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

12 September 1986

A stated meeting of the Executive Committee was held on Friday, 12 September 1986. Trustees attending included: Walter G. Arader; Richard P. Brown, Jr.; Susan W. Catherwood; Gloria Twine Chisum; Charles D. Dickey, Jr.; F. Eugene Dixon, Jr.; G. Morris Dorrance, Jr.; Robert A. Fox; C.F. Fretz; Sheldon Hackney; Carl Kaysen; Margaret R. Mainwaring; John B. Neff; and D. Robert Varnall. Among others present were: John Anderson; Ann Bailey; James Bishop; Stuart Carroll; Ann Duffield; Thomas Ehrlich; Shelley Z. Green; George Koval; Eric Lang; Marshall Ledger; Robert G. Londerdale; Mary Ann Meyers; Marquerite Miller; Frederick Nahai; Helen B. O'Bannon; William Owen; Edward Stemmler; Barbara Stevens; Joseph Watkins; and Marna Whittington.

I. Call to Order

In the absence of the chairman, Vice Chairman Margaret Mainwaring called the meeting to order and the minutes of the 13 June 1986 and the 23 July 1986 meetings were approved as written by the secretary and the associate secretary, respectively.

II. Report of the Vice Chairman

Mrs. Mainwaring reported that as of 12 September, gifts and subscriptions for the first two months of the new fiscal year totaled more than $13 million, while actual receipts stand at $6.9 million. She went on to say that "FY'87 poses a real challenge to the University inasmuch as last year's total gift support has been tabulated at $86.8 million, making FY'86 the most outstanding fundraising year in Penn's history." The University's cash receipts totaled a record $79 million or 21 percent more than cash received in the previous year.

Mrs. Mainwaring pointed out that FY'86 marked the culmination of Building Penn's Future, the three-year fundraising effort that, among other things, was designed to lift Penn's yearly level of support from the $50-million to $80-million range. "During the designated time frame gifts and subscriptions actually increased by $33 million," she said, "which was a better than a 60 percent improvement over Penn's fundraising performance in FY'83, the year that preceded the launching of Building Penn's Future." Cash receipts grew almost as much during this period, with last year's total exceeding the FY'83 plateau by $28 million. The Annual Fund moved from a yearly intake of $8 million to $12 million.
The Vice Chairman observed that "the qualitative impact of fundraising in FY'86 was also considerable." She noted that endowment subscriptions were up by 56 percent, student financial aid increased by more than $2 million to $6.8 million, and total unrestricted support rose by 30 percent to almost $14 million. "In FY'87 we will be attempting to sustain a fourth straight year of recordbreaking results," she concluded, "and that may be extremely difficult given the unprecedented growth of the past three years."

III. Report of the President

A. Dr. Hackney observed that September "is the time of the year when possibilities are infinite." He said student spirits seemed very high, noting in particular the good response to opening exercises, the lively conversation among freshmen, and the fine turnout for a reception that the General Alumni Society held for the children of alumni. He went on to say that returning students and faculty will note that certain things were accomplished over the summer, especially in the way of physical improvements and new construction. He pointed to the renovations at Stouffer College House and the Modern Languages House, as well as the completion of Phases 5 and 6 of the Quad renovation project. "McClelland Lounge has been turned into a particularly handsome space," the president continued, "and it is going to be very useful for the entire Penn community." He said that "all in all, the administration spent about $19 million this summer in the dorms and in the residence halls," and he considers it "money well-spent." He further noted that the University had successfully completed the removal of asbestos throughout student living facilities.

Turning to major construction projects that are still going on, Dr. Hackney mentioned the Wharton Executive Education Building on Locust Walk and the development of 3401 Walnut Street. He said ground would soon be broken for the Clinical Sciences Research Building on the old PGH site. "These three major projects will add significantly to campus facilities," the president noted.

He then commented on the tax reform act. "As good as it might be as public policy for the country in general," he said, "it is very bad for higher education in a number of ways." He observed that higher education is not treated well in the way that the new tax system views gifts of appreciated property, nor in the taxing of student grants and fellowships, nor in the circumscribing of the ability of colleges and universities to resort to the tax-exempt market to raise money for needed capital. "We'll have to pay much more attention in the future to fixing the things that the tax reform act may unfix for us," he said. "More importantly, the outcome of the law-making process indicates that perhaps the Congress and the general public more broadly do not appreciate nor understand precisely what higher education does for the country. In the future,
we must do a much better job explaining our needs and how we benefit the nation."

