A meeting of the Executive Committee of the Trustees of the University of Pennsylvania was convened at 2:40 p.m., Thursday, March 18, 1999, in the Sweetbaum Room of the Steinberg Conference Center, 255 South 38th Street. Trustees present were Judith Roth Berkowitz (via proxy), Gil Casellas, Susan Catherwood, Gloria Chisum, Elsie Howard, Natalie Koether (via proxy), Russ Palmer (via proxy), Jim Riepe, Roy Vagelos, and Rich Worley. Others attending included Robert Barchi, Peter Erichsen, John Fry, William N. Kelley, Michael Masch, Rosemary McManus, Judith Rodin (ex officio), and Steven Schutt.

I. Call to Order - Dr. Vagelos

A. The minutes of the meeting of December 11, 1998 were approved as distributed.

II. President's Report - Dr. Rodin

A. Comments

The president reported that she recently met with a number of Penn students, faculty, and staff--as well as a number of distinguished visitors--for Penn's Internet 2 Awareness Day. Working in partnership with other universities and the federal government, the University is taking a leading role in the development of the next generation Internet. The Internet 2 project's mission is to facilitate and coordinate the development, deployment, operation, and technology transfer of advanced, network-based applications and network services to further U.S. leadership in research and higher education. President Rodin expressed that Penn has an outstanding group of technologists focusing intently on how Penn will continue to benefit from the technology revolution.

President Rodin informed the committee that she had been meeting on a regular basis with groups of Penn managers. The president described these sessions as productive, the conversations as frank and lively, and the opportunities to speak directly with employees about her priorities for Penn as important. Some of the issues the managers have raised include community outreach, staff retention, communication between the administration and staff, and the status of research funding at Penn.

In conclusion, President Rodin congratulated Fran Dunphy and Penn’s basketball team for a season full of great memories. She stated that although she was sorry the Quakers did not prevail in the NCAA championship tournament, she was delighted that they had taken the Ivy League title from Princeton and had brought it home to Penn “where it belongs.”

B. Academic Report - Dr. Barchi
Dr. Barchi remarked on several projects being led and coordinated by the Vice Provost for University Life (VPUL). First, Dr. Barchi reported great success with the newly implemented, comprehensive "one-stop" VPUL facility and campus greenspace scheduling systems. He stated that this one-stop system has improved the quality of campus life for Penn students, making it easier for them to expand non-alcoholic social, cultural, and recreational programs on campus. For example, spaces like the newly renovated Veranda on Locust Walk and the VPUL conference facilities in Harnwell College House have drawn an extraordinarily diverse range of excellent student programming.

The provost reported that the VPUL is leading an innovative cultural enrichment effort which is the brainchild of recent alumnus, Mr. Tal Golumb, who is presently working in the President’s office. Thanks to a proposal introduced by Mr. Golumb, the VPUL has launched a major "Penn and Philadelphia" campaign, designed to actively connect Penn undergraduate, graduate, and professional students with the rich and diverse cultural, social, and recreational offerings at Penn and in West Philadelphia, Center City, and throughout the Delaware Valley. The program will link Penn students with the vast cultural resources available in Philadelphia, as well as in our own cultural institutions such as the Annenberg Center and the ICA, through coordinated, collaborative marketing efforts developed by Penn and the City of Philadelphia.

Dr. Barchi announced that Penn has received grants in excess of $1.5 million from the U.S. Department of Education to implement and sustain new college outreach programs for children and adults in West Philadelphia. The purpose of these programs is to encourage financially disadvantaged high school students and adults to attend college. Program services include counseling, college admissions and financial aid application assistance, and family support, among others. Penn has reached an agreement with the Community College of Philadelphia (CCP) to house these new Penn programs and to create additional programs at the West Philadelphia CCP campus at 48th and Chestnut Streets.

