

Minutes of
Stated Meeting of the
Trustees of the University of Pennsylvania
February 20, 1998

A stated meeting of the Trustees of the University of Pennsylvania was convened at 2:10 p.m. on Friday, February 20, 1998 in Alumni Hall of the Faculty Club. Trustees present were Arlin Adams, Lynda Barness, Judith Roth Berkowitz (via proxy), Gilbert Casellas, Susan W. Catherwood, Henry Chance, L. John Clark, John Hover II, Elsie Sterling Howard (via proxy), Edward Kane, Yotaro Kobayashi, Natalie Koether, Edwin Krawitz, Thomas Lang, Robert Levy, William Mack (via proxy), Jerry Magnin, Anthony Minisi, Andrea Mitchell (via proxy), John Neff, Russell Palmer, Egbert Perry, Pamela Petre Reis, Marjorie Rendell, James Riepe, Judith Rodin (ex officio), Adele Schaeffer, William Schawbel, Leonard Shapiro, Michael Tarnopol (via proxy), Robert Trescher, P. Roy Vagelos (chair), Lawrence Weinbach, George Weiss, Charles K. Williams II, and Richard Worley.

Also present were Jennifer Baldino, Michael Burton, Kenneth Campbell, Barbara Cassel, Virginia B. Clark, Terry Conn, Peter C. Erichsen, Marjorie Fishman, Caroline Ford, Flonnia Freeman, John A. Fry, Karen Gaines, Rev. William Christian Gipson, Shelley Z. Green, George Hain, Heather Heard, Jason Horger, William N. Kelley, Barbara J. Lowery, Rosemary McManus, Roman Petyk, John Prendergast, Edward Resovsky, Matthew Ruben, Maureen Rush, Jay Saddington, Carol Scheman, Thomas Seamon, Stephen D. Schutt, Jack Shannon, Martha Stachitas, Duncan W. Van Dusen, Michael Wachter, Rick Whitfield, and Kenneth J. Wildes, Jr..

I. Call to Order - Dr. Vagelos

- A. The Rev. William Christian Gipson offered the invocation for the meeting.
- B. The minutes of the meeting of November 7, 1997 were approved as distributed.

II. Chair's Report - Dr. Vagelos

A. Comments

Dr. Vagelos welcomed new alumni trustee, Mr. Tony Kobayashi, to his first Stated Meeting of the Trustees; Dr. Vagelos noted that the other new alumni trustee, Mr. James Kim, was not present but had been at earlier portions of the Trustees' meetings.

The chairman commended President Judith Rodin on the recent improvements in Penn's graduate program rankings, the rapid progress on the Sansom Common and Perelman Quadrangle projects, and the West Philadelphia initiatives that will have a positive, long-term effect on the University.

Action.....1. A Memorial Resolution for Mr. Julian S. Bers was approved as follows:

Julian S. Bers (W'31) served the University of Pennsylvania and the Philadelphia community for most of his eighty-eight years, improving the well being and enhancing the lives of countless people along the way.

Soon after earning his bachelor's degree from the Wharton School, Mr. Bers took over a scrap-metal business founded by his father in 1890. Demonstrating exceptional vision and business acumen, he converted the business into a lead-smelting and rubber distributorships venture and prospered. Selling the thriving business in 1969, he made his first attempt at retiring, but in less than a year he was back at work as head of Imperial Metal and Chemical Co., where he remained for another 21 years.

Bringing the same kind of energy and dedication that characterized his professional life to his roles as philanthropist and civic leader, Mr. Bers provided leadership for numerous community, social, and cultural organizations. Throughout the years he generously volunteered his time and energy, accepting trustee positions, chairing fund-raising committees for hospitals and universities, and giving free investment advice to nonprofit organizations. In 1991, he and his wife, Janice Smith Bers (Ed'39) were cited for 50 years of service to the United Way.

Nowhere was Mr. Bers' commitment more marked than here at his alma mater, where he was Emeritus Trustee of the University, of the Trustee Board of the Health System, and of the Medical Center Trustee Board. As a Term and Alumni Trustee he was Vice Chairman of the Health Affairs Committee and a member of the Alumni Affairs, University Development, and Budget and Finance Committees, and of the Investment Board. He served Penn devotedly as general chairman of Annual Giving, chairman of the Benjamin Franklin Associates, vice-president of his class, and gift chairman for his 45th Reunion. In 1968, his many outstanding contributions to Penn were recognized when he was awarded the Alumni Award of Merit.

Mr. Bers further strengthened Penn by establishing the Janice and Julian Bers Assistant Professorship in Social Science and the Janice and Julian Bers Assistant Professorship in History and Sociology of Science. The Medical Center's Department of Neurology has also benefited greatly from his generous support.

RESOLVED, that the Trustees of the University of Pennsylvania express their deep sorrow over the death of their colleague and long-time friend, Julian S. Bers, and in recording this official minute, wish to convey to his family their personal affection and esteem for him, as well as the enduring gratitude of the University community.

[Subsequent to the February 20, 1998 Stated Meeting of the Trustees of the University of Pennsylvania, Mr. Bers' widow, Mrs. Janice Smith Bers (Ed'39), requested that mention of the Bers' involvement with the William A. Levi Travel Fellowship be removed from the text of the above memorial resolution. Although the Bers' did support the Fellowship, credit for

establishment of the Fellowship rightfully belongs to Mr. Morton W. Levi (ChE'37) and Mrs. Barbara Smith Levi (CW'44). The University apologizes wholeheartedly to both the Bers family and the Levi family for this oversight.]

Chairman Vagelos asked the Board and the attendees of the meeting to observe a moment of silence in remembrance of Mr. Bers.

