Meeting No. 923

THE MINUTES OF THE BOARD OF REGENTS

OF

THE UNIVERSITY OF TEXAS SYSTEM

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August 12, 1999

Galveston, Texas

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U. T. BOARD OF REGENTS

U. T. SYSTEM

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THURSDAY, AUGUST 12, 1999.--The members of the Board of Regents of The University of Texas System convened at 8:31 a.m. on Thursday, August 12, 1999, in the Executive Vice President's Conference Room on the Sixth Floor of the Administration Building at The University of Texas Medical Branch at Galveston, Galveston, Texas, with the following in attendance:

ATTENDANCE.--

Present	Absent
Chairman Evans, presiding	
Vice-Chairman Loeffler	
Vice-Chairman Clements	
Regent Hunt	
Regent Miller	
Regent Oxford	
Regent Riter	
Regent Romero	
Regent Sanchez	
Executive Secretary Frederick	

Chairman Evans announced a quorum present and called the meeting to order.

RECESS TO EXECUTIVE SESSION.--At 8:32 a.m., Chairman Evans announced that the Board would recess to convene in Executive Session pursuant to Texas Government Code, Chapter 551, Sections 551.071, 551.072 and 551.074 to consider those matters listed on the Executive Session agenda.

RECONVENE IN OPEN SESSION.--At 11:23 a.m., the Board reconvened in open session.

WELCOME BY JOHN D. STOBO, M.D., PRESIDENT OF THE UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON.--Chairman Evans stated that the Board was pleased to be meeting at The University of Texas Medical Branch at Galveston and was especially delighted to participate last evening (August 11) in the event at the Open Gates Mansion with many supporters of this great institution and to have the chance to see some of the history of the Island. He then called on John D. Stobo, M.D., President of U. T. Medical Branch - Galveston, who, on behalf of the faculty, staff, and students of the institution welcomed the members of the Board and other guests to the campus.

U. T. BOARD OF REGENTS: APPROVAL OF MINUTES OF REGULAR MEETING HELD ON MAY 13, 1999, AND SPECIAL MEETING HELD ON MAY 26, 1999.--Upon motion of Vice-Chairman Loeffler, seconded by Regent Sanchez, the Minutes of the regular meeting of the Board of Regents of The University of Texas System held on May 13, 1999, in Edinburg, Texas, were approved as distributed by the Executive Secretary. The official copy of these Minutes is recorded in the Permanent Minutes, Volume XLVI, Pages 891 - 1135.

Upon motion of Regent Hunt, seconded by Regent Oxford, the Minutes of the special meeting of the Board of Regents of The University of Texas System held on May 26, 1999, in Austin, Texas, were approved as distributed by the Executive Secretary. The official copy of these Minutes is recorded in the Permanent Minutes, Volume XLVI, Pages 1136 - 1138.

EXECUTIVE SESSION OF THE BOARD OF REGENTS

Chairman Evans reported that the Board had met in Executive Session to discuss matters in accordance with Texas Government Code, Chapter 551, Sections 551.071, 551.072 and 551.074. In response to an inquiry from Chairman Evans regarding the wishes of the Board, the following actions were taken:

1. U. T. Health Science Center - Houston: Settlement of Medical Liability Litigation - Danny Grasshoff and Lisa Grasshoff.--Chairman Evans reported that an item concerning the proposed settlement of a medical liability litigation at The University of Texas Health Science Center at Houston had been posted

with the Secretary of State after the Agenda Book was assembled and noted that the item had been considered in Executive Session. Vice-Chairman Loeffler moved that the Chancellor and the Office of General Counsel be authorized to settle, on behalf of the U. T. Health Science Center - Houston, the medical liability litigation brought by Danny Grasshoff and Lisa Grasshoff in accordance with the proposal presented in Executive Session.

The motion was duly seconded and carried without objection.