Dr. Barchi reported a number of honors recently awarded to Penn faculty members. Dr. Aaron T. Beck, University Professor of Psychiatry and recipient of the 1998 “Lifetime Achievement Award” of the Association for Advancement of Behavior Therapy, was inducted into the Institute of Medicine of the National Academy of Sciences. Considered the father of cognitive psychotherapy, Dr. Beck has achieved worldwide acclaim for his pioneering therapeutic methods in the treatment of depression, anxiety, panic, substance abuse, and personality disorders.

Dr. Barchi noted that the American Association for the Advancement of Science recently elected 288 distinguished members to the status of Fellow, five of whom are Penn faculty members. They include Dr. S. Walter Englander, professor of biochemistry and biophysics, for distinguished contributions to protein and nucleic acid dynamic, including the understanding and use of hydrogen exchange; Dr. Paul Ducheyne, professor of bioengineering, for fundamental materials research and innovative applications for medical prostheses; Dr. Garret A. Fitzgerald, chair of pharmacology and director of the Center for Experimental Therapeutics, for innovative investigation characterizing the biochemistry and functional role of lipid metabolites in health and disease; Dr. Howard Goldfine, professor of microbiology/medicine, for contributions to understanding the structure and function of lipids and membranes of bacteria, including important pathogens; and Dr. David P. Balamuth, associate dean of the School of Arts and
Sciences and professor of physics, for experimental studies of the structure of nuclei lying far from the valley of stability using gamma ray spectroscopy and beams of unstable nuclei.

At the twelfth annual Women of Color luncheon on March 7, four Penn women were honored for their personal and public achievements to enhance the community. This year’s winner of the prestigious Helen O. Dickens Life Time Achievement Award was Orneice Dorsey Leslie, assistant dean of the School of Social Work, for her leadership in advocating change in areas of University life of behalf of all women students, faculty, and staff. Dr. Barchi remarked that in her more than 25 years at Penn, Orneice Dorsey Leslie has served on many University committees and was one of the early proponents for the establishment of an African-American Resource Center, and continues to serve on its Board. Other award recipients included Patricia Andrews, a nurse at Presbyterian Medical Center and a captain in the U.S. Army Corps;Nsenga Burton, an M.A. candidate at the Annenberg School for Communication; and Hema Saragaoani, (C’00), who was the Undergraduate Student Honoree.

Action

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

C. Financial Report - Mr. Fry

Mr. Fry reported that through the first seven months of FY 1999, the University (excluding the Health Services Component) increased its net assets (unrestricted, temporarily restricted and permanently restricted) by $102.6 million to a total of over $4 billion. Most of this increase resulted from non-operating activities, i.e., $88.5 million in contributions to the endowment and various capital projects and $7.1 million of investment income reinvested into endowment principal under the spending rule. These increases are partially offset by a net loss on investments, both realized and unrealized, of $40.8 million since June 30, 1998. Through January 1999, the University recorded an increase in net assets from operating activities of $13.8 million.

As shown on the statement of financial position, plant assets and net of depreciation have increased almost $89 million since June 30, 1998. This increase is primarily the result of capital costs incurred for the Biomedical Research Building II/III, Perelman Quad, Sansom Common, and the Annenberg School renovations. Other items of note include an increase in accounts receivable of approximately $45 million and an increase in deferred income of $134 million since June 30, 1998. The increase in accounts receivable is attributable to student receivables, which are historically higher in mid-year that at fiscal year end, while the deferred income represents tuition fees which will be recognized over the rest of the spring semester.

Through January 1999, operating revenue increased over 9% over the comparable period in FY 1998. Overall, tuition and fee revenue increased 5.2%, reflecting both the tuition rate increase and a slight increase in the number of students enrolled. As reported for the last several months, the University continues to see significant increases in revenue derived from contributions and sponsored programs. Sponsored program revenue increased 21% over the comparable period in FY 1998 to a total of almost $167 million; this increase reflects the continuing trend that the University has seen over the last several years in the number of new sponsored program awards received. The University also recorded an increase of approximately
25% in combined operating and non-operating contributions from FY 1998 to FY 1999. Overall, expenditures increased 10.8%, which is primarily the result of the increased sponsored program activities.