Action.....2. A Resolution on Naming of the Robert Schattner Center for the School of Dental Medicine was approved as follows:

Intention:

The beneficence of Robert Schattner (D'48) has elevated the international renown of the University's School of Dental Medicine and revitalized the 40th Street corridor of our campus. Through his generous support, a new state of the art facility dedicated to patient care and student education will be constructed on the 200 block of South 40th Street. Within this new building, both student and community will have access to the finest resources in dental education and oral health care.

RESOLVED, that the new building on the 200 block of South 40th Street be designated the Robert Schattner Center in recognition of Dr. Schattner's extraordinary generosity and commitment to the University of Pennsylvania.

III. President's Report - Dr. Rodin

A. Comments

President Rodin added her voice to Dr. Vagelos' in welcoming the new trustees to the Board. She noted that the rise in Penn's graduate program rankings, to be reported next week, are the result of a continuing focus and strategic investment in outstanding faculty, students, and programs. The president also welcomed Dr. Michael Wachter to his first stated meeting of the Trustees as interim provost, having been appointed at the December 12 meeting of the Executive Committee. Formerly deputy provost of the University, Dr. Wachter is a scholar of the first order, and the University is fortunate to have him as its interim chief academic officer. President Rodin thanked Dr. Wachter for his willingness to take on this important role as Penn searches for its next provost.

The president reported on educational and research funding and noted that President Clinton had indicated in his State of the Union address his intent to increase scientific research funding, including the largest increases ever to the NIH and NSF. As a member of President Clinton's Committee on Science and Technology, President Rodin has urged the president to pursue this critical funding increase. She noted her optimism that the proposed funding initiative will be approved as it would mean great things for Penn and for the state of national research, a critical investment in our knowledge-based economy.

President Rodin then presented the following three resolutions to the Board for their

approval:

Action.....1. A Resolution on the Appointment of Omar H. Blaik as Vice President for Facilities Services and Contract Management, which was approved as follows:

RESOLVED, that Omar H. Blaik be appointed Vice President for Facilities Services and Contract Management, effective January 5, 1998.

Action.....2. A Resolution on the Appointment of Samuel H. Preston as Dean of the School of Arts and Sciences was approved as follows:

RESOLVED, that Samuel H. Preston be appointed as Dean of the School of Arts and Sciences, effective January 12, 1998.

Action.....3. A Resolution on the Appointment of Rosemary McManus as Secretary of the University of Pennsylvania was approved as follows:

RESOLVED, that Rosemary McManus be appointed Secretary of the University of Pennsylvania, effective March 16, 1998.

President Rodin took the opportunity to thank publicly Dr. Barbara J. Lowery for her outstanding service to Penn as Interim Secretary of the University. The trustees accorded Dr. Lowery a warm and appreciative round of applause.

The president asked Interim Provost Michael Wachter for his report.

B. Academic Report - Dr. Wachter

The provost announced the Penn recipients of Thouron Fellowships for study in England next year: Shahzad Abaas, Libby Copeland, and Kathryn Minarik--all from the College of Arts and Sciences--and John Bishop and Michael Gober, both from Wharton. Dr. Wachter reported that Penn would be launching its 21st Century Residential College House System in the fall, and he noted that much of the spring will be spent recruiting the staff that will make the College House System a reality. He explained that there are four types of College House positions available including faculty masters, house deans, graduate associates, and resident advisors. Search committees have been formed to fill the five open faculty master positions; faculty masters will provide intellectual leadership for the College Houses and help to facilitate the collaborative learning relationships between faculty and students. The provost said that he hopes to name the new faculty masters by the end of March. Dr. Wachter also reported that Penn had initiated a national search for the 12 house dean positions; house deans will collaborate with the faculty masters in the overall management of the college houses and will provide in-house academic support and personal advising. All of the house deans will be in place by the summer. Dr. Wachter stated that his office is moving forward with the recruitment of 104 graduate associates, who are graduate and/or professional students at Penn in good standing; they will serve as mentors and advisors to the undergraduate residents, as well as provide leadership roles in

activities that academically enrich the houses. Finally, the provost stated that resident advisors are also being recruited from current undergraduates; much as they do presently, resident advisors will help to facilitate cultural, recreational , and social activities in the college houses.

Action.....1. The provost presented a Resolution on Faculty Appointments, Leaves and Promotions, printed at pp. 6-28 of the meeting book, which was approved.

C. Financial Report - Mr. Fry

Mr. Fry reported that for the first six months of FY98, the University, excluding the Health Services Component, increased its net assets by \$9.8 million to a total of \$3.42 billion. Significant increases in contributions receivable and plant assets were offset by decreases in the fair value of the University's investments, which reflect the unfavorable investment market conditions for the first half of the fiscal year. At this time the University is projecting a \$3.6 million surplus for FY98, under the budgeting principles of responsibility center management, based on the results of operations through December 31, 1997. Highlights to date include a minor problem with projected tuition and fee revenue due to some decreases in enrollment from last year; the impact of the enrollment decrease has been mitigated by the overall tuition and fee rate increase and a better-than-expected recovery from research indirect costs. Overall sponsored program revenue increased almost 10% over the comparable six-month period in FY97 to a six-month total of nearly \$115 million. This increase is reflective of the almost 11% increase in new awards received in FY97. The University also recorded an increase of over 33% in combined operating and non-operating contributions from FY97 over to FY98. At this time, Penn is not projecting any significant deviations from planned budgeted performance for any of the University's schools or resource centers.

For the Health System, the consolidated EBITDA performance for Health Services was \$27.4 million for the first six months of FY98, a favorable variance to budget of \$8.9 million. The primary reason for the favorable variance to budget is a result of the Medicare cost report settlement at HUP for \$3.7 million and \$3.2 million of depreciation recapture monies received as a result of the Phoenixville Hospital merger. In addition to the third-party settlements, the remaining favorable variance is due to patient activity; outpatient activity for the first six months is in excess of 850,000 visits throughout the Health System, almost 30% higher than at this time last year. Also of note is that 26,400 admissions for the first six months of this fiscal year is more than 4% higher than the first six months of the previous year.

