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

April 22, 1994

A meeting of the Executive Committee was convened at 2:15 p.m. on Friday, April 22, 1994, in the Club Room of the Faculty Club. Trustees attending were Susan Catherwood, Gloria T. Chisum, D. Michael Crow, Claire M. Fagin (ex officio), Stephen J. Heyman, Natalie Koether, John B. Neff, John N. Reardon, James S. Riepe, Alvin V. Shoemaker (chairman) and Myles H. Tanenbaum. Others attending included Barbara Beck, Stanley Chodorow, Virginia B. Clark, Joe Danzio, Karen C. Gaines, Constance C. Goodman, John W. Gould, Shelley Z. Green, Janet Hale, Bob Helfman, Samuel Hughes, Linda S. Hyatt, Stanley Johnson, William N. Kelley, Trudy J. Kuehner, Marvin S. Lazerson, Kathy McMullen, Gerald T. Porter, Jennifer Shryock, Stephen P. Steinberg, Barbara R. Stevens and Duncan W. Van Dusen.

I. Call to Order

Chairman Shoemaker called the meeting to order. The minutes of the March 18, 1994, meeting were approved as written by the secretary.

II. Chairman's Report

Mr. Shoemaker reported that the Penn Club in New York City will be opening on June 1st and expressed his pleasure that Penn would finally have such a wonderful facility in New York after so many years of planning.

III. President's Report - Interim President Fagin

A. Comments

President Fagin reported that the past few weeks represented a major milestone in the life of the University, with the successful culmination of almost a year's intensive work by students, faculty, staff, alumni, trustees and other friends of the University. Noting that she would be reporting in greater detail at the June meeting on all that has been accomplished, she reported briefly on the following achievements:

Commission on Strengthening the Community. Dr. Fagin reported that the Commission had issued its final report, on time and to wide praise. Particularly praiseworthy, she noted, was that the changes made in response to community discussion and debate over the Commission’s preliminary recommendations dramatically demonstrate that the Penn community is one that can
civilly debate its differences and move toward a constructive consensus. She underscored the debt Penn owes to Gloria Chisum, Rebecca Bushnell, Allen Green, Commission Secretary Amy McQuiston and every member of the Commission.

Implementation of Commission Recommendations. Dr. Fagin reported that the Commission’s blueprint is already taking concrete form. The student committees drafting a new Code of Student Conduct, a new Judicial Charter, and a new Code of Academic Integrity, have issued their own preliminary reports and are in the midst of a similar process of community debate and consultation. They will finish their work over the next few weeks, though school and faculty action on the Judicial Charter and Academic Integrity Code will continue into the fall. Dr. Fagin said that it is already clear that the emerging judicial system and standards of conduct and academic integrity will move Penn away from the highly legalistic systems of the past towards student-designed and largely student-enforced systems of responsibility. She expects to promulgate a new Code of Student Conduct in June based on the student’s recommendations.

Equally important, Dr. Fagin said, is the rapid progress being made on across-the-board implementation of the Commission’s report. Though a very few recommendations, such as those involving curriculum and student advising, will require faculty initiative (and are being worked on), and others, such as those addressed to the Daily Pennsylvanian, lie outside the administration’s jurisdiction, most of the Commission’s 59 recommendations will be moved forward as rapidly as possible. The administration will be reporting to the University community on the implementation plan in considerable detail in early May.

Commonwealth Relations. Dr. Fagin reported that the University’s prospects are thought to be good as it awaits final action in Harrisburg on the Commonwealth budget appropriation, and that this year has seen a great improvement in the University’s relations with advocates for the Veterinary School.

Conclusion. Dr. Fagin reported that the outlook for the successful conclusion of this academic year is much brighter and more optimistic than many would have thought possible, a result of the desire and the ability of members of the University community to come together constructively to discuss their differences and to reaffirm their common commitments and their commitment to Penn itself. She expressed confidence that Penn’s extraordinary students, distinguished faculty, dedicated staff, and devoted trustees and alumni will continue to rise to the occasion each time they are called.

