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

14 December 1984

A stated meeting of the Executive Committee was held on Friday, 14 December 1984. Trustees attending included: Walter G. Arader; Richard P. Brown, Jr.; Susan W. Catherwood; G. Morris Dorrance, Jr.; John W. Eckman; Sheldon Hackney; Margaret R. Mainwaring; Paul F. Miller, Jr. (chairman); John B. Neff; and D. Robert Yarnall, Jr. Among others present were: Ann Bailey; Vicki Bernstein; James Bishop; Stuart Carroll; Richard Clelland; Paul Gazzerro; Adrian Goldszmidt; Shelley Green; Lal Heneghan; Thomas Langfitt; Scott Lederman; Marshall Ledger; Robert G. Lomndale; Lynn Manko; Mary Ann Meyers; Helen O'Bannon; Virgil Renzulli; Allyn Rickett; Fredric Saxe; and Marna Whittington.

I. Call to Order

Mr. Miller called the meeting to order. The minutes of the 14 September 1984 meeting were approved as written by the secretary.

II. Report of the Chairman

Mr. Miller reported that the news from the University's Development Office continues to be good. "Gifts and subscriptions now stand at close to $24 million," he said, "and are a full 20 percent ahead of last year's record-breaking pace. We are well on our way to reaching the $73+ million plateau that Ross Webber and his colleagues projected last summer," the chairman added.

He went on to note that the receipts picture is somewhat skewed by the fact that the appraised value of computer hardware received from IBM, part of a $6 million gift of microcomputers, is not yet reflected in the $13 million figure currently reported as the total year to date receipts. Although they appear to be down by around 21 percent, Mr. Miller predicted that this perception will change once Development accounts for the computer company's gift-in-kind.

"The most dramatic improvement we see this year," he said, "is the rising importance of alumni participation in our total giving picture. Nearly $5.5 million has already been secured, which is 100 percent ahead of FY'84. While we may not succeed in sustaining so astonishing a level of performance, we are clearly making inroads into that segment of our total donor universe where we see the greatest potential for increased giving."

Mr. Miller further observed that the Friends category is slightly improved over his October report, but that the residual impact of two bequests totaling $2 million, which were received in the fall of 1983, has resulted in a continuing lag. Association support, too, is off for the moment, but at this
stage, Mr. Miller reported, there is no reason to believe that a significant portion of the support the administration has projected for this area will not materialize before the end of the current fiscal year.

"As you know," he concluded, "we are currently seeking the full participation of the board in contributing to the Building-Penn's-Future phase of the University's development effort, and so far, we have encountered nothing but success in the early stages of this solicitation, but the bulk of these commitments are not reflected in today's report. Come January, we will have some very exciting results and gifts to announce, including the first evidence of how the Annual Giving Program is advancing toward its $10 million goal."

III. Report of the President

A. Dr. Hackney observed that since the last meeting of the Trustees, Joel Conarroe, the dean of the School of Arts and Sciences, had announced his intention to return to his career in writing and teaching. "The bad part of that news is that we lose a dean who can express the advantages of a liberal arts education in an eloquent and compelling prose, both verbally and in writing," the president said. "The good part is that he will stay at the University, returning to the Department of English." Dr. Hackney noted that a search committee for Dr. Conarroe's successor has been appointed with Ward Goodenough, University Professor of Anthropology as chair. "Letters soliciting nominations from inside and outside the University will be sent to faculty members," he said, "and notices will be placed in various publications. We will be looking both inside and outside for the very best person we can find to be the leader of that crucial part of the University," the president continued, "so those of you who may have ideas about people either here at Penn or elsewhere, who you think would make an ideal dean, please give them to me or to Professor Goodenough." Dr. Hackney said that he hoped that that committee would be able to produce more than one ideal candidate before the end of this term, permitting a new dean to take office before the beginning of the next academic year.

Turning to the Washington scene, he observed that the warnings he had given to the Trustees in October were proving to be true. "We have heard informally that the Administration's recommended budget will be very bad for us in terms of proposed limitations on spending for student aid programs and research programs and in terms of some of the contemplated reforms of the tax code, which would reduce advantages of charitable deductions. We will be making our cases as strongly as possible in Washington in whatever ways we can," the president continued, "both to the Congress and to the Administration."

Dr. Hackney said that on campus, the fall has gone extremely well. He noted in particular the success of the football team in winning the Ivy League Championship outright after sharing it two years in a row.
"We ended the season with only one loss record in all of our sports," he said, "and that is a superior performance to any we have managed before."

