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FOR MEETING
OF
BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

Date: **Wednesday, August 7, 2002**

Time: **1:00 p.m.**

Place: **Grand Ballroom, Salon E, El Paso Marriott Hotel, 1600 Airway Boulevard**

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Time: **8:30 a.m.**

Place: **Geology Reading Room (Room 310), Geological Sciences Building, 591 West University Avenue, U. T. El Paso**

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1. U. T. System: Recommendation to Approve Docket No. 110

RECOMMENDATION

It is recommended that Docket No. 110 be approved.

It is requested that the Committee confirm that authority to execute contracts, documents, or instruments approved therein has been delegated to appropriate officials of the respective institution involved.

2. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part Two, Chapter III, Section 11 (Insurance on Money and Securities; Fidelity Bonds)

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Acting Executive Vice Chancellor for Health Affairs, and the Vice Chancellor and General Counsel that the Regents' Rules and Regulations, Part Two, Chapter III, Section 11, relating to insurance on money and securities and fidelity bonds, be amended as set forth below in congressional style:

Sec. 11. Insurance on Money and Securities; Fidelity Bonds

11.1 Insurance on Money and Securities

11.11 The [~~As approved by the Board, the~~] System carries a blanket System-wide crime insurance policy insuring against loss of money or securities, including loss caused by employee dishonesty, at any of the component institutions. The terms of the policy shall be negotiated by the U. T. System Administration Director of Business and Administrative Services. The purchase or renewal

of the policy shall be approved by the Executive Vice Chancellor for Business Affairs if the premium is in excess of $100,000 [~~The premium paid by each institution is separately computed and is based on the coverage applicable at each institution~~].

11.12 At the time any loss occurs at any institution, the U. T. System Administration Director of Business and Administrative Services [~~Executive Vice Chancellor for Business Affairs~~] shall be notified by the appropriate chief business officer. The U. T. System Administration Director of Business and Administrative Services [~~and~~] shall approve all loss claims and settlements up to $50,000. Any settlement over $50,000 [~~$2,000~~] and up to $500,000 [~~under $10,000~~] shall be approved by the Executive Vice Chancellor for Business Affairs. Notification of the settlement will be given to the Board at the discretion of the Executive Vice Chancellor for Business Affairs. Settlements over $500,000 and up to $1,000,000 shall be approved by the Executive Vice Chancellor for Business Affairs and shall be reported to the Board for ratification. Settlements in excess [~~the amount~~] of $1,000,000 [~~$10,000 or more~~] must have the approval of the Board. [~~Money and securities coverage may be combined with the blanket position fidelity bond.~~]

11.13 If a loss is so extensive that partial settlements in excess of $1,000,000 are necessary, the Chancellor is delegated authority to execute all documents related to the partial settlement or adjustment. The Board will be notified by the Chancellor of all partial settlements made in excess of $500,000. Final settlement of claims in excess of $1,000,000 will require approval by the Board.

11.2 Fidelity Bonds

11.21 If the System discontinues its employee dishonesty insurance coverage, [~~As approved by the Board,~~] the System may purchase, in

accordance with all applicable State laws, [~~shall carry~~] a blanket position (fidelity) bond covering [~~that shall cover~~] employees of all component institutions. [~~All employees shall be covered in the amount of not less than $5,000 each. For total coverage in excess of $10,000, approval of the State Auditor is necessary.~~]

11.22 [~~The Secretary of State and the State Comptroller of Public Accounts shall be each furnished with an original of the bond.~~

~~11.23~~] The premium for the bond shall be [~~is~~] prorated to the component institutions on the basis of the number of employees covered for which a premium charge is made and the excess coverage thereon.