D. Health System Report - Dr. Kelley

Dr. Kelley announced the appointment of Thomas E. Beeman as Senior Vice President for Hospital Operations. In this role, Mr. Beeman will assume responsibility for all of the hospitals in the Health System, the home care program, the hospice, and the nursing homes that are part of the Health System. In addition, Dr. Kelley was proud to report that the Health System recently received the 1998 National Quality Health Care Award from the National Committee for Quality Health Care.

E. Antitrust Compliance Briefing - Ms. Green

Ms. Green briefed the Trustees on the meaning and requirements of the antitrust laws and of the Final Judgment in U.S. v. Brown.

In September 1989, the University received from the U.S. Justice Department a request for information in connection with its inquiry into potential agreements among colleges and universities relating to financial aid, tuition, and faculty and administrative salaries. Cooperating fully with the investigation, Penn provided many thousands of documents to the Justice Department. The inquiry culminated in the entry on September 20, 1991, of a final judgment in the U.S. District Court for the Eastern District of Pennsylvania. Under the terms of that judgment, Penn and seven other Ivy League schools agreed not to exchange certain types of information, such as financial aid data and "plans and projections, including budget assumptions, regarding future student fees or general faculty salary levels." The University is required to maintain an enforcement program that communicates the rules set out in the judgment and monitors compliance with the antitrust laws. Ms. Green's report was part of the required program.

In 1992 Congress modified the requirements of the final judgment by enacting legislation that allowed colleges and universities to agree to award institutional financial aid on the basis of need and to discuss and adopt principles for determining student financial need. The law, however, did not authorize them to discuss financial aid awards to specific common applicants. That law was replaced by legislation permitting colleges and universities that practice need-blind admission to agree to award aid only on the basis of financial need, to use common principles of analysis for determining need, to use a common aid application form, and to exchange certain limited financial data with respect to commonly-admitted applicants prior to making an aid award. The legislation defines "need-blind admission" as making admissions decisions without regard to the financial circumstances of the student. The law does not authorize colleges and universities to discuss specific aid awards to common applicants, and under the final judgment, the University is still required to maintain an enforcement program that disseminates the rules set out in the judgment and monitors compliance with the antitrust laws.

Ms. Green reported that in accordance with the requirements of the final judgment, she had been designated Antitrust Compliance Officer, with responsibility for implementing the antitrust compliance program. She noted that while complying with the final judgment is a priority, it should not and has not impeded appropriate communication among schools. Ms. Green added that she had distributed to the trustees and to the University community the final judgment and the University's guidelines on cooperative exchanges of certain University information. The University's Office of General Counsel is available to answer trustees' questions regarding compliance with the final judgment and the antitrust laws.

IV. Committee Reports

A. Academic Policy and Student Life Committees - Dr. Levine

Dr. Arnold Levine reported that the Academic Policy and Student Life Committees met jointly on Friday morning at the Kelly Writers House. The Committee members, Dr. Alan Filreis, and five students discussed the Wheel Project, which intends to bring computer help in such diverse subjects as mathematics, creative writing, and career opportunities to all of the students

on campus. Dr. Levine noted that as of September 1998, this computer assistance will be present in all 12 residential College Houses. The Committees also heard from Dr. Filreis, two students, and the resident coordinator about the Kelly Writers House and the wide range of activities that the Writers House coordinates. Dr. Levine remarked that all of the trustees in attendance were enormously impressed with these wonderful opportunities that have been developed through the collaborative efforts of the faculty and the students.

B. Audit Committee - Mr. Riepe

Mr. James Riepe stated that the Trustees' Committee on Audit met for several hours on Thursday afternoon. The Committee reviewed in detail the management letters for both the University and the Health System that have been received from Coopers & Lybrand as a result of their audits. The Committee also reviewed the fees charged over the past year by Coopers & Lybrand, as well as the scope of the upcoming 1998 audit. Mr. Riepe stated that the Committee received a report from the Vice President for Finance on the restructuring of the Office of Research Administration and Research Accounting, an important element of financial control within the University; he noted that the Committee was pleased to learn of the level of scrutiny and attention being brought to that particular area of Penn. The Vice President for Audit and Compliance also presented reports to the Committee, and Mr. Riepe and the Committee extended a welcome to Odell Guyton as the new Compliance Officer for the University. Mr. Riepe added that the Committee reviewed additions to the Internal Audit staff and the activities of the office since the last meeting. The Committee also received its regular update on the University's Year 2000 compliance efforts and was heartened to learn of the intensive efforts at work for addressing this critical issue; however, Mr. Riepe observed that there are still many challenges ahead for the University, considering its size and breadth. The president had reported that a high-level oversight committee has been appointed to report on the Year 2000 efforts.

Action.....1. Mr. Riepe introduced and recommended a Resolution on the Engagement of the Public Accountant, which was approved as follows:

Intention:

Independent accountants are engaged annually to express an opinion as to whether the financial statements, as prepared by management, considered in their entirety, present fairly, in all material aspects, the University's financial position, and the changes in its net assets and its cash flows, in conformity with generally accepted accounting principles. The Trustees of the University of Pennsylvania, through its Committee on Audit, is responsible for engaging the independent accountants.

RESOLVED, that Coopers & Lybrand be and hereby is appointed as independent accountants to audit the financial statements of the University of Pennsylvania subject to negotiation of reasonable fees for Fiscal Year 1998.

C. Budget and Finance - Dr. Vagelos

Dr. Vagelos reported on behalf of Committee chair, Mr. Robert Fox, and noted that the following actions are to be recorded as actions of the Executive Committee.

Action.....1. A Resolution on the Annenberg Public Policy Center and Related Renovations was approved as follows:

Intention:

The Annenberg School for Communication intends to provide a facility for the Annenberg Public Policy Center, renovate the entire 1960 portion of the School's building and provide a state-of-the-art multi-media conference facility in a rooftop addition to the building. The project is estimated to cost \$15 million and will be paid from the proceeds of a gift from Walter Annenberg and from the School's funds.