1. Action. Dr. Fagin introduced the following resolution on the appointment of Stanley A. Chodorow, currently dean of arts and humanities and associate vice chancellor for academic planning at the University of California at San Diego, as Provost, which was approved and heartily applauded:

   RESOLVED, that Stanley A. Chodorow be appointed Provost of the University, effective July 1, 1994.

Mr. Shoemaker congratulated Dr. Chodorow on his appointment and welcomed him to the University.
B. Academic Report - Interim Provost Lazerson

1. Comments

Appointments. Provost Lazerson announced the appointment of Stephen Kobrin, the William H. Wurster Professor of Multinational Management, as the new Director of the Joseph H. Lauder Institute and John Ikenberry, Associate Professor of Political Science, as the new Co-Director. Both will assume their positions on July 1st.

Vice Provost for University Life. Dr. Valarie Swain-Cade McCoullum, who has been serving as Acting Vice Provost for University Life since the first of January, has graciously agreed to continue in that position through June 30, 1995.

Resignations. Provost Lazerson reported that Dr. Walter Wales has resigned as Deputy Provost effective December 31, 1994, in order to return full-time to the Physics Department. Dr. Allen J. Green, Director of the African-American Resource Center and Assistant to the Provost, will be leaving Penn on June 30th to become Dean of the College at Wesleyan University.

Departmental Name Change. The faculty of the Department of Systems have unanimously requested to change the name of the department to the Department of Systems Engineering. This decision has the support of the students in the program, the external advisory committee, and the Dean of the School. The Provost has concurred with their recommendation, and the new department name will become effective on July 1st.

Teaching Awards. Provost Lazerson reported that one of the nicest events of the past few weeks, in addition to Dr. Chodorow’s appointment, was an award ceremony for those faculty who have been accorded Lindback and Provost’s Teaching Awards for this year. The eight recipients of the Lindback Award for excellence in teaching are Lawrence Bernstein (Music), Arts and Sciences; Nader Engheta, Engineering; Joan Goodman, Education; Elizabeth Warren, Law; Anne Keane, Nursing; Peter Quinn, Dental Medicine; and Eugenia Siegler and John Stinnett, Medicine. The two recipients of the Provost’s Awards for excellence in teaching by non-tenure track professors are Robert Douglas, Arts and Sciences, and Mary Ann Scott, Nursing.

1. Action. The Resolution on Appointments and Promotions provided at pp. 2-17 of the meeting book was approved.

C. Financial Report - Ms. Hale

Ms. Hale reported that as of March 31, 1994, the University is projecting a breakeven performance. This is after the budgeted, discretionary allocations to the Research Fund of $1.3 million and the budgeted, mandated Graduate Hospital deficit amortization of $97,000.

On the unrestricted side, positive factors are graduate tuition, summer and special tuition, special program and fee revenue, indirect cost recovery, and savings in salary, direct centers’ current expense and utility expense. Negative factors are sales revenue, gift income, graduate student aid expense, General University tuition, temporary investment fund income and several other expense categories.
As to unrestricted performance at the schools and centers, the Annenberg Center is projected with a deficit of $225,000. The Graduate School of Education is projected with a net surplus of $100,000 and the School of Social Work with a net surplus of $250,000. All other schools and centers are projected at breakeven performance.

On the restricted side, gift and grant and contract expenditures increased by 12.5%, 9.2% and 6.6%, respectively. The amount available at March 31, 1994, for grant and contract expenditures is 4.9% more than at March 31, 1993. Months of expendable awards are 1.6% less than at March 31, 1993.

Statements for the Hospital of the University and the Clinical Practices of the University are for the eight months ended February 28, 1994. HUP's excess of revenue over expenses was $82.5 million, $44.1 million better than budget, and CPUP's was $2.3 million, $475,000 better than budget for that period.

