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

13 September 1985

A stated meeting of the Executive Committee was held on Friday, 13 September 1985. Trustees attending included: Richard P. Brown, Jr.; Susan W. Catherwood; G. Morris Dorrance, Jr.; John W. Eckman; Sheldon Hackney; John P. Hellwege; Paul F. Miller, Jr.; John B. Neff; Alvin V. Shoemaker; and D. Robert Yarnall, Jr. Among others present were: John M. Anderson; Ann Bailey; James J. Bishop; Mark Caro; Stuart Carroll; Richard C. Clelland; Ann Duffield; Thomas Ehrlich; Karen Gaines; Shelley Z. Green; Stanley Johnson; Marshall Ledger; Robert G. Lorndale; Lynn Manko; Mary Ann Meyers (secretary); Helen O'Bannon; Anthony Tomazinis; and Marna Whittington.

I. Call to Order

The Chairman called the meeting to order and the minutes of the 4 May 1984 meeting were approved as written by the secretary.

II. Report of the Chairman

Mr. Miller reported that subscriptions for FY'85 totaled $82,580,000, which was an increase of 44 percent over the FY'84 total of $66.4 million. "Receipts," he said, "appreciated 10 percent, and they amounted to $66 million." The chairman noted that the biggest single gain was the 99-percent increase in alumni gifts. "That number is very gratifying," he said, "as the major thrust of the development effort last year was to increase alumni participation in Penn's development program."

Mr. Shoemaker asked how long the University carried forward past pledges that remained unpaid. Mr. Miller said he did not know what the Development Office's policy was on the matter, but promised a report, noting that there was certainly some point in time when, as Mr. Shoemaker's question implied, such pledges became worthless. He observed that to have only $28 million outstanding on the Program for the Eighties, which raised $259 million, was excellent and "clearly much better than the ratio of paid to unpaid pledges in the fund drive of the 1960s."

Mr. Miller then noted that subscriptions for FY'86, as of 5 September, amounted to $17 million. The total is some 20 percent ahead of last year at that date.

The chairman went on to mention that in the upcoming issue of Almanac he
had a statement on the context in which the Trustees had made decisions on investments in companies doing business in South Africa. He added that the newsletter would also contain a statement tracing the evolution of Penn's policy. "It culminates with an invitation to the campus community to share with the University Responsibility Committee their opinions on South Africa vis a vis the investment portfolio. The board will not be re-examining its policy until the January meeting," Mr. Miller said, "because between now and then it hopes to have in hand the updated Rockefeller Commission Report and the annual Sullivan Report."

In conclusion, the chairman observed that the administration had decided to bring suit against U.S. Gypsum to recover costs involved in removing asbestos from living areas on campus. "As was proper," he said, "the decision was made without Trustee involvement. But I would like to point out that one of our distinguished board members, Mr. Richard Brown, is the national counsel for U.S. Gypsum. When he learned of the suit, he immediately brought his relationship to the company to our attention. The Executive Committee discussed it, and we determined that we don't want to lose his services as a trustee, but that, as he has said to us, it would be inappropriate for him to participate in any board consideration of matters relating to the suit."

III. Report of the President

President Hackney observed that while students had returned to campus before all the summer construction projects had been quite completed, work was going ahead as fast as possible and he viewed the renewal and renovation under way as a positive if momentarily unsightly reflection of University progress. He said that Opening Exercises had gone well, and that in general campus spirit seemed good.

A. Action. A Resolution on the Extension of the Term of Lee G. Copeland as Dean of the Graduate School of Fine Arts was approved as follows:

RESOLVED, that Lee G. Copeland be reappointed dean of the Graduate School of Fine Arts for a term beginning 13 September 1985 and ending on 30 June 1991.