RESOLVED, that the construction of the Annenberg Public Policy Center and Related Renovations, estimated to cost \$15 million, 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, in excess of 110% of the estimated cost as presented to the Budget and Finance Committee -- as may in their judgment be necessary or desirable to accomplish the purposes of this resolution.

Action.....2. A Resolution on Design Fees for the Module VII Central Chilled Water Plant was approved as follows:

Intention:

The University of Pennsylvania intends to construct a chilled water plant on its Murphy Field with a minimum capacity of 15 thousand tons and which can be expanded to 50 thousand tons. Additional cooling capacity is required to service the needs of the School of Medicine's BRBII/III research tower, Sansom Common commercial facilities, the proposed Wharton Academic facility and other planned campus expansions. The University is ready to proceed with project design and has established a budget of \$3.5 million for fees and related expenses. Project costs will be funded from the utilities component of allocated costs and fees to direct charge utility customers.

RESOLVED, that the design fees for the University's Module VII Central Chilled Water Plant, estimated to cost \$3.5 million, 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, execute such contracts and incur such expenses and obligations -- not, however, in excess of 110% of the estimated cost as presented to the Budget and Finance Committee -- as may in their judgment be necessary or desirable to accomplish the purposes of this resolution.

Action.....3. A Resolution on the Veterinary Hospital of the University of Pennsylvania Connection to the Module VII Central Chilled Water Loop was approved as follows:

Intention:

The University of Pennsylvania intends to install piping and related equipment to connect the Veterinary Hospital of the University of Pennsylvania to the Module VII chilled water loop. This effort will meet the needs of the School's facilities for year around cooling and will provide capacity needed for its expanding research programs. The estimated project cost is \$1.2 million. Project costs will be funded by the utility component of allocated costs and from funds allocated by the School of Veterinary Medicine.

RESOLVED, that the connection of the Veterinary Hospital of the University of Pennsylvania to the Module VII chilled water loop, estimated to cost \$1.2 million, 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, in excess of 110% of the estimated cost as presented to the Budget and Finance Committee -- as may in their judgment be necessary or desirable to accomplish the purposes of this resolution.

Action.....4. A Resolution on the Operating Budget for Pennsylvania Hospital of the University of Pennsylvania Health System for FY 1998, Reflecting the October 31, 1997 Merger, was approved as follows:

Intention:

The Trustee Budget and Finance Committee has reviewed the Operating Budget for Pennsylvania Hospital of the University of Pennsylvania Health System for Fiscal Year 1998, reflecting the October 31, 1997 merger, and recommends its approval. This Operating Budget was previously approved by the Health System Trustee Board Executive Committee.

RESOLVED, that the Fiscal Year 1998 Operating Budget for Pennsylvania Hospital of the University of Pennsylvania Health System, reflecting the October 31, 1997 merger, recommended by the Trustee Budget and Finance Committee, be and the same hereby is approved.

Action.....5. A Resolution on the Capital Budget for Pennsylvania Hospital of the University of Pennsylvania Health System for FY 1998, Reflecting the October 31, 1997 Merger, was approved as follows:

Intention:

The Trustee Budget and Finance Committee has reviewed the Capital Budget for Pennsylvania Hospital of the University of Pennsylvania Health System for Fiscal Year 1998, reflecting the October 31, 1997 merger, and recommends its approval.

RESOLVED, that the Capital Budget for Pennsylvania Hospital of the University of Pennsylvania Health System for Fiscal Year 1998, reflecting the October 31, 1997 merger, recommended by the Trustee Budget and Finance Committee, 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, in excess of 110% of the estimated cost of such items as presented to the Budget and Finance Committee -- as may in their judgment be necessary or desirable to accomplish the purposes of the resolution.

Action.....6. A Resolution Authorizing the Sale of Unit 16D, 1900 Rittenhouse Square Condominium, Philadelphia, Pennsylvania, was approved as follows:

Intention:

In 1994, the University received as a gift Units 16A and 16D at 1900 Rittenhouse Square, a condominium (the "Condominium") located in Philadelphia, Pennsylvania. The sale of Unit 16A was approved by the Trustees in 1995. The University has now received an offer to purchase Unit 16D at the Condominium (the "Property") for a price of \$50,000. Proceeds from the sale will be allocated to Annual Giving.

RESOLVED, that the Executive Vice President or other appropriate officers of the University be and they hereby are authorized to proceed with the sale and conveyance of the Property for a sale price of \$50,000 and to proceed with the execution and delivery of an Agreement of Sale, a Deed and all necessary affidavits and other documents required in connection with such sale and conveyance and that any actions heretofore taken by such officers in furtherance of the purposes of this resolution are hereby ratified and affirmed.

Action.....7. A Resolution on the Sale of Gutman Estate, Upper Makefield Township, Bucks County, Pennsylvania, was approved as follows:

Intention:

In 1975, the University received as a gift an approximately 211 acre property located in Upper Makefield Township, Bucks County, Pennsylvania (the "Property") from The Edna and Monroe C. Gutman Foundation, Inc. The Property, known as the Gutman Estate, consists of farm land and the following improvements: a three story main dwelling, a one

story tenant house, a barn and other farm buildings and two additional dwellings. The University has received an offer to purchase the Property for \$3,750,000. Proceeds from the sale of the Property will be directed to the Graduate School of Fine Arts.

RESOLVED, that the Executive Vice President or other appropriate officers of the University be and they hereby are authorized to proceed with the sale and conveyance of the Gutman Estate for a sale price of \$3,750,000, and to proceed with the execution and delivery of a Deed and all necessary affidavits, and any other documents required in connection with such sale and conveyance and that any actions heretofore taken by such officers in furtherance of the purposes of this resolution are hereby ratified and affirmed.