Mr. Fry reported that no significant deviations from planned budgeted performance are projected for any of the University’s schools or resource centers under the budgeting principles of Responsibility Center Management.

Through January 1999, the Health Services Component of the Health System had a gain in Earnings Before Interest Depreciation and Amortization (EBITDA) of $43.5 million, which was $7.6 million better than budget. After adjusting for depreciation, amortization, and interest expense, the Health Services Component had a loss from operations of $42.9 million for the seven months, which was $5.1 million better than budget. After accounting for non-operating revenue, non-recurring expenses, and before the adjustment to fair value, the Health Services Component had an overall deficit of revenue over expenses of $9.9 million, which was $14.3 million better than budget.

E. Health System Report - Dr. Kelley

Dr. Kelley announced the appointments of Dr. Robert D. Martin as Senior Vice President for Finance, Chief Financial Officer, and Treasurer; Mr. Kevin B. Mahoney as Executive Director of Clinical Care Associates; and Mr. Timothy O. Morgan as Executive Director of Pennsylvania Hospital.

III. Trustee Committee Reports

A. Budget and Finance Report – Mrs. Catherwood

Action......... 1. A Resolution on Tuition, Fees, and other Student Charges for Academic Year 1999-2000 was approved as follows:

Intention:

The administration proposes to establish the following tuition, fees and other student charges for Academic Year 1999-2000:

For undergraduates, tuition, fees, room and board will total $31,592. This includes tuition of $21,746, a general fee of $2,026, a technology fee of $458, an average room rate in the residence halls of $4,592, and an average meal plan charge of $2,770. For graduate students, tuition and fees will total $25,216. This includes tuition of $23,670 and a general fee of $1,546. For professional schools, tuition will be determined administratively to reflect the budget requirements of the various schools. The general fee for professional school students will be $1,220.

RESOLVED, that for academic year 1999-2000, total undergraduate charges will be $31,592, including tuition of $21,746, a general fee of $2,026, a technology fee of $458, an average room rate in the residence halls of $4,592, and an average meal plan charge of
$2,770; tuition and fees for graduate students will be $25,216; professional school tuition will be determined administratively to reflect the budget requirements of the various schools and the general fee for professional school students will be $1,220; and part-time tuition and fees rates will be determined administratively and will increase proportionately.

Action............. 2. A Resolution on the Construction of Murphy Baseball Field and the Rehabilitation of Bower Field for the Department of Intercollegiate Athletics was approved as follows:

Intention:

The Department of Recreation and Intercollegiate Athletics wishes to proceed with the design and construction of a baseball field at Murphy Field and the rehabilitation of Bower Field. The construction of Murphy Field will provide the University with a new NCAA field, associated seating, and facilities for approximately 1,000 spectators. The Murphy Field project will be comprised of site work, associated utilities, seating, fencing, press box, scoreboard, dugouts, warm-up cages, and support facilities. The new baseball field will allow for the rehabilitation of Bower Field for use as intramural fields and team practice. The rehabilitated Bower Field will provide intramural fields with perimeter lighting, allowing for extended use. The combined project will significantly enhance campus athletics, recreational and intramural programs. The $2.3 million project is to be funded by gifts totaling $1.5 million and University internal resources of $800,000.

RESOLVED, that the construction of Murphy Field and the rehabilitation of Bower Field for the Department of Intercollegiate Athletics, estimated to cost $2.3 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 judgement, be necessary or desirable to accomplish the purposes of this resolution.