D. **Health System - Dr. Kelley**

Dr. Kelley noted that one of the components in the implementation of the University of Pennsylvania Health System that the trustees approved in June 1993 was changing the Medical Center’s relationship with community hospitals. The intention was that as the Health System develops its network of primary care providers within a 50-75 mile radius, it would establish relationships with community hospitals in this area so as to permit patients to use local hospitals for needs other than the quaternary and tertiary services provided at HUP. The Health System has been involved in discussions with a number of hospitals to develop an effective working relationship and to help develop their programs so that they can provide the high quality but low cost care that the Health System would like them to provide. An agreement has been entered into over the past few weeks with Germantown Hospital which represents the first of what is expected to be many of this kind of relationship. Dr. Kelley noted that this kind of relationship differs from the Medical Center’s existing relationships with area hospitals in that the earlier arrangements have had an educational focus, while the focus of the new kind of relationship is on the clinical relationship. An educational relationship could follow.

Dr. Kelley also reported that the Health System’s efforts to identify and recruit outstanding regional primary care physicians continues to proceed very well.

IV. **Trustee Committee Reports**

A. **Budget and Finance - Mrs. Catherwood**

1. **Action.** A Resolution on the Exterior Rehabilitation of the Evans Building, Phases IIC and IIIA, School of Dental Medicine, was approved as follows:

In June 1990 and June 1991, the Trustees approved the initial phases of a program to rehabilitate the exterior of the Evans Building for the School of Dental Medicine. These phases involved the east portion of the south wing and the west wing.
The University proposes to proceed with further exterior rehabilitation of the Evans Building. The scope of the work includes reroofing, repairing and replacing lintels, repairing window frames and sash and repointing exterior masonry. Phase IIIC involves the west end of the south wing and Phase IIIA involves the west inner court area and north wing. This project is in the Capital Budget for Fiscal Year 1994. The project is estimated to cost $1,886,000 and will be funded by project funding sources.

RESOLVED, that Phase IIIC and Phase IIIA of the Evans Building exterior rehabilitation, estimated to cost $1,886,000, be and the same hereby are 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 rehabilitation, execute such contracts, and incur such expenses and obligations -- not, however, substantially in excess of the estimated cost of such rehabilitation 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 Rehabilitation of Franklin Field, Phase III, the $1.3 million cost of which will bring the total costs of the Franklin Field rehabilitation to about $6.8 million, was approved as follows:

In April 1992, the Trustees approved Phase I of the rehabilitation of Franklin Field Stadium. The initial phase addressed the North Upper Grandstand. The scope involved structural repairs to concrete and the installation of aluminum bench seating.

In June 1993, the Trustees approved Phase II of the rehabilitation program. Phase II included repairing all of the brick arches in the Stadium. It also included structural repairs to concrete and the installation of aluminum bench seating in the South Upper Grandstand.

The University now proposes to proceed with Phase III of the rehabilitation program. This phase involves the South Lower Grandstand. The scope of work includes repair of concrete surfaces, replacement of wooden seats with aluminum bench seating, installation of a concrete and steel platform for handicapped seating with swivel seats, replacement of stairs to the top deck and application of waterproof coating to the top surface of the lower grandstand. This project is in the Capital Budget for Fiscal Year 1994. The project is estimated to cost $1,300,000 and will be financed through project funding sources.

RESOLVED, that Phase III of the rehabilitation of Franklin Field, estimated to cost $1,300,000, 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 rehabilitation, execute such contracts, and incur such expenses and obligations -- not, however, substantially in excess of the estimated cost of such rehabilitation 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 Renovations to the Second Floor of the John Morgan Building for the Department of Pathology and Laboratory Medicine, School of Medicine, was approved as follows:

The School of Medicine proposes to renovate approximately 448 net square feet of laboratory space on the second floor of the John Morgan Building (rooms 297 and 298). The renovations will provide the School of Medicine with an upgraded flow cytometry facility for biomedical research. The total project cost based on bids is $320,000 and will be funded by the School of Medicine.