*Action.....*8. A Resolution on the Refinancing of Outstanding Health System Indebtedness was approved as follows:

Intention:

On May 5, 1994 the Pennsylvania Higher Educational Facilities Authority issued \$35,000,000 of its The Trustees of the University of Pennsylvania Health Services Revenue Bonds, Series A of 1994 and on April 2, 1996 issued \$333,445,000 of its The Trustees of the University of Pennsylvania Health Services Revenue Bonds, Series A of 1996 (both of such series of bonds are collectively referred to herein as the "Prior Bonds"). In connection with the issuance of the Prior Bonds, The Trustees of the University of Pennsylvania (the "University") entered into a Master Trust Indenture dated as of May 1, 1994, as amended (the "Master Indenture") with First Union National Bank, as trustee. The Prior Bonds are secured under the Master Indenture and were issued to fund capital projects and to refinance existing debt for the operating designated units of the University known as Hospital of the University of Pennsylvania and Clinical Practices of the University of Pennsylvania (both of which are collectively referred to herein as "Health Services") and for Presbyterian Medical Center of the University of Pennsylvania Health System ("PMC") which became an obligated party under the Master Indenture on June 30, 1995. PMC is jointly and severally liable for any debt incurred under the Master Indenture together with Health Services.

On October 31, 1997 The Contributors to the Pennsylvania Hospital (the "Hospital") merged with Pennsylvania Hospital of the University of Pennsylvania Health System (the "Pennsylvania Hospital"), a controlled affiliate of the University pursuant to a statutory merger under Pennsylvania law. In connection with the statutory merger, Pennsylvania Hospital assumed all of the liabilities of the Hospital, including those associated with \$101,030,000 aggregate principal amount of The Hospitals and Higher Education Facilities Authority of Philadelphia Hospital Revenue Bonds, Series A, B and C of 1994 (Pennsylvania Hospital) and \$52,405,000 aggregate principal amount of The Hospitals and Higher Education Facilities Authority of Philadelphia Revenue Refunding Bonds, Series of 1996 (Pennsylvania Hospital) (collectively, the "Pennsylvania Hospital Bonds") issued by The Hospitals and Higher Educational Facilities Authority of Philadelphia pursuant to a Loan and Trust Agreement dated as of June 15, 1996 (the "Trust Agreement"). The Trust

Agreement contains many restrictive covenants and the administration of Pennsylvania Hospital and the University of Pennsylvania Health System (the "Health System") desire to refund the Bonds to eliminate the restrictive covenants, restructure debt service and perhaps reduce debt service. In addition, Pennsylvania Hospital has the need to renovate and improve its existing facilities and to purchase certain equipment having a cost of approximately \$50,000,000 (the "Capital Project"). The Health System administration is also considering whether Pennsylvania Hospital should become a party to the Master Indenture.

On July 1, 1997 Phoenixville Hospital ("PH") merged with Phoenixville Hospital of the University of Pennsylvania Health System ("Phoenixville Hospital"), a controlled affiliate of the University, pursuant to a statutory merger under Pennsylvania law. In connection with the statutory merger, Phoenixville Hospital refinanced \$18,000,000 of debt incurred by PH to defease certain bonds and also entered into a term loan agreement with CoreStates Bank, N.A. to borrow \$11,000,000 to fund construction of Phoenixville Hospital's ambulatory care facility in Montgomery County. Because of changes in Federal tax law, Phoenixville Hospital may be entitled to finance the construction of its ambulatory care facility with tax-exempt indebtedness. In addition, because of favorable interest rates, it may be advisable to refinance the \$18,000,000 loan with intermediate term fixed rate debt. The administration of the Health System is also considering whether Phoenixville Hospital should become a member of the obligated group under the Master Indenture.

The Health System Trustees Executive Committee has approved the: (a) refinancing of the Prior Bonds for Health Services and PMC; (b) refinancing of the Pennsylvania Hospital Bonds and funding of the Pennsylvania Hospital Capital Project; and (c) borrowing by Phoenixville Hospital to refinance its \$18,000,000 bank loan and to fund the construction of the ambulatory care facility in Montgomery County. The Health System Trustees Executive Committee has also delegated to the administration of the Health System the power to determine whether Pennsylvania Hospital and/or Phoenixville Hospital should become members of the obligated group together with PMC and Health Services under the Master Indenture. Finally, the Health System Trustee Executive Committee has approved PMC's incurrence of indebtedness by virtue of its being a party to the Master Indenture and being jointly and severally liable for all debt incurred thereunder.

The Health System Trustees Executive Committee and the administration of the University and the Health System recommend that the Trustees authorize the incurrence of up to \$561,000,000 of debt for various components of the Health System of which \$350,000,000 is to be attributable to the refinancing of the Prior Bonds, \$180,000,000 to the refinancing of the Pennsylvania Hospital Bonds and funding of the Capital Project and \$31,000,000 to borrowing for Phoenixville Hospital. The Health System Trustee Executive Committee also recommends to the Trustees that they approve the incurrence of indebtedness by PMC by virtue of its being a member of the obligated group and, finally, that the administration of the Health System in consultation with the University administration be granted the power to determine whether Pennsylvania Hospital and Phoenixville Hospital should become members of the Master Indenture obligated group.

The University administration recommends that the Trustees delegate to the Bond Ad Hoc Committee (the "Ad Hoc Committee"), to consist of Robert A. Fox, Paul F. Miller, Jr., James S. Riepe, and Richard B. Worley the power to determine the interest rates payable on the indebtedness authorized by this resolution and the details thereof. The University administration also seeks delegation of the power to choose an issuer and investment banker or bankers for the indebtedness, to determine the method of sale, to appoint bond counsel and to do and take all action with respect to such indebtedness except to the extent delegated to the Ad Hoc Committee.

