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

September 15, 1998

A meeting of the Executive Committee of the Trustees of the University of Pennsylvania was convened at 2:10 p.m., Tuesday, September 15, 1998, in the Wharton Dean's Conference Room, Suite 1020, Steinberg Hall-Dietrich Hall, 3620 Locust Walk. Trustees present were Judith Roth Berkowitz, Gilbert Casellas, Susan Catherwood, Robert Fox, Elsie Sterling Howard, Donald Langenberg, Andrea Mitchell, James Riepe, Judith Rodin (ex officio), Myles Tanenbaum, and P. Roy Vagelos (chair). Others attending included Michael Burton, Caroline Ford, John A. Fry, Constance C. Goodman, Jason E. Horger, William N. Kelley, Rosemary McManus, Edward Sherwin, Duncan Van Dusen, and Michael Wachter.

I. Call to Order - Dr. Vagelos

A. The minutes of the meeting of May 1, 1998 were approved as distributed.

II. President's Report - Dr. Rodin

A. Comments

President Judith Rodin reported that a spectacular Convocation was held last week to welcome the most talented Penn class to campus. She noted that the qualifications and achievements of the Class of 2002 reflects Penn's enhanced reputation among its peers, and wonderful things are expected from the Class.

The president also noted that the library renovations are impressive, user-friendly, technologically modern, and, in particular, a clear and worthy investment in the University's future.

She updated the Executive Committee on the progress of work on the six Agenda for Excellence strategic initiatives. In particular, the first committee was appointed this summer under the umbrella of Life Science, Technology, and Policy, a group on cognitive science chaired by Dr. Robert L. Barchi, who is chair of the Departments of Neurology and Neuroscience. The president explained that cognitive neuroscience is a dynamic intersection of a number of disciplines--most notably biology, neurology and psychology--and the University has a group of faculty from across the University working on the venture; she stated that Penn can play the leadership role in this new multidisciplinary field.

Finally, President Rodin remarked that the opening of Sansom Common was a triumph. Myles Tanenbaum, chair of the Trustees' Facilities and Campus Planning Committee, represented
the trustees, and his remarks were welcomed warmly by the audience. The president deemed the Bookstore "a world-class complex for a world-class University," and she thanked everyone for their critical role in bringing the project to fruition.

B. Academic Report - Dr. Wachter

1. Comments

Interim Provost Michael Wachter reported on the successful start of the inaugural year of the comprehensive College House System. The system comprises 12 college houses, fully staffed and led by 12 Faculty Masters, seven of whom are new, and all of whom are members of the standing faculty. The college houses are now more full than the dorms used to be. The programs offer an unprecedented level of academic support in residence, and provide many services 24 hours a day, seven days a week, in subjects including math, writing, and research. In addition, a talented group of students serves as Information Technology Assistants (ITAs) to provide computer support and technical assistance to their peers in the College Houses. The provost noted that the College Houses already are very much a part of the Penn landscape, with New Student Orientation being built around the College Houses, and, just last week, the Class of 2002 marched down Locust Walk towards Convocation beneath their College House banners. Dr. Wachter stated that there was close to 100% student participation in Freshman Convocation. Under Professor David Brownlee's leadership, and with the help of talented and dedicated Penn students, faculty, and staff, Penn's College Houses are off to an auspicious start, providing more and better services to Penn undergraduates.

The provost announced that progress was made over the summer with one of the distributed learning initiatives. As was announced last semester, the University and Caliber Learning Network in Baltimore entered into an agreement to offer a series of non-degree, interactive business courses with the Aresty Institute of Executive Education of the Wharton School. The courses are aimed at middle managers and technical professionals who face increasing demands for high-quality business knowledge and cannot afford the time and travel associated with traditional campus-based programs. Taught by Wharton professors, Wharton direct courses will be delivered to the Caliber Learning Network Centers in more than thirty locations across the United States, from Cherry Hill to Seattle. The first course, "Building a Business Case," is a six-week program which begins this month; the course will be offered again in November 1998, and there are 143 students already enrolled for the first session. Provost Wachter stated that at least one other distributed learning initiative will be announced shortly.

Finally, Interim Provost Wachter reported that the external review report for the Graduate School of Education has now been filed. He noted that two schools will be reviewed this academic semester: the School of Engineering and Applied Science and the Law School. The SEAS External Review Committee will be chaired by Jared Cohon, President of Carnegie Mellon University, and the Law School External Review Committee will be led by Anthony Kronman, Dean of Yale Law School. External reviews, which evaluate and update a school's strategic
plans, have been working exceedingly well and are making strategic planning at Penn a real and valuable experience.

