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

December 11, 1998

A meeting of the Executive Committee of the Trustees of the University of Pennsylvania was convened at 3:35 p.m., Friday, December 11, 1998, in the Spruce Room, 3rd Floor, The Penn Club of New York, 30 West 44th Street, New York, NY. Trustees present were Judith Roth Berkowitz (via proxy), Gilbert Casellas, Susan Catherwood, Gloria Twine Chisum, Robert Fox, Elsie Sterling Howard (via proxy), Natalie Koether (via proxy), Andrea Mitchell, James Riepe, Judith Rodin (ex officio), Alvin Shoemaker, Saul Steinberg, P. Roy Vagelos (chair), Lawrence Weinbach, and Richard Worley (via proxy). Others attending included Peter Erichsen, John A. Fry, Jason E. Horger, William N. Kelley, Rosemary McManus, Carol Scheman, and Michael Wachter.

I. Call to Order - Dr. Vagelos

A. The minutes of the meeting of September 15, 1998 were approved as distributed.

B. Comments

Chairman P. Roy Vagelos announced that this week Mr. Robert A. Gleason, Jr. (W’61), was appointed by Senator Robert Jubelirer, President Pro Tempore of the Commonwealth of Pennsylvania Senate, to replace Edwin Krawitz as Commonwealth Trustee; Mr. Krawitz retired from the Board of Trustees in October 1998, having reached the statutory age limit of 70. Mr. Gleason is Chairman and CEO of The Gleason Agency, Inc., an insurance company located in Johnstown, PA. Mr. Gleason also has served as Vice President of the University of Pennsylvania Alumni Society and as a member of the School of Veterinary Medicine Board of Overseers.

II. President’s Report - Dr. Rodin

A. Comments

President Judith Rodin was pleased to report that the University recently announced Dr. Robert L. Barchi (Gr’72, M’73) as its next provost. She referred the Committee to the full resolution on page one of the meeting book and asked for approval of the resolution to appoint Dr. Barchi to his new role.

Action.......... 1. A Resolution on the Appointment of Robert L. Barchi as Provost was approved as follows:

RESOLVED, that Dr. Robert L. Barchi be appointed Provost of the University of Pennsylvania, effective February 1, 1999.
The president expressed her and the University's gratitude to Dr. Michael Wachter for his time, energy, wisdom, and good sense that he provided during the time that he served Penn as deputy provost and interim provost. All present at the meeting accorded Dr. Wachter a heartfelt round of applause.

President Rodin announced that Penn recently commenced an increased safety effort in the wake of the attack on a young woman in Steinberg Hall-Dietrich Hall. She explained that the effort entailed a series of projects, including re-identifying those campus buildings which are appropriate for 24-hour use, alarming all doors to prevent their being propped open, requiring identification for all individuals occupying a 24-hour building after 10:00 p.m., etc.

Before concluding her report, President Rodin added that Penn just had concluded its early admissions process, and the Office of Admissions would be sending out 919 admit letters that afternoon, as compared to 780 last year. She noted that the University is admitting a larger portion of the next class through the early admissions process because of the extraordinary depth of the candidate pool. President Rodin remarked that the average SAT scores of the admitted applicants is four points higher than last year's early admission group; the admitted group also includes many excellent athletes. Mr. Shoemaker observed that the overall yield would increase because of the higher number of admitted candidates. The president agreed but commented that Penn's peer institutions are using the same admission percentages, largely because of the strength of the applying students.

B. Academic Report - Dr. Wachter

1. Comments

Interim Provost Michael Wachter reported that the University recently completed its fifth and sixth school external reviews, those of the Law School and the School of Engineering and Applied Science. Dr. Wachter commented that the external reviews, which evaluate and update the schools' strategic plans, have been working exceedingly well; they help to make strategic planning at Penn a "living" experience and assess whether or not Penn is meeting its Agenda for Excellence goals.

Dr. Wachter remarked how much he has enjoyed his three-and-one-half-year tenure as deputy and interim provost. He noted that it was a privilege to serve both the president and the trustees to develop and implement the Agenda for Excellence. Dr. Wachter stated that although he was greatly looking forward to resuming his teaching and research at the Law School, as well as his directorship at the Institute for Law and Economics, he would certainly miss working with the president and the trustees on University priorities. He thanked everyone for making the experience so enjoyable, educational, and challenging.

