Minutes of the Stated Meeting
of the
Executive Committee of the Trustees of the University of Pennsylvania
14 March 1986

A meeting of the Executive Committee was held on Friday, 14 March 1986. Trustees attending included: Walter G. Arader; Samuel H. Ballam, Jr.; Richard P. Brown, Jr.; John W. Eckman; Sheldon Hackney; John P. Hellwege; Paul F. Miller, Jr.; John B. Neff; Alvin V. Shoemaker; and D. Robert Yarnall. Among others present were: John Anderson; Ann Bailey; David Burnett; Richard C. Clelland; Stuart Carroll; Richard Carter; Ann Duffield; Maryellen Gallagher; Shelley Z. Green; Jodi Kerper; George Koval; Marshall Ledger; Linda Lloyd; Robert G. Lorndale; Mary Ann Meyers (secretary); Marguerite Miller; David J. Morse; Helen O'Bannon; Virgil Renzulli; Barbara Stevens; Glen Stine; and Francine Walker.

I. Call to Order

The chairman called the meeting to order and the minutes of the 13 September 1985 meeting were approved as written by the secretary.

II. Report of the Chairman

Mr. Miller reported that as of 6 March, gifts and subscriptions to the University for FY'86 stood at $49.5 million. He mentioned that since January, nearly $10 million in new gifts have been recorded by the Development Office. Approximately $20 million in new gifts has been received from alumni and friends, $25 million from corporations and foundations, and another $4 million from associations. "Actual receipts stand at $39 million," the chairman said.

He went on to note that "the distribution of gifts by purpose reveals a number of encouraging trends." For example, faculty support is 28 percent ahead of last year, and, similarly, student aid is up 32 percent and unrestricted support 20 percent over FY'85. "All three areas have been
the focus of increased fundraising effort over the past several years," Mr. Miller added, particularly with respect to individual donor prospects. Turning to the current pattern of endowment support, he noted that "gifts of endowment and/or funds functioning as endowment total $17.2 million, a healthy 65 percent increase over last year." Mr. Miller cited the sizable number of major capital commitments the Trustees were asked to make in response to the Building Penn's Future program in FY'85 as accounting for the negative margin of difference (-23 percent) between alumni gifts received this year versus last. He went on to say that corporate support, which reached a record $20 million in FY'85, remains strong, and the FY'86 goal of $22 million is very much in sight. "Foundation support stands at $10 million, roughly even with last year," he said, and he expressed the belief that another $7.5 million can be generated from the foundation sector before the end of June.

The chairman then observed that Annual Giving receipts have passed the $6-million point, halfway toward a goal of $12 million. "Overall donor participation in Annual Giving is up by 9 percent," he said. "Last year the Class of 1960 set an all-time University record for reunion giving, exceeding the $1 million plateau for the first time. Our chairman-elect, Al Shoemaker, had a major hand in this achievement which, among other things, was designed to elevate 25th Reunion Class standards generally. You will be pleased to know that the strategy seems to be working. The Class of 1961 has already received commitments in excess of $1 million for its reunion, so the record that Mr. Shoemaker established so diligently last year may well be in jeopardy."

III. Report of the President

A. Dr. Hackney observed that the question of investments in South Africa continues to be discussed on campus. Turning to other important items, he noted that the administration is working very hard to put the budget for 1986-87 together. "We continue to plan a good bit in the University," he said. "Especially in the School of Arts and Sciences with its new dean Michael Aiken, there is a good deal of curricular planning going on, and at an important meeting of the SAS faculty in two weeks' time, members of that body will have an opportunity to go over the preliminary results. Other schools are a
bit ahead of SAS in their five-year planning cycle," the president added. He went on to observe that the administration was in the midst of hearings on the capital budget. "We should be able to bring you a capital budget of which we can be pleased and proud," he said. "When all of the capital budget needs are placed on the table together, it's a frightening figure, but it is at least a figure in which we can have some confidence." Dr. Hackney said that more than $200 million in major construction projects are underway on the campus right now.

