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

April 24, 1992

A meeting of the Executive Committee was held on Friday, April 24, 1992 in the Tea Room of the Faculty Club. Trustees attending included: Gloria Twine Chisum; G. Morris Dorrance; Robert A. Fox; Sheldon Hackney (ex officio); John B. Neff; Sara S. Senior; Alvin V. Shoemaker (chairman) and Myles H. Tanenbaum. Others present included: Michael Aiken; Richard Clelland; Karen Gaines; Stephen Glass; Stephen Golding; John Gould; Shelley Z. Green; Michel T. Huber; Eileen S. Heron; Kim M. Morrisson; Rick Nahm; Jay Saddlington; Louise Shoemaker; Larry Singer; Barbara R. Stevens; Duncan Van Dusen; and Marna Whittington.

I. Call to Order

Chairman Shoemaker called the meeting to order. The minutes of the March 20, 1992 meeting were approved as written by the secretary.

II. Chairman’s Report

Chairman Shoemaker announced that the Executive Committee had met prior to the Stated Meeting in Executive Session to discuss a personnel issue.

III. Report of the President

A. President Hackney reported that with the close of the academic year "the Commonwealth’s budget remains an open question, with significant implications for the University's long-term fiscal circumstances." However, he noted that Penn was "moving ahead" with next year's budget, which was planned to protect the academic core and the people of Penn. The president noted that "if the worst happens, we have provided ourselves with an opportunity to make realistic and well thought-out adjustments as we go forward." The president continued by stating that although Penn is prepared for the worst with respect to the Commonwealth budget, he had asked members of the Penn community and key alumni across Pennsylvania to help by writing to their representative on behalf of Penn.
In view of challenges from Harrisburg, President Hackney reported that he had begun a series of meetings with members of the University community to "share my perspective on the University’s future prospects." He said that he was encouraged by the evident interest and understanding and commitment of the Penn community reminiscent of the shared community spirits that developed during Penn’s 250th celebration.

President Hackney announced that with respect to the Mayor's Scholarship case, Common Pleas Court Judge Nelson Diaz had ruled in Penn's favor on "one preliminary point." He indicated that the University was pleased with the ruling, "although it is only one point in a long process." However, the president stated that "Penn's real challenge is not winning a lawsuit, but in raising the community's awareness of the University's commitment to Philadelphia, including the educational opportunities at Penn and the financial aid we have provided for more than 100 years to qualified Philadelphia students." President Hackney indicated that the University needs to improve its methods of getting the message to Philadelphians that Penn "meets the financial needs of all of those who are accepted so they may come to Penn." He continued by saying that the University would like more Philadelphians to attend Penn and that work had already begun to achieve that goal.

President Hackney said that the mood on campus is peaceful and pleasant with many signs of spring abundant at Penn. As examples, the president cited the Penn Relays and the "ancient and honorable tradition" of Hey Day, both of which were taking place as he spoke. Events to look forward to include Ivy Day, Baccalaureate, and Commencement, which will bring such diverse speakers to Penn as Candice Bergen and Justice Ismail Mahomed from South Africa.

In his closing remarks, President Hackney announced the winners of the Senior Awards, to be formally presented on Ivy Day, as follows: for the men, the Spoon, Bowl, Cane and Spade awards will go to Harold Ford, Kirk Marcolina, John Gamba and Ira Hillman; for the women, the Hottel, Harnwell, Goddard and Brownlee awards will go to Barbara Lewis, Christina Smith, Maureen Hernandez and Helen Jung.

B. Academic Report - Provost Aiken

1. Provost Aiken reported that the French government had donated $100,000 in "start-up" funds for a new French Institute for Culture and Technology which was inaugurated this past month during a visit to Penn by the French Ambassador to the United States. The Institute, which the provost said would eventually be self-supporting, will concern itself with "fund raising, academic initiatives and research contracts; sponsor fellowships for undergraduate and graduate study in France and provide funding for visiting professors and special colloquia."

Provost Aiken said that in addition to the French Institute, Penn was working on other aspects of internationalization, noting that the deans have been asked as part of their five-year planning process to examine international activity within the schools and their curricula. There is also a Trustee Ad Hoc Committee on Internationalization that will be making its report to the Trustees in the near future, and a new undergraduate publication entitled Passport that has been
launched on Penn's campus which focuses on international travel and study. All of these activities are an indication to him that the "momentum on this campus for exploring international activities is growing quite strong."