**Action**

2. The provost introduced and asked for approval of a Resolution on Faculty Appointments and Promotions printed at pp. 1-39 of the meeting book, which was approved.

C. **Financial Report - Mr. Fry**

Executive Vice President John Fry presented a preliminary financial report for FY 98, since the auditors were still "in the field," and the audit was not yet complete. In spite of this, Mr. Fry noted that he did not expect any significant differences, based on these results. Results show that the University, excluding the Health Services Component, increased its net assets by $465 million this year, to a total of $3.874 billion during FY 98. Most of the increase was the result of non-operating contributions, investment income, and gains reported on investments over the fiscal year. Since June 30, 1997, the University also has recorded significant net increases in contributions receivable and plant assets, increases of 81% and 18%, respectively. At June 30, cash and cash equivalents totaled almost $225 million, an increase of 92% since the beginning of the fiscal year. Most of the increase reflects the receipt of proceeds from the $200 million PHEFA Series 98 Bonds which were issued in January 1998. For FY 98, the operating revenue increased 8.2% over FY 97. Tuition and fees, net of student aid, increased 6% from FY 97. The University also had significant increases in revenue derived from sponsored programs and contributions. Sponsored program revenue increased almost 15% to a total of over $355 million for FY 98. The University recorded an increase of over 80% combined operating and non-operating contributions from FY 97 to FY 98. Overall expenditures increased 10.4%, primarily a result of sponsored research activities. Mr. Fry remarked that there have been no significant deviations from planned budget performances from any of the schools or resource centers.

Mr. Fry reported that for the Health Services Component, operating revenue totaled $1.472 billion, an increase of 3.3% over FY 97, and the Health Services Component had an excess of expenses over revenue of $41.1 million for FY 98.

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

Dr. William N. Kelley announced that Shore Memorial Health System has joined the University of Pennsylvania Health System (UPHS) as a long-term affiliate. In addition, the five hospitals of Catholic Health Initiatives, Mid-Atlantic, also have joined the Health System. Dr. Kelley noted that these additional members of the UPHS include not only the total of the six hospitals but also the attending primary-care physicians and sub-specialists of those hospitals. Secondly, Dr. Kelley commented that the Health System Executive Committee is recommending to the Trustees' Executive Committee the appointment of individuals to the Board of Franklin Specialty Physicians of the UPHS, thus formalizing the Health System's sub-specialty network for the future. He also reported that *U.S. News and World Report* ranked the Hospital of the University of Pennsylvania (HUP) as the 11th best hospital in the country; HUP thus achieved "Honor Roll" status again this year. Dr. Kelley added that the ranking was in comparison to 7,000 other hospitals in the U.S.
1. Dr. Kelley introduced a Resolution on Amendment to the Bylaws of the University of Pennsylvania Health System, which was moved, seconded, and approved as follows:

Intention:

In accordance with Article 9.1 of the Bylaws of the Trustee Board of the University of Pennsylvania Health System, the Executive Committee of the Health System Trustee Board has conducted its annual review of these Bylaws. The Executive Committee has concluded that certain revisions are required to make the Bylaws consistent with changes within the Health System and University, as set forth below:

RESOLVED that, subject to the approval of the Trustee Board of the University of Pennsylvania, the Bylaws of the Trustee Board of the University of Pennsylvania Health System are amended and revised to reflect the current names of the Audit Subcommittee of the Executive Committee of the Health System Board and of the Audit Committee of the University Trustee Board.

ACCORDINGLY, IT IS HEREBY:

RESOLVED that the Bylaws of the Trustee Board of the University of Pennsylvania Health System are amended and revised as more particularly set forth below. (Revisions are indicated by bracketed and shaded print (for additions) or black-lined type (for deletions)):

4.2.4.6 Audit [and Compliance] Subcommittee.

4.2.4.6.1 Authority. The Audit [and Compliance] Subcommittee shall be a standing subcommittee of the Executive Committee of the Health System Board and shall report to that Committee and to the Audit [and Compliance] Committee of the University Trustee Board. The Subcommittee shall oversee the internal control activities within the Health System to assure compliance with University policies and internal control processes, and sound fiscal practices. The Audit [and Compliance] Subcommittee shall meet at least twice a year.