11.23 [~~11.24~~] At the time a loss occurs, the U. T. System Administration Director of Business and Administrative Services shall be notified by the appropriate chief business officer. The U. T. System Administration Director of Business and Administrative Services shall approve all loss claims and settlements up to $50,000. Any settlement over $50,000 and up to $500,000 shall be approved by the Executive Vice Chancellor for Business Affairs. Notification of the settlement will be given to the Board at the discretion of the Executive Vice Chancellor for Business Affairs. Settlements over $500,000 and up to $1,000,000 shall be approved by the Executive Vice Chancellor for Business Affairs and shall be reported to the Board for ratification. Settlements in excess of $1,000,000 [~~the Executive Vice Chancellor for Business Affairs shall be notified by the chief business officer and shall approve all loss claims and settlements. Any settlement over $2,000 and under $10,000 shall be reported to the Board for ratification. Settlements in the amount of $10,000 or more~~] must have the approval of the Board.

11.24 [~~11.25~~] If a loss is so extensive that partial settlements in excess of $1,000,000 are necessary, the Chancellor is delegated authority to execute all

documents related to the partial settlement or adjustment. The Board will be notified by the Chancellor of all partial settlements made in excess of $500,000. Final settlement of claims in excess of $1,000,000 will require approval of the Board [~~The blanket position fidelity bond coverage may be combined with money and securities coverage~~].

BACKGROUND INFORMATION

Currently, the U. T. System purchases a crime insurance policy covering losses of money and securities. Coverage for losses arising from employee dishonesty has been included in this insurance policy, making the purchase of a blanket position fidelity bond unnecessary.

Part Two, Chapter III, Section 11 of the Regents' Rules and Regulations specifies the authority to purchase insurance on money and securities and to settle claims made against that policy. The section also specifies purchase authority and claims settlement procedures if U. T. System should decide to purchase a blanket position fidelity bond in lieu of employee dishonesty insurance.

The proposed changes to Part Two, Chapter III, Section 11 of the Regents' Rules and Regulations remove language regarding the purchase of bonds that is now outdated due to recent statutory changes and make the policy and settlement approval requirements consistent with those for other types of insurance as specified in Part Two, Chapter VII, Section 3 of the Regents' Rules and Regulations. Among those requirements are provisions for large partial settlements, which may be approved by the Chancellor.

3. U. T. System: Recommended Approval of Non-Personnel Aspects of the Operating Budgets for the Fiscal Year Ending August 31, 2003, Including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans, and Authorization for the Chancellor to Make Editorial Corrections Therein; and Approval of Permanent University Fund Bond Proceeds Reserve Allocation for Library, Equipment, Repair and Rehabilitation Projects

RECOMMENDATION

The Chancellor, with the concurrence of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Acting Executive Vice Chancellor for Health Affairs, and presidents of the U. T. System component institutions, recommends that the non-personnel aspects of the U. T. System Operating Budgets for the fiscal year ending August 31, 2003, including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans, be approved.

It is further recommended that the Chancellor be authorized to make editorial corrections therein and that subsequent adjustments be reported to the U. T. Board of Regents through the institutional dockets.

It is requested that Permanent University Fund Bond Proceeds in the amount of $30,000,000 be appropriated from reserves to fund Library, Equipment, Repair and Rehabilitation Projects for Fiscal Year 2003. In addition, it is recommended that the U. T. System component institutions be authorized to purchase approved equipment items and library materials and to contract for repair and rehabilitation projects following standard purchasing and contracting procedures within approved dollar limits. Substitute equipment purchases are to receive prior approval by the Chancellor and the appropriate Executive Vice Chancellor and, where required, the U. T. Board of Regents. Transfers by the U. T. System Administration of allocated funds to institutional control or to vendors will coincide with vendor payment requirements. Final approval of specific repair and rehabilitation projects will be in accordance with procedures for construction projects established by the Board.

Fiscal Year 2003 funds from these reserves not expended or obligated by contract/purchase order within six months after the close of Fiscal Year 2003 are to be available for future System-wide reallocation unless specific authorization to continue

obligating the funds is given by the Executive Vice Chancellor for Business Affairs on recommendation of the president of the component institution and the appropriate Executive Vice Chancellor.

This item requires the concurrence of the Academic Affairs and Health Affairs Committees.