RESOLVED, that renovations to the second floor of the John Morgan Building, estimated to cost $320,000, be and the same hereby are 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 renovations, execute such contracts, and incur such expenses and obligations -- not, however, substantially in excess of the estimated cost of such renovations 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 Establishment of a Trust for Postretirement Benefits Other Than Pensions was approved as follows:

Under Statement of Financial Accounting Standards No. 106, "Employer's Accounting for Postretirement Benefits other than Pensions," the University must recognize in its financial statements as of June 30, 1994, its liability for postretirement benefits other than pensions, for both active and retired employees. The University has determined to fund this liability through the establishment of a separate trust for which it will seek an exemption from federal income tax, and for which the University will serve as trustee.

RESOLVED, that the University's establishment and funding of a trust for postretirement benefits other than pensions, be and the same hereby are approved, and that the Executive Vice President, Vice President for Finance or other appropriate officers of the University be and they hereby are authorized on behalf of the University and on behalf of the trust, to take such actions, execute such contracts, and incur such expenses and obligations as may in their judgment be necessary or desirable to accomplish the purposes of this resolution, including, without limitation, funding the trust, executing a trust document, applying for federal tax exemption for the trust, and entering into a custodial or investment management agreement for the trust.

5. **Action.** A Resolution on the Purchase of a New Voice Processing Platform was approved as follows:

The University's present voice processing platform, purchased in 1986, is operating at capacity and is unable to meet an increasing demand for voice messaging mailboxes, information mailboxes, and caller menus and new services such as fax publishing, interactive voice response and voice forms. The University proposes to upgrade the existing system and purchase a new platform, the Octel XC1000, to provide additional capacity for current and projected demand for voice processing services by students,
faculty and administrative offices. The new system is estimated to cost $496,000 and will be funded by departmental operating budgets.

RESOLVED, that the purchase of a new voice processing platform, estimated to cost $496,000, 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, execute such contracts, and incur such expenses and obligations -- not, however, substantially in excess of the estimated cost of such purchase as presented to the Budget and Finance Committee -- as may in their judgment be necessary or desirable to accomplish the purposes of this resolution.

6. Action. A Resolution on Tax-Exempt Financing for the University of Pennsylvania Health System was approved as follows:

The Trustees adopted a resolution on December 10, 1993 approving the implementation of a master trust indenture (the "Master Trust Indenture") for use by the University in connection with borrowing for Hospital of the University of Pennsylvania ("HUP") and the Clinical Practices of the University of Pennsylvania (collectively with HUP referred to as "Health Services"). That resolution provides that indebtedness incurred pursuant to the Master Trust Indenture be secured by assets and revenues of Health Services. To implement the Master Trust Indenture, the University is required to either refund or defease the lien of the outstanding principal amount of the Hospitals Authority of Philadelphia Hospital Revenue Bonds, Series of 1978 (the Hospital of the University of Pennsylvania) (the "1978 Bonds"). In addition, the University, for purposes of its own debt capacity, deemed it advisable that the outstanding principal amount of Pennsylvania Higher Educational Facilities Authority The Trustees of the University of Pennsylvania Revenue Bonds, Series A of 1987 (the "1987 Bonds"), issued to fund projects for HUP, be refunded.

The Trustees also adopted a resolution on December 10, 1993 (the "Borrowing Resolution") authorizing a borrowing for Health Services to refund the 1978 Bonds and the 1987 Bonds and to fund a $290 million capital project (the "Capital Project") involving the upgrade of HUP's facilities, the installation of information systems for Health Services and renovations and improvements to various Health Services facilities.

