Minutes of the Stated Meeting
of the
Executive Committee of the Trustees
of the
University of Pennsylvania
May 24, 1991

A meeting of the Executive Committee was held on Friday, May 24, 1991, in the Tea Room of the Faculty Club. Trustees attending included: Richard P. Brown, Jr.; Susan W. Catherwood; Richard J. Censits; Gloria Twine Chisum; G. Morris Dorrance; Sheldon Hackney (ex officio); John B. Neff; Sara S. Senior; Alvin V. Shoemaker; and Myles H. Tanenbaum. Others present included: Michael Aiken; Richard Clelland; Stephen Golding; John Gould; Shelley Green; Eileen S. Heron; Samuel Hughes; Rick Nahm; Selimo Rael; Jay Saddington; Louise Shoemaker; Larry Singer; Barbara R. Stevens; Duncan Van Dusen; Marna Whittington; and Drew Zoller.

I. Call to order
Chairman Shoemaker called the meeting to order. The minutes of the 26 April meeting were approved as written by the secretary.

II. Chairman's Report
Mr. Shoemaker had no report.

III. Report of the President

A. President Hackney reported that the University completed the academic year in fine style. The Alumni weekend included many convivial gatherings, and an expanded series of alumni/faculty exchanges similar to those that proved so popular during last May's 250th Anniversary Peak Week. The President noted that he had participated in a session on the 60's with alumnus John Roberts. The returning alumni were diverse and filled with enthusiasm for the Red and Blue.

President Hackney continued by commenting on the magnificent 235th commencement. "The graduates and their families were deeply pleased with their experience at Penn." He noted that "such occasions confirm my already strong conviction that at Penn we are doing something right," although, there are many in the public, the press, and in the government who think colleges and universities are doing something wrong - several things in fact. With this in mind, he spoke at commencement about Political Correctness, an issue recently taken up by President Bush, its proponents on the left, its detractors on the right, and those who occupy the broad middle ground at Penn and believe there can be no room for thought control at a great university. "There must be ample open space for many truths, and the diversity of intellect and views that are the hallmark of an institution devoted to the freedom of inquiry. Penn is such a place."

The President turned his attention to another part of the executive branch, the Justice Department, which has voiced concern about the practices of more than 60 colleges and universities in determining financial aid awards that might represent "price fixing." Dr. Hackney stated that "we have engaged in overlap meetings every year for forty years where financial aid policies and awards are discussed. We think it is a perfectly legal practice because it tries to maximize the awarding of limited financial aid dollars to people who really need the support so that an Ivy League education could be made available to as broad a population as possible." He continued, "the Justice Department did not see it our way and so we agreed to enter into a consent degree in order to avoid the expense and time required to pursue a course of litigation that would have taken years to complete. As a result of the decree, the 40 year old practice of financial aid overlap, the exchange of information on candidates admitted to more than one of the Ivies, will end."
Moving from the Executive Branch to the Congress, the President found no lessening of suspicion. Dr. Hackney commented that Congressman Dingell and his committee investigating indirect costs are finding a rich source of publicity that recently included Penn, alleging irregularities in our indirect cost recoveries and singling out the President's house. The president stated that "we remain confident that we have acted in good faith by adhering to the existing regulations on indirect cost recovery." He continued by noting that in effect, the Dingell subcommittee has superseded those regulations and agreements between Penn and the Department of Health and Human Services, setting a new standard of "appropriateness" above and beyond what is allowable. However, said the president, "it is not clear what is appropriate and what is not appropriate." In any event, the press accounts of $941,000 of inappropriate indirect cost expenses were erroneous. That amount reflects the University's total costs for certain activities, only a portion of which ($231,000) was actually allocated to the research function and therefore recovered. The amounts we have voluntarily chosen to withdraw from the indirect cost pool account for only .3% of our negotiated indirect cost rate and are relatively small in comparison to the $7 million of indirect costs attributable to research for which Penn receives no reimbursement from the federal government. Dr. Hackney commented that in terms of policy and ethics Penn is in good shape. However, out of this process there is going to come a reform of the system, that will cause us to lose indirect cost recoveries in one way or another. The president expressed regret, "because those recoveries help us fund the scientific research enterprise and the nation will suffer as the scientific enterprise suffers."

Turning from the federal government to the state level, the president noted that the outlook for restoration of the Governor's proposed Commonwealth appropriation cuts "remain cloudy but perhaps a bit brighter than we thought." Dr. Hackney stated that he and Marna Whittington called upon the Governor last week and were gratified to find that the Governor holds no special animus toward Penn but noted that the Governor is "faced with very difficult choices on how to allocate increasingly scarce resources." To help solve the budget problem, the Governor is recommending an increase in the income tax rate for the Commonwealth. Whether the tax recommendation alone is enough to solve the Commonwealth's problems remains to be seen.