BACKGROUND INFORMATION

Chancellor Burck gave a PowerPoint presentation at the July 2, 2002 Finance and Planning Committee meeting and will summarize recommendations on the Operating Budget at the August 7, 2002 meeting of the U. T. Board of Regents.

Personnel aspects of the Operating Budgets will be considered in Executive Session (See Item 3a on Page 1).

The appropriation of Permanent University Fund Bond Proceed Reserves will be presented in the Fiscal Year 2003 Library, Equipment, Repair and Rehabilitation Budget. An allocation of $30,000,000 is being requested for Library, Equipment, Repair and Rehabilitation Projects for Fiscal Year 2003. The allocation of these reserves to the U. T. System component institutions was developed from prioritized lists of projects submitted by the component institutions and reviewed by U. T. System Administration staff.

As required by the Available University Fund (AUF) Spending Policy, a forecast of revenues and expenses of the AUF for seven years, including the above allocation, has been prepared and is set forth on Page 19. The additional appropriation of Permanent University Fund Bond Proceeds for this allocation is within the policy as shown in the forecast.

4. U. T. Board of Regents: Proposed Adoption of Eleventh Supplemental Resolution to the Master Resolution Authorizing the Issuance of Board of Regents of The University of Texas System Revenue Financing System Refunding Bonds in One or More Installments in an Aggregate Principal Amount Not to Exceed $215,000,000; Authorization for Officers of U. T. System to Complete All Related Transactions; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. Board of Regents:

a. Adopt the Eleventh Supplemental Resolution to the Master Resolution substantially in the form before the Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Revenue Financing System Refunding Bonds in one or more installments in an aggregate principal amount not to exceed $215,000,000 with a final maturity not to exceed the year 2020 for the purpose of refunding up to a maximum amount of $190,840,000 of the outstanding Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1999A and Series 1999B, maturing in the years 2010 through 2020 and to pay the costs of issuance and any original issue discount, provided the transaction produces net present value savings of at least 5% of the refunded bonds

b. Authorize appropriate officers and employees of the U. T. System as set forth in the Eleventh Supplemental Resolution to take any and all actions necessary to carry out the intentions of the U. T. Board of Regents, including determining the method of sale and the selection of the underwriters, within the limitations and procedures specified therein; making certain covenants and agreements in connection therewith; and resolving other matters incident and related to the issuance, sale, security, and delivery of such bonds.

The Chancellor also concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System (the "Master Resolution") adopted by the U. T. Board of Regents on February 14, 1991, amended on October 8, 1993 and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as set out on Page 23, the U. T. Board of Regents resolves that:

a. Sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System

b. The component institutions, which are “Members” as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt.

BACKGROUND INFORMATION

On February 14, 1991, the Board adopted a Master Resolution establishing the Revenue Financing System to create a cost-effective, System-wide financing structure for component institutions of the U. T. System. Since that time, the Board has adopted 10 supplemental resolutions following the Master Resolution format to provide debt financing for projects that have received requisite approval by the U. T. System Board of Regents and the Texas Higher Education Coordinating Board. The proposed Eleventh Supplemental Resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

Adoption of the Eleventh Supplemental Resolution would authorize the issuance of Revenue Financing System Refunding Bonds in an aggregate principal amount not to exceed $215,000,000 in one or more installments to advance refund a portion of the outstanding Revenue Financing System Bonds, Series 1999A and Series 1999B up to a maximum amount of $190,840,000 maturing in the years 2010 through 2020.

An advance refunding involves issuing bonds to refund outstanding bonds in advance of the call date. Refunding bonds are issued at lower interest rates thereby producing debt service savings.

The Series 1999A and Series 1999B Bonds were issued in September 1999 in the aggregate amounts of $101,745,000 for the Series 1999A Bonds and $180,830,000 for the Series 1999B Bonds. The Series 1999A and Series 1999B Bonds are callable on August 15, 2009, or on any date thereafter at par. The callable bonds have coupons ranging from 5.375% to 5.75%.