Turning to the freshman halls project that is currently under discussion, he observed that it is his dream and intention "to have a freshman halls program installed in September for the incoming class. There are some choices yet to be made by the administration," he said, noting that the planning for freshman halls began three years ago under a team led by George Koval and including committees of students and staff from the residential life area. "The process was accelerated a year ago with the publication of the SCUE white paper that included a recommendation for what the authors called a freshman academy," the president observed, and more recently a committee of students and faculty led by Nick Constan of the Wharton School faculty, issued a report that was discussed at University Council. "We are in the latter stages of making some choices among dining and other options," Dr. Hackney said, "and I am very excited. I think the program will be one of the most significant things we can do to improve the quality of undergraduate life at the University and to integrate its social and intellectual aspects."

Dr. Hackney then reminded the Trustees that there are a number of very important searches underway, including searches for a new dean of the School of Education and a new dean of the School of Veterinary Medicine. "We should hear from the committees late next fall," he said, "with the hope of having new deans in place in the summer of 1987. We're also now looking for a vice president for development," he added. "For the numbers that Paul Miller has just proudly reported to remain numbers of which we can be proud, we will have to find an excellent replacement for Ross Webber, whose
departure leaves us in need of some strong leadership. Dr. Webber has done a marvelous job over the past four years, and we're going to miss him. But I hope to conclude the search for his successor by the end of the spring term, so that we will have the new vice president in place by 1 July." The president further noted that there is a search underway for a director of Affirmative Action, which he expects to be completed before the summer vacation.

B. 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 19 May 1986 and at any special convocations called during the year 1986.

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 1986.

C. Academic Report

In the absence of Provost Thomas Ehrlich, Deputy Provost Richard C. Clelland called two nominations for tenure to the attention of the Trustees. He noted that Michelle Fine, proposed for promotion to associate professor of education, is a social psychologist, with a Ph.D. from Columbia. "In five years at Penn, she has compiled a remarkable record for teaching and for research in the area of school psychology, particularly in relation to dropouts," Dr. Clelland said. He further observed that Richard B. Johnston, Jr., proposed for appointment as the William H. Bennett Professor of Pediatrics, comes to the School of Medicine from the University of Colorado with an outstanding reputation in pediatric immunology. He will serve as chairman of the pediatrics department and physician-in-chief at Children's Hospital of Philadelphia.

Action. A Resolution on Appointments, Leaves, and Promotions was approved as found on pages 1 through 15 of the meeting book.

D. Financial Report

Mrs. O'Bannon reported that she had regretfully accepted the resignation of Gary Posner, the vice president for administration, who is getting married and moving to North Carolina. "He leaves behind a strong legacy in improving the management of human
resources," she said, "and we will miss him." The senior vice president noted that for the time being she would manage the various areas that reported to Mr. Posner herself. She observed that John Anderson, the vice president for operational services, was putting forth a "strong management effort in relation to major construction and renovation work." She further noted that during James Shada's temporary absence due to illness, the administration was monitoring Commonwealth relations with the "able assistance" of Alexis Van Adzin.

Turning from personnel to financial matters, Mrs. O'Bannon reported that at the end of eight months, the administration is projecting a general University surplus of $453,000 in FY'86, after allowing for the $97,000 mandated surplus required to fund the debt amortization for Graduate Hospital. Among the positive factors contributing to the projection are salary savings, increased tuition and gift and sales revenues, and reduction in the steam rate resulting in "sizeable" utility savings. The senior vice president called the attention of the Trustees to the individual school and center deviations from budget as listed in the printed financial report. She pointed out that as of 28 February, the balance available for expenditure in grants and contracts amounted to $100,334,000, which is 18.1 percent higher than at that time last year and represents eight months of expendable awards.