2. U. T. Pan American: Request for Approval to Lease the Baseball Stadium to the City of Edinburg, Texas, and Authorization to Execute All Documents Related Thereto (Deferred).--Chairman Evans reported that there will be no action at this time related to a request to approve a lease of the Baseball Stadium at The University of Texas - Pan American to the City of Edinburg, Texas.

3. U. T. System: Consideration of Personnel Aspects of the Operating Budgets for the Fiscal Year Ending August 31, 2000, 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.--The item related to the personnel aspects of The University of Texas System Operating Budgets for the Fiscal Year ending August 31, 2000, was deferred for consideration with the non-personnel aspects of the Operating Budgets by the Business Affairs and Audit Committee and was approved at that time.

See Page 106 for approval of non-personnel aspects of the Fiscal Year 2000 Operating Budgets.

STATEMENT BY CHAIRMAN EVANS ON THE SEARCH FOR A NEW CHANCELLOR FOR THE UNIVERSITY OF TEXAS SYSTEM.--Chairman Evans reported that, prior to consideration of the Special Items listed on the Agenda, he would like to address a topic of great interest to everyone present -- the search for a new Chancellor for The University of Texas System. Mr. Evans read the statement as set forth on Page 4 which was released to the press following this meeting (August 12), and requested that it be included into the record.

Statement by Chairman Evans on the Search for a New Chancellor for the U. T. System

This is the first meeting of the Board of Regents since the announcement in June by Chancellor William H. Cunningham that he plans to step down from the position of Chancellor no later than August 31, 2000. During the course of the next year the Board of Regents will have a number of formal opportunities to thank Bill for his extraordinary dedication to the U. T. System and to all of Texas higher education. We are all deeply grateful, Chancellor, for your many years of distinguished service to this organization, and we are mindful of how challenging it will be to identify a worthy successor. We will be searching for a new Chancellor who will bring to this very important position your same level of energy, your broad experience and understanding, and your unwavering commitment to Texas and all who are served by its universities.

There can be no more important role for this Board than the selection of a Chancellor, the chief administrative officer for one of the nation's largest and most complex higher education enterprises. We will be devoting a major portion of our time and energy to this responsibility.

In preparation for this challenge, I have acted in my capacity as Chairman of the Board of Regents to issue an official Request for Proposals (RFP) from executive search firms across the nation that specialize in higher education. The purpose of this RFP has been to seek assistance in the identification of the very best potential candidates for this position.

The RFP was sent directly to firms specializing in higher education and has been posted electronically on the Texas Marketplace. Responses will be accepted until August 18. I anticipate that we will have a signed contract by September 1 with the firm selected to work with the Board on the search for a new Chancellor.

Because of the extraordinary importance of the selection of a Chancellor, I am hereby requesting that all members of the Board of Regents serve as a Committee of the Whole to perform the function of a search committee during a process that I foresee as an extensive and exhaustive national search.

It is my recommendation that the Board, meeting as a Committee of the Whole, schedule a public meeting with the search firm early this Fall to discuss the process of the search, advertising for the position nationally, and the criteria of a successful candidate for the position.

In addition, I will ask the search firm selected to develop a plan for the Board to consider whereby all university constituencies can be involved in the process. This will include, of course, faculty members, students, staff, administrators, and alumni, as well as community leaders, business and professional leaders, former Regents, and others. In this regard, I will appoint a subcommittee chaired by Vice-Chairman Tom Loeffler to facilitate discussion with these constituencies.

Our goal should be to conduct an open, inclusive, and thorough search process, consistent with the traditions of excellence in the U. T. System and the prominent role of the System in American higher education. As an example of the open process that we are anticipating, I have agreed with Executive Secretary Frederick's recommendation that a special, interactive section of the U. T. System's World Wide Web site be devoted to keeping university constituencies and the general public informed about the search, as well as for receiving comments and recommendations from them. This will be accessible at www.utsystem.edu.

As part of this process, we welcome the opportunity to hear from the U. T. System Faculty Advisory Council on these and other issues during the Board's annual meeting with the Council today at noon.