With interest rates at current levels, the net present value savings are approximately 4% assuming all of the callable Series 1999A and Series 1999B Bonds are refunded. This translates into debt service savings of approximately $600,000 per year. A further decline in interest rates is necessary to achieve the minimum 5% savings target. Adoption of this resolution will provide the flexibility to execute the transaction quickly should interest rates decline further.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned Assistant Vice Chancellor for Finance of The University of Texas System, a U. T. System Representative under the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System (the "Master Resolution") adopted by the U. T. Board of Regents ("Board") on February 14, 1991, and amended on October 8, 1993 and August 14, 1997, do hereby execute this certificate for the benefit of the Board pursuant to Section 5(a)(ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity Debt" and do certify that to the best of my knowledge, the Board is in compliance with and not in default of any terms, provisions, and conditions in the Master Resolution, the First Supplemental Resolution Establishing the Revenue Financing System Commercial Paper Program ("First Supplemental"), the Second Supplemental Resolution, the Third Supplemental Resolution, the Fourth Supplemental Resolution, the Fifth Supplemental Resolution, the Sixth Supplemental Resolution, the Seventh Supplemental Resolution as amended, the Eighth Supplemental Resolution, the Ninth Supplemental Resolution as amended, and the Tenth Supplemental Resolution.

EXECUTED this 16th day of July, 2002

/s/ Philip Aldridge
Assistant Vice Chancellor for Finance

5. U. T. System: Proposed Adoption of Resolution Amending the Amended and Restated First Supplemental Resolution to the Master Resolution Establishing the Revenue Financing System Commercial Paper Notes, Series A Program; Request for Approval to Increase the Amount of Liquidity Provided Through the Short Intermediate Term Fund; and Request for Authorization for Officers of U. T. System to Complete All Transactions Related Thereto

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. Board of Regents:

a. Adopt a resolution substantially in the form set out on Pages 26 - 35 amending the Amended and Restated First Supplemental Resolution to the Master Resolution Establishing the Revenue Financing System Commercial Paper Notes, Series A program to increase the maximum amount of the interim financing program to $750 million and to provide for multiple commercial paper dealers

b. Approve the increase in the amount of liquidity provided through the Short Intermediate Term Fund to $750 million, subject to a daily maximum maturity amount of $75 million plus accrued interest

c. Authorize appropriate officers and employees of U. T. System to take any and all actions necessary to carry out the intentions of the U. T. Board of Regents.

BACKGROUND INFORMATION

The Revenue Financing System Commercial Paper Notes, Series A program was established on April 12, 1990. The size of the program was increased on February 9, 1995 and November 13, 1997, up to the current authorization of $350 million to meet the financing needs of the U. T. System.

The increase in program authorization from $350 million to $750 million is needed to facilitate the funding of construction costs of projects reflected in the FY 2002-2007 Capital Improvement Program, including $322 million of new tuition revenue bonds authorized by the 77th Texas Legislature in House Bill 658. There is currently $313 million of commercial paper notes outstanding and the current $350 million limit is expected to be met by September 2002.

The resolution authorizing the program currently provides for a single commercial paper dealer. Having multiple dealers on a $750 million program is beneficial by providing broad distribution and creating competitive pricing without adversely affecting investor liquidity. Approval of this item would delegate authority to select one or more commercial paper dealers as provided in the resolution. The resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

Since November 1993, liquidity for the commercial paper program has been provided through the Short Intermediate Term Fund. With the increase to $750 million, The University of Texas Investment Management Company (UTIMCO) has agreed to increase the liquidity commitment. In consideration for its commitment, the Short Intermediate Term Fund will continue to receive a commitment fee equal to 0.10% per annum times the amount of the commitment.

