THE UNIVERSITY OF TEXAS SYSTEM

OFFICE OF FINANCE

2008

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VISION: To be the leading provider of financial services in higher education.

MISSION: To support the vision of The University of Texas System by providing world class debt management, investment oversight, and other financial services to the Board of Regents, the institutions, and System Administration, for the benefit of the citizens of the State of Texas.

VALUES: Service first. Excellence always. Integrity throughout.

WHO ARE WE?

Philip Aldridge, Associate Vice Chancellor for Business Affairs, joined U.T. System in January 2001, and has since administered departmental programs regarding debt issuance, debt capacity, cash management, capital project review, energy policy, and the analysis of market trends. Philip is also the administrative liaison to the University of Texas Investment Management Company (UTIMCO), which manages more than $20 billion of operating and endowment funds. Prior to joining the U.T. System, Philip served as the Vice President, Finance and Treasurer of the Columbia Energy Group, a vertically integrated energy firm based in Herndon, Virginia. At Columbia, Philip was responsible for conducting all corporate finance, capital allocation and business development activities. Philip received his BBA in Finance from Texas Christian University and earned his MBA in Finance and Accounting from U.T. Austin. He has earned his Chartered Financial Analyst (CFA) designation and has completed Executive Development programs at the Harvard Business School and the Wharton School of Business.

Lisa Baird, Senior Financial Analyst, joined U.T. System in July 2005, and is currently responsible for various areas including debt budget, six-year forecasts, institutional credit ratios, and federal arbitrage regulatory compliance. Previously, Lisa was employed by JPMorgan Securities in New York, where she worked in municipal debt investment banking with a focus on not-for-profit healthcare. During her time there, she developed skills in credit ratio analysis and assisted in the structuring and issuance of over $1.5 billion in tax-exempt debt. Prior to JPMorgan, Lisa was a sales representative for a large commercial print firm based in Chicago. Lisa earned her BBA in Marketing from U.T. Austin in 2001. In 2002, she earned her BBA in Finance and Bachelor of Journalism, also from U. T. Austin.

Brenda Chambers, Administrative Associate, joined U.T. System in October 1993 as an Administrative Assistant in the Office of Finance. She transferred to the Office of Business and Administrative Services in 1996 and since then has held various titles within that department. Brenda transferred to the Office of Finance in February 2007. Her cash management responsibilities include wiring funds on a daily basis for such items as commercial paper, fixed-income, and employee benefits, among others. Her additional responsibilities include reconciling departmental operating accounts, preparing departmental travel vouchers, and maintaining timekeeping records, as well as other administrative duties. Prior to joining U.T. System, Brenda was employed with Bank One (now Chase Bank) for seven years.

William Huang, Treasury Manager, joined U.T. System in January 2006. His responsibilities include maintaining bank and merchant card processing relationships as well as providing support for investment oversight of System endowment and operating funds, monitoring the centralization of System operating funds, and analyzing System capital projects and initiatives. William previously evaluated midstream energy transactions in a private equity-funded startup and worked on engineering projects at Fluor Corporation, a Fortune 500 engineering and construction company. William has also managed investment portfolios comprised of equity, fixed income, derivative and alternative investments. William holds two degrees from U.T. Austin: an MBA from the McCombs School of Business and a BS in Chemical Engineering from the College of Engineering.

Terry Hull, Director of Finance, rejoined U.T. System in March 2000 after previous work with U.T. System from 1992–1994. In his current role, Terry is primarily responsible for managing the System's various financing programs on behalf of the 15 academic and health-related institutions, including the Permanent University Fund and Revenue Financing System debt programs. Terry also manages the System's debt derivatives program, currently consisting of various interest rate swap agreements aggregating over $575 million in notional amount. Before rejoining the System, Terry held the positions of Finance Supervisor and Manager of Financial Planning at the Lower Colorado River Authority ("LCRA"), a regional utility based in Austin, Texas. In these roles, Terry was responsible for developing annual business and financial plans and providing strategic financial planning to its various lines of business. He managed LCRA's short-intermediate term investment portfolio and directed staff responsible for the organization's treasury management and disbursement functions. Terry earned his MBA in Finance from U.T. Austin in 1992, passed Level I of the Chartered Financial Analyst exam, and holds a BS degree in aerospace engineering from U.T. Austin.

Grant Weaver, Financial Analyst, joined U.T. System in October 2006. His responsibilities include reconciling the System's various institutional investment accounts with the mainframe accounting system, maintaining the departmental website, and coordinating capital, equipment, and performance contract financing programs among the System's component institutions. Prior to joining the U.T. System, Grant assessed the control environment surrounding management operating and accounting systems as an internal auditor at the Texas Workforce Commission. In July 2006, Grant was designated as a Certified Financial Services Auditor (CFSA) by the Institute of Internal Auditors. Grant graduated in May 2005 with a BBA in Finance from the University of Texas at Austin.