Provost Aiken announced that Dr. David W. Christianson and Dr. Gregory Voth, both assistant professors of chemistry, and Dr. Francis X. Diebold, assistant professor of economics, were among 90 young faculty in the country to be named Sloan Research Fellows. In addition, Professor Rosemary Stevens, dean of the School of Arts and Sciences, and Professor John Quinn of the School of Engineering and Applied Science have been elected fellows of the American Academy of Arts and Sciences.

2. **Action.** A Resolution on Appointments, Leaves and Promotions was approved as found on pages 1-18 in the meeting book.

**C. Financial Report - Dr. Whittington**

Dr. Marna Whittington, executive vice president of the university, stated that "as of March 31, 1992 we continue to project a general University unrestricted surplus of $25,000." She reported that on the unrestricted side, positive factors are graduate tuition, summer and special tuition, special program and fee revenue, indirect cost recovery on sponsored program funds and General University annual giving, and savings in salary and utility expenses. Negative factors are indirect cost recovery on other restricted funds, other income (principally sales revenue), non-guaranteed student aid expense, General University tuition and several other expense categories, including a reserve for potential loss of the Commonwealth appropriation. Dr. Whittington stated that the unrestricted performance by School and Center showed the Graduate School of Fine Arts projecting a deficit of $450,000, and the Graduate School of Education projecting a surplus of $1,000,000. All other schools and centers are projected at breakeven performance. On the restricted side, endowment, grant and contract expenditures increased by 3.9% and 11.1% respectively while gift fund expenditures decreased by 4.0%, all as compared with a year ago. The amount available for grant and contract expenditures is 2.5% more than at March 31, 1991. Dr. Whittington also reported that the Hospital of the University of Pennsylvania for the eight months ended February 29, 1992 had an excess of revenue over expenses of $35,015,000 which is $16,643,000 better than budget. The Clinical Practices for the eight months ended February 29, 1992 generated an excess of revenues over expenses of $7,401,000 which is $2,981,000 better than budget and the Education and Development Funds fund balances increased, net, by $1,172,000 for the six months ending December 31, 1991.

**IV. Trustee Committee Reports**

**A. Budget and Finance - Mr. Fox**

1. **Action.** A Resolution on the Construction of a Temporary Studio Facility, Graduate School of Fine Arts was approved as follows:
Intention:

To facilitate the construction of the Institute for Advanced Science and Technology (IAST), a temporary facility is planned for the Hill Field parking lot at 33rd & Chestnut Streets. This facility will house studios and classrooms of the Fine Arts Program of the Graduate School of Fine Arts for approximately two years until permanent quarters can be completed.

This project is included in the Capital Budget for Fiscal Year 1992. The project cost is estimated at $1,335,000 and the funds will be provided as part of the Institute for Advanced Science and Technology project.

RESOLVED, that the construction of temporary facilities for the Graduate School of Fine Arts, estimated to cost $1,335,000, be and the same hereby is approved and that the Executive 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.

2. Action. A Resolution on the Renovation of Preclinical Laboratories, Evans Building, School of Dental Medicine was approved as follows:

Intention:

The University proposes to proceed with renovation of the Preclinical Laboratories in the Evans Building for the School of Dental Medicine. This project will rehabilitate the existing preclinical teaching labs and support labs. Work includes: new and upgraded HVAC systems, new and upgraded electrical systems, new plumbing, lighting, window and door replacement, finishes, lab and student work-stations, and related minor work.

This project was not in the Capital Budget for Fiscal Year 1992. Total project cost is estimated at $2,674,000 and funding will be provided from combined Dental School Funds and a University advance.

RESOLVED, that the renovation of Preclinical Laboratories in the Evans Building, School of Dental Medicine, estimated to cost $2,674,000, be and the same hereby is approved and that the Executive 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, 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.