6. U. T. System: Request to Approve an Aggregate Amount of Equipment Financing for Fiscal Year 2003 and Approve the Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. Board of Regents approve an aggregate amount of $49,368,000 in equipment to be purchased in Fiscal Year 2003 under the Revenue Financing System Equipment Financing Program as follows:

U. T. Arlington	$ 4,000,000
U. T. Austin	$ 2,500,000
U. T. El Paso	$ 2,030,000
U. T. Southwestern Medical Center – Dallas	$ 8,125,000
U. T. Medical Branch - Galveston	$10,000,000
U. T. Health Science Center - San Antonio	$ 1,000,000
U. T. M. D. Anderson Cancer Center	$20,000,000
U. T. Health Center - Tyler	$ 1,513,000
U. T. System Administration	$ 200,000
TOTAL	$49,368,000

The Chancellor also concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System (the "Master Resolution") adopted by the U. T. Board of Regents on February 14, 1991, amended on October 8, 1993 and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as set out on Page 38, the U. T. Board of Regents resolves that:

a. Parity Debt shall be issued to pay the cost of equipment including costs incurred prior to the issuance of such Parity Debt

b. Sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the

Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the Board relating to the Financing System

c. The component institutions and U. T. System Administration, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the aggregate amount of $49,368,000 for the purchase of equipment

d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the Code of Federal Relations.

BACKGROUND INFORMATION

At the April 14, 1994 meeting, the U. T. Board of Regents approved the use of Revenue Financing System debt for equipment purchases in accordance with the Guidelines Governing Administration of the Revenue Financing System. The guidelines specify that the equipment to be financed must have a useful life of at least three years. The debt is amortized twice a year with full amortization not to exceed 10 years.

This agenda item requests approval of an aggregate amount of $49,368,000 for equipment financing for Fiscal Year 2003, of which $927,000 represents the carryover of equipment authorized for purchase during FY 2002 by U. T. El Paso.

For FY 2002, the Board approved $31,715,000 of equipment financing, of which $17,129,000 has been issued as of June 30, 2002. An additional $13,000,000 is expected to be issued by the end of the fiscal year.

With the issuance of all requested equipment financing debt, the debt service coverage for the U. T. System is projected to range from 2.0 to 3.0 times from FY 2003 to FY 2007. Further details on the equipment to be financed and debt coverage ratios for individual component institutions can be found on Page 39 .

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned Assistant Vice Chancellor for Finance of The University of Texas System, a U. T. System Representative under the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System (the "Master Resolution"), adopted by the U. T. Board of Regents ("Board") on February 14, 1991, and amended on October 8, 1993 and August 14, 1997, do hereby execute this certificate for the benefit of the Board pursuant to Section 5(a)(ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity Debt" to finance the equipment costs at U. T. Arlington, U. T. Austin, U. T. El Paso, U. T. Southwestern Medical Center - Dallas, U. T. Medical Branch - Galveston, U. T. Health Science Center - San Antonio, U. T. M. D. Anderson Cancer Center, U. T. Health Center - Tyler, and U. T. System Administration, and do certify that to the best of my knowledge, the Board is in compliance with and not in default of any terms, provisions, and conditions in the Master Resolution, the First Supplemental Resolution Establishing the Revenue Financing System Commercial Paper Program ("First Supplemental"), the Second Supplemental Resolution, the Third Supplemental Resolution, the Fourth Supplemental Resolution, the Fifth Supplemental Resolution, the Sixth Supplemental Resolution, the Seventh Supplemental Resolution as amended, the Eighth Supplemental Resolution, the Ninth Supplemental Resolution as amended, and the Tenth Supplemental Resolution.

EXECUTED this 12th day of July, 2002

/s/ Philip Aldridge
Assistant Vice Chancellor for Finance

7. U. T. System: Request for Approval to Exceed the Full-Time Equivalent Limitation on Employees Paid from Appropriated Funds as Required by the General Appropriations Act of the 77th Texas Legislature, Article IX, Section 6.14

RECOMMENDATION

The Chancellor concurs in the recommendation of the U. T. System Executive Officers and the presidents of certain U. T. System component institutions that the U. T. Board of Regents approve those institutions, as set forth in the table on Page 41, to exceed the number of full-time equivalent (FTE) employees for Fiscal Year 2003 that are authorized in Article III of the General Appropriations Act. Also, as required by Article IX, Section 6.14 of the General Appropriations Act, it is recommended that the U. T. Board of Regents submit a request to the Governor's Office and the Legislative Budget Board to grant approval for these institutions to exceed the authorized number of FTE employees paid from Appropriated Funds.