B. Action. A Resolution on the Appointment of John M. Anderson as Vice President for Facilities Management was approved as follows:

RESOLVED, that John M. Anderson be elected Vice President for Facilities Management, effective 13 September 1985

C. Academic Report

Mr. Ehrlich cited three examples of the momentum with which the University is entering the 1985-86 academic year: the five-year plans being developed by each school; work going forward under Vice Provost James Bishop on the Freshman Year experience; and the development of the campus computer network. The provost then called attention to several appointments and promotions to tenure, including: Dr. Burt A. Ovurt, an internationally-regarded young scientist in field theory and particle physics from Rockefeller University who is being recommended for the
position of associate professor of physics; Dr. Morton M. Kligerman, Henry K. Pancoast Professor of Research Oncology in the clinical educator faculty who came to Penn from the University of New Mexico, where he was director of the Cancer Research and Treatment Center, and is now being recommended for a position in the School of Medicine's tenured faculty; Dr. Yih-Fu Shiu, a graduate of Taiwan Medical College who holds a Ph.D. from George Washington University and is being recommended as an associate professor of medicine; and Dr. Barry B. Wolfe, an assistant professor of pharmacology who holds two editorial board positions in his field and is being recommended for associate professor of pharmacology. "These four," the provost said, "exemplify the quality of the faculty in the resolution before the Trustees."

Action. A Resolution on Appointments, Leaves, and Promotions was approved as found on pages 1 through 24 in the meeting book.

D. Financial Report

Mrs. O'Bannon reported that over the summer, three-year labor contracts had been successfully negotiated with unions representing Penn's skilled trade employees, library staff, and public safety force without any work stoppage. "The contracts reflect agreements about measures likely to increase productivity substantially," she said. Turning to facilities management, she noted that the renovation of Quadrangle dormitory rooms had been completed on time. She then observed that Coopers and Lybrand, the University's external auditors, had issued an unqualified audit opinion on Penn's consolidated financial statements and that the audited financial statements will be presented to the October meeting of the full board. The senior vice president went on to say that the University had had a modest surplus of $29,000 at the end of the last fiscal year exclusive of $346,000 mandated for the amortization of the Hi Rise and Graduate Hospital deficits. The former, she noted, was eliminated with the end-of-June payment, so henceforth Penn will be carrying only the Graduate Hospital deficit, which currently totals $97,000. Mrs. O'Bannon said that, with the earlier approval of the Trustees, $800,000 had been transferred to the Research Fund and $155,000 had been used to match a Mellon Challenge Grant made to establish the Philadelphia Center for Early American History in the School of Arts and Sciences. She further pointed out that the schools had ended the year with a "very small total deficit" of $33,000. "Restricted performance showed an overall increase in expenditures of 5.4 percent over the 12-month period ending 30 June 1984," she continued, "and the current balance of $101.4 million, which is available for expenditure in grants and contracts, is 12.1 percent higher than at this same time last year. It is," she explained, "the equivalent of seven and a half months of expendable awards."

Turning to HUP finances, Mrs. O'Bannon reported that the Hospital finished the 1985 fiscal year with an excess of revenues over expenses
of nearly $7.5 million, which was $1.3 million greater than the budgeted surplus. The income from operations was $402,000 greater than budget. She noted that the Clinical Practices of the University of Pennsylvania (CPUP) also showed an excess of revenues over expenses from operations of almost $8 million. CPUP's Education and Development Fund balances increased from $21.5 million to some $22.4 million.

Mrs. O'Bannon concluded by noting that the University had returned $11.2 million in earned income on the Associated Investments Funds (AIF) to the endowment under the Spending Rule which governs how much earned income can be used for operations each year. "The return was approximately 41 percent of the total," she said, "and since the rule has been in effect, we have returned $34.5 million in earned income to the endowment."

IV. Reports of Trustee Committees

A. Budget and Finance

Mr. Eckman reported that the Budget and Finance Committee had reviewed four resolutions and recommended them to the Trustees for favorable action.

1. Action. A Resolution Amending the Resolution of 26 October 1984 on the Expansion of a Utilities System to Upgrade Water and Electrical Service at the Morris Arboretum was approved as follows:

Intention:

On 26 October 1984 the Trustees approved the administration's proposal for expanding a utilities system to upgrade water and electrical service at the Morris Arboretum, and authorized the expenditure of $100,000 to cover the first phase of the project, which was originally to be completed in three phases at a cost of $300,000. Funds from the Pew Memorial Trust have now been committed for the entire project, and the administration proposes proceeding to completion in a single stage.

RESOLVED, that the resolution dated 26 October 1984 be and the same hereby is amended to authorize the expansion of a utilities system to upgrade water and electrical service at the Morris Arboretum at an estimated cost of $300,000, and that the Vice President for Finance or other appropriate officers of the University be and they hereby are authorized to proceed with such renovation and execute such contracts and incur such expenses and obligations - not, however, substantially in excess of the estimated cost of such expansion, as presented to the Budget and Finance Committee - as may in their judgment be necessary or desirable to accomplish such expansion.