HOW WE CAN BE CONTACTED:

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- Equipment financing program
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FREQUENTLY ASKED QUESTIONS

SECTION I: U.T. SYSTEM DEBT OVERVIEW

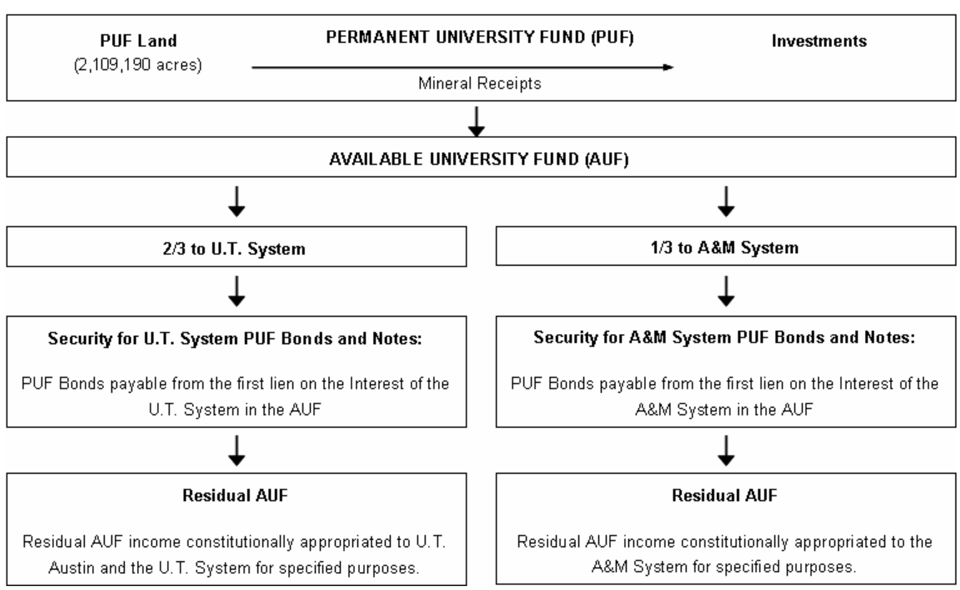
Q 1 : What is the Revenue Financing System (RFS)?
A 1 : The Revenue Financing System (RFS) is a cost-effective debt program secured by a system-wide pledge of all legally available revenues for debt issued on behalf of all 15 institutions and System Administration. The RFS is governed by a master resolution and supplementing resolution authorized periodically by the Board.

Q 2 : What is the RFS Commercial Paper (CP) program?
A 2 : The RFS CP Program is a pooled financing program used to provide interim financing for capital improvements and to finance equipment purchases. TRB CP is issued as part of the overall RFS CP program. All equipment purchases are financed via the RFS CP program. Most Capital Improvement Program (CIP) projects are initially financed through the program until they are fixed out into long-term bonds.

Q 3 : What are Tuition Revenue Bonds (TRBs)?
A 3 : Tuition Revenue Bonds (TRBs) are issued under the RFS program and are secured by the same pledge of all legally available revenues of the System; however, the expectation is that the State will reimburse TRB debt service with general revenue. Despite the name, TRB debt service is not necessarily paid from tuition and fees. In fact, an institution need not have tuition to receive TRB debt proceeds. Tuition Revenue Bond debt is specifically authorized by the Legislature under Ch. 55 of the Education Code. Please see link to Ch. 55 for further detail regarding this topic. http://www.capitol.state.tx.us/statutes/edtoc.html

Q 4 : What is Higher Education Assistance Fund (HEAF) debt?
A 4 : HEAF appropriations may be used directly to fund capital purchases or up to 50% of HEAF appropriations may be used to secure bonds with a maximum maturity of 10 years. The HEAF debt program can be used to fund E&G projects at U.T. Brownsville and U.T. Pan American.

Q 5 : What is the Permanent University Fund (PUF)?
A 5 : The Permanent University Fund (PUF) is a constitutional fund and public endowment created in the Texas Constitution of 1876. The PUF debt program is used to fund E&G projects at 13 of the 15 System institutions plus System Administration. PUF debt is secured by distributions from the PUF to the Available University Fund (AUF). The AUF is shared by U.T. System and Texas A&M System as outlined below:



Q 6 : Can PUF debt be used to fund auxiliary projects?
A 6 : No, Article 7, Section 18(d) of The Texas Constitution states that the proceeds of the bonds or notes issued under Subsection (a) or (b) of this section may not be used for the purpose of constructing, equipping, repairing, or rehabilitating buildings or other permanent improvements that are to be used for student housing, intercollegiate athletics, or auxiliary enterprises.

http://www.capitol.state.tx.us/txconst/sections/cn000700-001800.html

Q 7: Can operating expenses be financed with tax-exempt debt?