BACKGROUND INFORMATION

The General Appropriations Act places a limit on the number of FTE employees paid from Appropriated Funds that an institution may employ without written approval of the Governor and the Legislative Budget Board. In order to exceed the FTE limitation, a request must be submitted by the governing board and must include the date on which the board approved the request, a statement justifying the need to exceed the limitation, the source of funds to be used to pay the salaries, and an explanation as to why the functions of the proposed additional FTEs cannot be performed within current staffing levels.

The University of Texas System
REQUEST TO EXCEED FULL-TIME EQUIVALENT (FTE) LIMITATION
ON EMPLOYEES PAID FROM APPROPRIATED FUNDS
(Article IX, Section 6.14 of the General Appropriations Act)
Fiscal Year 2003

Component	FTE Limitation	FTE Positions Requested	Requested Increase in Number of FTEs
U. T. System Administration	223.80	258.40	34.60
U. T. Arlington	1,921.50	2,047.00	125.50
U.T. Brownsville	294.20	759.90	465.70
U. T. Dallas	1,163.50	1,304.80	141.30
U. T. El Paso	1,510.60	1,604.22	93.62
U. T. Pan American	1,257.00	1,394.35	137.35
U. T. Permian Basin	248.50	262.10	13.60
U. T. San Antonio	1,638.30	1,753.30	115.00
U. T. Tyler	353.30	393.30	40.00
U. T. Southwestern Medical Center - Dallas	1,669.50	1,739.50	70.00
U. T. Health Science Center - San Antonio	2,248.10	2,351.90	130.80
U. T. M. D. Anderson Cancer Center	7,861.40	8,859.40	998.00

Office of the Controller
U. T. System
July 2002

8. U. T. Board of Regents: Request to Allocate Available University Fund Monies to the Comprehensive Property Protection Program (CPPP)

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. Board of Regents allocate $5.5 million of Available University Fund monies to the Comprehensive Property Protection Program (CPPP) to offset the cost of self-insurance fund contributions to the U. T. System component institutions for the first year under the new CPPP structure.

BACKGROUND INFORMATION

The CPPP was established in 1995 as a means of financing catastrophic property losses. The program combines a $5 million self-insurance fund that was initially funded by the U. T. Board of Regents and a commercial property insurance policy. Major losses that have been reported under this program are the Welch Hall fire of 1996 at U. T. Austin, the Recreation Center fire of 2001 at U. T. Health Science Center - Houston, and damage at U. T. Health Science Center - Houston and U. T. M. D. Anderson Cancer Center from Tropical Storm Allison in 2001. The current CPPP fund balance is $2.8 million.

U. T. System Administration and the Risk Management Advisory Committee have explored alternate program structures that would establish a mechanism to finance wind and flood losses that are currently uninsured, reduce insurance premiums, and reduce U. T. System's vulnerability to insurance market cycles. In cooperation with Office of Finance staff, U. T. System Administration created a financial model that evaluated several deductible options using loss projections developed by the actuarial firm of Rudd & Wisdom, Inc.

The new structure of the CPPP consists of two distinct programs. One is a total self-insurance program that covers losses caused by named windstorms and flood. To protect the self-insurance fund, U. T. System component institutions in the Tier 1 wind zone and/or Flood Zone A would purchase Texas Windstorm Association and/or National Flood Insurance Program policies. Because these

policies provide an underlying layer of protection for the program, the institutions that purchase these policies would receive direct credit to offset their annual fund contributions.

The second program would cover fire and all other perils, excluding named windstorm and high hazard flood. This program includes insurance, but with a significant deductible. To finance the self-insurance portion of this program, component institutions would make annual contributions to a self-insurance fund in addition to paying insurance premiums.