Action............. 3. A Resolution on the Rehabilitation of the Quadrangle Residences was approved as follows:

Intention:

The University intends to renovate the Quadrangle residence area including the replacement and/or rehabilitation of all mechanical, electrical, and safety systems, and all furniture, fixtures and equipment. In addition, the exterior envelope (masonry walls and roofs) as well as all entries and landscaping will be restored to showcase the Quadrangle as one of the University’s premier historic facilities. The scope of this work will include upgrades to faculty and staff apartments, the development of functional and centrally located staff offices, and improvements to student common areas including computer labs, study and tutoring rooms, and other multi-purpose space located throughout the Quadrangle. At the conclusion of this project, the College Houses of the Quadrangle will feature attractive and functional courtyards, inviting entries to both the Quadrangle itself as well as to the individual houses. This project is estimated to cost $75,000,000, and will be funded through a University internal capital loan that will be paid back with revenue generated by the residential system, the Sheraton Hotel, and fundraising.

RESOLVED, that the renovation of the Quadrangle residence, estimated to cost $75,000,000, 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 judgement, be necessary or desirable to accomplish the purposes of this resolution.

**Action**........... 4. A Resolution on the Acquisition and Remediation of the Civic Center was approved as follows:

Intention:

At its meeting on December 10, 1998, the Philadelphia City Council formally approved the sale and conveyance of a portion of the former Philadelphia Civic Center site to the University. Pursuant to this action by the City of Philadelphia, the University wishes to proceed with the acquisition of this 6.0+ acre parcel. The acquisition of this property will provide the University and the Health System with sufficient space for fully integrated ambulatory cancer care and research center, and over 1,000 spaces of structured parking.

As partial compensation to the City for its acquisition of this land, the University will environmentally remediate the vacant Exhibition Hall and Center Hall structures currently standing on the property. This environmental remediation work is currently estimated to cost $5 million. The cost of this environmental remediation will be funded through $5 million in grant funds which have been secured from the Commonwealth of Pennsylvania.

RESOLVED, that the environmental remediation of the Exhibition Hall and Center Hall portions of the former Philadelphia Civic Center, currently estimated to cost $5 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, proceed with such construction, execute such contracts, and incur such expenses and obligations – not, however, in excess of 110% of the estimated cost of such construction as presented to the Trustees Budget and Finance Committee – as may in their judgment be necessary or desirable to accomplish the purposes of this resolution.

**Action**........... 5. A Resolution Authorizing the University to Seek Authority to Enter into Charitable Gift Annuity Contracts was approved as follows:

Intention:

The University offers to its donors a variety of planned giving vehicles including charitable gift annuities. A charitable gift annuity is a contract between the University and a donor in which the donor agrees to irrevocably donate property, and in return the University agrees to pay a fixed sum for the lives of one or more beneficiaries named in the contract. Many states have laws governing the issuance of charitable gift annuities. The University desires to comply with the statutes and regulations concerning charitable gift annuities in those states in which the University issues charitable gift annuities.

Specifically, in order to enter into charitable gift annuity contracts with residents of California, New Jersey, and New York, the University must: receive a permit from each state, create a reserve as required by each state, and comply with the other state statutes and regulations concerning charitable gift annuities. Each of these states further requires that the University submit evidence with its permit application that the Board of Trustees has authorized it to comply with specific provisions of the state’s charitable gift annuity laws. The three states’ recommended resolutions follow, as well as more general resolutions authorizing the University to take whatever steps are necessary to issue charitable gift annuities in other states.
RESOLVED, that the University authorizes its officers to seek certification as a California grants and annuities society under Sections 11520 through 11524 of the California Insurance Code, and to do other things necessary to act as a grants and annuities society.

FURTHER RESOLVED, that the University authorizes its officers to establish a California Segregated Annuity Reserve Fund as prescribed in Section 11521 of the California Insurance Code, to be maintained under a trust agreement in a separate account legally and physically segregated from the other assets of the University, and to hold the reserves of all active annuity contracts issued to California residents.