RESOLVED, that the Trustees of the University hereby appoint Robert A. Fox, Paul F. Miller, Jr., James S. Riepe, and Richard B. Worley to serve as members of the Ad Hoc Committee for the purposes described in this resolution.

FURTHER RESOLVED, that the Trustees of the University hereby authorize and approve the borrowing of up to \$350,000,000 for Health Services and PMC pursuant to the Master Indenture to refund the Prior Bonds; the borrowing by Pennsylvania Hospital of up to \$180,000,000 to refund the Pennsylvania Hospital Bonds and to fund the Capital Project either by Pennsylvania Hospital itself or pursuant to the Master Indenture, as shall be determined by the Health System administration in consultation with the University administration; in addition, if Pennsylvania Hospital does not become a party to the Master Indenture, the Trustees hereby authorize the Health System to provide a guaranty or other similar support to Pennsylvania Hospital to enhance the credit rating of its indebtedness if deemed appropriate by the Health System administration; the borrowing by Phoenixville Hospital of \$31,000,000 to refinance the \$18,000,000 bank loan and to provide funding for the construction of an ambulatory care facility in Montgomery County, said indebtedness may be issued directly by Phoenixville Hospital or pursuant to the Master Indenture, and if Phoenixville Hospital does not become a party to the Master Indenture, the Trustees authorize the Health System to provide a guaranty or other similar support to enhance the credit of Phoenixville Hospital if deemed appropriate by the Health System administration; and hereby authorize and approve PMC's incurrence of indebtedness to the extent the aforementioned obligations are issued under the Master Indenture.

FURTHER RESOLVED, that any indebtedness authorized by this resolution may be for a term of up to 30 years and may bear interest at a fixed or variable interest rate.

FURTHER RESOLVED, that the Executive Vice President, Vice President for Finance or Treasurer be and any one of them is hereby authorized to apply on behalf of the University to a governmental issuer or issuers to issue indebtedness for the purposes stated above and to pay such fees and expenses as may be required in connection therewith and in connection with the incurrence of indebtedness authorized herein.

FURTHER RESOLVED, that the Executive Vice President, Vice President for Finance or Treasurer be and any one of them is hereby authorized to determine the method of sale of any indebtedness incurred pursuant to this resolution (which may be a competitive sale, negotiated sale, a private placement or any combination thereof), to select an investment banker or bankers (if a negotiated sale is to be used) or a lender or purchaser in the event

of a private placement and to take all action in connection therewith, subject to the Ad Hoc Committee's approval of the details of any indebtedness incurred pursuant to this resolution including the rates of interest, dates of maturity, redemption features and security for such indebtedness (but not in excess of the amount or for the term above authorized)

FURTHER RESOLVED, that the Health System administration in consultation with the University administration shall have the power to add Pennsylvania Hospital and Phoenixville Hospital to the obligated group under the Master Indenture.

FURTHER RESOLVED, that the Executive Vice President, Vice President for Finance or Treasurer be and they are hereby authorized and empowered to take such action, approve the form and content and execute deliver such documents and do such things as shall be necessary to effectuate the borrowing authorized by this resolution, subject, however, in all respects to the powers granted by the Trustees to the Ad Hoc Committee.

*Action.....*9. A Resolution on the Refinancing of Outstanding University Indebtedness was approved as follows:

Intention:

In 1968, Pennsylvania Higher Educational Facilities Authority issued its University of Pennsylvania Revenue Bonds of 1968 (the "1968 Bonds") (of which \$28,528,000 are currently outstanding) to finance various capital projects for the University. Because of a decline in interest rates, the administration of the University recommends that the 1968 Bonds be refunded and that it be authorized to borrow up to \$28,520,000 from the proceeds of tax-exempt bonds (the "Bonds"), the terms of which would approved by the Bond Ad Hoc Committee (the "Ad Hoc Committee"), to consist of Robert A. Fox, Paul F. Miller, Jr., James S. Riepe, and Richard B. Worley.

In addition, the administration would like the Trustees to delegate to it the power to choose an issuer and investment bank or bankers for the Bonds, to determine the method of sale for the Bonds, to appoint bond counsel and to do and take all action with respect to the Bonds except to the extent delegated to the Ad Hoc Committee.

RESOLVED, that the Trustees of the University hereby appoints Robert A. Fox, Paul F. Miller, Jr., James S. Riepe, and Richard B. Worley to serve as members of the Ad Hoc Committee for the purposes described in this resolution.

FURTHER RESOLVED, that the Trustees of the University hereby authorize the borrowing of up to \$28,520,000 to refund the 1968 Bonds, for a term of up to 20 years, at a fixed or variable interest rate, subject to the approval of the terms and conditions of any borrowing pursuant to this resolution by the Ad Hoc Committee, such approval by the Ad Hoc Committee to be conclusively evidenced by the adoption of a resolution authorizing and approving the terms of one or more borrowings pursuant to this resolution.

FURTHER RESOLVED, that the Executive Vice President, Vice President for Finance or Treasurer be and any one of them is hereby authorized to apply on behalf of the University to a governmental issuer to issue indebtedness for the purpose stated above and to pay such fees and expenses as may be required in connection therewith and in connection with the incurrence of indebtedness authorized herein.

FURTHER RESOLVED, that the Executive Vice President, Vice President for Finance or Treasurer be and any one of them is hereby authorized to determine the method of sale of any indebtedness incurred for the University (which may be a competitive sale, negotiated sale, a private placement or any combination thereof), to select an investment banker or bankers (if a negotiated sale is to be used) or a lender or purchaser in the event of a private placement and to take all action in connection therewith, subject to the Ad Hoc Committee's approval of the details of any indebtedness incurred for such purpose including the rates of interest, dates of maturity, redemption features and the security for such indebtedness.

FURTHER RESOLVED, that the Executive Vice President, Vice President for Finance or Treasurer be any they are hereby authorized and empowered to take such action, approve the form and content and execute and deliver such documents and do such things as shall be necessary to effectuate the borrowing authorized by this resolution subject, however, in all respects to the powers granted by the Trustees to the Ad Hoc Committee.