The president reported that there are early indications that applications for Penn's undergraduate programs are very strong, with numbers of applicants for early decision up significantly. He said the administration has pushed the planning process forward aggressively. "There are eleven faculty seminars currently looking at particular areas for emphasis in research and teaching," he noted, "and each will produce a report that will enable us to evaluate a given area for purposes of future investment." He added that faculty-student seminars in various areas in student life also are investigating ways in which the quality of student life can be improved across the campus.

Finally, Dr. Hackney noted that there is considerable concern on campus about the security situation because of a violent incident that occurred on the Drexel campus. At Penn, he pointed out, the number of crimes taking place in each of the last three years is down in most categories, particularly in the area of crimes against persons. "But we are reminded that security is a tenuous thing in an urban setting," he said, "so we want to pay increased attention to it. We are putting increased emphasis on raising the awareness of the campus community about the necessity for each individual to take responsibility for himself or herself and to take some responsibility for his or her colleagues as well. That is a large part of the prevention process."

1. Action. A Resolution on the Extension of the Term of Robert R. Marshak as Dean of the School of Veterinary Medicine was approved as follows:

Intention:

Since assuming the deanship in September 1973, Robert R. Marshak has provided the School of Veterinary Medicine with outstanding leadership. Under his guidance, the school has continued its pioneering role in veterinary education with the development of such innovative programs as The Animal Health Economics Unit, the V.M.D./M.B.A. Combined Degree Program, The Center on the Interaction of Animals and Society, and Aquavet - A Program in Aquatic Animal Medicine - while continuing to produce highly trained academicians and clinicians in the more traditional fields of veterinary medicine. Throughout the years the School has steadily improved the quality and diversity of its academic programs while simultaneously building one of the most outstanding research programs to be found in any veterinary school in the country. In addition, Dean Marshak's leadership efforts have led to remarkable increases in the level of financial support for the School from the Commonwealth of Pennsylvania.

During this same period, the School has built and brought on line a $16.5 million dollar small animal teaching hospital on the Philadelphia campus and developed critically needed facilities at its large animal teaching hospital. Now in the School of Veterinary Medicine's one hundredth year, Dean Marshak is leading an unprecedented $41.5 million Second Century Fund Raising Campaign to place the School of Veterinary Medicine on sound academic and fiscal foundations for the future.
RESOLVED, that Dr. Robert R. Marshak be reappointed dean of the School of Veterinary Medicine for a term beginning 1 July 1985 and ending on 30 June 1987.

2. Action. A Resolution on Commencement and Authorization for Conferring Honorary Degrees was approved as follows:

RESOLVED, that a mandamus be issued by the Corporation to the president, provost, and professors for the conferring of degrees on 20 May 1985 and at any special convocations called during the year 1985.

RESOLVED, that the Executive Committee be authorized to select candidates for receipt of honorary degrees at the May Public Commencement and other convocations that may be scheduled during the year 1985.

B. Academic Report

1. Mr. Ehrlich expressed his appreciation to the Executive Committee for extending Dean Marshak's term as dean. He noted that academic planning is going forward with the expectation of some exciting faculty appointments. "Simultaneously," he said, "we are working to shape the 1986 budget that will finance our aspirations insofar as possible."

The provost said he was very pleased to announce that the Department of Pathology and Laboratory Medicine proposes the establishment of the Simon Flexner Chair in honor of one of the most distinguished past chairmen and member of that department. "Dr. Flexner," he noted, "came to Penn from Johns Hopkins just before the turn of the century as a professor of pathology, and he was here for half a decade. He left to become the head of the Rockefeller Institute," Mr. Ehrlich continued, "and is noted for making extraordinary advances in both experimental and observational pathology." The provost said he was delighted that the Department of Pathology and Laboratory Medicine plans to invest some $500,000 of its funds in the Flexner chair right now. These will remain intact until, with their earned income, they reach the amount needed to fully fund a professorship. In the interim, support for the chair will be provided directly by the department.

2. Action. A Resolution on Appointments and Promotions was approved as found on pages 1-21 in the meeting book.

C. Financial Report

Mrs. O'Bannon reported that the administration expects to have a surplus of $103,000 at the end of the fiscal year after subtracting $346,000 for mandated deficit amortizations for the High-Rise and the Graduate Hospital. Factors contributing to the anticipated surplus, according to the senior vice president, are savings in salary and operating interest expenses and gains in summer and special program tuition, indirect-cost recovery revenues, sales revenues, and Temporary Investment Funds income. "We are pleased with our performance through the first five months of the year," she said, "but we will be monitoring the budget very closely."