Action........... 2. The provost introduced and asked for approval of a Resolution on Faculty Appointments and Promotions printed at pp. 2-23 of the meeting book, which was approved.
C. Financial Report - Mr. Fry

Executive Vice President John Fry reported that through the first four months of FY 1999, the University, excluding the Health Services Component, increased its net assets by $37.6 million to a total of $3.93 billion. Most of the increase is the result of non-operating activities, including contributions of $28.5 million and investment income of $5.2 million. The University recorded a net loss on investments of $31.2 million since June 30, 1998, which compares with a net gain on investments of $31.3 million for the first four months of Fiscal Year 1998.

Mr. Fry directed the Committee to the Statement of Financial Position and noted that plant assets, net of depreciation, increased over $54 million; the increase is primarily the result of expenditures incurred for the Biomedical Research Buildings II/III, Perelman Quadrangle, and Sansom Common. The increase in accounts receivable of approximately $30 million is attributable to student receivables, which Mr. Fry noted is historically higher in mid-semester than at fiscal year end.

Through October 1998, operating revenue increased over 5.6% over the comparable period in FY 1998. Overall, tuition and fees increased 5.3%, reflecting both the tuition rate increase and a slight increase in the number of students enrolled. The University continues to see significant increases in revenue derived from sponsored programs and contributions. Sponsored program revenue increased over 17% over the comparable four month period in FY 98 to a total of almost $88 million. The increase reflects new awards received during FY 98, as well as an increase that Penn continues to experience for the fiscal year. The University also recorded an increase of approximately 17% in combined operating and non-operating contributions over the previous year. Overall, expenditures increased 7.3%, primarily the result of the increase in sponsored program activities. Mr. Fry remarked that the University is not projecting any significant deviations from planned budgeted performance for any of the University's schools or resource centers under the budgeting principles of Responsibility Center Management.

Regarding the Health System - Health Services Component, Mr. Fry reported that through October 1998, the Health Services Component of the Health System had a gain in Earnings Before Interest Depreciation and Amortization (EBITDA) of $23.7 million, which was $2.4 million better than budget. After adjusting for depreciation, amortization and interest expense, the Health Services Component had a loss from operations of $25.1 million for the four months, which was $1.1 million better than budget. After accounting for non-operating revenue and non-recurring expenses, the Health Services Component had an overall deficit of $5.4 million, which was $7.1 million better than budget.

D. Health System Report - Dr. Kelley

Dr. William N. Kelley remarked that he and the School of Medicine were especially proud to provide the next provost of the University of Pennsylvania. He added that Dr. Barchi was a superb choice for the post, and he is eagerly anticipating working with Dr. Barchi in his new role as chief academic officer for the University. Also, Dr. Kelley noted the recent arrival of the for-profit health care system, Tenet Health Care, into the UPHS market, and he is looking forward to competing richly with Tenet over the coming years.
III. Trustee Committee Reports

A. Budget and Finance Report - Mr. Fox

Action............. 1. A Resolution on the Gateway Building for the School of Dental Medicine was approved as follows:

Intention:

The School of Dental Medicine wishes to proceed with the construction of a new dental facility on 40th Street between Locust Street and the former Irving Street. This will be a new three-story brick building with a partial fourth floor for mechanical equipment. The Gateway Building will provide a central grand atrium entrance to the Dental School linking together the Evans Building and the Levy Center for Oral Health. The first floor will be comprised of an atrium lobby, a boardroom, a café, an oral surgery suite, and retail space on the Locust Street corner. The second floor will house the oral medicine suite. The third floor will house the Penn Dental Care Center. The basement will provide shell space for the instrument management system as well as mechanical equipment. This project is estimated to cost $22.8 million and will be paid for by gifts, grants, and a University Loan. The Trustees previously approved $1.7 million of this amount for architectural and engineering fees.

RESOLVED, that the construction of the School of Dental Medicine Gateway Building, estimated to cost $22.8 million, be and the same hereby approved and that the Executive Vice President or other appropriate officers of the University be and they hereby are authorized to take actions, execute such contracts and incur such expenses and obligations – not, however, in excess of 110 percent 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 the Guaranteed Mortgage Program was approved as follows:

Intention:

Since 1965, the University, through agreements with certain financial institutions, has offered to eligible employees mortgages, guaranteed by the University, for residential properties in neighboring West Philadelphia and western Center City. The University Guaranteed Mortgage Program has been very successful; over 1,700 mortgages have been placed with only four defaults.