A 7: No, operating expenses, such as salaries and wages, cannot be financed with tax-exempt dept. Please see link to Ch. 55 of the Education Code for further detail regarding this topic.
http://www.capitol.state.tx.us/statutes/edtoc.html

Q 8: How is U.T. System authorized to issue debt?

A 8: U.T. System has both constitutional and statutory authorization to issue debt. Please see the following links regarding U.T. System's authorization for the issuance of debt:
RFS debt: http://www.capitol.state.tx.us/statutes/edtoc.html
PUF debt: http://www.capitol.state.tx.us/txconst/sections/cn000700-001800.html
HEAF debt: http://www.capitol.state.tx.us/txconst/sections/cn000700-001700.html

Q 9: What are U.T. System's credit ratings?

A 9: All U.T. System debt programs bear credit ratings from Moody's, Standard & Poor's and Fitch for both long-term and short-term debt.

- The current long-term debt ratings for both PUF and RFS are:
  - Moody's: Aaa
  - S&P: AAA
  - Fitch: AAA
- The current short-term debt ratings for both PUF and RFS debt are:
  - Moody's: P-1/VMIG1
  - S&P: A-1+/A-1+
  - Fitch: F-1+/F1+

These ratings represent the highest possible rating levels from all three rating agencies, for both long-term and short-term debt. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, if in the judgment of such rating agencies, circumstances so warrant.

SECTION II: DEBT APPROVAL PROCESS

Q 10: What is the approval process for debt funded projects?

A 10:

1. The institution submits a request for a project to be added to the CIP.
2. Projects must receive Design/Development ("DD") approval from the Board of Regents (BOR) if they are:
   - New capital projects greater than $1 million or renovation projects greater than $2 million
   - To be funded in whole or in part with debt, regardless of the amount
   - The Office of Finance must provide Finding of Fact prior to all BOR DD approvals for any RFS or TRB funded projects
   - Institutions may spend up to 3% of the total project cost once the project is approved for inclusion in the CIP, however these costs cannot be reimbursed until THECB approval is received and debt is subsequently issued
3. Texas Higher Education Coordinating Board (THECB) approves the capital project (typically occurs one-three months after BOR DD approval).
4. Texas Bond Review Board (BRB) approves the bond issuance.
5. Texas Attorney General approves the legality of the bond issuance.

Q 11: What is the "Finding of Fact?"

A 11: The Master Resolution establishing the Revenue Financing System requires that before any RFS debt is issued, the BOR must make a determination that:

- The BOR will have sufficient "Pledged Revenues" to meet all financial obligations relating to the Revenue Financing System
- The members (institutions) on whose behalf debt is issued possess the financial capacity to satisfy their direct obligations

The Office of Finance makes these two determinations on behalf of the BOR by analyzing debt capacity, and that is called the "Finding of Fact." Finding of Fact is required before the BOR can grant DD approval for any RFS or TRB funded project.

Q12: What are "Pledged Revenues?"

A12 Under the Master Resolution, the Board has, with certain exceptions, combined all of the revenues, funds and balances, attributable to Members of the RFS and lawfully available to secure revenue-supported indebtedness into a system-wide pledge to secure the payment of Parity Debt from time to time issued under the Master Resolution. Pledged Revenues do not include: (a) the interest of U.T. System in the AUF; (b) funds held in the Permanent Health Fund and amounts distributed to any member from the Permanent Health Fund; (c) amounts appropriated to any Member from the HEAF; (d) except to the extent so appropriated, general revenue funds appropriated to U.T. System by the State; and (e) Practice Plan Funds of any Member, including the income therefrom and any fund balances related thereto not included in Pledged Practice Plan Funds. Pledged Revenues not utilized to pay debt service on Parity Debt are available to pay other costs of operating the University System.

Q13: What is my institution's debt capacity, and what impact will a particular project have on debt capacity?

A13: A particular project's impact to an institution's debt capacity will depend on its impact to the institution's overall six-year forecast. Assuming that the project is non-revenue generating, an institution's six-year forecast generally must meet or exceed **at least** two of the three following credit ratios:

- Minimum actual debt service coverage ratio = 1.8 times
- Maximum actual debt service to operations (debt burden) = 5.0%
- Minimum expendable financial resources to debt = 1.0 times

Please note that the Office of Finance believes debt capacity is a strategic concept and cannot be determined by formulas and ratios alone; however, these standards serve as the foundation for determining access to RFS debt.

Q14: What if my project is revenue-generating? Is debt service coverage of 1.8x still required? What is the difference between institutional debt coverage and project debt coverage?

A14: The standard for a revenue-generating project is 1.3x coverage (exclusive of depreciation). If the project is non-revenue generating (i.e., not self-supported), the Office of Finance defers to the institution's overall debt coverage, and a 1.8x coverage standard is generally used.

Q15: The BOR granted DD approval for my debt funded project. When can I be reimbursed for the 3% preliminary design costs?