The president further noted that over the summer the transition of the Medical Center, which the Trustees began last June when they approved the new position of the Executive Vice President for the Medical Center, had moved along. "I think it is going very well," he said, "because the Hospital, the School of Medicine, and the Clinical Practices all seem to be approaching the process with great enthusiasm and hard work."

In conclusion Dr. Hackney commented on his nomination of Frederick Nahm as the Vice President for Development and University Relations. "He comes to you after a long and careful search across the country for the very best person that we could find for this important position," the president said. "He has spent the last 12 years at Centre College in Kentucky where he earned a national reputation in annual giving by doing a spectacular job of raising the alumni-participation level to 76 percent, which is the best of any college in the country."

B. Action. A Resolution on the Election of Frederick C. Nahm as Vice President for Development and University Responsibility was approved as follows:

RESOLVED, that Frederick C. Nahm be elected Vice President for Development and University Relations, effective as soon as he is able to take up his Penn responsibilities on a full-time basis, or, in any case, no later than January 1986.

C. Academic Report

Mr. Ehrlich began his report by noting that the retention of gifted faculty sought by other institutions was as important a measure of academic success as outstanding new appointments. He then mentioned that the administration intends to publish other school five-year plans over the course of the year. He said that a new University veterinarian had been selected, adding that Penn continued to improve its animal care facilities.

Turning to appointments and promotions, the provost called Trustee attention to six recommendations for tenure: Anthony R. Cashmore ("one of the best molecular biologists in the world" who will come to Penn from Rockefeller University as director of the Plant Sciences Institute) as professor of biology; Maurice Obstfeld (a 1973 summa cum laude graduate of the College who spent two years at Cambridge University as a Thouron Scholar, took a Ph.D. in economics at The Massachusetts Institute of Technology (MIT) in 1979, then joined the faculty of Columbia University where he pursued "outstanding research" in international monetary policy) as professor of economics; Peter J. Cohen (a visiting professor in the Associated Faculty of the School of Medicine who had been professor and chairman of anesthesiology at Colorado School of Medicine and the
University of Michigan School of Medicine) as professor of anesthesia; Marc A. Dichter (a medical scientist with an "international reputation" in the field of epilepsy who will assume responsibility for developing a comprehensive program in epilepsy at Penn as he has done at Harvard) as professor of neurology; Susan R. Weiss ("an outstanding scientist whose promotion to tenure further strengthens a group of outstanding young microbiologists at Penn); and Andrew Abel (a finance theorist who graduated summa cum laude from Princeton, took a Ph.D. in economics from MIT, then served as John Loeb Associate Professor of the Social Sciences at Harvard) as a professor of finance.

1. Action. A Resolution on Appointments and Promotions was approved as found on pages 1 through 22 of the meeting book.

D. Financial Report

Mrs. O'Bannon summarized fiscal performance for the year ending in June. She said that on the unrestricted side, the University had a surplus of $34,000 after allowing for the $97,000 mandated surplus required to amortize the Graduate Hospital deficit and a Trustee-approved non-mandatory transfer of $500,000 to the Undergraduate Development Fund. All the schools and resource centers with the exception of two schools and one center ended the year with either a surplus or break-even performance. The School of Veterinary Medicine, the Wharton School, and the School of Engineering and Applied Science covered temporary unrestricted deficits from restricted funds. The senior vice president reported that restricted expenditures for the year increased by 14.6 percent over FY'85. "The current balance available for expenditure in grants and contracts of $120 million is 18.7 percent higher than at this time last year," she said. "It represents a substantial backlog of 9.29 months of expendable awards."

Mrs. O'Bannon went on to report that the Hospital of the University of Pennsylvania (HUP) finished FY'86 with an excess of revenue over expenses of $10.8 million, which was nearly $2 million in excess of budget. In addition, during the same period, HUP's cash position increased by $9.5 million, an increase of more than $11 million over budget. She said that the Clinical Practices of the University had an excess of revenues over expenses from operations of $2.5 million in FY'86, and it increased its Educational and Development Fund Balance from $22.4 million to $27.6 million.