Mrs. O'Bannon noted that the most recent financial statements for the Hospital of the University of Pennsylvania are for the seven months ending 31 January. "For that period," she said, "the Hospital's excess of revenues over expenses was $8.2 million, which is $3.9 million greater than budget. For the six months ending 31 December, the financial statements for the Clinical Practices of the University of Pennsylvania show an excess of revenues over expenses of $6.9 million." The Education and Development Fund balances increased, net, from $22.8 to $23.3 million during that period, according to the senior vice president.

IV. Trustee Committee Reports

A. University Responsibility
Mr. Brown reported that immediately after the January stated meeting of the Trustees, a group of seven students had occupied the office of the president, and as part of the negotiations to end the sit-in, Dr. Hackney had called on members of the University Responsibility Committee to meet with the students. "In spite of the difficulties of scheduling and the geographic distribution of members," he continued, "a meeting that included a majority of the members took place with the students on the 20th of February." Mr. Brown observed that there had been an exchange of views on the appropriateness of the January Trustee action that related to South Africa. "At the end of the meeting," he said, "a written statement, subsequently mailed to members of the Executive Committee, was distributed to members of the University Responsibility Committee who were there. I took the liberty of mailing it to the absent members," the chairman continued, "because the statement called for action by the Executive Committee at the March meeting. I asked the members of the University Responsibility Committee if they believed any part of the statement required action before then, and their answer was that none did."

Mr. Miller commented that it would be highly improper for the Executive Committee to take the actions called for in the statement as few of the 45 active trustees, many of whom have strong views on the issue of investment in companies doing business in South Africa, are present at Executive Committee meetings. "I have referred the students' statement to the University Responsibility Committee," he said. "Any recommendations the committee may have will be presented to the full board in June." In response to the chairman's referral, Mr. Brown noted that the committee will meet prior to the Trustees' spring stated meeting.

Mr. Miller then noted that he had been pleased to learn that the University had made a South-Africa free pension fund available as an investment option to its employees. He asked how many faculty and staff members had chosen it, and the president replied that at the time the initial enrollment period ended in early February, he believed approximately 20 people out of a pool of 4,500 had done so.
Mrs. O'Bannon observed that all employees had received personal letters advising them of the South-free pension fund opportunity.

B. Budget and Finance Committee

Mr. Eckman reported that the Budget and Finance Committee had reviewed six resolutions and recommended them to the Trustees for favorable action.

1. Action. A Resolution on Tuition and Fees was approved as follows:

   The administration proposes to establish the following tuition and fees for the academic year 1986-87:

   For undergraduates, the tuition will be $10,258 and the general fee will be $942, totalling $11,200; for graduate students, tuition will be $11,165 and the general fee will be $695, totalling $11,860; for professional students, the general fee will be $544.

   RESOLVED, that for the academic year 1986-87, the undergraduate tuition rate will be $10,258 and the undergraduate general fee will be $942; that the tuition for graduate students will be $11,165 and the graduate general fee will be $695; that the professional general fee will be $544; that the tuition for professional students will be determined administratively to reflect budget requirements of the various schools; and that part-time tuition and fee rates will be determined administratively and will increase proportionately.

2. Action. A Resolution Amending the Resolution of 20 January 1984 on the Department of Education Loan Agreement for Energy Conservation was approved as follows:

   On January 1984, the Trustees of the University of Pennsylvania approved a resolution authorizing the execution of a loan agreement with the U.S. Department of Education. Under terms of the agreement, the Department lent the University $250,000, to install energy conservation devices in seven dormitories and dining facilities, at an interest rate of three percent, with the principal to be repaid over a period of 30 years.

   The administration has been informed by the Department of Education that the period of repayment has been reduced to four years, and it seeks approval to continue to finance the loan at the an established interest rate over this period.

   RESOLVED, that the loan agreement with the U.S. Department of Education be amended to provide for repayment over a period of four years and that the same hereby is approved.

   FURTHER RESOLVED, that the Vice President for Finance or other responsible officers of the University be authorized to sign the amended agreement and any other documentation necessary to continue the loan with U.S. Department of Education for purposes of energy conservation.