3. Action. A Resolution on the Renovation of Space at 3440 Market Street for the Temporary Relocation of the Department of History and Sociology of Science, School of
Arts and Sciences was approved as follows:

Intention:

As part of the Institute for Advanced Science and Technology (IAST) project, the Department of History and Sociology of Science (HSS) will move to temporary quarters in 3440 Market Street until permanent quarters can be completed. The scope of work includes reconfiguration of existing spaces to meet HSS program needs for offices and related areas, modifications to the HVAC distribution systems, installation of a new electrical panel, redesign of the electrical distribution system, and installation of new lighting, ceiling system and floor finishes.

This project was included in the Capital Budget for Fiscal Year 1992. The estimated project cost is $320,000 and funding will be provided from the Institute for Advanced Science and Technology project.

RESOLVED, that the renovation of space at 3440 Market Street for the Department of History and Sociology of Science, estimated to cost $320,000, be and the same hereby is approved and that the Executive 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.

4. Action. A Resolution on the Rehabilitation of Franklin Field, Phase I was approved as follows:

Intention:

The University is moving to repair and rehabilitate Franklin Field Stadium in phases. The current project is the first of five phases dealing with rehabilitating and protecting the Stadium's structural elements. The current phase addresses the upper north stands. The scope of work includes removal, repair and replacement of all damaged concrete on both the top and underside of the stands and upper concourse slabs as well as replacing existing seating with aluminum bench seating. Future phases will proceed on an annual basis and the estimated total project cost for all five phases is $10 million.

The cost of this first phase is estimated to be $1,700,000 and will be funded from the University's Deferred Maintenance program.

RESOLVED, that the repair of the upper north stands of Franklin Field, estimated to cost $1,700,000, be and the same hereby is approved and that the Executive 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 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.

5. Action. A Resolution on Personnel Guaranteed Mortgage Program was approved as follows:

Intention:

Since 1965, the University, through agreements with certain financial institutions, has offered to eligible employees 100% mortgages, guaranteed by the University, for residential properties in neighboring West Philadelphia and western Center City. The Personnel Guaranteed Mortgage Program has been very successful; over 1200 mortgages have been placed with only two defaults.

In recent years, the neighboring West Philadelphia community has suffered a substantial decline in the number of owner-occupied residences which poses a threat to the stability of the community. The present cyclical low points in home prices and mortgage rates provide an opportunity to improve the situation by further encouraging home-ownership. The University proposes to offer, for an 18-month period, the Neighborhood Mortgage Initiative, an augmentation of the present program which will focus more specifically on the local West Philadelphia neighborhood. This initiative will expand the employee mortgage availability by modifying employment eligibility criteria for employees and enabling them to obtain 0 point, 100% mortgage financing as well as financing for a portion of the closing costs. Individual loan maximums under this initiative will be limited to $202,300.

The Trustees have previously authorized up to $15,200,000 for the Personnel Guaranteed Mortgage Program of which $13,626,316 is presently committed. To implement the Neighborhood Mortgage Initiative and to facilitate the ongoing Personnel Guaranteed Mortgage Program, the University requests that the authorization be increased to $20,200,000.

RESOLVED, that the authorized amount of outstanding mortgages for the Personnel Guaranteed Mortgage Program be increased from $15,200,000 to $20,200,000.

B. Investment Report - Mr. Neff

Mr. Neff referred to the Investment Report and noted that the Associated Investments Fund (AIF or the Fund) had a total market value of more than $832 million as of March 31, 1992. He remarked that the stock market has been "thrashing around" since year-end and that the economy has slowly improved. As evidence, he stated that the constant-dollar Gross National Product (GNP) for the first quarter appears to have risen 2%. Mr. Neff then focused on the two areas that he has previously mentioned as leaders for the economy: the residential housing and automobile sectors. He stated that residential housing is "coming along on schedule" and that new housing starts may total 1.25 - 1.30 million for the year versus 1 million in 1991. Although
this current level is below the 2 million level from some previous years, Mr. Neff commented that 1992 new starts could register a 25% - 30% increase in one year. He also noted that demand in the housing market tends to extend to supply industries as well.