III. Trustee Committee Reports

A. Budget and Finance Report - Mr. Fox

Action........ 1. A Resolution on Funding Required for Sansom Common Phase I and Phase II was approved as follows:

Intention:
The University intends to include in the scope of work for Sansom Common (1) the Faculty Club, which will be relocated to the Inn at Penn (2) the build-out of the northwest corner of 37th and Sansom to accommodate the Faculty Club program and needs for conference rooms and ballroom storage, (3) the new street which will bisect the Graduate Towers and become the automobile entrance for the Inn at Penn, and which will be known as Steve Murray’s Way and (4) and additional landscaping for the new street and the reworking of the parking lot at the southeast corner of 36th and Sansom.

Faculty Club
During the planning for the Inn at Penn, the University decided that moving the Faculty Club functions to the Inn made sense from both a financial and operational perspective, and a preliminary plan and budget was proposed. We then engaged the Faculty Club Board of Governors and Faculty Senate and sought advice from the Trustees’ Committee on Facilities and Campus Planning on the Faculty Club design and program. It became clear that the early versions of the Club design did not reflect what had been envisioned by the Faculty. It was necessary to provide additional seating capacity, upgrade the interior finishes, and redesign the kitchen in order to attain the desired amount of space and functionality. The increase to the Faculty Club project cost is a direct result of the kitchen redesign, increased costs of the interior finishes, and the extensive architectural and interior redesign work required.

Northwest Corner Addition 37th and Sansom
The northwest corner of Sansom Common had been planned as a future building site to expand Phase I of the project. Zoning approval had been acquired for up to three stories of building shell at this location. The original plans had called for a temporary parking lot to be used on an interim basis. The decision to incorporate the Faculty Club into the Inn, the identification of strong retail opportunities in the northwest corner, and the need for additional storage for the ballroom and additional conference rooms, led us to want to develop the site immediately.

Steve Murray’s Way
Designed at the main automobile entry to the Inn, the new street will replace the deteriorated garage and plaza that the University had planned to demolish due to structural problems. Furthermore, it opens up the long-term possibility of new retail and residential structures and new entrances to Sansom Place (formerly the Graduate Towers), thereby extending the new Sansom Common streetscape through the middle of a key central block. In June 1998, the Trustees approved a memorial resolution to name the new street “Steve Murray’s Way.”

Budget Summary
In June 1997, the Trustees approved a project budget estimated at $73,000,000 based on bids. These project scope additions (Phase I and II) are estimated to increase the overall project cost by $17,255,300, to approximately $90,000,000.

The scope additions to Phase I of the project include:
Phase II anticipated costs include the following:

Steve Murray’s Way $6,331,800
Franklin Annex Building Parking Lot Improvements $ 500,000

These additional costs will be paid for by a University loan to be repaid with income generated by Sansom Common, deferred maintenance funding to handle the demolition of the existing plaza and garage and construction of the new road, and capital reserves from the Campus Services budget. Additional funding sources include contributions from Barnes & Noble for the Bookstore FFE and the Business Services reserve for the Computer Connection fit-out.

RESOLVED, that the Sansom Common project (incorporating the Faculty Club, Steve Murray’s Way and Northwest Corner addition), now estimated to cost approximately $90,000,000 be and the same hereby is approved and that the Executive Vice President or other appropriate officers of the University be and hereby are authorized to take such actions, execute such contracts and incur such expenses and obligation – not, however, in excess of 110 percent of these revised estimated costs as presented to the Budget and Finance Committee – as may in their judgment be necessary or desirable to accomplish the purpose of this resolution.

Action........... 2. A Resolution on the School of Veterinary Medicine Rosenthal Building – 4th Floor Renovation was approved as follows:

Intention:

The School of Veterinary Medicine intends to renovate the 4th floor labs. This project will include new casework and associated heating/ventilation/air conditioning systems. It also includes a new rooftop air handling and heat recovery unit to service the 2nd, 3rd, and 4th floors. The units will provide 100 percent outside air and increased efficiency. The initiative meets the need to improve the administrative functions as well as research and teaching objectives of the school. The project is estimated to cost $1,461,330 and will be funded by the University’s facilities renewal (deferred maintenance) program, research and facilities development fund, School of Veterinary Medicine capital funding transfer, and internal capital project loan.
RESOLVED, that the School of Veterinary Medicine Project estimated to cost $1,461,330, 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 to Increase Letter of Credit for Workers’ Compensation Insurance was approved as follows:

Intention:

The Commonwealth of Pennsylvania requires that corporations obtain workers’ compensation insurance or secure that liability with a letter of credit or surety bond. The administration has determined that self-insurance with a letter of credit is the most cost effective manner of managing the workers’ compensation liability. The Trustees have previously authorized the University to obtain such letter of credit. The merger of Pennsylvania Hospital and Phoenixville Hospital into the University’s self-insurance plan has necessitated an increase in the letter of credit from $28,200,000 to $41,200,000. The administration has acquired an irrevocable, unsecured letter of credit in the amount of $41,200,000 in favor of the Commonwealth of Pennsylvania Bureau of Workers’ Compensation. The letter of credit renews automatically year-to-year unless canceled.

RESOLVED, that the Executive Vice President, Vice President for Finance, or Treasurer of the University is hereby authorized to request and cause the issuance of irrevocable, unsecured letters of credit by such financial institutions as such officers deem acceptable, in amounts up to $41,200,000, for the account of the University and for the benefit of the Commonwealth of Pennsylvania Bureau of Workers’ Compensation, together with any amendments, extensions and renewals of such letters of credit, or change in financial institutions issuing such letters, as such officers deem appropriate, and to take such action and to execute and deliver any and all agreements, documents and instruments required by such financial institutions in connection therewith, and that any actions heretofore taken by said officers in furtherance of the purposes of this resolution are hereby ratified and affirmed.

Action......... 4.  A Resolution Authorizing the Sale of 4017 Garrett Road, Upper Darby Township, Delaware County, Pennsylvania was approved as follows:

Intention:
In 1997, the University received as a gift the property located at 4017 Garrett Road in Upper Darby Township, Pennsylvania (the “Property”). The Property comprises approximately 9,900 square feet and includes a structure having a total of 2,688 square feet that is currently used as a doctor’s office and two apartments. The University has now received an offer to purchase the Property for a price of $120,000. Net proceeds from the sale are designated for the Medical Center.

RESOLVED, that the Executive Vice President or any appropriate officer of the University be and they hereby are authorized to proceed with the sale and conveyance of the Property for a sale price of $120,000 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........5. A Resolution on the Entry of New Members into the Obligated Group under the Master Indenture and Other Related Matters 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 Services Revenue Bonds, Series A of 1994, and $90,000,000 of its The Trustees of the University of Pennsylvania Services Revenue Bonds, Adjustable Convertible Extendable Securities – ACES℠, Series B of 1994, on April 2, 1996, issued $333,445,000 of its The Trustees of the University of Pennsylvania Services Revenue Bonds, Series A of 1996, $114,990,000 of its The Trustees of the University of Pennsylvania Services Revenue Bonds, Series B of 1996, and $80,000,000 of its The Trustees of the University of Pennsylvania Services Revenue Bonds, Series C of 1996, and on August 13, 1998, issued $38,750,000 of its The Trustees of the University of Pennsylvania Services Revenue Bonds, Series A of 1998, and $121,600,000 of its The Trustees of the University of Pennsylvania Services Revenue Bonds, Series B of 1998 (all 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 (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, Pennsylvania Hospital of the University of Pennsylvania Health System (“Pennsylvania Hospital”) which became an obligated party under the Master Indenture on August 13, 1998, and Phoenixville Hospital of the University of Pennsylvania Health System (“Phoenixville Hospital”) which also became an obligated party under the Master
Indenture on August 13, 1998. PMC, Pennsylvania Hospital, and Phoenixville Hospital are jointly and severally liable for any debt incurred under the Master Indenture together with Health Services.

The Health System administration has determined that Clinical Care Associates of the University of Pennsylvania Health System (“CCA”) and the operating designated unit of the University known as Managed Care/Full Risk Captitation (“Managed Care”) should become members of the obligated group under the Master Indenture together with PMC, Phoenixville Hospital, Pennsylvania Hospital and Health Services.

The Health System Trustees Executive Committee has approved the entry by CCA and Managed Care into the obligated group under the Master Indenture together with PMC, Phoenixville Hospital, Pennsylvania Hospital and Health Services and the incurrence of debt by CCA through its entry into the obligated group under the Master Indenture.

RESOLVED, that the Trustees of the University hereby authorize and approve the entry by CCA and Managed Care into the obligated group under the Master Indenture and CCA’s incurrence of indebtedness through its entry into 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, execute and deliver such documents, and do such things as shall be necessary to effectuate the addition of CCA and Managed Care to the obligated group under the Master Indenture authorized by this resolution.