FURTHER RESOLVED, that reserves in the California Segregated Annuity Reserve Fund shall at all times be maintained at a level sufficient to comply with the requirements of Section 11521, and that the assets in this Fund shall at all times be invested in a manner consistent with the requirements of Section 11521.2 and Sections 1170 through 1182 of the California Insurance Code.

FURTHER RESOLVED, that the University, in order to meet the requirements of Title 17B, Insurance, of the New Jersey Statutes, and specifically Section 17B:17-13.1, and for the purpose of obtaining a special permit from the Commissioner of Banking and Insurance of the State of New Jersey to issue gift annuity agreements in New Jersey, shall set aside and maintain assets of the University as separate and distinct funds independent of all other funds of the University in an amount which is at least equal to the sum of reserves and of surplus as required by Section 17B:17-13.1 and which shall be invested as provided in Section 17B:17-13.1. Such segregated assets shall be known as the New Jersey Segregated Annuity Reserve Fund, and shall not be applied for the payment of the debts and obligations of the University or for any purpose other than the annuity benefits herein referred to. Any assets heretofore segregated and held as separate funds on account of annuity benefits shall be merged with the aforesaid segregated assets to the extent required in order to comply with the provisions of Section 17B:17-13.1.

FURTHER RESOLVED, that the University, in order to meet the requirements of Article 11, Section 1110 of the Insurance Law of New York State, and for the purposes of obtaining a special permit from the Superintendent of Insurance of the State of New York to issue gift annuity agreements in New York, shall set aside and maintain assets of the University as a separate and distinct fund independent of all other funds of the University in an amount at least equal to the reserves and surplus of ten percent of such reserves on all the University’s outstanding gift annuity agreements required by subsections (b) of Section 1110 and which shall be invested in securities permitted by the provisions of subsections (b) and (c) of Section 1110. Such segregated assets shall be known as the New York Segregated Annuity Reserve Fund, and shall not be applied for the payment of the debts and obligations of the University or for any purpose other than the annuity benefits herein referred to. Any assets heretofore segregated and held as separate funds on account of annuity benefits shall be merged with the aforesaid segregated assets to the extent required in order to comply with the provisions of Section 1110.

FURTHER RESOLVED, that the officers of the University are authorized to take such action as may be necessary to comply with the laws and regulations concerning charitable gift annuities of any other state in which the University issues charitable gift annuities.

FURTHER RESOLVED, that the officers of the University are authorized to take such action, execute such necessary documents, approve the form and content, execute and deliver such documents, and do such things as shall be necessary to effectuate the implementation of this resolution.

FURTHER RESOLVED, that all actions heretofore taken by such officers in furtherance of the purposes of this resolution are hereby ratified and affirmed.
Action......... 6. A Resolution Authorizing Specific Projects from the Fiscal Year 1999 Capital Budget Authorization for the University of Pennsylvania Health System – Health 2000 Services Component was approved as follows:

Intention:

Health System leadership is making every attempt to control and reduce capital expenditures. At this time only the most urgent items are being brought forth for approval. Health System leadership recommends the approval of items totaling $19,370,000 listed below and explained on Exhibit I [attached].

New Itemized Authorization:

1. Surgical Patient Care Unit at HUP $ 9,100,000
2. Dialysis Renovations at PMC 2,125,000
3. Year 2000 Compliance 2,000,000
4. Establish Cancer Center at PAH Farm Journal Building 1,000,000
5. Booth Practices at PAH – Supplement 986,000
6. Human Resource Information System – Supplement 621,000
7. Angiography Expansion at HUP – Supplement 538,000
8. Other Items Costing $100,000 or Less 3,000,000

Requested Authorization $19,370,000

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 the Investment Board reviewed the performance of the endowment at its last meeting and noted that as of December 31, 1998, the Associated Investments Fund (AIF) stood at just under $2.4 billion and the overall endowment at just over $3 billion. He explained that performance in the fiscal year to date has suffered relative to the S&P 500, due primarily to the bias toward value investing and the allocation to international and emerging markets equities. The Investment Board believes that its approach will, as it has in the past, be rewarding during a full market cycle in spite of the current volatile market environment.

