield income will be $8.07 per share. If repeated in FY 1977, this will mean an additional $150,000 to the unrestricted and $250,000 to the restricted accounts.

5. Reserve -- Serving as a reserve to these operational savings is $1.2 million in carryforward Federal rollforward from FY 1976 and some $2 million projected for FY 1977. Once it is clear that the $1.2 million is not needed as a reserve, it will be spent to retire accumulated debt.

Dr. Strauss stressed the quality of the presented budget.
particularly the unrestricted and restricted support of the unrestricted budget. He emphasized that budget balance for FY 1977 depends on operational action. Earlier in the meeting it had been pointed out that the FY 1976 projected budget balance had been achieved in large measure due to deferring salary increases and holding the line on bargaining unit settlements. Dr. Strauss stressed that these were not fortuitous circumstances. Rather, they were courageous and controversial actions taken to achieve the budget balance promised to the Trustees last year. He then indicated that the President was committed to budget balance for FY 1977. While the proposed budget is admittedly precariously balanced because of uncertainties in Commonwealth support, the indicated actions can and will be taken operationally to achieve balance as necessary. The fact that all this is backed by a reserve of uncommitted funds in excess of $3 million earned and projected to be earned in Federal rollforward is no small comfort.

In addition, the Trustees should take comfort from plans to apply the greater part of these reserves to the accumulated deficits.

There was extensive discussion regarding the handling of capital gains both as to their use for fiscal year 1976 and future years. This matter was then referred back to the Finance and Operations Committee for further consideration and a report to the full Board at a future meeting. The following "Proposed Policy on Taking Capital Gains" was distributed:

1. Capital gains may not be taken into income unless and only to the extent that the market value per share of the AIF at the end of any fiscal year exceeds the market value per share as of June 30, 1975 (base year) increased by the GNP deflator for the period since June 30, 1975.
2. If capital gains are taken into income in any year the amount taken must satisfy the Commonwealth 9% total return limitation.
3. Capital gains taken in one year are to be carried forward to support the following year's budget.
4. AIF market value experience since fiscal year 1975:
(Chart on page 11A)

Dr. Langfitt reviewed the status of financing the new small animal hospital of the School of Veterinary Medicine. The total cost is estimated at $13,000,000. State and other funds will provide $8,000,000. The remaining $5,000,000 must be sought from private sources. The chances of getting the $5,000,000 appear better, he said.

The deficit for this fiscal year will be between $525,000 - $6,000,000 over a previously anticipated deficit of approximately $325,000.

A deficit between $1,200,000 and $1,300,000 is anticipated for Fiscal Year 1977.

Passage of the statute now before Harrisburg is not anticipated before late June, Dr. Langfitt stated. It was suggested that Mr. Amsterdam be invited to the next meeting dealing with this matter and that the status of the School and the relation of the Commonwealth statute to it be discussed only in general terms at the June meeting. A special Executive Board meeting via a telephone conference call can be set up later when necessary.

The support of Pennsylvania State University is being sought in behalf of the statute, Dr. Langfitt added. In this connection, a new relationship with the Penn State School of Agriculture is being developed, he said.

One of the liabilities in the current state of uncertainty is the danger of faculty resignations, Dr. Langfitt pointed out. Another is the School's probational accreditation status and its ultimate effect on eligibility of students to take licensure examinations if the School is not off the probation list in 1979.

For amplification of these concerns and other aspects of the case for proceeding with construction of the small animal hospital, Dr. Langfitt called upon Dean Marshak for comments. (Dr. Marshak's comments are attached to these minutes.)
Dr. Kaysen recommended an evaluation be made of Dean Marshak's estimate of the effect of the School's plight on the total University.

Mr. Trescher suggested the setting down of options or alternative courses of action as was done with arriving at a decision in regard to Graduate Hospital.

Mr. Meyerson called for assuring the accrediting agency of our intent to comply with their requirements.

Mr. Regan asked that the budget figures be worked on further with a view to reducing the deficit.

Mr. Gaddis suggested that Trustee comments on the document "Policies and Procedures for Managing Proceeds of the Program for the Eighties Fund Drive", which was distributed in advance of the meeting, be forwarded to Mr. Chance for a Finance and Operations Committee recommendation at the June meeting.

Mr. Meyerson informed the Trustees of tentative plans for a trip to the Peoples' Republic of China now being developed by Professor W. Allyn Rickett for the spring or fall of 1977. Trustees would be kept informed, Mr. Meyerson added.

Adjourned.

Donald T. Sheehan
Secretary of the Corporation
<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Market Value Per Share Before</th>
<th>Market Value Per Share After</th>
<th>GNP Deflator Since FY.1975</th>
<th>Real Base Market Value Per Share</th>
<th>Gross Yield Per Share</th>
<th>Approx. State Capital Gains Limitation Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>182.53</td>
<td>178.41</td>
<td>1.0</td>
<td>175.41</td>
<td>9.26</td>
<td>6.75</td>
</tr>
<tr>
<td>1976*</td>
<td>181.18</td>
<td>178.15</td>
<td>1.069</td>
<td>187.51</td>
<td>9.99</td>
<td>5.97</td>
</tr>
</tbody>
</table>

*March 30 Market Value