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She went on to note that the current $92 million balance available for expenditures in grants contracts is 31 percent higher than at this time last year. "The balance represents approximately 8.6-months of expendable awards," she said, "which is an increase of almost two months over the same period in FY'84. It suggests once again that our faculty and researchers are being very aggressive in their grantsmanship."

Mrs. O'Bannon observed that the Hospital of the University of Pennsylvania, reporting on a four month basis, shows an excess of revenues over expenses of $6.8 million, which is more than $2.6 million greater than budget. She said that both better-than-projected operating results and a one-time settlement of HUP's 1982 Medicare Cost Report contributed to the Hospital's strong financial position. "The clinical practices," she noted in conclusion, "showed an excess of revenues over expenses of $2 million through the end of September."

IV. Trustee Committee Reports

A. Budget and Finance

Mr. Eckman presented five resolutions, which had been reviewed and endorsed by the Budget and Finance Committee.

1. Action: A Resolution on the Alteration of Hayden Hall and David Rittenhouse Laboratory was approved as follows:

Intention:

For more than a year, the administration has been working with various schools and departments to reallocate existing space in Hayden Hall. The School of Engineering and Applied Science has a need for significantly more space to accommodate its programs and research in Computer Science and Biotechnology. With a succession of moves and alterations, Hayden Hall will accommodate many of the Engineering School's needs.

To vacate the north side of Hayden Hall, the Geology Department will require approximately 18,000 square feet in the south side of the building and approximately 6,000 square feet in the David Rittenhouse Laboratory. Since this move is part of a series of consolidations designed to use existing space more efficiently, the administration supports the expenditure of $290,000 from its physical plant reserves to accommodate the needs of the Geology Department and, eventually, the School of Engineering.

RESOLVED, that the alterations of Hayden Hall and the David Rittenhouse Laboratory, estimated to cost $200,000, be and the same hereby are approved and that the Vice President for Finance or other appropriate officers of the University be and they hereby are authorized to proceed with such alterations and execute such contracts and incur such expenses and obligations - not, however, substantially in excess of the estimated cost of such alterations as presented to the Budget and Finance Committee - as may in their judgment be necessary or desirable to accomplish such alterations.

FURTHER RESOLVED, that all costs and expenses involved in carrying out the alterations approved by the foregoing resolution, which are not funded from the sources specifically cited to the Budget and Finance Committee or by gifts expressly designated for such purpose, be paid, or if previously paid or discharged out of such operating funds be reimbursed out of the proceeds of the sale of a
contemplated issuance of tax-exempt notes, which it is proposed will be effected through a government agency to finance capital projects. To the extent the project is thus financed through issuance of tax-exempt notes, the retirement of the debt principal and associated interest expense shall be the responsibility of the University, to be discharged within the established amortization period for the financing.

2. Action. A Resolution on the Renovation of the Ground Floor of College Hall was approved as follows:

Intention:

Many of the public spaces in College Hall have been renovated over the past several years. The administration now proposes to renovate additional public spaces connected to the Admissions Office. Funds have been pledged to renovate the public hallway, the Admissions Office reception area, and a conference room. Funds also have been pledged to convert the women's room into a second, much needed conference room for the Admissions Office. The administration proposes to renovate the existing men's room at the same time and to convert that facility into separate, modern toilet facilities for men and for women.

The entire project is estimated to cost $282,000. Of that total, $35,000 is for restroom renovations and will come from reserves from physical plant. The remainder will come from gifts designated for the project.

RESOLVED, that the renovation of the ground floor of College Hall, estimated to cost $282,000, be and the same hereby is approved and that the Vice President for Finance or other appropriate officers of the University be and they hereby are authorized to proceed with such renovation and execute such contracts and incur such expenses and obligations - not, however, substantially in excess of the estimated cost of renovation as presented to the Budget and Finance Committee - as may in their judgment be necessary or desirable to accomplish such renovation.

FURTHER RESOLVED, that all costs and expenses incurred in carrying out the renovation authorized by the foregoing resolution, which are not funded from the sources specifically cited to the Budget and Finance Committee or by gifts expressly designated for such purpose, be paid, or if previously paid or discharged out of such operating funds be reimbursed out of the proceeds of the sale of a contemplated issuance of tax-exempt notes, which it is proposed will be effected through a government agency to finance capital projects. To the extent the project is thus financed through issuance of tax-exempt notes, the retirement of the debt principal and associated interest expense shall be the responsibility of the Office of the Provost, Dean of Admissions, to be discharged within the established amortization period for the financing.

3. Action: A Resolution on Reroofing the University Museum was approved as follows:

Intention:

The University Museum is nearly 100 years old and, over time, its roof tiles have deteriorated, permitting considerable damage to occur to the building. In 1976-77, the first phase of the roof was completed and the interior storm drainage system (which had deteriorated) was replaced with an exterior system. The majority of the work, replacement of the tile roof, remains to be done.