Allocation of the $5.5 million of Available University Fund monies will follow precedent and will offset the first year fund contributions to provide relief to the institutions who faced significant premium increases last year.

9. U. T. System: Report on Investments for the Fiscal Quarter Ended May 31, 2002

REPORT

Pages 45 - 51 contain the Summary Reports on Investments for the fiscal quarter ended May 31, 2002.

Item I on Pages 45 - 46 reports summary activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the quarter was 2.47%. The PUF's net investment return for marketable securities for the quarter was 2.98% versus its composite benchmark return of 1.92%.

Item II on Pages 47 - 49 reports summary activity for the General Endowment Fund (GEF), the Permanent Health Fund (PHF), and Long Term Fund (LTF). The GEF's net investment return for the quarter was 2.61%. The GEF's net investment return for marketable securities for the quarter was 3.05% versus its composite benchmark return of 1.92%.

Item III on Page 50 reports summary activity for the Short Intermediate Term Fund (SITF). Total net investment return on the SITF was 0.63% for the quarter versus the SITF's performance benchmark of 0.93%.

Item IV on Page 51 presents book and market value of cash, fixed income, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of component operating funds held in the Dreyfus money market fund, decreased by $140 million to $1,163 million during the third quarter. Market values for the remaining asset types were fixed income securities: $412 million versus $110 million at previous quarter-end; equities: $155 million versus $160 million at previous quarter-end; and other investments of $0.6 million versus $1 million at previous quarter-end.

10. U. T. Board of Regents: Request for Approval of the Annual Budget and Management Fee Schedule for The University of Texas Investment Management Company (UTIMCO)

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. Board of Regents approve UTIMCO's Annual Budget and Management Fee Schedule for the fiscal year ending August 31, 2003, as set forth on Page 53 .

BACKGROUND INFORMATION

The Investment Management Services Agreement by and between the U. T. Board of Regents and UTIMCO requires that UTIMCO submit its annual budget and management fee schedule to the U. T. Board of Regents for approval. The annual budget consists of UTIMCO's management fee and a budget for direct expenses of the funds managed by UTIMCO.

The total budget for the fiscal year ending August 31, 2003, is $33,320,032, an increase of $1,351,185 or 4.2% from 2002. UTIMCO's management fee for the fiscal year ending August 31, 2003, will increase by $2,904,225 from $6,698,276 to $9,602,501. Budgeted direct expenses will decrease by $1,553,040 from $25,270,571 to $23,717,531. The UTIMCO Board of Directors approved the proposed budget and management fees on June 18, 2002.

11. U. T. System: Proposed Increases in the Annual Distributions from the Permanent University Fund, the Permanent Health Fund, and the Long Term Fund

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of The University of Texas Investment Management Company (UTIMCO) and the UTIMCO Board of Directors that:

a. The fiscal year distribution from the Permanent University Fund (PUF) to the Available University Fund (AUF) be increased by 7.3% from $338,433,636 to $363,022,043 effective September 1, 2002

b. The distribution rate for the Permanent Health Fund (PHF) remain at its current rate per unit of $0.047

c. The distribution rate for the U. T. System Long Term Fund (LTF) be increased from $0.251 per unit to $0.258 per unit effective November 30, 2002.

BACKGROUND INFORMATION

For comparative purposes, the recommended distributions from the PUF, PHF, and LTF represent 5.10%, 5.06%, and 4.94%, of the respective funds' market value as of February 28, 2002.

The PUF Investment Policy states that the annual distribution from the PUF to the AUF shall be an amount equal to 4.75% of the trailing 12-quarter average of the net asset value of the Fund for the quarter ending February of each fiscal year. Per this formula, the amount to be distributed from the PUF for FY 2002-2003 is $363,022,043 as calculated in the chart on the following page.