In closing, President Hackney turned his attention to a legislative process closer to home. After broad consultations within the Penn community for more than a year and discussion in University Council, the president reported that Penn is in the final stages of creating a new racial harassment policy that he believes "will represent a significant advancement over our current policy." Dr. Hackney explained that at times this issue took on some of the tone of the political correctness debate. The president was pleased by the open and honest discussion of differences expressed in the expanded deliberations as well as by the final policy itself. "I think we have made great headway as a community by discussing this issue in an increasingly rational and cooperative way." We anticipate the policy will be published for the record in the fall term.

B. Academic Report

1. Provost Aiken was pleased to announce that Penn had a very good year in terms of its academic programs. Penn's faculty continues to grow stronger. Dr. Aiken noted that as chair of the Provost Staff Conference he is aware of the talented young people who are receiving tenure. "It's always good to see how people we recruit as assistant professors are being successful." Similarly, our undergraduate students, who will be entering Penn in the fall, will be the strongest class we have ever had. We also continue to make progress in undergraduate education. For example, the Wharton school has reformed the MBA curriculum it has also changed the undergraduate curriculum so that in the future a language will be required. We are also beginning an exciting program this fall called the Bacchae project, where all incoming freshman will be sent a copy of the same book which will be discussed in small seminars once the student arrives.
The provost noted that during the past year Penn has also made progress in the internationalization of the campus. He stated that "we're working with at least eight other universities to create study abroad opportunities for our faculty and students." Dr. Aiken continued by expressing anticipation for the fall placement of Penn's new Vice Provost for Graduate Education, Dr. Janice Madden. He stated that she will sit in with the Provost Staff Conference and address many issues "we haven't been as attentive to as we should have been."

In the research area, the provost commented that the planning of major research facilities such as the Law School Library, the Institute of Advanced Science and Technology, and the Life Sciences Building, are all very much on track. Dr. Aiken felt that "it has been a very good year in spite of budgetary problems and the uncertainty about indirect costs."

The provost reported with regret that Dean Michael Austin of the School of Social Work has decided to step down at the end of his seven-year term in 1992 to join the University of California at Berkeley as Professor in the School of Social Welfare. On the brighter side, the provost announced that after 13 years as a staff member of the Morris Arboretum, Mr. Paul Meyer has agreed to accept the directorship.

It was with pleasure that the provost announced that Dr. Samuel Preston, Chair and Professor of Sociology, has been elected to the Institute of Medicine of the National Academy of Sciences. Dr. Arjun Yodh, Assistant Professor of Physics, who earlier was named a Sloan Research Fellow, has also been named an Office of Naval Research Young Investigator for the coming academic year.

Three other faculty have been named Presidential Young Investigators. They are: Dr. Russell Composto, Assistant Professor of Materials Science and Engineering; Dr. Vijay R. Kumar, Assistant Professor of Computer and Information Science; and Dr. Gregory Voth, Assistant Professor of Chemistry. Also, two members of our faculty have been elected Fellows of the American Academy of Arts and Sciences. They are: Lynn Hunt, Professor of History and Arnold Thackray, Professor of History and Sociology of Science.

In closing, the provost mentioned that the Institute of Contemporary Art received a $75,000 award from the Institute of Museum Services to augment its exhibition and education programs. The award provides the only federal source of general operating support for museums in this country and is given to institutions demonstrating excellence in all areas of programming and operations. Dr. Aiken stated that "it's a real feather in the cap of our new director, Patrick Murphy, as well as the leadership of the board."

2. Action. A Resolution on Appointments, Leaves, and Promotions was approved as found on pages 1 through 11 of the meeting book.

Before turning to the financial report, President Hackney introduced Penn's new vice-president for finance, Selimo Rael, who comes to Penn from the University of California at Berkeley. Mr. Rael will join the University in August.

C. Financial Report

Marna Whittington, senior vice-president, reported that "as of April 30th we are projecting a General University deficit of $500,000 after the approved, budgeted, discretionary allocations. However, Dr. Whittington continued, "we are committed to working in the last few months of the year to bring this year end into a balanced position." On the unrestricted side, positive factors include graduate tuition, summer and special programs and fees. Negative factors include the abatement of the Commonwealth appropriation, "which is the real cause of our being in a deficit position at this time of the fiscal year." With regard to school performance, Dr. Whittington expects the School of Veterinary Medicine to have a deficit of $300,000, the Wharton School a
deficit of $650,000 and the Graduate School of Fine Arts a deficit of $75,000. The Graduate School of Education is projected at a surplus of $650,000. All other schools and centers will finish in a break even performance. On the restricted side, the endowment, and grant and contract expenditures increased by 12.1% and 6.7% respectively. Gift fund expenditures decreased by 6.8%. The amount available for grant and contract expenditures is 11.2% more than it was April 30, 1990.