A15: If the project requires THECB approval, no reimbursements can be made until THECB approval is received. If the project does not require THECB approval, reimbursements can be made at any time once the debt is issued and proceeds are available.

Q16: Is the Office of Finance responsible for submitting my project to THECB and/or obtaining THECB approval?

A16: No, each institution is responsible for submitting their projects and should coordinate the process through OFPC.

Q17: My institution is interested in taking out a capital lease. Since this action would not be part of any U.T. System debt program, can I take out a capital lease without any authorizations?

A17: THECB approval is not required for capital leases, however, you will still need Bond Review Board (BRB) approval if it has a stated term of longer than five years or has an initial principal amount of greater than $250,000. Additionally, Board of Regents (BOR) approval is required prior to entering into any contract in excess of $1,000,000.

SECTION III: DEBT ISSUANCE AND MANAGEMENT

Q18: Which funds should be spent first if a project has multiple funding sources?

A18: The appropriate order of funding is generally TRB, PUF, RFS and then local funds. An added benefit of spending debt proceeds first is that it enhances the institution's ability to meet arbitrage deadlines. For example, assume there is a project funded by $10 million of debt proceeds and $10 million of local funds for a total project cost of $20 million. Suppose the $10 million of local funds were used first. Then, the Office of Finance issued the $10 million of debt. After the issuance of debt, it is realized that the project will come in under budget at only $18 million. The institution now has $2 million of debt proceeds for which there is no designated project on which to spend the funds. This could lead to a violation of IRS spend-down rules, thus resulting in IRS penalties and fines. If the debt funding had been spent first, there would not be an IRS-related issue.

Q19: How often does the Office of Finance issue CP, what determines a project's eligibility for CP issuance, and how is the issuance amount determined?

A19: RFS CP issuances are generally done on a quarterly basis, each November, February, May, and August. A project's eligibility for CP issuance is based on the following factors:

- The project has remaining RFS authorization that has not yet been issued
- The project is not "on hold" or "closed"
- BOR DD approval has been received
- THECB approval letter has been received (if THECB approval is required)

The institution determines the issuance amount by analyzing projected cash flows which are available from the project managers and/or OFPC. Cash flows and the issuance amount should be analyzed with IRS spend-down rules in mind.

Q20: What is "arbitrage", and what are the IRS spend-down rules related to tax-exempt proceeds?

A20: Arbitrage refers to the act of issuing debt at relatively low tax-exempt rates then investing the proceeds at higher taxable rates. Tax-exempt borrowing is a privilege, and the IRS maintains that arbitrage is an abuse of that privilege; tax-exempt debt proceeds are intended for capital improvement for the greater good of the public, not higher investment returns for the borrowing entity. The IRS regulates against arbitrage by enforcing spend-down rules for all tax-exempt debt proceeds including commercial paper and bonds. The spend-down rules are an important consideration when determining how much debt to issue for a project. Spend-down schedules are determined by the percentage of proceeds to be used on equipment.

1. If more than 25% of debt proceeds will be used on equipment, then the proceeds must spend-down according to the 18-month schedule:
   - 15% of proceeds must be spent within 6 months from the issuance date
   - 60% of proceeds must be spent within 12 months from the issuance date
   - 100% of proceeds must be spent within 18 months from the issuance date
2. If less than or equal to 25% of debt proceeds will be used on equipment, then the proceeds must spend-down according to the 24-month schedule:
   - 10% of proceeds must be spent within 6 months of the issuance date
   - 45% of proceeds must be spent within 12 months of the issuance date
   - 75% of proceeds must be spent within 18 months of the issuance date
   - 100% of proceeds must be spent within 24 months of the issuance date

Note: There is no penalty against spending down faster than the required schedule.

Q21: How do I get added or removed from the CP communication email list?

A21: Every quarter, the Office of Finance will coordinate with each institution regarding how much CP to issue and/or pay down at that time. Please contact Grant Weaver at 512-499-4416 or gweaver@utsystem.edu to be added or removed from the CP communication email list.

Q22: Is there a CP note for my specific project?

A22: No, there are not individual commercial paper notes issued and tracked for each individual project. Rather, the RFS CP program functions as an interim financing pool and interest expense is allocated pro-rata. For example, if your projects represent 10% of the CP pool, then you pay 10% of the interest expense due as the System's CP notes come due.

Q23: What is an interest expense/reserve and why does our institution pay it?

A23: Under the interest reserve system in place during prior fiscal years, the Office of Finance assessed each institution interest reserves at the start of each new quarter to cover *forecasted* debt service on its CP-funded projects over the ensuing three months. Now, at the conclusion of each quarter, the Office of Finance assesses each institution the *actual* interest expense-paid on its behalf over the preceding three months. Implementation of the expense system, whereby the institution is billed in arrears for its debt service, presents two tangible improvements over the previous system:

- Each institution pays its exact, pro-rata share of System interest expenses over the preceding quarter; and,
- Each institution reaps the benefit of the 'float', in that the Office of Finance fronts the out-of-pocket interest expenses days, weeks, and often months before expensing the institutions for this cost of capital.

