

Meeting No. 985

THE MINUTES OF THE BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

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October 11-12, 2004

Dallas, Texas

MEETING NO. 985

MONDAY, OCTOBER 11, 2004.--The members of the Board of Regents of The University of Texas System convened this academic retreat at 2:20 p.m. on Monday, October 11, 2004, in the Governor's Room, 21st Floor, the Westin Galleria Hotel, 13340 Dallas Parkway, Dallas, Texas, with the following in attendance and absent:

ATTENDANCE.--

Present
Chairman Huffines, presiding
Vice-Chairman Clements
Vice-Chairman Hunt
Regent Barnhill
Regent Caven
Regent Craven
Regent Estrada
Regent Rowling

Absent
Vice-Chairman Krier

Counsel and Secretary Frederick

In accordance with a notice being duly posted with the Secretary of State and there being a quorum present, Chairman Huffines called the academic retreat to order.

The Board discussed topics according to the following agenda, and supporting materials are on file in the Office of the Board of Regents:

Improving graduation rates and using incentives: President Watts
What we know about what works President Natalicio

Hiring, developing, and deploying the academic labor force President Mabry

RECESS.--At 4:28 p.m., Chairman Huffines announced the Board would recess to convene in a special called meeting at 8:00 a.m. on Tuesday, October 12, 2004.

TUESDAY, OCTOBER 12, 2004.--The members of the Board of Regents of The University of Texas System convened this special called meeting at 8:00 a.m. on Tuesday, October 12, 2004, in the Governor's Room, 21st Floor, the Westin Galleria Hotel, 13340 Dallas Parkway, Dallas, Texas, with the following in attendance and absent:

ATTENDANCE.--

Present

Chairman Huffines, presiding
Vice-Chairman Clements
Vice-Chairman Hunt
Regent Barnhill
Regent Caven
Regent Craven
Regent Estrada
Regent Rowling

Absent

Vice-Chairman Krier

Counsel and Secretary Frederick

In accordance with a notice being duly posted with the Secretary of State and there being a quorum present, Chairman Huffines called the meeting to order.

U. T. Southwestern Medical Center - Dallas: Approval of resolution concerning findings related to necessity and approval to acquire the assets and operations of Zale Lipshy University Hospital, Inc. and St. Paul University Hospital, Inc.; appropriation of funds and authorization of expenditure; and resolution regarding parity debt

The Board resolved that

- a. for The University of Texas Southwestern Medical Center at Dallas to become and remain a medical school of the first class, as required by Section 74.102 of the Texas Education Code, it must have excellent hospital facilities to serve its patients, and such hospital facilities must be financially strong and have access to adequate capital to remain competitive with the other best teaching hospitals in the country;
- b. integration of the Zale Lipshy University Hospital and St. Paul University Hospital (the "Hospitals") as an adjunct program of U. T. Southwestern Medical Center - Dallas would provide financial stability, access to inexpensive financing for new equipment, and cost savings through integration of inpatient and outpatient care services; and

- c. the Texas Legislature has charged the Board with the responsibility to manage and control U. T. Southwestern Medical Center - Dallas as necessary for it to be a medical school of the first class and it is hereby found that this statutory obligation may be accomplished only if the Hospitals are acquired and incorporated into U. T. Southwestern Medical Center - Dallas as teaching hospitals as an adjunct to its educational programs.

The Board further granted approval, on behalf of U. T. Southwestern Medical Center - Dallas, to

- a. acquire the assets of Zale Lipshy University Hospital, Inc. (Zale Lipshy) and St. Paul University Hospital, Inc. (St. Paul) at a price of \$170.3 million, subject to post-closing adjustment, which represents the fair market value of the assets as supported by independent business appraisals;
- b. appropriate funds and authorize the expenditure of up to \$52 million from Revenue Financing System Bond Proceeds and \$118.3 million from Institutional Funds, subject to post-closing adjustment and offsets of \$81 million in the purchase agreement, to complete the acquisition;
- c. approve an additional \$30 million of Revenue Financing System Equipment Financing for U. T. Southwestern Medical Center - Dallas for Fiscal Year 2005;
- d. authorize President Wildenthal or his designee to make related organizational changes including budget changes required to effect the acquisition and to establish rules and regulations for the control, management, and operations of the hospitals;
- e. submit the proposed transactions to the Texas Higher Education Coordinating Board and other governmental entities for approval, if necessary;
- f. acquire Zale Lipshy's interest in a ground lease with the Dallas County Hospital District; and
- g. authorize the Executive Vice Chancellor for Business Affairs, with approval by the Office of General Counsel and the Executive Vice Chancellor for Health Affairs, to complete the negotiation of all essential issues; to execute appropriate documents, instruments, and agreements; and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing actions.