The Trustees have previously authorized up to $30,000,000 for the University Guaranteed Mortgage Program of which $27,500,000 is presently committed. To facilitate the
ongoing University Guaranteed Mortgage Program, the University requests that the authorization be increased to $35,000,000.

RESOLVED, that the authorized amount of outstanding mortgages for the University Guaranteed Mortgage Program be increased from $30,000,000 to $35,000,000.

Action.......... 3. A Resolution on Providing a Limited Guaranty to Secure Certain Bonds Issued by Pennsylvania Higher Educational Facilities Authority was approved as follows:

Intention:

In 1968, the Pennsylvania Higher Educational Facilities Authority (the “Authority”) issued its University of Pennsylvania Revenue Bonds of 1968 (the “1968 Bonds”) to finance various capital projects for the University. To provide security for the 1968 Bonds, a reserve fund (the “Reserve Fund”) was created pursuant to the Authority’s Indenture dated as of August 1, 1968 (the “Indenture”) in the amount of approximately $3,500,000. Besides securing the 1968 Bonds, the Reserve Fund also secures, through May 1, 2008, $20,400,000 principal amount of the Authority’s College Revenue Bonds, 14th Series (the “14th Series Bonds”) which is a pooled bond issue that financed capital projects for other colleges and universities including the University of Pennsylvania. The Indenture specifies that the Reserve Fund is to be drawn upon: (a) to pay debt service on the 1968 Bonds if the University fails to provide funds for such purpose, or (b) in the event the colleges and universities who have borrowed the proceeds of the 14th Series Bonds fail to make required repayments of such borrowings.

On February 20, 1998, the Trustees of the University authorized the refunding of the 1968 Bonds to reduce interest costs. In connection with any refunding of the 1968 Bonds, the administration of the University desires to eliminate the Reserve Fund and apply the moneys therein to other University projects. The Reserve Fund, however, cannot be eliminated in conjunction with such a refunding because it also secures the 14th Series Bonds. The Authority also is considering a refunding of the 14th Series Bonds and the insurer insuring the payment of principal and interest on the 14th Series Bonds that is expected to insure the replacement bonds, has indicated that it would permit the elimination of the Reserve Fund if the University provides a guaranty to the holders of any bonds issued to refund (the “Refunding Bonds”) the 14th Series Bonds in an amount equal to the amount on deposit in the Reserve Fund. The bond insurer also has indicated that it will not insure the Refunding Bonds absent the guaranty and bond insurance is required to make a refunding of the 14th Series Bonds feasible.

To date, the Reserve Fund has never been drawn upon for either the 1968 Bonds or the 14th Series Bonds. The obligation of the University with respect to a guaranty would be limited in principal amount to the amount currently in the Reserve Fund or approximately $3,500,000. In the event of a drawing against the guaranty, the University’s liability
would be limited to the face amount of the guaranty or approximately $3,500,000 and no more. Also, if there is a drawing upon the guaranty and the University was repaid in whole or in part for the amount of the drawing, the guaranty would be reinstated to the extent of the reimbursement. The guaranty would terminate on May 1, 2008, which also is the date when the Reserve Fund no longer secures the 14th Series Bonds or any bonds issued in replacement thereof.

Because the University has projects to which the proceeds of the Reserve Fund could be applied and because there has never been a drawing upon the Reserve Fund, the administration recommends that the University enter into a guaranty agreement in favor of the Bond Trustee for the Refunding Bonds in the amount of approximately $3,500,000.

RESOLVED, that the University is hereby authorized to provide to the Bond Trustee for the Refunding Bonds issued by the Authority in replacement for the 14th Series Bonds, a guaranty of the payment of debt service on the Refunding Bonds in an amount of up to $3,500,000 (subject to decrease to the extent of drawings and reinstatement to the extent of repayments) for a term not to extend beyond May 1, 2008 provided; however, that said guaranty shall not take effect or be delivered unless the 1968 Bonds are refunded, the Reserve Fund securing the 1968 Bonds is released and available for other University uses and the Refunding Bonds are issued to refund the 14th Series Bonds.

FURTHER RESOLVED, that the Executive Vice President, Vice President for Finance or Treasurer be and anyone of them is hereby authorized to approve the form of guaranty, the face amount thereof but not in excess of $3,500,000 and to execute and deliver said guaranty and to take any and all other action in connection therewith for the purposes described above.