Q24: My proposed project does not meet a 1.3x coverage. Can I lower my annual debt service by extending the amortization schedule of the debt?

A24: Possibly, it depends on the project. The term of debt cannot exceed the useful life of the project, although it can be shorter than the useful life of the project. For instance, if a project's useful life is expected to be 20 years, the term of the debt could be 20 years or less, but it cannot be greater than 20 years.

Q25: Why doesn't the borrowed (par) amount on the bonds match the amount of proceeds we received? What are premium dollars and how are they different than borrowed dollars?

A25: Often when the final debt service schedules are provided after a bond issuance, the total principal amount in the schedule falls short of the amount of proceeds you have received. For instance, let's say you have received $2.5 million in proceeds, but the principal on the final debt service schedule only adds up to $2.325 million. The difference exists because the project received $175,000 in premium dollars associated with the sale of the bonds (not because $175,000 is yet to be issued). Premium dollars can best be described as the extra upfront cash investors are willing to pay beyond face value for our bonds, similar to the premium we pay for tickets to a sold-out game. Because they are willing to pay more upfront to receive an above-market coupon rate we do not have to issue as much debt to get the project(s) funded. In sum, you did in fact receive a grand total of $2.5 million in proceeds, of which $175,000 was premium dollars. Because they are not borrowed dollars, premium dollars are not reflected in the principal amortization or debt service schedules.

Q26: How soon do debt proceeds become available for reimbursement?
A26: Bond proceeds usually become available approximately one month after you receive the final debt service schedules from the Office of Finance. CP proceeds usually become available within a day of the CP issuance.

Q27: What are the rules on private use, and how do they affect the type of debt (taxable vs. tax-exempt) issued?
A27: Because we are public institutions, the government allows us to borrow money (issue debt) at tax-exempt rates, which are lower than the taxable rates at which corporate entities borrow. In exchange for that privilege, the government expects us to utilize the vast majority of our facilities for tax-exempt public purposes. However, it is not uncommon to have some small amount of private activity going on inside a building. Two typical types of private use activity are naming rights private use and management contract private use. If a project has more than the allowable amount of private use, it is possible that it will need to be financed with taxable debt. **Please see the appendix of this document for a detailed memo drafted by U.T. System's tax counsel outlining the parameters for naming rights and management contracts.**

Q28: When do equipment financing reimbursements and equipment pay downs occur?
A28: Equipment is reimbursed on a quarterly basis (each November, February, May, and August) as part of the quarterly RFS CP issuance. Equipment pay downs occur twice a year in February and August.

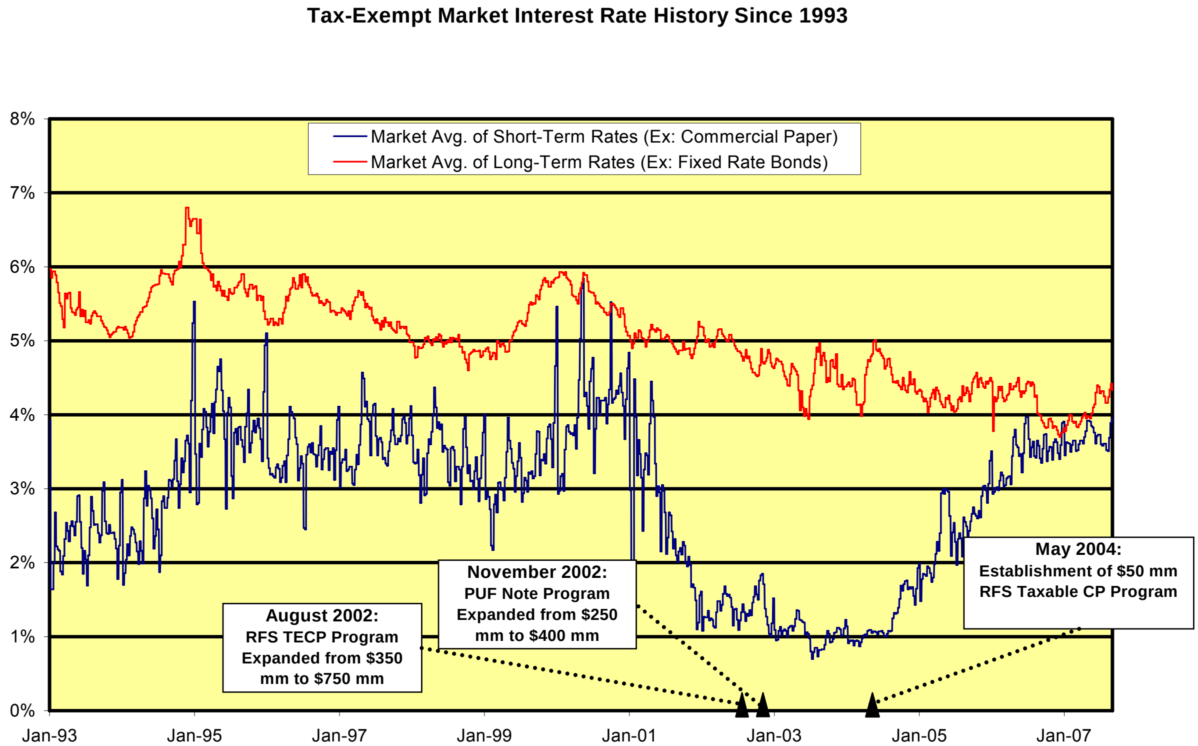
Q29: What are the guidelines for equipment financing reimbursement requests?
A29: The minimum amount of equipment to be financed for any institution is $100,000 per funding with smaller equipment purchases allowed to be bundled together to reach the minimum of $100,000. The equipment must also have a useful life equal to or greater than three years. The amortization period for equipment financing ranges from 3-10 years depending on the useful life of the equipment financed. For further information regarding the Equipment Financing Program history, rules, and procedures, please see the complete guidelines at http://www.utsystem.edu/fin/Equipment%20Financing%20-%20Program%20Procedures.htm.