We are beginning a very exciting and demanding assignment -- one that falls to relatively few members of the Board of Regents over time. We must ensure an open process, while also protecting the rights of those who may be considered for this position and working to ensure that we are able to make the very best selection possible. Our work will begin soon, and I expect that it will continue into the Spring of 2000. We are fortunate indeed that Chancellor Cunningham will remain on board during this process, and we are grateful that we will have the benefit of his wise counsel as we prepare for the transition to a new Chancellor.

Chairman Evans saluted Chancellor William H. Cunningham for his exemplary service to the University over the past seven years. In noting the dramatic changes taking place in higher education, in distance learning, and in demographics, Chairman Evans stated that Dr. Cunningham's understanding and vision of the changing times and his leadership in moving this Board in directions to respond to the needs of changing environments has been invaluable to the University. He further stated that Chancellor Cunningham's care and love for the U. T. System and for the State of Texas are evident through his decision to stay with the University through this selection process and consequently, that this will be a much smoother transition for everyone.

SPECIAL ITEMS

1. U. T. Board of Regents - Regents' Rules and Regulations, Part One: Amendments to Chapter I, Section 5, Subsection 5.3, Subdivision 5.38 (Rules and Regulations) and Subsection 5.4 (Assistant Secretary to the Board); Section 7, Subsection 7.2 (Board for Lease of University Lands); and Section 8, Subsection 8.2 (Order of Business) and Subsection 8.6 (Report to Press on Actions of Board).--The Board amended the Regents' Rules and Regulations, Part One, Chapter I, Section 5, Subsection 5.3, Subdivision 5.38 (Rules and Regulations) and Subsection 5.4 (Assistant Secretary to the Board); Section 7, Subsection 7.2 (Board for Lease of University Lands); and Section 8, Subsection 8.2 (Order of Business) and Subsection 8.6 (Report to Press on Actions of Board) as set forth below:

   a. Section 5, Subsection 5.3, Subdivision 5.38 was amended to read as follows to authorize the Executive Secretary to make editorial changes to the Regents' Rules and Regulations and Regental Policies.

      5.38 Rules and Regulations and Regental Policies.--The Executive Secretary shall be charged with the responsibility of keeping current the Official Copies of the Regents' Rules and Regulations and furnishing to members of the Board and the administrative officers on the approved list any changes or additions as soon as possible after the meeting at which they are finally adopted.

The Executive Secretary is authorized to make minor and non-substantive editorial changes to the Regents' Rules and Regulations and to Regental Policies enacted by the Board as necessary to keep the Rules and policies current and correct. In the event such editorial changes are necessary, the Executive Secretary will assure that members of the Board, administrative officers and members of the public have ready access to the current version of the Regents' Rules and Regulations and each Regental Policy.

b. Section 5, Subsection 5.4 was deleted to remove the position of Assistant Secretary to the Board in the Office of the Board of Regents.

c. Section 7, Subsection 7.2, related to the Board for Lease of University Lands, was amended as follows:

7.2 Board for Lease of University Lands.--At the first available opportunity following February 1 of each odd-numbered year, two qualified members of the Board, as specified in Section 66.62, Texas Education Code, shall be selected by the Board, upon recommendation of the Chairman of the Board, to serve on the Board for Lease of University Lands. The Office of Business Affairs, on behalf of the Board of Regents, will assign employees of The University of Texas System to assist the Board for Lease of University Lands in the performance of its duties and responsibilities and will consult with the Chancellor and the Office of General Counsel as necessary and appropriate. The Secretary of the Board for Lease of University Lands shall report the activities of the Board for Lease of University Lands to the Board at each of the Board's regularly scheduled meetings.

d. Section 8, Subsection 8.2, relating to the order of business at meetings of the Board of Regents, was amended to read as follows:

8.2 Order of Business.--Customarily, the order of business at a regular meeting of the Board shall be as follows:

8.21 Executive Session of the Board.

8.22 Correction and approval of Minutes of preceding meeting(s).

8.23 Consideration of Special Items referred directly to the Board.

8.24 Consideration of items relating to The University of Texas Investment Management Company (UTIMCO).

8.25 Consideration of approval of items contained in reports of standing committees:

(a) Executive Committee

(b) Business Affairs and Audit Committee

(c) Academic Affairs Committee

(d) Health Affairs Committee

(e) Facilities Planning and Construction Committee

8.26 Reports of special committees.

e. Section 8, Subsection 8.6, relating to reports to the press, was amended to read as follows:

8.6 Report to Press on Actions of Board.--Reports on matters of public interest will be given to the press as promptly as possible after each meeting. These press reports shall be under the direction of the Chairman of the Board, the Chancellor or their designated representatives.

The amendments to Section 5, Subsection 5.3, Subdivision 5.38 authorize the Executive Secretary to make minor and nonsubstantive editorial changes to the Regents' Rules and Regulations and to Regental Policies to keep the Rules and Regental Policies current and correct.

The amendment to the Regents' Rules and Regulations, Part One, Chapter I, Section 5, Subsection 5.4 removes the position of Assistant Secretary to the Board in the Office of the Board of Regents, as the Office has been reorganized.

The amendments to Section 7, Subsection 7.2 relating to the Board for Lease of University Lands delete language repeating the statutory qualifications for Board for Lease service set forth in the Texas Education Code Section 66.62, and harmonize the language related to selection of members of the Board for Lease with actual practice.

The amendments to Section 8 are primarily editorial to conform the usual order of business at a regularly scheduled meeting of the Board of Regents with current practice and to clarify the procedure for issuing press reports.

2. U. T. Board of Regents - Regents' Rules and Regulations: Amendments to Part One, Chapter II, Section 9, Subsection 9.2, Subdivision 9.24 (Vice Chancellor for Development and External Relations, Duties and Responsibilities) and Part Two, Chapter I, Section 1, Subsection 1.1 (Gifts to The University of Texas System).--The Regents' Rules and Regulations, Parts One and Part Two, were amended as set forth below:

a. Part One, Chapter II, Section 9, Subsection 9.2, Subdivision 9.24, relating to the duties and responsibilities of the Vice Chancellor for Development and External Relations, was amended to read as follows:

9.24 Promulgating the "U. T. System Gift Acceptance Procedures" and preparing other guidance documents relating to acceptance, processing, and administration (excluding investment management) of gifts for the U. T. System and the component institutions.

b. Part Two, Chapter I, Section 1, Subsection 1.1, regarding gifts to The University of Texas System, was amended to read as follows:

Sec. 1. Gifts to The University of Texas System.

1.1 The authority to accept gifts to the U. T. System or to any of the component institutions is vested in the Board and delegated by the Board as specifically set out in this Section. The Board delegates to the Vice Chancellor for Development and External Relations the authority and responsibility to promulgate a set of guidelines regarding the acceptance, processing, investment, and administration of gifts. These guidelines will be known as the "U. T. System Gift Acceptance Procedures" and shall be adhered to by the component institutions and U. T. System. In promulgating the "U. T. System Gift Acceptance Procedures", the delegate shall also consider provisions to:

1.11 Accomplish the goal of increasing financial support for the U. T. System through the appropriate assistance of donors,

1.12 Allow staff members to respond to donor initiatives quickly and with certainty, 1.13 Establish administrative processes to accept and administer gifts in a prudent and efficient manner, with fiduciary responsibilities of fundamental importance,

1.14 Comply with the Texas Constitution and applicable federal and state law,

1.15 Comply with the provisions of the Internal Revenue Code and related regulations,

1.16 Specifically incorporate provisions related to the acceptance of pledges to fund endowments as follows:

 1.161 At least 20% of the donors' total proposed funding must be received prior to the acceptance of an endowment, and

 1.162 The pledge for payment of the remaining funds shall not extend beyond five years from the date of execution of the gift agreement.

