Minutes of the Stated Meeting
of the
Executive Committee of the Trustees of the University of Pennsylvania

8 April 1983

A stated meeting of the Executive Committee was held on Friday, 8 April 1983. Trustees attending included: Walter G. Arader; Samuel H. Ballam, Jr.; Richard P. Brown, Jr.; Charles D. Dickey, Jr.; G. Morris Dorrance; John W. Eckman (vice chairman); Sheldon Hackney; Carl Kaysen; Margaret R. Mainwaring; Mary Ann Meyers; Paul F. Miller, Jr. (chairman); Sara S. Senior. Others present were Stuart Carroll; Richard Carter; Richard Clelland; Derek Davis; Thomas Erlich; Karen Gaines; Paul Gazzerro, Jr.; Albert Glowasky; Stanley Johnson; Valorie Johnson; Mark Levenson; Denise McGregor; and Frances Rozinski.

I. Call to Order

The chairman called the meeting to order and the minutes of the 11 March 1983 meeting were approved as written by the secretary.

II. Report of the Chairman

Mr. Miller reported that subscriptions received since 1 July amounted to $44.1 million and that receipts totaled $35.6 million. "Those are extraordinarily high numbers three years out of the Program for the Eighties," he said. "I hesitate to make any predictions, but it certainly seems as if we might go over $60 million for FY'83. The number of undesignated givers to Annual Giving has increased 8 percent over last year," the chairman continued, "and the total number of givers is up 2 percent. The average gift is 3 percent greater than in FY'82. With subscriptions of $13.9 million, foundations have provided the greatest sources of money. Friends have subscribed $10.4 million. Annual Giving receipts totaled $35.6 million as of 1 April," Mr. Miller concluded," and cash receipts for the Program for the Eighties are pretty much on track."

III. Report of the President

A. Comments

Dr. Hackney said the University is due for its decennial review from the Middle States Association, and he noted that an accreditation team will visit the campus next spring. The focus of the reaccreditation visit will be long-range planning. "The five-year plans of the schools should be in the hands of the central administration by then," he continued, "and we think we will use the occasion of the Middle States visit as an opportunity to get an outside group to help us evaluate those plans."

Dr. Hackney went on to note that seven Pennsylvania faculty members have just won Guggenheim Fellowships. "Since the inception of the
program," he said, "we place seventh in the total numbers of awards
made, and that's a very strong testimony to the talent of the
faculty."

B. A Resolution on the Election of Russell E. Palmer as Dean of the
Wharton School was approved as follows:

RESOLVED, that Russell E. Palmer be elected Dean of the Wharton
School for seven years, effective 1 July 1983, and designated
the Reliance Professor of Management and Private Enterprise.

C. Academic Report
1. Mr. Ehrlich commented about how pleased he was that James
Bishop, the dean of students at Amherst College, would be
joining the administration on 1 August as vice provost for
University life. He then noted that the only tenure appointment
before the Trustees was for Stephen Feldman. He is currently an
associate professor of public policy, the provost said, and
Britton Harris, the former dean of the School of Public and
Urban Policy, has described him as an "outstanding teacher,
researcher, and academic administrator." An outside commentator
said that "there is absolutely no doubt that Dr. Feldman is on
his way to becoming a major figure in the field of energy. He
is overflowing with important ideas, but at the same time his
work is careful and rigorous."

Mr. Ehrlich called attention to the promotions from associate to
full professor of Nina Auerbach and Nancy Farris. A literary
scholar, with particular interest in 19th century English
fiction and the treatment of women in literature, Dr. Auerbach
won a Guggenheim Fellowship in 1979. Her most recent book,
Woman and the Demon: the Life of a Victorian Myth, was nominated
for a National Book Critics Circle Award this year. Dr. Farris
is the designer and director of the Latin American history
program at Pennsylvania. The provost quoted an outside
commentator who said: "Her forthcoming book, Man, Society, and
Culture, will establish her as one of the leading scholars in
Latin American history now active in the United States." He
noted that another study, Man, Society, and the Colonial Rule,
constitutes a major new departure in Mexican ethno-history.

2. Action: A Resolution on Appointments, Promotions, and
Leaves from March 3, 1983 to March 22, 1983, was approved as
found on pages 1 - 9 of the Meeting Book.

D. Financial Report
Mr. Gazzerro reported that as of the end of nine months of the
fiscal year, the administration is projecting a general University
surplus of $713,000. This amount is exclusive of the $347,000
mandated and planned to cover the Hi-Rise and Graduate Hospital deficit amortizations. The factors which continue to contribute significantly to this surplus, the vice president for finance said, are utility cost savings due to the extraordinarily mild winter, gains in temporary investment fund income, and the gains created by the FY'82 accelerated writeoffs which were budgeted in FY'83. He went on to note that the schools and resource centers project a deficit of $1,475,000, which represents a $125,000 increase over the projected deficit previously reported. "Shortfalls in graduate and special tuition income and fees and indirect cost recoveries remain the principal cause of these deficits," Mr. Gazzerro said, "but they are being tempered by savings in salary expenditures."