The senior vice president further noted that the Associated Investments Fund (AIF) Spending Rule returned $11 million in earned income from the AIF to endowment principal in FY'86, which was approximately 38 percent of the total investment income earned during the year. Since the Trustees approved the Spending Rule in 1980, some $45.6 million of income has been reinvested, a total which represents almost 10 percent of the market value of the AIF as of 30 June 1986.
IV. Reports of Trustee Committees

A. Budget and Finance

Mr. Fox reported that the Budget and Finance Committee had reviewed four resolutions and recommended them to the Trustees for favorable action. Before the vote on the last resolution, Mr. Neff asked if there was any way to critique the Wharton Executive Education Center overrun. Mr. Fox replied that it was a consequence of a tight construction market, fast-tracking and gross underestimation. Mrs. O’Bannon explained that the Center was "a very complicated building. As working drawings were developed," she said, "the School decided to include in the structure the capacity to add an additional five floors." Mr. Neff commented that "it is dismaying that projects like the Center, which used to get eaten up by inflation, continue to come in over budget even when inflation is no longer a problem." He then inquired about building contingency funds into original cost estimates. Mrs. O’Bannon said that in general there had been a tendency to bring projects to the Trustees for approval before it was possible for the administration to obtain the numbers "with which it was comfortable" and that, furthermore, fund-raising efforts had fallen short of goals in some cases. She added that Dean Palmer was committed to raising the additional funds required for the Wharton Executive Education Complex. Mr. Anderson commented that the project originally had only a three percent contingency. "In the future," he observed, "contingencies should be larger and those commissioning buildings should insist that greater details go into schematic plans on which contractors are asked to bid."

1. Action. A Resolution on the Establishment of an Endowment Fund for the University Museum was approved as follows:

Intention:
The Museum proposes to establish a permanent fund to function as endowment fund in the amount of $100,000, the income to be used at the Museum Director’s discretion in support of the travel needs of the curators of the Museum. On April 1, 1985, the Museum received an unrestricted bequest in the amount of $187,227.88 from the Estate of Henry Lynn, Jr. in memory of Mr. Lynn’s father-in-law, John Storey Jenks, a former chairman of the Museum’s Board of Managers. From this bequest, a sum of $100,000, has been designated for the purpose of establishing the Lynn/Jenks Fund.

RESOLVED, that the Lynn/Jenks Fund be established as a fund functioning as endowment with principal funding of $100,000 previously received from the Estate of Henry Lynn, Jr., the income to be used at the Museum Director’s discretion in the support of the travel needs of the curators of the Museum.

FURTHER RESOLVED, that the principal of this fund may not be modified,
other than through reinvestment of income, without specific resolution by the Trustees.

2. A Resolution on the Dissolution of R.E.M. Investments, Inc. was approved as follows:

Intention:

In 1982, R.E.M. Investments, Inc. was given to the University in connection with a gift of real estate known as Chestnut Hall. R.E.M.'s principal asset is a participation in a mortgage loan on Chestnut Hall held by First Federal Savings and Loan Association of Philadelphia. R.E.M.'s principal liability is a loan payable to First Federal in the amount of $185,000. This loan is being amortized by payments made by University City Associates (UCA).

The corporation, R.E.M. Investments, Inc., serves no active purpose. The administration wishes to absorb its assets and liabilities into the books of the University and its active subsidiaries, thereby causing dissolution. This absorption would provide greater flexibility in financing and structuring UCA investments.

RESOLVED, that this Corporation (Trustees of the University of Pennsylvania), as the sole shareholder of R.E.M. Investments, Inc., a Pennsylvania corporation (the "Subsidiary"), hereby authorizes, approves and consents to the dissolution of the Subsidiary under and pursuant to the provisions of Section 332 of the Internal Revenue Code of 1954, as amended, and to the distribution of all of the assets of the Subsidiary to its sole shareholder, this Corporation, and further authorizes, approves and consents to all actions which may be necessary or appropriate in order to effect such dissolution and distribution, with the proper officers of this Corporation hereby authorized and directed to take all actions necessary in order to accomplish the foregoing.