Q30: My institution is not going to be reimbursed for the total amount of equipment financing that it was approved for in the current fiscal year. Does unused approved equipment financing roll over into the next fiscal year?
A30: No. Equipment financing authorization does not have to be used by the end of the current fiscal year, but unused amounts lapse and are **not** carried over into the next fiscal year.

SECTION IV: DEBT BUDGETING AND FORECASTING

Q31: How should TRB debt service be budgeted?
A31: The budget for TRB debt service should match the amount designated for your institution in the General Appropriations Bill.

Q32: How do short-term rates compare to long-term rates? What rate should I use for forecasting?
A32: Since CP is a short-term borrowing instrument, (i.e., variable rate), the borrowing cost (interest rate) is generally lower than that of long-term, fixed rate bonds. For instance, over the past 15 years, short-term tax-exempt market rates have averaged about 3.05%, whereas long-term tax-exempt market rates have averaged about 5.60%. For U.T. System, that translates into the rate assumptions commonly used in our forecasting of 3.75% for CP and 6.0% for bonds.



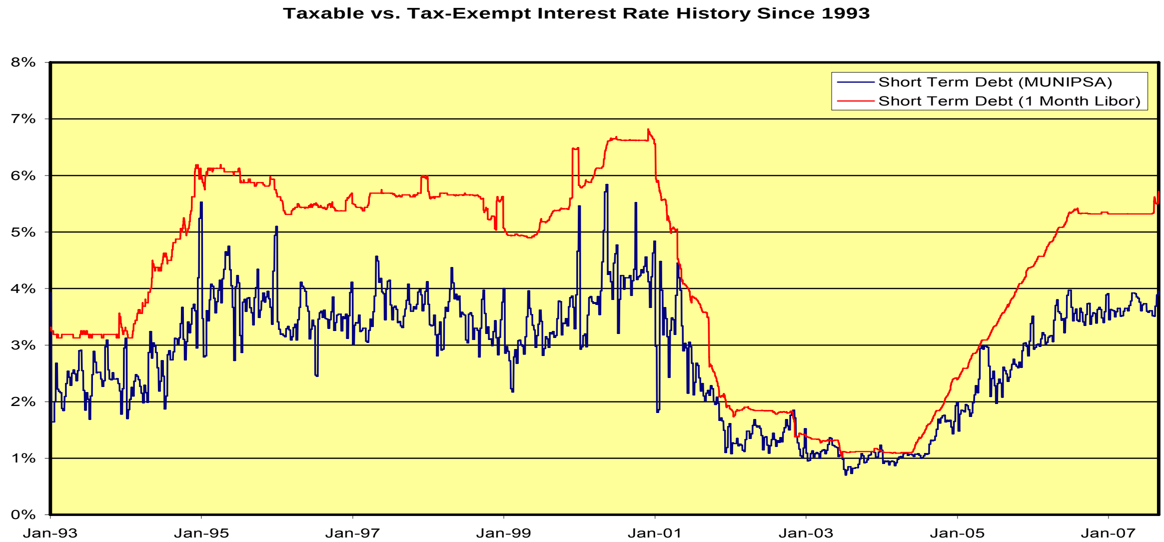
For forecasting purposes, most projects initially start out in CP for a period of time. During that time, use 3.75% as the rate of assumption. Then, projects are typically fixed out to long-term fixed rate bonds with a 20- or 30-year amortization. During that time, use 6.0% as the rate of assumption.

Q 33: Who should I contact with questions regarding the debt budget?