IV. Overseer and Other Boards

Action......... 1. A Resolution on Appointment of Laurence N. Weiss to the Advisory Board of the Institute for Contemporary Art was approved as follows:

RESOLVED, that Laurence N. Weiss be appointed to the Advisory Board of the Institute for Contemporary Art for a three-year term, effective March 18, 1999.

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

Respectfully submitted,

Rosemary McManus
Secretary of the University
Exhibit I

University of Pennsylvania Health System – Health Services Component
FY 1999 Capital Budget Itemization Narrative

1. Surgical Patient Care Unit at HUP $9,100,000

   This authorization is for the construction of a 28-bed unit on Dulles/Ravdin Court 6 will serve Orthopedic and Trauma patients presently housed on Silverstein 8. The total cost of all components of this capital project is $12.4 million, as follows: patient care unit--$6.3 million; air handler replacement—$1.4 million; corridor and shell space--$2.6 million; and plumbing infrastructure $2.1 million. Of this total, $3.3 million represents prior authorizations, resulting in a net request of $9.1 million.

   This initiative minimizes the impact of the Women and Infants’ project on the total bed complement. Without this project, HUP will experience a loss of 39 patient beds, when the Women and Infants’ project is completed. The Dulles/Ravdin Court 6 project replaces 28 of those beds. Other plans are being developed to increase the overall capacity once these projects are completed. For example, the existing 21 postpartum beds on Dulles 2 and 3, which will be vacated when the Women’s and Infants’ project is completed, can be renovated and added back to the total bed complement.

   The existing 12-bed antepartum patient care unit on Dulles/Gates 6 must be decommissioned as part of an agreement with the PA Department of Health (PADOH) to avoid major infrastructure upgrading of the Gates Building to meet the Life Safety Code. PADOH has approved the Hospital’s plan to move the patient care unit to Silverstein 8. Continued operation of the Dulles/Gates 6 unit is conditional on the Hospital’s assurance that relocation of the patient care unit is imminent.

   Planning for the Women’s and Infants’ Project assumed that the 32-bed surgical unit on Silverstein 8 would be relocated off-site, and that the existing 33 antepartum and postpartum beds would be consolidated in a 26-bed unit on that floor without the loss of patient days. Subsequently, the decision was made to retain the surgical beds at HUP to meet projected inpatient volume.

   The current annualized occupancy rate at HUP is 83%. This rate is a combination of occupancy rates of nearly 100% during the week and significantly lower rates on weekends and holidays. Consequently, HUP is effectively at its maximum capacity, without taking into consideration the projected 5% increase in patient days for FY2000. For this reason, it is necessary to replace the surgical beds slated for elimination as a result of the Women’s and Infants’ Project.

   This project restores 28 of the 32 surgical beds that will be lost as a result of the Women and Infant’s project. Unless this project is implemented, HUP will forego more than $13 million annually in net operating income. At an investment of $12.4 million, this project will have a payback of less than one year.
University of Pennsylvania Health System – Health Services Component
FY 1999 Capital Budget Itemization Narrative (continued)

2. Dialysis Renovations at PMC

   $2,125,000

   Plans have been underway for some time to establish a new nephrology and
dialysis service and chronic dialysis unit at Presbyterian Medical Center (PMC) based on
existing community needs and the desire to build a full service academic program at
PMC. UPHS patients presently access dialysis services at 42nd and Walnut Streets (a site
operated by Dialysis Center Inc. (DCI)) and a unit at Radnor (also operated by DCI). A
significant number of dialysis patients receive care at other unaffiliated outpatient dialysis
units and in HUP’s inpatient unit when available because of the lack of a PMC outpatient
dialysis unit. Acute inpatient dialysis services are provided at HUP and PMC.