3. Action. A Resolution on Renovations to the Modern Language College House was approved as follows:

   The University has received a substantial gift that the donor indicated should be spent on renovating the Modern Language College House. In accordance with the donor's wishes,
therefore, the administration has developed plans to finish renovating the basement and remodeling the first-floor entry and student lounge-kitchen. The estimated cost of this phase of the project is $283,000, and funds are in hand. The Modern Language College House Renovation was not included in the Capital Budget of 1985, but it has the support of the administration.

RESOLVED, that renovations to the Modern Language College House, estimated to cost $283,000, be and the same hereby are approved in accordance with proposals presented to the meeting and that the Vice President for Finance or other appropriate officers of the University be and they hereby are authorized to proceed with such renovations and execute such contracts and incur such expenses and obligations - not, however, substantially in excess of the estimated cost of such renovations as presented to the Budget and Finance Committee - as may, in their judgment, be necessary or desirable to accomplish such renovations.

4. Action. A Resolution on the Renovation of the School of Medicine's Behavioral Research Laboratories in the Medical Laboratories Building was approved as follows:

The School of Medicine proposes to renovate 1,500 net square feet of the Medical Laboratories Building to create two medical research laboratories with animal observation rooms. These laboratories will be used by members of the Department of Psychiatry as part of the department's behavioral pharmacology research. The estimated cost of the project is $500,000, which includes extensive systems work and laboratory equipment. The School of Medicine will pay for the renovation from its Education and Development Funds and has included the project in its recent capital plan submission. The administration supports the proposed renovation and recommends its approval.

RESOLVED, that the renovation of the School of Medicine's Behavioral Research Laboratories in the Medical Laboratories Building, estimated to cost $500,000, be and the same hereby is approved in accordance with the proposal presented to the meeting 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 such renovation as presented to the Budget and Finance Committee - as may, in their judgment, be necessary and desirable to accomplish such renovation.

5. Action. A Resolution on the University of Pennsylvania Plan Administrator for Benefits Plans was approved as follows:

The University of Pennsylvania ("University") has established several pension and welfare plans in which its employees may choose to participate. Upon the resignation of the Vice President for Administration, the Trustees are requested to designate the Senior Vice President as Plan Administrator of the University's pension and welfare plans.

RESOLVED, that the Senior Vice President, Helen B. O'Bannon, be and the same hereby is designated Plan Administrator of the University of Pennsylvania's pension and welfare plans.

6. Action. A Resolution on the Acquisition of Real Estate at Civic Center Boulevard and 34th Street was approved as follows:

The administration proposes that the University acquire the Hilton Hotel, including all of its contents, licenses, leases, and the operating lease for the garage, for $17.9 million plus closing and settlement costs. The University currently owns the land on which the hotel is situated and the hotel garage. The hotel building is approximately 310,000 square feet and contains 21 floors. It was constructed in the early 1970s.
Currently the University, through its Hospital and Clinical Practices, leases four floors of the Hilton at an annual cost of nearly $1 million. The Hospital and Clinical Practices have expressed a need for additional space to expand the ambulatory care capacity and support services. Children's Hospital has also expressed a desire to lease office space to support the Pediatric Department.

In addition to proposing that the University own the facility, the administration proposes that it control the space dedicated to support the Medical Center and that the hotel portion be leased by the University. The administration is exploring the sale-leaseback of the hotel portion to a third party, and will determine whether such a transaction is financially beneficial to the University. Further, the administration proposes to finance the acquisition of the hotel with a $20 million seven-year interest-only loan from the Equitable Life Assurance Company at an interest rate of 9 5/8 percent. The funds to be borrowed will be used for the renovation of the hotel and the conversion of a portion of it to offices, as well as for the acquisition of the building. The administration proposes the creation of an ad hoc committee of the Trustees to review and authorize commitment.

To assist in the conversion and operation of the building, the administration requests authorization to develop contractual relationships with building and hotel operators as may be warranted and to report such contracts to the Trustees through whatever mechanism is determined appropriate.