Quarter Ended	Net Asset Value
5/31/99	$ 7,437,047,422
8/31/99	7,465,560,698
11/30/99	7,697,888,965
2/29/00	7,924,756,395
5/31/00	7,910,907,663
8/31/00	8,452,335,867
11/30/00	7,652,556,843
2/28/01	7,686,874,230
5/31/01	7,749,573,154
8/31/01	7,540,148,091
11/30/01	7,079,157,437
02/28/02	7,114,025,229
	$ 91,710,831,994
Number of quarters	12
Average Net Asset Value	$ 7,642,569,333
Distribution Percentage	4.75%
FY 2002-03 Distribution	**$ 363,022,043**

Article VII, Section 18 of the Texas Constitution requires that the amount of distributions to the AUF be determined by the U. T. Board of Regents in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of PUF investments and annual distributions to the AUF. The Constitution further limits the U. T. Board of Regents' discretion to set annual PUF distributions to the satisfaction of three tests:

1. The amount of PUF distributions to the AUF in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on PUF bonds and notes. The proposed distribution of $363,022,043 is substantially greater than PUF Bonds debt service of $148,502,000 projected for FY 2002-2003.

System	Debt Service
U. T.	$ 94,200,000
TAMU	54,302,000
Total	$ 148,502,000

Sources: U. T. System Office of Finance
Texas A&M University System
Office of Treasury Services

2. The U. T. Board of Regents may not increase annual PUF distributions to the AUF (except as necessary to pay PUF debt service) if the purchasing power of PUF investments for any rolling 10-year period has not been preserved.

As the schedule below indicates, the U. T. Board of Regents may increase the FY 2001-02 distribution of $338,433,636 by 7.3%, as proposed, because the average annual increase in the rate of growth of the value of PUF investments (net of expenses, inflation, and distributions) for the trailing 10-year period ended February 28, 2002, was 1.91%.

Average Annual	Percent
Rate of Total Return	9.57%
Expense Rate	(.05)% (1)
Inflation Rate	(2.52)%
Distribution Rate	(5.09)%
Net Real Return	**1.91%**

Paid from AUF until 1/01/00

3. The annual distribution from the PUF to the AUF during any fiscal year made by the U. T. Board of Regents may not exceed an amount equal to 7% of the average net fair market value of PUF investment assets as determined by the U. T. Board of Regents, except as necessary to pay PUF bonds debt service. The annual distribution rate calculated using the trailing 12-quarter average value of the PUF is within the 7% maximum allowable distribution rate.

Value of PUF Investments (1)	Proposed Distribution	Proposed Distribution as a % of Value of PUF Investments	Maximum Allowed Rate
$7,642,569,333	$363,022,043	**4.75%**	7.00%

(1) Source: UTIMCO

The spending formula under the PHF Investment Policy and the LTF Investment Policy increases distributions at the rate of inflation subject to a distribution range of 3.5% to 5.5% of the average market value of the PHF assets and LTF assets for each Fund's respective trailing 12 fiscal quarters.

The recommendation for the PHF rate of $.047 per unit to remain unchanged for FY 2003 is based on the PHF's net asset value of $848.8 million at February 28, 2002, being less than the original PHF contributions of $915.0 million. The PHF's average distribution rate since inception is 4.5%, within the range of 3.5% to 5.5% set forth in the PHF Investment Policy. The recommended distribution rate of $.047 per unit was approved by the UTIMCO Board on February 19, 2002.

The 2.8% increase in LTF distribution rate from $0.251 per unit to $0.258 is recommended based on the investment policy to increase the distribution by the average rate of inflation for the trailing 12 fiscal quarters. The consumer price index for the prior three years as of November 30, 2001, was 2.7%. The increase of 2.8% above results from rounding the per unit rate as provided in the investment policy. The recommended distribution rate of $.258 per unit was approved by the UTIMCO Board on February 19, 2002.

INFORMATIONAL REPORT

U. T. System: Discussion of the June 2002 Monthly Financial Report

REPORT

Mr. Kerry L. Kennedy, Executive Vice Chancellor for Business Affairs, will discuss the June 2002 Monthly Financial Report for the U. T. System.