He observed that restricted expenditures show a nominal increase of 0.6 percent, with most of the increase in the category of endowment funds, while grant and contract expenditures decreased slightly. The current balance available in grants and contracts of $59,246,000 is 1.1 percent greater than at the same time last year.

Noting that the financial statements for the Hospital of the University of Pennsylvania are for the seven months which ended 31 January, he said that for that period, the Hospital had an excess of revenue over expenses of $5,047,000, which was $2,640,000 greater than budget and included $2,256,000 from operations and $2,791,000 of non-operating revenue comprised of unrestricted gifts and endowment income. An increase in net patient service revenue and non-operating revenue, a reduction in contractual allowances, and the favorable settlement of the 1978 Blue Cross and 1980 Medicare cost reports are the principal contributing factors to HUP's performance, according to Mr. Gazzerro.

He went on to observe that for the six-month period, which ended December 31, 1982, the Clinical Practices Group had an excess of revenue over expense of $3.3 million and its education and development fund balances increased, net, from $6.3 million to $7.3 million. "These latter amounts are generated through HUP from third-party payers for administrative and educational services provided to the Hospital by members of the Clinical Practice Groups," he said, "and they are used for the educational, research, and capital purposes of the various clinical departments, with the approval of the dean of the School of Medicine."

IV. Reports of Trustee Committees

A. Budget and Finance

Mr. Eckman observed that the Budget and Finance Committee had met with members from the Facilities and Campus Planning Committee and the Executive Committee to discuss some prospective major
projects. "It's very gratifying to see some of them gradually coming to resolution," he said.

1. **Action**: A Resolution on the Installation of a Quadrangle Dormitory Sprinkler System was approved as follows:

**Intention:**

The Trustees of the University, on March 14, 1969, directed the central administration to install sprinkler systems in all fraternity and residential buildings of wood joist construction. The administration has fulfilled this policy with the exception of the Quadrangle, where it was their intention to include the installation of the sprinkler system within the planned phased renovations. Unfortunately, the Quadrangle renovation process has taken years, and, to date, only one third has been completed. The latest City Fire Code regulations require that the Quadrangle Dormitories basement contain sprinklers. Because of this change in fire code regulations and the continuing postponements in the renovation process, the administration proposes that a sprinkler system be installed in the remaining area of the Quadrangle not yet equipped with such a system at an estimated cost of $500,000. These costs are to be funded from the Reserve for Physical Plant and the Governmental Compliance Renovation Fund.

**RESOLVED**, that the installation of the sprinkler system in the Quadrangle residence is approved and the vice president for finance or other appropriate officers of the University are hereby authorized to proceed to execute such contracts and incur such expenses and obligations—not, however, substantially in excess of the estimated costs as presented to the Budget and Finance Committee—as may in their judgment be necessary or desirable to effect such installation.

**FURTHER RESOLVED**, that all costs and expenses incurred in carrying out the project authorized by the foregoing resolution, which are not funded from the sources specifically cited to the Budget and Finance Committee, be reimbursed out of the proceeds of the sale of a contemplated issuance of tax-exempt notes which it is proposed will be effected through a government agency to finance capital projects.

2. In introducing a Resolution on the Purchase of the Hilton Garage, the chairman observed that Mr. Gazzerro deserved a great deal of credit for having stepped into a confused situation and come out with a plan. He noted that purchase of the Hilton Garage would preclude the need to build a $4.8-million garage as part of the HUP Phase IV program. "The $5.25-million cost of the Hilton Garage will not involve the expenditure of any current University funds," Mr. Eckman said, "as the garage will be financed 100 percent through mortgage-type financing." Mr. Arader noted that the vice president for development should investigate the possibility of syndicating depreciation.

**Action**: The resolution was approved as follows:

**Intention:**

For the last several months, the University has examined a host of proposals ranging from the purchase of the Hilton Hotel and Hilton Garage to leasing space within the hotel itself for a variety of purposes.
As a result of evaluating the several institutional interrelationships that exist and the complexity of the underlying ground lease, we have determined that it is in the best interest of the University to purchase the garage, consisting of 850 parking spaces, for a purchase price of $5.25 million provided that the garage can be separated from the existing ground lease and that the ambiguities in the existing ground lease be amended to the satisfaction of the University. In addition, the University would enter into a lease with Universal Properties Management Company to operate the parking facility at an annual rental of $1,100,000. The basic rent for the ground lease for the Hilton Hotel would be changed to reflect a percentage of the gross revenues broadly defined with a minimum rental fixed at $230,000 per year, an increase of 100 percent.

RESOLVED, that the proposal dated April 1, 1983, addressed to Universal Properties Management Company from Vice President for Finance Paul Gazzero, Jr. detailing the business terms be approved, and,

FURTHER RESOLVED, that the vice president for finance or other appropriate officers of the University be and are empowered, with the guidance of counsel, to enter into binding agreements with Universal Properties Management Company substantially in accord with the terms of the proposal dated April 1, 1983, and accepted by Universal Properties Management Company and that such officers be authorized to enter into the most feasible financing arrangement available to complete the purchase of the garage.