RESOLVED, that the acquisition of the hotel, known as the Hilton, be and the same hereby is approved in accordance with proposals presented to the meeting and that the Vice President for Finance or other appropriate officers of the University be and they hereby are authorized to proceed with such acquisition and execute such contracts and incur such expenses and obligations - not, however, substantially in excess of the estimated cost of such acquisition as presented to the Budget and Finance Committee - as may, in their judgment, be necessary or desirable to accomplish such acquisition.

FURTHER RESOLVED, that pursuant to Section 4.01 of the Statutes of the University it is hereby created a Hilton Acquisition Ad Hoc Committee (the "Ad Hoc Committee") to consist and be composed of the Chairman of the Trustees, Paul F. Miller, Jr.; the Chairman of the Trustees' Budget and Finance Committee, John W. Eckman; the Chairman of the Trustees' Facilities and Campus Planning Committee, Walter G. Arader; and Chairman of the Trustee Board of the Hospital of the University of Pennsylvania, Samuel H. Ballam, Jr.; and it is hereby delegated to such Committee, to the extent necessary, the full power of the Trustees to act on behalf of the University with respect to the matters referred to in the foregoing resolutions, including, without limiting the generality of the foregoing:

(a) subject to the loan amount and interest limitations in the foregoing resolution, giving the final approval to the specific terms of the Hilton acquisition;

(b) giving the final approval to the specific terms of any sale, lease, or sale-leaseback of the hotel portion of the building, including any operator's agreements;

(c) giving of such further approvals or authorization, or taking of such additional action as the Ad Hoc Committee may determine to be necessary or advisable to implement or carry into effect the proposed transaction; and

FURTHER RESOLVED, that the Vice President for Finance of the University or other appropriate officers of the University be and hereby are authorized to sign and execute all documents pursuant to this resolution and the Secretary, the Associate
Secretary, or the Assistant Secretary is hereby authorized to affix to such documents and attest the corporate seal of the University.

C. Investment Board

Mr. Neff reported that the University's endowment now totals more than $500 million, with the Associated Investments Fund (AIF) having a market value of $437 million, up from $134 million six years ago. "We've been a little on the conservative side, or perhaps you would say taken a contrarian view, in recent months," he noted, referring to the fact that cash or cash equivalents constituted 10 percent of the AIF on 31 December and 11 percent on 10 March. "However exhilarating the strong advance in the security markets has been in terms of growth in the size of our endowment," he said, "we do have an obligation to attempt to keep our recent gains. They represent precious money to the University, and as the markets are on the brink of running amok, we're throwing a little anchor to the windward. It has hurt our performance a bit in recent periods, though not badly. Since year end, the value of AIF common stocks has appreciated 9.2 percent, on a total return basis, compared to a 7.9-percent increase in the Standard and Poor 500 Stock Average, but since 28 June 1985, the advance of the equity portion of the fund, which stands at 19.6 percent (total return), has run a little bit behind the S & P 500, where the total-return advance is 21.3 percent. Sometimes progress is most notable at inflection points and this market has had an awfully good run." Mr. Neff went on to observe that the level of the current yield on AIF common stocks has been almost maintained. It was 6 percent in mid 1985 and 5.7 percent as of 10 March. "We've done some adroit rearranging and recycling," the chairman continued, "and you might note that however lackluster our most recent performance, since 31 January 1979 the increase in the value of the equity portion of the Fund is close to being double the increase in the value of the S & P 500." He noted that the magnitude of difference was attributable "to being able to take advantage of a full range of investment opportunities."

V. Overseers and Other Boards

A. Action. A Resolution on an Appointment to the Board of Overseers of the Wharton School was approved as follows:
RESOLVED, that Joseph J. Melone be appointed to the Board of Overseers of the Wharton School for a three-year term, effective 14 March 1986.

Adjourned.

Respectfully submitted,

Mary Ann Meyers
Secretary of the University