Action........... 4. A Resolution Authorizing Specific Projects from the Fiscal Year 1999 Capital Budget Authorization for the University of Pennsylvania Health System – Health Services Component was approved as follows:

Intention:

On June 8, 1998, the Health System Trustee Executive Committee approved the establishment of a Fiscal Year 1999 consolidated UPHS - Health Services Component capital authorization for new capital items with a not-to-exceed amount of $92.1 million. This amount represented the sum total of all entity specific annual depreciation expenses less principal debt service payments plus an estimated $20 million of Pennsylvania Hospital Medicare Depreciation Recapture monies. The itemization of specific projects comprising this capital authorization was deferred until the Fall.

Health System leadership recommends the utilization of $43,121,000 from the Fiscal Year 1999 capital authorization to fund the following items listed below and explained on Exhibit I [attached]. Health System leadership is making every attempt to control and
reduce capital expenditures, consequently, at this time only the most urgent items are being brought forth for approval. Additional items will be brought forth for Trustee approval as circumstances dictate.

A. Recruitment:
   1. Cardiology Practices at HUP and PMC $10,643,000
   2. Booth Practices at PAH 7,000,000
   3. Hematology/Oncology Practice at PAH 1,673,000
   4. OB Chair at PAH 228,000
   $19,544,000

B. Year 2000 Compliance:
   1. Year 2000 Compliance at PAH 9,676,000
   2. Enterprise Radiology Information System Upgrade 1,200,000
   3. Physician Billing System Upgrade for CCA/CPUP 1,167,000
   12,043,000

C. Supplement:
   1. Arteriography System at PHX 200,000

D. Managed Care Information Systems 1,000,000

E. Other Items Less Than $500,000 and Greater Than $100,000 4,334,000

F. Other Items $100,000 or Less 6,000,000

Total Itemized General Authorization $43,121,000

RESOLVED, that these specific capital expenditure requests, recommended by the Trustee Budget and Finance Committee, be and the same is approved and 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.

B. **Investment Report - Mr. Riepe**

Mr. Riepe reported that as of September 30, 1998, the Associated Investments Fund (AIF) was down 8% for the fiscal year to date and down approximately 2% since January 1, 1998. As a result, investment assets declined to $2.8 billion; however, as of November 30, the AIF had increased 8% over the two month period. As such, Mr. Riepe noted that the University was roughly even for the fiscal year, and the total endowment had recovered to over $3 billion. Finally, Mr. Riepe stated that 42-43% of the investment funds are allocated to domestic equities, a bit below the 50% target; however, the University does have a decent cash position, which has been a subject of much discussion for the Investment Board in the recent past.
IV. Overseer and Other Boards

Action.........A. A Resolution on Appointments of the Honorable Harold Berger; John M. Sergey, Jr.; John F. Lehman, Jr.; Peter E. Chance; and Michael D. Zisman to the Board of Overseers of the School of Engineering and Applied Science was approved as follows:

RESOLVED that the Honorable Harold Berger; Mr. John M. Sergey, Jr.; Mr. John F. Lehman, Jr.; Mr. Peter E. Chance; and Dr. Michael D. Zisman be appointed to the Board of Overseers of the School of Engineering and Applied Science for three-year terms, effective December 11, 1998.

Action.........B. A Resolution on Appointment of Joanne Welsh to the Board of Overseers of the School of Social Work was approved as follows:

RESOLVED that Mrs. Joanne Welsh be appointed to the Board of Overseers of the School of Social Work for a three-year term, effective December 11, 1998.

Action.........C. A Resolution on Appointment of Barrie Van Dyck to the University of Pennsylvania Press, Inc., Board of Trustees was approved as follows:

RESOLVED that Ms. Barrie Van Dyck be appointed to the Board of Trustees of the University of Pennsylvania Press, Inc., for a three-year term, effective December 11, 1998.

Action.........D. A Resolution on Appointment of Janet L. Kronfeld to the Advisory Board of the Annenberg Center was approved as follows:

RESOLVED that Ms. Janet L. Kronfeld be appointed to the Advisory Board of the Annenberg Center for a three-year term, effective December 11, 1998.

There being no further business to come before the meeting, it was adjourned at 3:50 p.m.

Respectfully submitted,

Rosemary McManus
Secretary of the University