The Museum has undertaken major fundraising activities to raise monies for a new roof, among other needs. The roofing project is expected to cost under $3,000,000. At this time, much of the funding is identified and the goal appears to be in reach.
The administration proposes to pre-order the tile at this time to avoid the proposed price increase of 8 percent. The pre-ordered tile will be assigned to the contractor. The tile is estimated to cost $250,000. The administration will request approval for the entire project once construction bids are received early in 1985.

RESOLVED, that the pre-ordering of tile, estimated to cost $250,000, for the reroofing of the University Museum roof, be and the same hereby is approved and that the Vice President for Finance or other appropriate officers of the University be and they hereby are authorized to proceed with such pre-ordering and execute such contracts and incur such expenses and obligations - not, however, substantially in excess of the estimated cost of such pre-ordering as presented to the Budget and Finance Committee - as may in their judgment be necessary or desirable to accomplish such pre-ordering.

FURTHER RESOLVED, that all costs and expenses incurred in carrying out the pre-ordering of tile authorized by the foregoing resolution, which are not funded from the sources specifically cited to the Budget and Finance Committee or by gifts expressly designated for such purpose, be paid, or if previously paid or discharged out of such operating funds be reimbursed out of the proceeds of the sale of a contemplated issuance of tax-exempt notes, which it is proposed will be effected through a government agency to finance capital projects. To the extent the project is thus financed through issuance of tax-exempt notes, the retirement of the debt principal and associated interest expense shall be the responsibility of the University Museum, to be discharged within the established amortization period for the financing.

4. Action: A Resolution on Appointment of First Pennsylvania Bank as Trustee for the Retirement Allowance Plans of the University of Pennsylvania and the Hospital of the University of Pennsylvania was approved as follows:

Intention:

The University of Pennsylvania ("University") and the Hospital of the University of Pennsylvania ("HUP") have defined benefit plans for their employees, the Retirement Allowance Plan for the University of Pennsylvania ("University Plan") and the Retirement Allowance Plan for the Hospital of the University of Pennsylvania ("HUP Plan"), respectively. The plans are currently funded through group annuity contracts with the Equitable Life Assurance Society of the United States. To provide maximum investment flexibility, the University and HUP intend to enter into a trust arrangement for each Plan, effective January 1, 1985, designating First Pennsylvania Bank, N.A. as Trustee.

The University's Vice President for Finance shall be designated as the Trustee's Executive Contact and shall be authorized to communicate with the Trustee on all matters pertaining to the administration of the Trusts.

The Vice President for Finance shall be the Investment Fiduciary of the University Plan and the HUP Plan (together "Plans"). The Investment Fiduciary, the Director of Investments, the Associate Director of Investments, and the Assistant Director of Investments shall be authorized to give investment directions to the Trustee and to execute letters to the Trustee confirming such investment directions.

The Plan Administrator of the University Plan and the Manager of Benefits for the University, on behalf of the University Plan, and the Plan Administrator of the HUP Plan and the HUP Comptroller, on behalf of the HUP Plan, shall be authorized to sign documents relating to the payment of pension benefits from the respective plans.
RESOLVED, that First Pennsylvania Bank, N.A. be named as Trustee of the Retirement Allowance Plan of the University of Pennsylvania ("University Plan") and as Trustee of the Retirement Allowance Plan of the Hospital of the University of Pennsylvania ("HUP Plan") (together "Plans") and that the appropriate officers be authorized to execute the Trust Agreements and to amend the Plans as necessary.

FURTHER RESOLVED, that the Vice President for Finance be designated at the Trustee's Executive Contact and be authorized to communicate with the Trustee on all matters pertaining to the administration of the Trusts.

FURTHER RESOLVED, that the Vice President for Finance be designated Investment Fiduciary of the University Plan and of the HUP Plan, be responsible for directing the Trustee's investments, and, in discharging her duties, be authorized to seek the advice of the Office of Investments.

FURTHER RESOLVED, that the Investment Fiduciary, the Director of Investments, the Associate Director of Investments, and the Assistant Director of Investments be authorized to give investment directions to the Trustee and to execute letters to the Trustee confirming such investment directions.

FURTHER RESOLVED, that the Plan Administrator of the University Plan and the Manager of Benefits, for the University Plan, and the Plan Administrator of the HUP Plan and the HUP Comptroller, for the HUP Plan, be authorized to sign documents relating to the payment of pension benefits from the respective Plans.