1.17 Specify that requests to establish quasi-endowments are to be submitted only when it is expected that the endowment will be maintained permanently, and

1.18 Provide that, in the interest of financial responsibility and efficiency, it is the specific preference of the Board that all endowment gifts be eligible for commingling for investment purposes with other endowment funds.

In August 1995, the U. T. Board of Regents adopted the current "U. T. System Gifts Policy Guidelines", as amended in November 1995, as a part of the recommendations of The University of Texas System Process Review Committee. These guidelines have greatly increased efficiency in accepting and processing private gifts to the U. T. System Administration and component institutions.

Since these procedural guidelines need to be updated periodically and other guidance documents relating to gifts need to be prepared, these amendments to Parts One and Two of the Regents' Rules and Regulations delegate to the Vice Chancellor for Development and External Relations the authority to promulgate "U. T. System Gift Acceptance Procedures" which are consistent with the Regents' Rules and Regulations without formal action by the

U. T. Board of Regents. Proposed gifts that constitute exceptions to the Gift Acceptance Procedures will continue to be considered by the U. T. Board of Regents via the agenda process.

The current version of the "U. T. System Gifts Policy Guidelines" contains a section of special provisions applicable to gifts of real estate which will be formatted as a separate guidance policy and presented to the U. T. Board of Regents for approval.

3. U. T. Board of Regents: Amendments to the Regents' Rules and Regulations, Part One, Chapter III, Section 13 (Outside Employment).--The Regents' Rules and Regulations, Part One, Chapter III, Section 13, relating to outside employment, was amended to read as follows:

Sec. 13. Outside Employment and Nonelective Positions of Honor, Profit, or Trust.

13.1 Members of the faculty or staff of the System and the component institutions should not be discouraged from accepting appointments of a consultative or advisory capacity with governmental agencies, industry, or other educational institutions. The consideration to the System and the component institutions of such activity is the improvement of the individual by virtue of his or her continuing contact with nonacademic problems in the nonacademic world.

13.2 The primary responsibility of members of the faculty and staff of the System and the component institutions is the accomplishment of the duties and responsibilities assigned to one's position of appointment; external consulting or other outside employment that interferes with those duties and responsibilities should not be accepted. In connection with any outside employment, faculty and staff must comply with state laws governing the conduct of state employees, including ethics standards and provisions prohibiting conflict of interest and use of state resources. For special provisions relating to standards of conduct for employees, see Section 4 of this Chapter.

13.3 Even in the case of members of the faculty or staff specifically engaged only in residence work, there exists an obligation, usually intermittent, to furnish expert knowledge and counsel for public benefit free of charge, provided that the meeting of this obligation by a faculty or staff member does not interfere with his or her regular duties, and provided further that in meeting this obligation a full-time faculty or staff member shall avoid undue competition with legitimate private agencies.

13.4 No member of the faculty or staff engaged in outside remunerative activities shall use in connection therewith the official stationery of the System or any of the component institutions, or give as a business address any building or department of the System or the component institution.

13.5 Every member of the faculty or staff who gives professional opinions must protect the System and the component institutions against the use of such opinions for advertising purposes. If the faculty or staff member does work in a private capacity, the faculty or staff member must make it clear to those who employ him or her that the work is unofficial and that the name of the System and the component institutions is not in any way to be connected with the faculty or staff member's name, except when used to identify the faculty or staff member as the author of work related to the faculty or staff member's academic or research area as more fully described in Part Two, Chapter XII, Section 2.

13.6 No member of the faculty or staff shall accept pay from private persons or corporations for tests, assays, chemical analyses, bacteriological examinations, or other such work that involves the use of property owned by the

System or the component institutions, unless advance permission has been obtained from the chief administrative officer and provision has been made for compensation to the System or the component institutions.