3. A Resolution on the Acquisition and Installation of a 1400-Ton Chiller at the Williams Hall Central Chilled Water Plant was approved as follows:

Intention:

The University continually reviews its utility demand and projected requirements to ensure that facilities have adequate supplies of electricity, steam, and chilled water for cooling.

The addition of two buildings in the center of campus and the desirability of linking Vance Hall to the University's main chilled water systems require the acquisition and installation of an additional 1400-ton chiller at the Williams Hall central chilled water plant. It is estimated that the project will cost $990,000. Funds will be advanced from the University's general funds and be recovered through utility charges, as is the University's practice. This project was included in FY 1987 Capital Budget.

RESOLVED, that the acquisition and installation of a 1400-ton chiller at an estimated cost of $990,000, be and the same hereby is approved in accordance with the proposal presented to the meeting and that the Vice President for Finance or other appropriate officers of the University be and they hereby are authorized to proceed with such acquisition and installation and execute such contracts and incur such expenses and obligations not, however, substantially in excess of the estimated cost of such acquisition and installation as presented to the Budget and Finance Committee - as may in their judgment be necessary and desirable to accomplish such acquisition and installation.

4. A Resolution Amending The Resolution of 11 April 1986 on the Construction of the Wharton Executive Education Center was approved as follows:
Intention:

On 11 April 1986, the Trustees approved construction of the Wharton Executive Education Center and the Computer Resource Center, estimated to cost $18,570,000. These projects together with the Career Planning and Placement Office, estimated to cost $3,000,000 and landscaping and contingencies estimated at $1,600,000, are all linked together. The entire project, originally estimated to cost $23,000,000, was undertaken in an expedited manner.

As actual bids have been received for various parts of the project, it is apparent that the original estimate was insufficient. The entire project is now expected to cost $27,280,000 to complete. Given the fact that the project is underway, the administration proposes to advance funds for the project from general University sources and to allocate most of the cost difference of the new construction to the Wharton School for fund raising and amortization of the additional funds borrowed from the University.

RESOLVED, that the proposed Wharton Executive Education Center and the Computer Resource Center, estimated to cost approximately $27,280,000, be and the same hereby is approved and the Vice President for Finance or other appropriate officers of the University be and they hereby are authorized to proceed with such construction and execute such contracts and incur such expenses and obligations - not, however, substantially in excess of the estimated cost of such construction as presented to the Budget and Finance Committee - as may in their judgment be necessary or desirable to accomplish such construction.

B. HUP Board

Mr. Dorrance observed that as the result of the action taken by the Trustees in June in relation to the organization of the Medical Center, it was necessary to make certain changes in the 1978 resolution establishing the old HUP Board.

I. Action. A Resolution on the Amendment of the 27 October 1978 Resolution on the Establishment of the Trustee Board of HUP was approved as follows:

Intention: At their 20 June 1986 stated meeting, the Trustees took note of the organization of a Medical Center of the University of Pennsylvania, which brings together the Clinical Practices of the University of Pennsylvania (CPUP), the Hospital of the University of Pennsylvania (HUP) and the School of Medicine under a new administrative structure, and elected the dean of the School of Medicine as executive vice president for the Center. The Trustees anticipated that the Trustee Board of HUP would itself be changed to reflect the organization of the Medical Center as the subsuming entity. Although the thoughtful and considered review of the role of a trustee board of the Medical Center, which the Trustees believe is required, will take time, the Trustees deem it appropriate that their resolution of 27 October 1978 establishing the HUP board be amended at this meeting to reflect the name of the new administrative structure and its leadership.

RESOLVED, that the term "Medical Center of the University of Pennsylvania" shall be substituted for the term "Hospital of the University of Pennsylvania" in the resolution of 27 October 1978, except that references to the Executive Director of the Hospital shall remain the same.

FURTHER RESOLVED, that the Executive Vice President for the Medical Center be added to the list of voting ex officio members of the board mentioned in the resolution of 27 October 1978.

FURTHER RESOLVED, that the Executive Vice President for the Medical Center be substituted for the Vice President for Health Affairs in relation to the nomination, recommendation, and removal of the Executive Director of HUP as set out in the resolution of 27 October 1978.