B. Investment Report - Mr. Riepe

Mr. James Riepe reported that since June 30, 1997, the University's endowment had risen from $2.5 billion to approximately $3.0 billion at June 30, 1998. He added that during the year, the Associated Investments Fund increased 13%, which unfortunately lagged the composite index increase, largely because of a large cap growth stock period; this has not been how the endowment funds have been invested over time. Mr. Riepe commented that it has been a "new world" since June 1998, of course with Mr. John Neff’s retirement from the Investment Board, as well as with a marked shift from the S&P's 30% increase over the past fiscal year to a 15% decrease since June. The Investment Board also has been finalizing its internal procedures as it transitions to a multiple manager investment system. Finally, Mr. Riepe commented that the Board was pleased with the internal development of the University's Investment Office.

IV. Overseer and Other Boards

Action.. A. A Resolution for Approval of the Membership of the Trustee Board of Franklin Specialty Physicians of the University of Pennsylvania Health System was approved as follows:
Intention:

On May 1, 1998, the Executive Committee and the Budget and Finance Committee of the University Trustee Board approved the University of Pennsylvania Health System ("UPHS") strategy for subspecialty networks, which approval included the creation of a subsidiary of the Trustees of the University of Pennsylvania (the "Trustees"). As a result, Franklin Specialty Physicians ("FSP") was incorporated on June 25, 1998, under the Pennsylvania Nonprofit Corporate Law of 1988.

The Articles of Incorporation state that FSP shall have a single member, which was specified by the incorporator of FSP to be the Trustees. Pursuant to Section 4.2 of the Bylaws of the Trustee Board of UPHS, the Executive Committee of the UPHS Trustee Board shall have the authority to exercise all powers and authority of the Trustees acting in its capacity as the sole corporate member of separate legal entities created as components of UPHS, except as otherwise stated.

The UPHS Executive Committee has identified the following seven (7) individuals to serve on the Board of Trustees of FSP and believes that UPHS would benefit greatly by having these individuals assume such positions:

Judith Roth Berkowitz  
I. William Ferniany, Ph.D.  
William N. Kelley, M.D.  
David W. Kennedy, M.D.  
Martha H. Marsh  
Raymond H. Welsh  
John P. Wynne, Jr.

The UPHS Executive Committee has identified Mr. Welsh as the individual to serve as Chair of the FSP Board of Trustees, and believes that UPHS would benefit greatly from having Mr. Welsh assume such a leadership position.

This being the appointment of the initial FSP Board of Trustees and Chair, the Executive Committee of UPHS wishes to obtain approval by the Trustee Board Executive Committee of the University of Pennsylvania.

RESOLVED, that the Executive Committee of the Trustee Board of the University of Pennsylvania approves the appointment of the following individuals to serve on the Franklin Specialty Physician Board of Trustees: Judith Roth Berkowitz; I. William Ferniany, Ph.D.; William N. Kelley, M.D.; David W. Kennedy, M.D.; Martha H. Marsh; Raymond H. Welsh; and John P. Wynne, Jr.; and

FURTHER RESOLVED, that the Executive Committee of the Trustee Board of the University of Pennsylvania approves the appointment of Raymond H. Welsh to serve as the Chair of the Board of Trustees of Franklin Specialty Physicians.
Action........B.    A Resolution on Appointment of Mitchell J. Blutt to the Board of Overseers of the School of Arts and Sciences was approved as follows:

    RESOLVED, that Mitchell J. Blutt, M.D., be appointed to the Board of Overseers of the School for Arts and Sciences for a three-year term, effective September 15, 1998.

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

    RESOLVED, that James L. Kermes be appointed to the Board of Overseers of the Graduate School of Education for a three-year term, effective September 15, 1998.

Action........D.    A Resolution on Appointment of Stanley N. Katz to the Board of Overseers of the University Libraries was approved as follows:

    RESOLVED, that Stanley N. Katz be appointed to the Board of Overseers of the University Libraries for a three-year term, effective September 15, 1998.

Action........E.    A Resolution on Appointment of Edward E. Crutchfield, Jr., to the Board of Overseers of the Wharton School was approved as follows:

    RESOLVED, that Edward E. Crutchfield, Jr., be appointed to the Board of Overseers of the Wharton School for a three-year term, effective September 15, 1998.

There being no further business to come before the meeting, it was adjourned at 2:25 p.m.

Respectfully submitted,

Rosemary McManus
Secretary of the University