Dr. Whittington also reported that for the nine months ended March 31, 1991, the Hospital of the University of Pennsylvania had an excess of revenues over expenses of $20,595,000 which was $14,991,000 better than budget. Turning to the Clinical Practices, she remarked that for the nine months ended March 31, 1991 they are showing an excess of revenue over expenses of $5,998,000 better than budget and that the Education and Development Fund balances decreased net by $4,044,000.

IV. Trustee Committee Reports

A. Budget and Finance Committee

1. Action. A Resolution on the Operating Budget of the University of Pennsylvania for Fiscal Year 1992 was approved as follows:

Intention:

The Budget and Finance Committee has reviewed the operating budget proposed for the University of Pennsylvania for Fiscal Year 1992 and recommends its approval.

RESOLVED, that the operating budget recommended by the Budget and Finance Committee for the University of Pennsylvania for Fiscal Year 1992 be and the same hereby is approved.

2. Action. A Resolution on the Operating Budget of the Hospital of the University of Pennsylvania for Fiscal Year 1992 was approved as follows:

Intention:

The Budget and Finance Committee has reviewed the operating budget proposed for the Hospital of the University of Pennsylvania for Fiscal Year 1992 and recommends its approval.

RESOLVED, that the operating budget recommended by the Budget and Finance Committee for the Hospital of the University of Pennsylvania for Fiscal Year 1992 be and the same hereby is approved.

3. Action. A Resolution on the Capital Budget of the University of Pennsylvania for Fiscal Year 1992 was approved as follows:

Intention:

The Budget and Finance Committee for the University of Pennsylvania has reviewed the capital budget proposed for Fiscal Year 1992 and recommends its approval.

RESOLVED, that the capital budget recommended by the Budget and Finance Committee for the University of Pennsylvania for Fiscal Year 1992 be and the same hereby is approved.

4. Action. A Resolution on the Capital Budget of the Hospital of the University of Pennsylvania for Fiscal Year 1992 was approved as follows:

Intention:

The Trustee Board of the Medical Center has reviewed the capital budget proposed for the Hospital of the University of Pennsylvania for Fiscal Year 1992 and recommends its approval.
RESOLVED, that the capital budget for the Hospital of the University of Pennsylvania for Fiscal Year 1992 recommended by the Trustee Budget and Finance Committee be and the same hereby is approved.

5. Action. A Resolution on the Design of a Parking Garage/Office Building Complex at 40th and Walnut Streets was approved as follows:

Intention:

The University intends to construct a parking garage/office building complex at the northwest corner of 40th and Walnut Streets. It is anticipated that the facility will include approximately 775 parking spaces, and will also house the Department of Public Safety, space for the University's Central Mail Facility and, if the City of Philadelphia conveys to the University a Free Library site and building located at the southeast corner of 40th and Walnut Streets, a new branch of the Philadelphia Free Library.

At present, funding is required for architectural and engineering services in connection with this project. These services are estimated to cost $700,000.

RESOLVED, that the design of a parking garage/office building complex at the northwest corner of 40th and Walnut Streets, estimated to cost $700,000, be and the same hereby is approved and that the Senior Vice President or other appropriate officers of the University be and they hereby are authorized to take such actions, proceed with such design, execute such contracts, and incur such expenses and obligations -- not, however, substantially in excess of the estimated cost of such design as presented to the Budget and Finance Committee -- as may in their judgment be necessary or desirable to accomplish the purposes of this resolution.

Dr. Gloria Twine Chisum indicated that she would like the record to show her abstaining on the above resolution for the Design of a Parking Garage/Office Building Complex at 40th and Walnut Streets.

6. Action. A Resolution on the Renovation of the Mezzanine Floor of 133 South 36th Street was approved as follows:

Intention:

In connection with the rehabilitation of Logan Hall, the University intends to relocate temporarily the executive and administrative offices of the College of Arts and Sciences to approximately 6200 square feet of space on the mezzanine floor of 133 South 36th Street. This space will require renovation, including repartitioning to create necessary offices and working spaces, modifications to the heating, ventilation and air-conditioning systems, and installing new ceilings, lighting, and floor and wall finishes. The estimated project cost is $300,000 and will be paid for from the University's Deferred Maintenance program budget for the Logan Hall rehabilitation project.

RESOLVED, that the renovation of the mezzanine floor of 133 South 36th Street for offices of the College of Arts and Sciences, estimated to cost $300,000, be and the same hereby is approved and that the Senior Vice President or other appropriate officers of the University be and they hereby are authorized to take such actions, proceed with such renovation, execute such contracts, and incur such expenses and obligations -- not, however, substantially in excess of the estimated cost of such renovation as presented to the Budget and Finance Committee -- as may in their judgment be necessary or desirable to accomplish the purposes of this resolution.