Action.....10. A Resolution on the Ratification of the TC Higher Education Services, Inc. Preliminary Servicing Agreement and on the Authorization of the TC Higher Education Services, Inc. Servicing Agreement was approved as follows:

Intention:

To achieve its highest potential as one of America's outstanding educational and research institutions, the University is committed to managing its facilities and real estate in a manner that will maximize service while controlling costs. TC Higher Education Services, Inc. ("TCHES") has proposed to the University a plan for achieving these goals through a servicing agreement pursuant to which TCHES will render a broad range of vital services, including management of the University's properties. The University desires to enter into such an agreement with TCHES. In November 1997, the Trustees adopted a resolution authorizing the University to enter into such an agreement, with such changes to the proposed terms thereof as the University's Executive Vice President ("EVP") or other appropriate officer approved, and to take such other action with such changes as the EVP or such other appropriate officer deemed advisable, necessary or appropriate. Since the November 1997 resolution, the terms of the agreement have undergone certain revisions, including, inter alia (a) restructuring the original ten year term into a one year preliminary agreement (the "Preliminary Agreement") followed by a nine year agreement (the "Nine Year Agreement") to allow the University to obtain a ruling from the U.S. Internal Revenue Service concerning the federal tax consequences of entering into the Nine Year Agreement, and (b) rescheduling TCHES's payment to the University of \$26,000,000 from

the beginning of the original ten year term to the beginning of the Nine Year Agreement. The University and TCHES executed the Preliminary Agreement, which anticipates the execution of the Nine Year Agreement upon the University's receipt of a satisfactory tax ruling.

RESOLVED, that the EVP's negotiation, execution, and consummation of the Preliminary Agreement and all other actions taken by the EVP or other appropriate officer prior to the date hereof concerning the transaction contemplated by the University, including, without limitation, all actions take with respect to the Preliminary Agreement be, and the same hereby are, approved and ratified and shall be deemed to have been taken with the full and proper authorization of the Trustees.

FURTHER RESOLVED, that upon receipt of a satisfactory tax ruling, the execution by the EVP and implementation of the Nine Year Agreement or of such other agreement and documents as may be necessary or desirable to accommodate the tax ruling or the University's interests, with such changes as the EVP or other appropriate officer approves (such approval to be evidenced conclusively by the execution and delivery of the Nine Year Agreement or such other agreement and of all documents relating thereto on behalf of the University), are authorized.

C. Development - Mr. Palmer

Reporting on behalf of the chair, Mr. Russell Palmer noted that at the mid-year point, Penn's subscriptions are at \$152 million, an increase of 47% over last year's numbers and \$12 million higher than projected at this time. Receipts are at \$106 million, an increase of 19% over the same period of time last year. Mr. Palmer remarked that in December 1997 alone, receipts were received for \$44.5 million--a particularly stellar performance. Relative to the *Agenda for Excellence* initiatives, 52 donors have each pledged \$1 million or more for a total of \$180 million to date.

As a result of the recent financial aid developments at Princeton, Yale, and Stanford, the Development Committee will be placing special emphasis on fundraising for financial aid in the increasingly competitive environment of higher education. Thus far, \$15.5 million has been raised this year toward the FY98 goal of \$20 million, and \$35 million has been raised toward the initiative goal of \$200 million.

On the subject of endowed chairs, the Committee heard from Deans Farrington, Fuhrman, and Preston about the need for chairs in their respective schools and adopted an informal, but straightforward, slogan: "We Need Chairs." Each of the deans maintained that if Penn's individual schools--and the University as a whole--are to continue to improve their rankings, faculty must continually be strengthened, and endowed chairs are an absolute necessity in recruiting and keeping the best faculty at Penn. Mr. Palmer stated that Penn has signed up nine *Agenda for Excellence* chairs, but there is a need for 116 more.

Finally, the Committee received a report on the Penn Fund Milestone Reunion Programs. In general, Mr. Palmer characterized the meeting as "upbeat and enthusiastic."

D. External Affairs - Mrs. Schaeffer

Mrs. Schaeffer, reporting on behalf of Mr. Lauder, stated that the External Affairs Committee used a portion of its meeting time yesterday listening to the University administration, the Penn Consumer Alliance, and the University City Vendors Alliance discuss the proposed vending ordinance for University City that is seeking to regulate vending on the streets and sidewalks surrounding the campus. At this time, the vending ordinance is a matter for discussion by City Council, and public hearings will be held prior to the vote. The External Affairs Committee encourages both sides to engage in further discussion on the Fresh Air Food Plazas that will be built on University property.

The Committee discussed the communications strategy used in presenting the findings of the panel asked by the Provost to examine all aspects of the Mitch Marrow eligibility case. The University administration was proactive in reporting the panel's findings, not only to the Ivy League and the NCAA but to both the campus community and to the news organizations that had followed the case. In addition, the Committee discussed the communications strategy used in presenting the findings of the Department of Education's year-long review of the University's crime statistics reporting. The University administration also was proactive in reporting these findings to both the campus community and, once again, to news organizations that had followed the review process. Mrs. Schaeffer commented that the Committee and the Trustees appreciate the candor and openness in which the University has communicated the findings in both of these instances.

Mrs. Schaeffer stated that the Committee was advised that the broadcasting license for WXPB-FM, the University's radio station, will expire on August 1, 1998. The University is required to file an application with the FCC no later than April 1, 1998, and no problems with the license renewal are expected.

Regarding the University's interaction with federal and state government, the Committee learned that Penn and other universities within the Commonwealth will hold a Congressional luncheon for the Pennsylvania delegation on March 4, 1998; the luncheon will focus on federally-funded basic research in the Commonwealth and how the funds are absolutely vital to the state economy. Penn is also particularly interested in other pending legislation, including the reauthorization of the Higher Education Act. Mrs. Schaeffer reported that the University has submitted its FY99 Appropriation request to the Commonwealth of \$36.9 million, a 4% increase over the current fiscal year. The figure includes \$31.4 million for the School of Veterinary Medicine, \$4.4 million for medical instruction, and \$1.1 million for dental clinics.