A 33: Although the Office of Finance works in conjunction with the Office of the Controller during budget session, any debt budget-related questions should be directed to the Office of Finance, as we track debt by project by institution.

Q 34: What is the relationship between taxable and tax-exempt rates? What assumptions should I use if I am forecasting taxable debt?

A 34: In instances of private activity, taxable RFS debt may be required. The only form of taxable debt that U.T. System currently issues is taxable CP. Because the overall amount of taxable CP issuance within U.T. System is small, it is generally not converted to bonds. Rather, taxable CP is amortized over time until the amount is fully paid off. The graph below illustrates the relationship between taxable and tax-exempt short-term rates since 1990. Tax-exempt rates have historically averaged about 67% of taxable rates. In other words, if tax-exempt rates are at 6%, then it would be reasonable to assume that taxable rates would be at about 9% (6% divided by 67%).



Q35: If I know the amount of debt for my project, what is a quick way to estimate annual debt service?

A35: Although it does not take into account cost of issuance or interest earnings applied to debt service, a convenient way to estimate annual debt service is to use the payment (PMT) function in Microsoft Excel. The PMT function assumes level-debt (same annual payment over the life of the debt). It calculates the annual payment based on three factors you provide: (1) interest rate assumption, (2) amortization term, and (3) debt amount. For instance, if your project assumptions are 6% interest rate, 20-year amortization, and $17,000,000 of debt, then you would enter the following formula in Excel:

Example A:
=PMT(6%,20,17000000)
Result: ($1,482,137.47)

The result represents the estimated annual debt service payment for the project. Excel automatically provides the debt service as a negative number, indicating that debt service payments are cash outflows. If you decide that a 30-year amortization is more appropriate, then you would simply change the amortization input from 20 to 30, as follows:

Example B:
=PMT(6%,30,17000000)
Result: ($1,235,031.50)

Any of the three inputs can be changed to arrive at different annual debt service estimates. If you need to break the annual debt service number down into its respective principal and interest (P & I) portions, use the PPMT and IPMT functions. Although the annual debt service is the same for all years, the breakout between P & I changes from year to year, hence the PPMT and IPMT functions require a fourth piece of information from you: the period (year) you would like to calculate. For instance, assuming a 30-year amortization, are you trying to calculate the annual P & I for the 1st year or the 23rd year? Let's assume you want the annual P & I for the 23rd year of Example B above. You would enter the following formulas in Excel:

Example C:
=PPMT(6%,23,30,17000000)
Result: ($774,874.04) principal paid in 23rd year
=IPMT(6%,23,30,17000000)
Result: ($460,157.46) interest paid in 23rd year

Notice that these two numbers add up to the annual debt service calculated in Example B, ($1,235,031.50). If you want to further break down the annual interest into its two semi-annual payments, simply divide it by two.

SECTION V: CASH MANAGEMENT

Q36: How is the new Client Participation System (CPS) wiring different from the Dreyfus Lion Remote system?

A36: When dealing with internal entities (i.e., U.T. System Administration and/or U.T. System institutions) the term to use is "transfer." Monies are transferred to and from the institutions, and once the wiring process is complete, the "transfer is accepted." When dealing with external entities (i.e., insurance companies, vendors, etc.) the term to use is "STF Sell" or "STF Buy."

Q37: When are Workers Compensation Insurance (WCI) and Medical Vision (Med/Vis) premiums paid?

A37: These are monthly transactions. The Office of Risk Management (responsible for WCI premiums) and Office of Employee Benefit (responsible for Med/Vis premiums) set the dates for payment to U.T. System at the beginning of each fiscal year. The institutions, as well as the Office of Finance are given the dates for the scheduled transfers. On the date premiums are due, the Office of Finance advises each institution of the amount to transfer to U.T. System.

Q38: When are construction reimbursements transferred to the institutions?

A38: Construction reimbursements are transferred each Thursday. During holiday periods the date may be adjusted to accommodate the institutions.

SECTION VI: INVESTMENT OVERSIGHT

Q39: What is Centralization?

A39: Centralization refers to the pooled investment management of U. T. System operating funds that became effective on February 1, 2006. Prior to centralization, each chief business officer was responsible for investing institutional operating funds among the options provided by UTIMCO. After centralization, all institutional operating assets were pooled and invested in two funds, the Short Term Fund (STF) and the Intermediate Term Fund (ITF), under the direction of the Executive Vice Chancellor for Business Affairs of System Administration. The centralized funds represent approximately $4-$5 billion of invested operating funds.

Q40: What is the Short Term Fund (STF)?

A40: The STF is the aggregate of investment balances held by U. T. System institutions and U. T. System Administration in the Dreyfus Institutional Preferred Money Market Fund, an externally managed institutional money market fund.

The Fund's strategy is to invest in short-term money market obligations, including securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities, certificates of deposit, time deposits, bankers' acceptances and other short-term obligations issued by domestic banks, or London branches of domestic banks, repurchase agreements, and high grade commercial paper and other short-term corporate obligations.