   Over the past several months, a plan has been developed that has evolved into a
broader initiative involving: (a) a UPHS system-wide network relationship with
GAMBRO Healthcare Patient Services, Inc., a dialysis vendor experienced in working
with academic medical centers (AMCs), and (b) the recruitment into CPUP of three
experienced and well regarded local nephrologists, Drs. Rudnick, Cohen, and Berns of
Lombard Medical Associates. This initiative will permit PMC to accelerate the time to
develop the PMC dialysis unit (with an anticipated September opening of the unit) and
will permit UPHS to benefit from establishing a network dialysis program.

   Given the unique nature of chronic dialysis service and specialized skills of the
commercial dialysis vendors, many academic medical centers have made the decision to
outsource dialysis services, especially where the goal is to develop a network of dialysis
centers. GAMBRO has successfully partnered with a number of AMCs to dramatically
grow their dialysis networks. The terms negotiated in principle between UPHS and
GAMBRO as described below compare favorably with terms obtained by other AMCs.

   There are several components to this proposed initiative: (1) entering into a series
of long-term (twelve years) contractual arrangements (including asset purchase,
operating, medical director and acute dialysis services agreements) with GAMBRO and
the termination of existing relationships with DCI; (2) the building of an outpatient
dialysis unit at PMC (a capital investment of $2.1 million); and (3) entering into
employment agreements with Drs. Rudnick, Berns and Cohen. UPHS has entered into a
letter of intent with GAMBRO and a term sheet with Drs. Rudnick Berns and Cohen has
been finalized.

   Subject to certain contingencies (including due diligence and negotiation of
acceptable definitive agreements), GAMBRO has agreed in principle to pay UPHS
approximately $13,000,000 for UPHS accepting the non-compete covenant described
above. Under the medical director agreements, GAMBRO would pay UPHS
approximately $400,000 per year for medical direction services at 42nd Street, Radnor,
and HUP and PMC acute services. GAMBRO would also pay UPHS $250,000 per year
for the medical direction services at the PMC dialysis unit. The preliminary five year
financial performance analysis projects a total positive cash value to the Health System of
$9.8 million dollars over this initial five year period of the twelve year term.
3. Year 2000 Compliance $2,000,000

This authorization is to provide funding to address the general needs of the Health System to replace or upgrade non-year 2000 compliant systems based on the assessments by the Year 2000 office. Although the full plans are not yet finalized, this short term funding will be used to address information system requirements such as desktop PCs, departmental applications, and upgrades to the network infrastructure including file servers. Also addressed by this budget will be the upgrade or replacement of non-Year 2000 compliant biomedical equipment and facilities infrastructure systems. Due to the nature of this project it is necessary to proceed with individual system upgrades and replacements as remediation plans are developed without waiting of all system solutions to be finalized. It is anticipated that additional funding will be required in the Fiscal Year 2000 Capital Budget in order to complete this project.

4. Establish Cancer Center at PAH Farm Journal Building $1,000,000

This authorization is to fund the renovation of the Farm Journal building to house the Cancer Center for Pennsylvania Hospital. When the Henry/Stadden/Ford and Mason Hematology/Oncology Group was recruited here from Graduate Hospital, a portion of the original budget of $1,673,000 authorized in December 1998 included funding to place the whole group on Duncan 2, where the existing two oncology physicians were located. This combined program was going to be the foundation of a comprehensive Cancer Center at Pennsylvania Hospital. Subsequently, the facilities requirement proved to be much larger than previously assumed. Consequently, only a portion of the practice was placed in the original location, with the residual being placed in a temporary location in the Saint Regis building. The current situation is a significant problem for several reasons. First, the practices are located in space that currently is too small for its current needs and are creating patient care problems. Second, the Health System is counting on this department to grow in order to meet our financial projections and the current location offers no opportunity for growth. Lastly, the splitting of the practice prevents the group from being viewed as a full service Cancer Center. By relocating this program to the Farm Journal Building all three of these issues can be addressed.