Because interest rates have risen since the Borrowing Resolution was adopted, it is not currently feasible to refund the 1978 Bonds or the 1987 Bonds. Since the 1987 Bonds are general obligations of the University and no assets of Health Services are pledged therefor, the University is not required to refund those bonds at the current time, and can wait for market conditions to improve. The 1978 Bonds, however, must be refunded or defeased to eliminate the pledge of HUP revenues securing those Bonds and certain restrictive covenants. After consultation, the Administration of the University and the Bond Ad Hoc Committee, based upon current market conditions, believe that it is more prudent to defease those Bonds rather than to use the proceeds of tax-exempt bonds to refund them. Since Health Services assets would be used to defease the 1978 Bonds (rather than using additional debt) there would be an increase in borrowing capacity for Health Services. The Bond Ad Hoc Committee recommends that the Trustees increase the
amount of the Capital Project to be funded with the proceeds of the bonds by $35,000,000 to reflect the increased borrowing capacity resulting from the defeasance of the 1978 Bonds.

It may also be necessary to utilize a debt service reserve fund, capital replacement fund or other similar fund to facilitate the sale and issuance of bonds for the above purposes and the Administration requests approval of the use and funding thereof if required.

RESOLVED, that the Trustees of the University hereby approve (a) the use of a debt service reserve fund, capital replacement fund or other similar fund if required to facilitate the sale of bonds for the University and the increase in indebtedness to the extent required for such purpose and (b) funding of an additional $35,000,000 of Capital Projects, and the Bond Ad Hoc Committee is hereby authorized to increase the amount of borrowing by the University for either of such purposes.

B. Investment Report - Mr. Neff

Addressing the recent market difficulties, Mr. Neff noted that while he had stated earlier this year that he thought interest rates had gone down too far and, looked at historically, could retrace 100 basis points or so, in fact they had retraced 170 basis points, or 1.7% in yield. This brings the bond market to an area that seems to anticipate inflation increasing from the current 2.5% to 3.5-4%. This increased inflation is currently being seen more on commodities side, though tightness is starting in labor costs, particularly in skilled areas. On the other hand, the CPI shows that health care costs are becoming more manageable.

Mr. Neff reported that, given this climate, Penn’s Associated Investment Fund (AIF) has maintained its principal value fairly well: the AIF was at $1.062 billion as of 4/14/94, and taken with the Separately Invested Fund, the total endowment was valued at $1.278 billion. The Cash and Cash Equivalents portion of the fund has been reduced from 14% at 12/31/93 to 6% at 4/14/94. Individual areas of the equity marketplace have been “ravaged a bit,” but Penn has found opportunities in common stocks which have raised that portion of the AIF from 44% at 12/31/93 to 47% at 4/14/94 (and brought up to date this percentage might be 48%). Mr. Neff reported that Penn was “hanging in this more testy market.” Penn’s common stocks have had a total return of 0.4% in the calendar year-to-date while the S&P 500 has declined -3.5%; since 6/30/93 Penn’s common stocks have returned 9.7% while the S&P 500 is up only 1.2%. Mr. Neff added that the Investment Board “still has an appetite to get back in more on the equity side.” The allocation for high yield securities has been increased to represent 14% of the AIF, compared to 10% at 12/31/93.

Mr. Neff concluded that while the bond market has probably already seen its low, the stock market is expected to remain testy. Nevertheless, the Board anticipates opportunities and is ready to take advantage of them.

Mr. Shoemaker commented that the AIF had performed very well this year considering the treacherous market.

V. Overseer and Other Boards
The following resolutions on appointments to overseer and other boards were approved upon motion duly made and seconded:

RESOLVED, that Carol B. Auerbach be appointed to the Board of Overseers of the School of Social Work for a three-year term, effective April 22, 1994.

RESOLVED, that Gilbert S. Kahn be appointed to the Board of Overseers of the School of Veterinary Medicine for a three-year term, effective April 22, 1994.

RESOLVED, that David L. Cohen be appointed to the Board of Managers of the Wistar Institute, effective April 22, 1994.

There being no further business to come before the meeting, it was adjourned.

Respectfully submitted,

Barbara R. Stevens
Vice President and
Secretary of the University