3. Turning to a Resolution on Establishing an Internal Line of Credit for the School of Medicine, Mr. Eckman observed that, as a result of discussion at the morning meeting, the resolution had been modified to call for an interest rate at current market rates, instead of at 12 percent, on any negative cash flow.

Action: The resolution was approved as follows:

Intention:

The School of Medicine has approached the central administration with a request to establish an internal line of credit in an amount not to exceed five million dollars over a period of five years. The monies will be used for modernization and renovation projects essential to the support of biomedical research. Each proposed project will follow established University guidelines and procedures of approvals through Capital Council and the appropriate trustee committees. The repayment of borrowings will be generated through the "effort reporting" mechanisms, which provide funds to the School of Medicine through the reimbursement by third party carriers for physician services provided to the hospital. An interest rate at current market rates is proposed on any negative cash flow. The University administration has reviewed and approved the proposal, including the projects' fund requirements, cash flow projections, and repayment schedule.

RESOLVED, that the line of credit to the School of Medicine as described above is approved and the vice president for finance or other appropriate officers of the University are hereby authorized to proceed to execute such documents as necessary to establish the line of credit.
B. Student Life

Mrs. Mainwaring reported that the Student Life Committee met on 31 March for about four hours with approximately 30 students to discuss various support services for students at the University. "As you all know," she said, "there is a wide range of curricular offerings at Pennsylvania. Given so much choice, it is sometimes difficult for undergraduates to make the best choice. In addition, as students grow toward adulthood, they may have various other, non-academic problems. Finally," she continued, "they need help with career planning and, eventually, placement. In summary, I would say that most of the resources available to students are excellent. When and if a young person seeks them out, moreover, they find a dazzling array." But the chairman added that one problem seemed to be that many students didn't know what help was available to them and dissemination of information appears to need improvement. Another problem, she said, is that academic advising in the College remains "a cause of disappointment, especially at certain times in the school term when students complain of delays in obtaining appointments." There was a consensus, she reported, that the best advising is provided by interested faculty members.

"Students also emphasized the importance of students helping students," Mrs. Mainwaring observed, "and the committee would like to know more about such activity. The trustees felt that it was not all bad that students had to seek help on their own. They also were convinced that a good advising system makes a large university appear smaller and improves campus life."

C. Trustee Board of the Hospital of the University of Pennsylvania

Mr. Ballam reported that plans for Phase IV of the HUP renovation program were in the process of being reviewed by the various regulatory agencies. He said that a presentation would be made to the full board in June, just as it had been made to various members of the Budget and Finance, Facilities and Campus Planning, and Executive committees earlier in the day. He expressed hope that the search for a director of the hospital would be concluded soon.

D. Investment Board

Mr. Miller read a telephone message from the chairman of the Investment Board in which Mr. Neff said: "It is difficult to find values in the market with the exception of electric utilities, but we've taken some off the top, that is, realized some profits
particularly in oil service stocks."

The chairman of the Trustees went on to note that the Investment Board had sold some calls on the common stock in the portfolio as a way of realizing extra income. "Cash or cash equivalents currently represent 10 percent of our total investments," he said. "The total market value of the Associated Investment Fund (AIF) as of 5 April was $235.1 million. That is up $158.5 million since 30 June," he continued, "for a gain of nearly $77 million of which $21 million came from new cash added to the Fund after the end of the last fiscal year."

Investment income, Mr. Miller told the Executive Committee, is now $21.10 per share on some 900,000 shares so that more than $19 million in income is being generated by the AIF. "In 1979 when we began the process of trying to bring better management to the Fund," he said, "income was $13 per share on some 700,000 shares for a total investment income of about $10 million." He went on to point out that since 30 June, the value of the AIF has increased nearly 40 percent per share on a total return basis. The common stock portion of the Fund has appreciated 48.7 percent (total return) and bonds are up 36 percent. "Although the Salomon Brothers High Grade Corporate Bond Index is up 42.1 percent for the same period," Mr. Miller observed, "that 36 percent is higher than almost any other endowment in the country inasmuch as we are invested almost entirely in mortgage pass-through securities, which have an intermediate maturity for investment purposes, and not in corporate bonds and treasury notes. Without taking the very long-term risk of Salomon Brothers, we ended up with the same kind of return in a market of sharply dropping interest rates." He added that since 31 December the common stock portion of the Fund has increased 12.5 percent on a total-return basis versus a 9.3 percent increase for the Standard and Poor 500 Stock Average.

V. Overseers
A. Action: A Resolution on an Appointment to the Board of Overseers of the School of Engineering and Applied Science was approved as follows:

RESOLVED, that John P. Mulroney be appointed to the Board of Overseers of the School of Engineering and Applied Science for three years, effective 9 April 1983.
B. Action: A Resolution on an Appointment to the Board of Overseers of the School of Nursing was approved as follows:

RESOLVED, that Lewis Thomas be appointed to the Board of Overseers of the School of Nursing for three years, effective 8 April 1983.

Respectfully submitted,

Mary Ann Meyers
Secretary of the University