Additionally, the Board of Regents resolved, in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, that

- a. parity debt shall be issued to pay the project's cost, including any costs 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 U. T. Board of Regents relating to the Financing System;
- c. U. T. Southwestern Medical Center - Dallas, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its 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 \$82,000,000; and
- d. this resolution satisfies the official intent requirements set forth in Section 1.150-2 of the Code of Federal Regulations.

Based upon the Letter of Intent, dated August 9, 2004, between the U. T. Board of Regents; Zale Lipshy University Medical Center, Inc.; Zale Lipshy University Hospital, Inc. (Zale Lipshy); and St. Paul University Hospital, Inc. (St. Paul), a price of \$170,344,311 has been negotiated for the purchase of the assets of Zale Lipshy and St. Paul. The gross assets of Zale Lipshy are valued at \$93,029,363 while the gross assets of St. Paul were valued at \$77,314,948. The purchase price is subject to a post-closing adjustment, which will be based on an external audit of the financial statements of each hospital as of the closing date of the transaction. Post-closing adjustments are not expected to exceed 10% of the negotiated purchase price.

For the negotiated purchase price, U. T. Southwestern Medical Center - Dallas will receive the working capital assets (cash, accounts receivable, inventory, etc.) and fixed assets of both hospitals. The fixed assets to be acquired include the acquisition of a leasehold interest occupied by Zale Lipshy. The ground lease, with the Dallas County Hospital District, has an annual rent of \$78,676.73 and, including the optional renewal, expires in 2085. The building is located at 5151 Harry Hines Boulevard, in Dallas, Texas. It is an 8-story, plus ground level, tertiary hospital licensed for 152 beds. It contains 279,000 gross square feet, located on 76,269 square feet of land. Additional improvements include site paving, open parking areas, and driving lanes. The hospital is located on the U. T. Southwestern Medical Center - Dallas campus and is adjacent to the Aston Ambulatory Center and Parkland Memorial Hospital. The acquisition of the leasehold interest (separately valued at \$48 million) has been submitted to the Texas Higher Education

Coordinating Board for approval at the October 28-29, 2004, meeting. In addition to the leasehold interest, the fixed assets also include the furniture, fixtures, and equipment of the hospitals, primarily located at Zale Lipshy. In December 2000, U. T. Southwestern Medical Center - Dallas purchased the land, building, and equipment of St. Paul, which are currently leased back to the hospital.

The \$170,344,311 purchase price for the two hospitals will be offset by \$40,800,000 of cash and cash equivalents currently held by the hospitals. Of the remaining funds, up to \$52,000,000 will be financed by Revenue Financing System debt. The balance, after other adjustments of \$7,500,000 from accrued employee benefits, will come from institutional funds, including the elimination of \$32,700,000 of accounts receivable from the hospitals currently on the books of U. T. Southwestern Medical Center - Dallas.

U. T. Southwestern Medical Center - Dallas has been operating the hospitals through a management contract that began in 2003 and has recruited new hospital administrators, consolidated operating and information systems, and significantly improved financial performance. A management structure is now in place that will allow for the efficient and effective management of both U. T. Southwestern Medical Center's outpatient physician practice and the hospitals. With the addition of new equipment, needed by both hospitals, funded by hospital cash flows and \$30,000,000 of equipment financing, the new management team will be able to upgrade the performance of the hospitals.

On August 12, 2004, the U. T. Board of Regents approved the use of debt under the Revenue Financing System Equipment Financing Program in the aggregate amount of \$86,360,000 for equipment purchases in Fiscal Year 2005. The \$30 million of equipment financing related to the hospitals was deferred pending Board approval of the hospital acquisitions. The aggregate amount approved for equipment financing increases from \$86,360,000 to \$116,360,000 for Fiscal Year 2005.

RECESS TO EXECUTIVE SESSION.--At 8:30 a.m., Chairman Huffines announced that the Board would recess to convene in Executive Session pursuant to Texas Government Code Sections 551.071 and 551.074 to consider those matters listed on the Executive Session agenda including consideration of possible finalists for The University of Texas at Dallas presidency.