The Fund is appropriate for accounts where the investment horizon for the funds is under 1 year. The Fund is rated AAA by Standard and Poor's Corporation. This is the highest rating that a money market fund may receive.

Q41: What is the Intermediate Term Fund (ITF)?

A41: The ITF consists of intermediate and long-term funds held by the U. T. System Board of Regents, as a fiduciary, for the benefit of U. T. System institutions, U. T. System Administration and other affiliated funds. ITF assets are pooled for efficient investment purposes and managed by UTIMCO pursuant to an investment management agreement with the Board of Regents. UTIMCO employs investment managers and administrative staff to manage the ITF's investments.

The primary investment objective of the ITF is to preserve the purchasing power of ITF assets by earning a compound annualized return over rolling three-year periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index (CPI-U) plus 3%. The secondary ITF objective is to generate a return, net of all direct and allocated expenses, in excess of the approved Policy Portfolio benchmark over rolling three-year periods. The Policy Portfolio benchmark is comprised of a blend of asset class indices and weighted to reflect the ITF's approved asset allocation policy targets.

The Fund is appropriate for Non-Endowment funds where the investment horizon for the funds is intermediate to long-term and not needed for short-term liquidity purposes. The ITF has an approved annual distribution rate of 3.0% that is distributed on a monthly basis.

Q42: How will operating assets be allocated among the STF and the ITF?

A42: Each institution's operating assets were allocated on February 1, 2006. A target asset allocation of 10% in the STF and 90% in the ITF was established as of September 1, 2007. The Policy range for operating assets is for institutions to maintain 5%-15% of assets in the STF and a minimum STF balance of $5 million at the start of each month. Rebalancing transactions if necessary will occur monthly and can be initiated by each institution's chief business officer. For more information, please see the complete Allocation Policy for Non-Endowment Funds at http://www.utimco.org/extranet/WebData/INVESTMENT/NonEndowFundsPolicy.pdf

Q 4 3 : How do I communicate transactions I wish to initiate related to the STF and ITF? How can I monitor balances, daily activity and generate reports?

A 4 3 : Institutions will use the Client Participation System (CPS) to transfer cash to and from the STF and to purchase or sell units of the ITF. Transactions include inbound wire transfers to the STF, outbound wire transfers from the STF, transfers between institutions as well as monthly rebalancing transactions between the STF and ITF.

The CPS website will not be accessible from the UTIMCO website to minimize any casual traffic. UTIMCO will provide a link and a login ID to authorized users. CPS is intended for transaction processing only. Institutions can use CPS to schedule STF transactions for any business day, even weeks in advance. ITF transactions (purchases and redemptions) are permitted on the first business day of each month.

Institutions will use Component Reports to monitor balances and daily transaction activity. Components Reports can also be used to generate reports to review transactions, historical account balances, ITF prices and STF yields. The Component Reports application is accessible from the UTIMCO website.

For more information about centralization, please contact the U.T. System Office of Finance.

Q 4 4 : What is UTIMCO, how much money does it manage, and for whom?

A 4 4 : UTIMCO is a separate non-profit corporation that was created in 1996 solely to manage U. T. System assets on behalf of the Board of Regents. UTIMCO manages over $20 billion including endowment and other financial assets, invested diversified portfolios. Endowment assets include the Permanent University Fund (PUF – excluding lands), the Permanent Health Fund, and other financial endowment assets; other managed assets include operating reserves of the U. T. System Institutions.

Q 4 5 : What is the governance structure of UTIMCO?

A 4 5 : UTIMCO is governed by a Board of Directors, consisting of nine members: three Regents, one of whom serves as Chairman; the Chancellor of the U. T. System, who serves as Vice Chairman for Policy, one representative of the Texas A&M University System; and three non-affiliated directors who have investment expertise. The UTIMCO Board delegates certain oversight responsibilities to four Board Committees: the Audit and Ethics Committee, the Policy Committee, the Risk Committee, and the Compensation Committee. The Board is accountable to the Board of Regents as ultimate fiduciary for the management of the assets.

Q 4 6 : What is the role of investment oversight at System Administration?

A 4 6 : Investment Oversight's role is to help fulfill the Regents' fiduciary duty to achieve the prudent investor standard by applying specialized skills and experience to enhance transparency and facilitate informed decisions by the Chancellor as a UTIMCO Director and Vice Chairman for Policy; the Regental UTIMCO Directors, and ultimately The Board of Regents. This involves developing and recommending prudent U. T. System positions on policy, compliance, and reporting issues by coordinating, synthesizing, interpreting, and communicating complex policies and best practices from a variety of resources, including UTIMCO, Office of General Counsel and outside counsel, internal and external auditors, the Board Office, industry data sources, and outside investment consultants.

APPENDIX