FURTHER RESOLVED, that the Chairman of the Trustees, the President of
the University, and their designees be directed to review the organization and authority of Trustee Board of the Medical Center during the next several months and report back to the Trustees no later than the January 1987 stated meeting.

C. Investment Board

Mr. Neff recalled that he had previously talked about potential inflection points in the marketplace, mentioning in particular three areas: the pace of business activity, oil prices, and interest rates. "It seems to me," he said, "that we have had a bit of movement in all three areas. There is movement toward moderate growth on the business activity front, although maybe it is moderate growth at best as each quarter comes up a bit on the disappointing side relative to some people's expectation, and there's maybe a moderate view of what '87 will bring in the way of thrust. It is increasingly hard to find a dynamic to live up to the expectations that we see flowering in the media and in the street," he added. The Investment Board chairman then noted that OPEC had some kind of a deal, and the price of petroleum products has vaulted about 50 percent since early August in the spot market, although there have been only moderate changes in the cost of gasoline at the pump.

"Prices are not going to go up 50 percent, but you probably ought to plan in your budgeting to spend 10, 12, or maybe 15 cents a gallon more than today's posted prices. On the interest rate side," he continued, "we have seen some rather sharp movements, and we are currently about 80 basis points higher - .8 of a percentage point higher - than the low on long-term 30-year governments, which got down to about 7.1 percent yield, though they are up to about 7.9 percent now, and we still might see a little pressure upward. All these changes in trends," Mr. Neff said, "have had some impact on the marketplace. The oil stocks aren't quite as much in the doghouse as they were the first Monday of August. Not only the bond side but the equity side has gone through occasional enthusiasm and that devastation." He pointed out that The Standard & Poor 500 Stock Average (S&P), which was at 248 at the beginning of the week, had "dropped to 231 as of about 40 minutes ago or down 7 percent in three-and-a-half days".

On 12 September Mr. Neff noted cash or cash equivalents constituted 14 percent of the AIF. "But we put $5 million into stocks yesterday and $5 million in today," he said, "so where we had almost $70 million in cash on Monday we have about $59 million now. Our performance continues to be decent," the Investment Board chairman added. "Since 31 December 1985, the common stock portion of the Fund has appreciated 27 percent versus a 20-percent increase in the S&P. Total portfolio performance wouldn't be quite that good because we've been sitting on some cash. But in an overall sense, we'd be up 19 percent, and if you combined the two indices on the fixed income side and the equity side, they would be up about 16 percent, so the Fund performance was about 3 percentage points better. Given further downward movement in the market," Mr. Neff concluded, "we'll get that cash back into it."

Mrs. Catherwood asked Mr. Neff which stocks he had purchased in the last few days. He replied that he could recall four of them: Cigna, Citicorp, a savings and loan institution, and ALCOA.

V. Overseers and Other Boards

A. Action. A Resolution on an Appointment to the Board of Overseers of the School of Arts and Sciences was approved as follows:

RESOLVED, that Alan G. Hassenfeld be appointed to the Board of Overseers of the School of Arts and Sciences for a three-year term, effective 12 September 1986.

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

RESOLVED, that Vincent N. Cook, Edward E. David, Jr., and Roy F. Weston be appointed to the Board of Overseers of the School of Engineering and Applied Science for three-year terms, effective 12 September 1986.
C. **Action.** A Resolution on an Appointment to the Board of Overseers of the Graduate School of Fine Arts was approved as follows:

RESOLVED, that Charles Gwathmey be appointed to the Board of Overseers of the Graduate School of Fine Arts for a three-year term, effective 12 September 1986.

D. **Action.** A Resolution on Appointments to the Board of Overseers of the School of Social Work was approved as follows:

RESOLVED, that William W. Broom, Howard E. Charish, Stephen Cohen, Leo P. Cornelius, A. Bruce Crawley, H. Francis DeLone, Glendon E. French, Jr. and James J. Mergiotti be appointed to the Board of Overseers of the School of Social Work for three-year terms, effective 12 September 1986.

E. **Action.** A Resolution on an Appointment to the Board of Overseers of the University Museum was approved as follows:

RESOLVED, that Sally P. Shoemaker be appointed to the Board of Overseers of the University Museum for a three-year term, effective 12 September 1986.

Adjourned.

Respectfully submitted,

Mary Ann Meyers
Secretary of the University