5. Action: A Resolution on the Sale of the Lippincott Building was approved as follows:

Intention:

The Lippincott Building, located at 2429-41 Locust Street, formerly housed research activities of the School of Veterinary Medicine. It has been unoccupied since those activities were relocated several months ago. As the administration has determined that it has no suitable use for this facility, it has been exploring a variety of alternatives to relieve the University of the burden of maintaining the building in a mothball state.

In December of 1983 the property was appraised for $1,200,000. The administration is requesting approval to sell the property at a minimum price of $1,750,000 or to participate in its conversion to alternate uses through a combination of a ground lease and participation in the potential appreciation should the property be refinanced or sold, whichever arrangement is most beneficial to the University, without incurring any University liability.

RESOLVED, that the Trustees of the University of Pennsylvania authorize the appropriate officers of the University to negotiate the sale of the Lippincott Building at a price of not less than $1,750,000 or to participate in its conversion to alternate uses through a transaction that would realize proceeds equal to or greater than its outright sale.

FURTHER RESOLVED, that the Vice President for Finance or other appropriate officers of the University be and they thereby are authorized to proceed with the transaction described in the above resolution and to sign any documents required to effect such transaction.

FURTHER RESOLVED, that the terms and conditions of such a transaction would require subsequent ratification by the Trustees.
R. Trustee Board of the Hospital of the University of Pennsylvania

1. Action. A Resolution on the Reappointments to the Trustee Board of the Hospital of the University of Pennsylvania was approved as follows:

RESOLVED, that Samuel H. Ballam be reappointed as chairman of the Trustee Board of the Hospital of the University of Pennsylvania and that the following trustees be reappointed as members for one-year terms, effective 14 December 1984: Charles D. Dickey, Jr., G. Morris Dorrance, Jr., Margaret R. Mainwaring, and Anthony S. Minisi.

C. Investment Board

Mr. Neff reported that since 29 June the common stock portion of the Associated Investments Fund (AIF) has increased 17.9 percent on a total return basis versus an 8.4-percent gain for the Standard and Poors 500 Stock Average (S&P). "The appreciation in AIF equities is 14.1 (total return) since 30 December 1983 versus a 3.1-percent increase in the S&P during that period," he continued, "and assuming no marked deterioration in the next three weeks, that means we've had another good year. It's been the kind of market that has emphasized the safe, sane, and boring," he continued, "and our portfolio is pretty much in that category." The Investment Board chairman then predicted that corporate earnings would increase something on the order of 6 to 8 percent in 1985, assuming a modest growth in the economy, which, he stressed, was his assumption.

Mr. Neff pointed out that at present gross investment income is not growing significantly. It is estimated at $23.54 per share for the next 12 months, which is 1.8 percent above the $23.21-per share projection made at the end of June for the University fiscal year. "By way of contrast," he said, "the 12-month estimate increased from $13.11 per share to $23.21 per share between the end of 1979 and the end of 1983." He accounted for the moderation in growth by referring to slight changes in the portfolio, especially the purchase of price-attractive stocks that didn't happen to have high yields. "But by and large, we held onto the stock we had," he said, "and the marketplace advanced broadly in these areas with the possible exception of the transmission and the pipeline companies. It would be unrealistic," he cautioned, "to expect the same margins of superiority in subsequent years."

Nor can we count on much help from the bond marketplace," he continued. "Rates have come down about 250 basis points, and clearly the real return was too good in fixed income securities." The Investment Board chairman concluded by saying that he thought "the easy money had been made" and calling attention to the "pervasive shadow of the large federal deficit. We're already seeing some downward movement," he said, "but you won't see a marketplace embrace until the numbers start to tumble. I would guess you might go through an intermediate period where bond rates will move back and forth about 50 basis points on either side of the current low rates, and you may not see much excitement in the S&P, either."

Mr. Miller added that in a comparison of the investment funds of a
group of major institutions, the median compound annual rate of return, on a five-year basis through the end of September, was 12.5 percent whereas the return on the AIF was 17.6 percent, beating the next highest institutional return by more than a full percentage point. "On a three-year basis," he continued, "Penn ranks number one by a full three-percentage points per annum, and on a one-year basis, our return is 5.5 percentage points higher than the return realized by the next best investment fund."

V. Overseers and Other Boards

A. Action. A Resolution on Appointments to the Athletic Advisory Board was approved as follows:

RESOLVED, that Jan Bernstein, McBee Butcher, and Alvin V. Shoemaker be appointed to the Athletic Advisory Board for three-year terms, effective 14 December 1984.

Adjourned.

Respectfully submitted,

Mary Ann Meyers
Secretary of the University