7. Action. A Resolution on the Purchase of Parcel Number 4 of the Former PGH Site was approved as follows:

Intention:
As part of the continuing development of the former PGH site, the University intends to purchase from the Philadelphia Authority for Industrial Development a portion of the site known as Parcel Number 4 and containing approximately 53,158 square feet of land, for a purchase price not to exceed $1,725,000.

RESOLVED, that the acquisition of Parcel Number 4 of the former PGH site for a purchase price not to exceed $1,725,000 be and the same hereby is approved, and that the Senior Vice President or other appropriate officers of the University be and they hereby are authorized to take such actions, execute such contracts and incur such expenses and obligations -- not, however, substantially in excess of the cost of such acquisition as presented to the Budget and Finance Committee -- as may in their judgment be necessary or desirable to accomplish the purposes of this resolution.

B. Action. A Resolution on the Construction of the Module 6 Central Utility Plant - Phase I was approved as follows:

Intention:

The University intends to construct a central utility plant to supply chilled water to the northeast sector of the campus including the IAST. The initial phase of this project involves the installation of underground pipes for the transportation of the chilled water. The scope of work includes digging trenches, installing pipe, backfilling the trenches and paving the surface of the trench. The new trench system will extend from the existing chilled water system at 37th Street and Locust Walk, across Walnut Street at 37th Street to Sansom Street; east on Sansom Street to 36th Street, across 36th Street to the Franklin Building Annex parking lot; and east on Sansom Street to 34th Street. The estimated cost for Phase I of this project is $3,368,770, which will ultimately be recovered from utility savings.

RESOLVED, that Phase I of the Module 6 central utility plant construction, estimated to cost $3,368,770, be and the same hereby is approved and that the Senior Vice President or other appropriate officers of the University be and they hereby are authorized to take such actions, proceed with such construction, 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 the purposes of this resolution.

B. Medical Center

Mr. Brown reviewed the reorganization of the Medical Center. There are now two sub-boards; a Board of Overseers of the School of Medicine, chaired by John G. Harkins, Jr., and a Hospital Boards, chaired by Myles H. Tanenbaum. He went on to give a summary report of the Spring meeting of the Trustee Board which included, in addition to a discussion of the operating and capital budgets, several other interesting topics. Mr. Brown noted that since more and more procedures are going to be done on an outpatient basis, ambulatory care is going to become an increasingly important part of the work of the Medical Center, particularly the clinical practices. With this in mind, the Medical Center has appointed a new associate vice president for ambulatory care to develop that part of the provision of services.

Second, there was a presentation by Dr. John Glick, Leonard and Madlyn Abramson Professor in Clinical Oncology and director of the University of Pennsylvania Cancer Center, about bone marrow transplants, and the procedure whereby bone marrow is destroyed and then replaced by a bone marrow transplant. Dr. Glick said that the Penn Medical Center is involved in pioneering research in this form of treatment.

In conclusion, Mr. Brown spoke of the affiliations that the School of Medicine has with a number of institutions around the city and around the region.
The management of the Medical Center is "going to be studying these affiliations and deciding the most appropriate kinds of affiliations we should have."

C. Investment Report

Mr. Neff drew the Committee's attention to the Investment Report in the booklet, noting that Associated Investments Fund (AIF) stocks have outperformed the Standard & Poor's 500 index by a significant margin (+20.6% vs +12.9%) for the calendar year to date. For the fiscal year to date, however, the performance of AIF stocks still trails that of the index. He explained that the level of the market, in general, continues to appear too high. As a result, AIF stocks have been reduced to 45% of the Fund, which is as low an allocation as Mr. Neff can recall during his term of management. The AIF totals $731 million, which represents a sizable increase over its $134 million level when he assumed portfolio management responsibility in 1979, not to mention the significant increase in yield over the period.

Focusing on the Fund's transactions, Mr. Neff explained that the AIF's exposure to auto stocks has been reduced recently, in light of continuing difficulties in the industry. The natural gas industry has been an area of focus on the purchase side. Natural gas prices have plummeted during the past few years, reflecting two mild winters and the impact of proponents of the greenhouse effect. Mr. Neff noted, however, that Europe's recent cold winter disproves the global warming concept. He forecasts that natural gas prices will rise with the return to a "normal winter." Given that natural gas is readily available and clean, it should not sell at a discount to fuel oil and at some point will likely sell at a premium. As such, the AIF continues to take advantage of this window of opportunity by adding to the industry.

Mr. Neff ended his discussion noting that "the market is laboring a bit at what seems...to be a high level," but that the Fund's exposure to equities will be increased above 45% as opportunities present themselves.

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 Dr. Stanley Tarka be appointed to the School of Dental Medicine's Board of Overseers for a three-year term, effective 24 May 1991.

Adjourned.

Respectfully submitted,

Barbara R. Stevens
Secretary of the University