5. Booth Practices at PAH - Supplement $986,000

This authorization is to supplement a previously approved authorization from the Fiscal Year 1999 Capital Budget, which included $7 million to accommodate the Booth practices at Pennsylvania Hospital. Included in this budget was funding to purchase operating room equipment that was submitted to Pennsylvania Hospital by the practice. Subsequently, the operating room equipment list proved to be incomplete. It only provided for the equipment to accommodate only the main service line, but it was missing the sports medicine and spine procedures equipment. Consequently, additional funding was required to purchase the necessary equipment.
6. Human Resources Information System - Supplement $621,000

This authorization is to supplement a previously approved authorization from the Fiscal Year 1998 Capital Budget, which included $1,250,000 for the purchase and implementation of a Human Resource Information System. The original project envisioned the installation of a Health System wide Human Resource and Payroll system, however the budgeted funds were significantly less than what would be required. The majority of the increased cost was due to capitalized labor and the expansion of the package to the newer hospitals (Pennsylvania (PAH) and Phoenixville (PHX)). Consequently, the project has been scaled back to exclude the installation of a new institutional payroll system. The project has also been broken into two discreet phases. Phase I will install the Lawson Human Resources Information System in all Health System entities, but the number of application user licenses will be limited to 100. In Phase II, the number of application user licenses will be increased to an unlimited number to be able to extend end user functionality to managers and employees for self-service through web technology. It is recommended that an additional $621,000 be authorized to proceed with Phase I for a total cost of $1,871,000. Additional funding to expand user licenses and to install the institutional payroll system will be submitted in future year budget requests.

7. Angiography Expansion at HUP – Supplement $538,000

This authorization is to supplement a previously approved authorization from the Fiscal Year 1998 Capital Budget, which included $2,462,000 for the purchase of a new digital angiography/interventional unit and the construction of a room to accommodate it. This supplemental funding is necessary to accommodate unanticipated costs related to domino relocations in order to make room for this new unit in the existing Angiography suite. When the original budget was developed there was not a comprehensive agreement on all of the required relocations to support this installation. An additional factor was attributable to labor and material costs increases due to the delay in starting this project. Health System leadership has been delaying this project due to constraints on cash, but it can’t delay any further. This project is necessary to accommodate current both operational needs and to allow for future growth. Outpatient interventional radiology (IR) procedures have grown at a rate of more than 15% annually for the past five years. Paralleling this is the growth in Angiography related admissions, which has expanded from a handful of admissions five years ago to approximately 100 admissions annually from an international referral base. IR patients undergo angioplasty, placement of stents, or chemoembolization of malignancies. These admissions are particularly advantageous to the Hospital because the patients fall into major surgical DRG’s typically justifying a 5-10 Length of Stay (LOS), while the average LOS after a minimally-invasive IR procedure is 1.5 days. For the past four years, resources for the clinical services have remained static, with only two full service digital angiography/interventional suites and radiographic & fluoroscopic room to accommodate 20 cases per day. This has resulted in excessive patient wait times and increased employee overtime. The addition of a fourth procedure room will permit completion of the daily schedule in a reasonable time, improve staff morale and stability, and allow the attending staff more time and energy for further practice development.
8. Other Items Costing $100,000 or Less $3,000,000

This funding request will enable the Health System to fund equipment and projects costing $100,000 or less. In prior fiscal years a majority of these items had been included in a routine itemized capital budget. Due to cash constraints, this fiscal year tighter controls have been instituted and routine budget requests have been not been budgeted. In December 1998, $6 million was authorized to fund items costing $1000,000 or less. It was discussed that management expected that it would be necessary to seek additional funding for this category later in the fiscal year. All capital expenditures against this authorization are now being reviewed at the highest level of senior management before an item is approved. Currently, a majority of the previously authorized funds have been allocated making it necessary to seek an additional allocation for the remainder of the fiscal year.