2. Action. A Resolution on Williams Hall Structural Repairs was approved as follows:

Intention:

Williams Hall was constructed in 1972. At that time, the Department of General Services (Property and Supplies) oversaw the design and construction of the building. It was financed with general obligation bonds of the Commonwealth of Pennsylvania. The University entered into a long-term lease with the Commonwealth at rental payments sufficient to pay off the bond holders over time. The University agreed to maintain and repair the building.
From the beginning, the building has had design and structural problems that the University has worked to correct. To date, the University has not sought remedy from the contractor, who went bankrupt, or from the Commonwealth.

About a year ago, an inspection of Williams Hall revealed structural problems on the south side of the third floor involving separation of the bays from the main structure of the building. The University engaged a structural engineer to determine their cause and extent. The Commonwealth's Department of General Services has also had personnel inspect the building.

The structural deterioration is serious and warrants prompt attention. The Department of General Services has agreed to oversee the design and repair and to carry the burden of litigation against the relevant parties if warranted. The University, however, must advance the funds for the structural repairs. The total preliminary estimate for design, structural repairs, and contingencies is $500,000. Of this total, $380,000 will come from University reserves for Physical Plant and $120,000 will be advanced from general University resources to be repaid from future Physical Plant reserve balances.

RESOLVED, that the structural repairs to Williams Hall, estimated to cost $500,000, be and the same hereby are approved and that the Vice President for Finance or other appropriate officers of the University be and they hereby are authorized to proceed with such contracts and incur such expenses and obligations - not, however, substantially in excess of the estimated cost presented to the Budget and Finance Committee - as may in their judgment be necessary or desirable to complete such design work.

3. Action. A Resolution on the Option for the Parcel of Land to the Rear of Phi Delta Theta Fraternity House was approved as follows:

Intention:

The University seeks to extinguish the use restrictions on a parcel of the land utilized by Phi Delta Theta fraternity at 3700 Locust Walk, to enable it to construct a building to house the Laudner Institute and the Fisher Real Estate Center. This parcel represents a portion of the lot to the rear of the fraternity house. Acquisition of the parcel free of any restriction in use is governed by the terms of a Dormitory Agreement between the Phi Delta Theta Club of Philadelphia and the University of Pennsylvania, dated September 1969, which, among other things, provides that the University pay the fraternity the "fair market value" of the rear lot parcel should the University determine no longer to use the parcel for dormitory purposes.

The administration is requesting permission to exercise its option to acquire this parcel without use restriction under the 1969 Agreement and to negotiate a fair market price with the Phi Delta Theta Club of Philadelphia. The University will be funding this acquisition from the University General Fund, and the specifics of the transaction will be brought to the Trustees for approval at a subsequent meeting.

RESOLVED, that the Trustees of the University of Pennsylvania hereby authorize the administration to proceed with negotiations for the termination of the Dormitory Agreement, dated September 1969, insofar as it applies to the parcel of land behind the Phi Delta Theta fraternity house located at 3700 Locust Walk, in accordance with the proposal presented to the meeting. The Vice President for Finance or other appropriate officers of the University be and they hereby are authorized to exercise the option under paragraph 8 of the Dormitory Agreement, dated September 1969, and to execute such
contracts, including deeds, and incur such expenses and obligations—not, however, in excess of the fair market value as determined by an independent appraiser—as may, in their judgment, be necessary or desirable to effect this transaction and to rest in the University a fee simple title to the rear parcel with no reversionary interest or other use restriction in favor of the fraternity or any other third party.

4. Action. A Resolution on the Ratification of Lease Agreement with the Kravco Company for 3401 Walnut Street was approved as follows:

Intention:

The administration seeks ratification of a Lease Agreement with the Kravco Company for retail space in the new development at 3401 Walnut Street. The Kravco Company was selected through a competitive bid process initially carried out in 1982. Under the terms of the original process, Kravco was to be the developer of an office and retail project and was to have a ground lease with the University.