Regarding the automobile sector, Mr. Neff said that the market has been "labored." Passenger cars had been selling at an annualized rate of approximately 6 million units, and he mentioned that for the latest ten days, the sales figure was actually at a 5.5 million annual rate. Mr. Neff observed that the current sales figures represent a little higher quality because there are less rental cars included in the calculations as compared to last year. He also mentioned that truck sales, which are now selling at an annual rate of 3.8 - 3.9 million units, have also impacted automobile sales because the truck category includes minivans and sport utility vehicles. As an example, Mr. Neff cited minivan sales, which now total 800,000 units per year, as having encroached on the station wagon market (which is included in passenger car sales). Therefore, Mr. Neff summarized, it is just a matter of classification. Overall, Mr. Neff stated that showroom traffic has been good and consumer confidence appears to have improved. Retail sales may also show improvement, but because Easter was during March last year and in April this year, sales comparisons may be difficult to assess. In order to truly gauge any sales changes, Mr. Neff suggested adding the two months' sales for both 1991 and 1992 and then comparing the results. Although he suspects that the comparison would be favorable, he stated that it certainly would not be a "runaway."

Mr. Neff remarked that the market has been self-correcting. He referenced the Investment Report and noted the divergence between the Dow Jones Industrial Average (DJIA) and the Standard & Poor's 500 Index (S&P). For the first quarter of 1992, the DJIA rose 2.8% while the S&P declined 2.5%. Mr. Neff attributed this divergence to the DJIA's cyclical orientation since cyclical commodity stocks have performed well recently (partly due to their depressed base prices). He also commented on the "carnage" that has resulted from some internal correction within the stock market. Two examples he cited were Chambers Development and Centocor. Chambers had a market capitalization of about $3 billion earlier this year, and then in one day, its stock price dropped 61% when its accounting practices were found to be somewhat less than conservative. Centocor, a bio-tech company headquartered here in the Delaware Valley, also was capitalized at about $3 billion when the stock was trading as high as $60 per share in January, but now is trading at around $15 per share, a 75% decrease. Mr. Neff remarked that the spread in bio-tech stock prices was quite large in general this past year after having risen 106%. Even pharmaceutical stocks, he said, have experienced some decline after having increased over the past eight to ten years.

For the first quarter of 1992, Mr. Neff reported that AIF common stocks have risen 1.6% versus a 2.5% decrease for the S&P. He noted that this 4% differential would be about 7% if these figures were updated through the end of April. Likewise, for the NACUBO year (since June 30, 1991), the differential of nearly 1% seen in this report (12.0% for AIF common stocks versus 11.2% for the S&P) would expand to 3% - 4% for year to date. Regarding the AIF's asset allocation, Mr. Neff said that "we are still keeping a fair amount of our powder dry," with an equity participation of 47%. The AIF has been buying and selling in accordance with
maintaining this minimum equity allocation. Mr. Neff commented that there have been no new areas of interest in the Fund, except for natural gas which he has previously described. Burlington Resources is the Fund’s pure natural gas participant. The AIF also owns shares of Phillips Petroleum and USX-Marathon, which are also domestic gas producers in addition to their other significant holdings.

Mr. Neff believes that the stock market will be tested in the future because of its high valuation of 18x this year’s earnings. Although first quarter earnings were encouraging, he does not believe that 1992 earnings estimates are a "lead pipe synch." One factor that may affect those earnings is the accounting of health benefits. Health care costs are a major concern for corporate America and a new Financial Accounting Standard Board (FASB) ruling, 106, states that by the end of 1993, companies must report a liability on their balance sheets for benefits owed to not only current retirees but also estimate those for future ones as well. With health benefits rising at about 20% a year and comprising 12% - 13% of GNP, Mr. Neff stated that this is a significant issue. He noted that because of this FASB ruling, companies are taking hits to their balance sheets and income statements and earnings will be down 7% - 8% this year. In summary, Mr. Neff commented that with the market trading at "remarkable" values (18x earnings and a 3% yield), he is looking for "a little friendlier prices somewhere along the way."

V. Overseer and Other Boards - Chairman Shoemaker

A. Action. A Resolution on the Appointment of Arlin M. Adams as chairman Emeritus of the Board of Overseers of the School of Law was approved as follows:

RESOLVED, that The Honorable Arlin M. Adams be appointed Chairman Emeritus of the Board of Overseers of the Law School.

Adjourned.

Respectfully submitted,

Barbara R. Stevens
Vice President and Secretary
of the University