RECONVENE.--At 10:15 a.m., the Board reconvened in open session.

EXECUTIVE SESSION OF THE BOARD OF REGENTS

Chairman Huffines reported that the Board met in Executive Session to discuss legal and personnel matters as listed on the Executive Session agenda. In response to an inquiry from Chairman Huffines regarding the wishes of the Board, the following actions were taken:

1. U. T. Dallas: Approval of finalists for president

Upon motion of Vice-Chairman Clements, duly seconded by Regent Barnhill, the Board named the following individuals as finalists for the position of President of The University of Texas at Dallas:

- John Charles Baldwin, M.D., currently Associate Provost for Health Affairs at Dartmouth College;
- Dr. Thomas J. Barton, currently Director of the Ames Laboratory at Iowa State University; and
- Dr. Gary B. Schuster, currently Dean of Sciences at Georgia Institute of Technology.

The motion carried unanimously.

2. U. T. System: Consideration of personnel matters relating to appointment, employment, evaluation, assignment, and duties of officers or employees

There was no action taken related to general personnel matters of The University of Texas System.

3. U. T. System: Consideration of personnel matters relating to evaluation of presidents and U. T. System officers and employees

There was no action taken related to evaluation of presidents, officers and employees of The University of Texas System.

4. U. T. System: Discussion of legal issues related to disclosure of private investment information under the Texas Public Information Act

There was no action taken related to legal issues concerning disclosure of private investment information under the Texas Public Information Act.

RECONVENE ACADEMIC RETREAT.--At 10:16 a.m., the Board reconvened the academic retreat in open session according to the following agenda:

Accommodating growth

President García
President Cárdenas

President García and President Cárdenas reported on the exponential growth in the number of students experienced by their respective campuses. President García suggested that an in-depth study of accommodating growth (akin to the WAG report on research) would be appropriate to better understand the issues and concerns.

Chairman Huffines asked the presidents what non-monetary System support would be helpful to accommodate growth. President Cárdenas said that early notification of budget for the next academic year would facilitate better planning and especially allow for better organization of hiring faculty. While President García agreed that knowing the budget for the next fiscal year in advance would be helpful, she added that non-financial techniques are insufficient. Dr. Sullivan suggested that one way to help the institution's save money is for U. T. System to combine hiring needs of all institutions into one job advertisement to run in the more expensive publications such as *The Chronicle of Higher Education*. President García said that the brand of U. T. helps tremendously in recruiting faculty, and she supported Dr. Sullivan's suggestion.

Chancellor Yudof asked what strategies existed for accommodating rapid growth without compromising the quality of services. President García summarized the many and varied activities that U. T. Brownsville pursued to best utilize the campus, but stressed that all efforts were still inadequate to meet the goals for growth. Vice-Chairman Clements wondered aloud if the goals set for growth were realistic given the inadequacies of the current conditions. Regent Barnhill then asked if the goals were realistic, then why are we not meeting them? Chancellor Yudof said that he thought there might be a lack of realism with the "close the gap" goals. "I don't see how this will work," the Chancellor said, "with continual budget cuts." President Jenifer added that continuing to try to do more with less has its limits.

President García talked about the cap on enrollment that U. T. Brownsville has in place in the area of nursing. They received 280 pre-qualified applications this year, for example, but the university could only afford 70 slots. So U. T. Brownsville turned away many good applications.

The Chairman asked Dr. Sullivan if there were benchmarks to compare to other Texas institutions. Geri Malandra noted that efficiency ratios are improving, and she mentioned the eminent release of a report that would document this improvement.

Regent Hunt said that for U. T. to be the leader, U. T. must be prepared to analyze how its assets are used. He advocated an incentive-performance-based System.

Transforming the commuter campus	President Spaniolo
The future of graduate education: Who should have graduate programs, where is state policy moving, how can we recruit better graduate students?	President Romo Executive Vice Chancellor Sullivan
Implementing the Washington Advisory Group report	President Jenifer President Natalicio
Developing campus performance targets	President Faulkner

ADJOURNMENT.--Chairman Huffines announced that the purpose for which this meeting was called had been completed, and the meeting was duly adjourned at 3:30 p.m.

/s/ Francie A. Frederick
Counsel and Secretary to the Board

October 22, 2004