Upon review of economic and legal considerations, the administration renegotiated its business arrangement with Kravco Company. In April 1985, the Trustees authorized the administration to enter into contracts with Kravco as development consultant, Keating Company as builders, and Geddes Brecher Qualls Cunningham as architects for the project. The University assumed for itself the role of developer and has executed all appropriate agreements. Construction is projected to start by January 1986.

The administration is now seeking ratification of a Management and Lease Agreement dated 1 July 1985 with the Kravco Company (the "Lease") for no less than 26,200 square feet of retail space on the ground floor of 3401 Walnut Street. The lease term is 15 years with three five-year renewal options and commences 1 August 1987.

The basic financial terms of the Lease require:

- Payment to the University of a base minimum rent of $10.50 per square foot, plus $50,000;
- Payment to the University of Pennsylvania of supplemental minimum rent of additional increments of $50,000 in years 6, 11, 16, 21, 26;
- Payment to the University of Kravco's proportionate share of building operating expenses;
- Payment to Kravco of 5 percent fee of net retail receipts;
- Payment to the University of 70 percent of the residual net income.

RESOLVED that the leasing by the University of real property pursuant to the Lease be, and the same hereby is, authorized and the execution of the Lease by the Treasurer on behalf of the University is ratified, confirmed, and approved.

B. Investment Board

Mr. Neff reported that since 31 December 1984, appreciation in the value of the common stock portion of the AIF was on the positive side relative to the Standard and Poor 500 Stock Average, although the "differential of 17.9 percent vs. 15.3 percent was not as spirited as in some previous years. On the fixed income side," he continued, "we're up 14.1 percent since year end, which is superior to the Shearson Lehman
Index at 12.3 percent, although inferior to the Salomon Brothers High Grade Security Index." He went on to point out that the Salomon Brothers maturity is about 28 years. "We just don't think that it is prudent in today's somewhat uncertain world to be out 28 years," Mr. Neff commented, "so the better yardstick relative to what we're trying to accomplish would be the Shearson Lehman Index. We bested that index by 1.8 percent. The combination of the two makes the AIF-share advance for the year to date 16.3 percent (total return)."

The chairman further noted that the total market value of the AIF is $374 million. "If you add in the separately administered trusts," he said, "you would have another $45 million, so the value of the endowment is in excess of $400 million. As Mrs. O'Bannon pointed out, some of that advance from year-end is the reinvestment on 30 June of $11 million that was returned to the endowment under the Spending Rule, as well as some cash flow."

Mr. Neff said that cash and cash equivalent in the AIF amounted to 8 percent of the fund's total value, up from 1 percent on 31 December 1984. He observed that the increase was a reflection of his wariness of the marketplace. "My caution turned out to be well placed," he said, "although in the last couple of days we've started to put a little of our cash back into equities." He noted that the current total yield remains formidable at 7.7 percent while the yield on the equities, at 6.3 percent, has moved down from 6.6 percent at year-end despite the market advance. "We continue to get some pretty good growth in the income of the corpus," Mr. Neff observed, "with most everything in the portfolio chipping in with an annual increase. I include the banks, the telephones, the electric utilities, the insurance companies. Autos are a possible exception, but even here Ford has chipped in with more than an annual increase lately." He added that the present was not "a period of particular corporate largesse. We're plugging along, but the estimate of our gross investment income for the next 12 months is only 4.5-percent ahead of the amount projected at the end of 1984 and that is considerably behind our previous pace. We continue to show good numbers over longer time periods, and we did have another good 'NACUBO year,' that's a comparative measure of our performance for the 12 months ending June 30th. The figures won't be published until November, but we've done a satisfactory job."

Mr. Miller observed that "satisfactory" means ranking in the first percentile of all endowments for one year, three years, and five years. "We're not quite there for ten years," he said, "but in another year or so we'll make that, too."

V. Overseers and Other Boards
A. Action. A Resolution on an Appointment to the Board of Overseers of the School of Dental Medicine was approved as follows:
RESOLVED, that Robert W. Baker be appointed to the Board of Overseers of the School of Dental Medicine for a three-year term, effective 13 September 1985.

B. 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 M. Deutch be appointed to the Board of Overseers of the School of Engineering and Applied Science for a three-year term, effective 13 September 1985.

Adjourned.

Respectfully submitted,

Mary Ann Meyers
Secretary of the University