E. Facilities and Campus Planning - Mr. Shapiro

Mr. Shapiro reported on behalf of Mr. Tanenbaum. He stated that the Committee met on Wednesday evening and reviewed two projects currently under development. The first is the construction of a new chiller plant to be known as Mod VII; at the meeting, the Office of Facilities Management responded to concerns that were voiced upon initial review of the plans several months ago. The Committee agreed that the proposed Mod VII site, a section of Murphy Field, and the plant size were well-conceived and responsive to needs for possible future growth

and/or increased capacity. The Committee also reviewed plans for the expansion and renovation of the Annenberg School; the plans were applauded by the Committee. Mr. Shapiro remarked that the Committee did not have any action to recommend at this meeting.

F. Investment Board - Mr. Neff

Mr. John Neff commented that in the transition from trustee management of the investment portfolio to the "more-traditional" management by a broad range of investment advisers, the Investment Board has undertaken to shore up the skill set and skill level of the University's Investment Office. Mr. Neff stated that Mr. Landis Zimmerman has assumed leadership of the office and noted his excellent credentials in both the private and not-for-profit sectors; Mr. Zimmerman enjoys the utmost confidence of Drs. Rodin and Vagelos, Mr. Miller, Mr. Neff, and the remainder of the Investment Board.

Overall, the total market value of the Associated Investments Fund (AIF) stands currently at \$2.7 billion, and Mr. Neff remarked that the domestic equities portion of the portfolio is at 44%, a good deal smaller than the 58% during the late 1970s. He noted that much of this is a result of moving some 17% of the University's equities investments overseas. As such, the University's total equity allocation is presently at 61%. Fixed income securities have been decreased from 38% to 18% since 1979, with the difference being largely invested in high yield securities, now at 11% of the portfolio. Mr. Neff said that the greatest challenge of today's investment market is the extended--or overvalued--level of the U.S. market at 23 times earnings and a 1.5% yield. During this time of management transition, investment performance has been "lackluster," with return over the past six months at 5% versus 5.3% on the composite index; in calendar 1997, the University's total investment return was 18.1% versus 19.5% on the composite index. Mr. Neff pointed out "the most telling figure" on the summary chart was the S&P 500 stock average for the last 18 years which has increased 17.1% annually; he reiterated that this level of growth is "clearly not sustainable." Given the backdrop of the investment market, Mr. Neff posed that the central question facing the Investment Board was whether Penn should have a greater cash position than the current 3%.

F. Neighborhood Initiatives - Mr. Casellas

Mr. Casellas reported that yesterday the Committee heard updates on the University's initiatives and progress in West Philadelphia since its first meeting in October. Mr. Casellas noted that the University City District's efforts to make the surrounding community cleaner and safer have been successful thus far, projects are in progress to encourage more home ownership in West Philadelphia, and planning for the continued development of the commercial corridor on 40th Street is on target. In addition, the Committee received an update on the Sansom Common project, and specifically on the progress made in leveraging the University's resources to support economic opportunities for minority-owned and women-owned businesses, as well as the creation of a skills-development and training program. The Committee discussed the ongoing work by University faculty and students with teachers and pupils in a number of West Philadelphia public schools. Mr. Casellas remarked that the Committee concluded its discussion considering the contributions that the Committee can make in helping to locate financial and other resources needed to maintain and expand these community revitalization efforts.

Dr. Vagelos commented that the work of the Neighborhood Initiatives Committee and the University's West Philadelphia initiatives is of the utmost importance to the well-being of the University, and he was delighted with the progress thus far.

V. Appointments to Overseer and Other Boards

Action.....1. A Resolution on Appointment of Board of Managers of the Wistar Institute was approved as follows:

RESOLVED, that the following individuals be appointed for one-year terms to the Board of Managers of the Wistar Institute, effective February 20, 1998:

Charles L. Andes; Vincent G. Bell, Jr.; Thomas Peter Bennett, Ph.D.; Ian J. Berg; Robert S. Blank; Ira Brind; David L. Cohen; Barry S. Cooperman; Ph.D.; Harold M. Davis; Peter C. Doherty; Robert A. Fox; Roger S. Hillas; James N. Ihle; William N. Kelley, M.D.; Hilary Koprowski, M.D.; Faye S. Oliveri; Ruth Patrick, Ph.D.; Seymour S. Preston III; Donald Vail Rhoads, M.D.; Robert H. Rock; Gerald B. Rorer; Adele K. Schaeffer; Edward Sickles; Doris Taxin; Kevin M. Tucker; and David V. Wachs.

Action.....2. A Resolution on Appointment of Della Clark to the Board of Overseers of the University of Pennsylvania Museum of Archaeology and Anthropology was approved as follows:

RESOLVED, that Della Clark be appointed to the Board of Overseers of the University Museum of Archaeology and Anthropology for a three-year term, effective February 20, 1998.

Action.....3. A Resolution on Appointments of Robert J. Hurst and William L. Mack to the Board of Overseers of the Wharton School was approved as follows:

RESOLVED, that Robert J. Hurst and William L. Mack be appointed to the Board of Overseers of the Wharton School for a three-year term, effective February 20, 1998.

Action.....4. A Resolution on Appointment of James A. Kelly to the Board of Overseers of the Graduate School of Education was approved as follows:

RESOLVED, that James A. Kelly be appointed to the Board of Overseers of the Graduate School of Education for a three-year term, effective February 20, 1998.

There being no further business to come before the board, the meeting was adjourned at 3:00 p.m.

Respectfully submitted,

Barbara J. Lowery
Interim Secretary of the University