13.7 No full-time member of the faculty or staff employed by the System or the component institutions on a twelve-month or nine-month basis shall be employed in any outside work or activity or receive from an outside source a regular retainer fee or salary until a description of the nature and extent of the employment has been filed with and approved by appropriate administrative officials as set forth in the policies of the System or the Handbook of Operating Procedures of each component institution. For special provisions relating to other state or federal employment, see Subsections 13.8 and 13.9 of this Section.

13.8 Subject to the other provisions of this Section, a member of the faculty or staff of the System or the component institutions may hold other nonelective offices or positions of honor, trust, or profit with the State of Texas or the United States if holding the other offices or positions is of benefit to the State of Texas or is required by state or federal law and if there is no conflict between holding the office or position and holding the office or position with the System or the component institutions for which the member of the faculty or staff receives salary or compensation.

13.9 Before a member of the faculty or staff of the System or the component institutions may accept an offer to serve in other nonelective offices or positions of honor, trust, or profit with the State of Texas or the United States, the member of the faculty or staff must obtain from the appropriate administrative officials and the Board a finding via the docket that the requirements of Subsection 13.8 have been fulfilled. The docket entry shall also record any compensation the employee is to receive from the nonelective office or position, including salary, bonus, or per diem payment.

A recent court challenge to the constitutionality of legislative and institutional limitations on faculty and staff outside employment, including employment as an expert witness, has prompted modification of Section 13 of Chapter III, Part One of the Regents' Rules and Regulations. Although Subsection 13.6 has been omitted, Subsection 13.2 has been modified to clarify that external consulting and outside employment are considered secondary activities to be engaged in only after one's duties and responsibilities to the employing U. T. institution are fulfilled. The change in Subsection 13.2 also provides that faculty and staff members who maintain outside employment must comply with state laws governing the conduct of state employees, including provisions concerning conflict of interest, ethics standards, and use of state resources. The change to Subsection 13.9 makes the language consistent with the requirements of Texas Government Code Section 574.002. The remaining modifications to Section 13 are editorial in nature.

4. U. T. Board of Regents - Regents' Rules and Regulations, Part One: Amendments to Chapter III, Section 6, Subsection 6.3 (Tenure, Promotion, and Termination of Employment).--A new Section 51.960 was added to the Texas Education Code by the 76th Texas Legislature that requires a person employed by an institution of higher education as a full-time faculty member, including a person employed as a professional librarian, who is notified that he or she will not be reappointed or who is under review for termination for good cause, be provided the right "to present a grievance, in person, to a member of the institution's administration designated by the governing board of the institution on an issue related to the nonrenewal or termination".

   To comply with Section 51.960, Texas Education Code, the Regents' Rules and Regulations, Part One, Chapter III, Section 6, Subsection 6.3, relating to tenure, promotion, and termination of employment, was amended to read as set forth below:

   6.3 Termination by an institution of the employment of a faculty member who has been granted tenure and of all other faculty members before the expiration of the stated period of appointment, except as is otherwise provided in Subdivision 6.26 and Subsections 6.(11) and 6.(12) or by resignation or retirement, will be only for good cause shown. Faculty member, as used in this Subsection, includes a professional librarian with an academic title. In each case the issue of good cause will be determined according to the equitable procedures provided in this Subsection.

6.31 The chief administrative officer shall assure that all allegations against a faculty member that involve the potential for termination are reviewed under the direction of the chief academic officer unless another officer is designated by the chief administrative officer. The faculty member who is the subject of the allegations shall be given an opportunity to be interviewed and shall have the right to present a grievance, in person, to the chief academic officer on an issue or subject related to the allegations under review. The chief academic officer shall take the grievance, if any, into consideration prior to making a determination whether the allegations are supported by evidence that constitutes good cause for termination. Upon making that determination, the chief academic officer will recommend to the chief administrative officer whether to proceed with charges for termination. Failure to present a grievance to the chief academic officer prior to his or her recommendation shall not preclude a faculty member from presenting an issue or subject to the special hearing tribunal in defense of charges for termination that may result from the review. A tenured faculty member who is recommended for termination on the basis of periodic evaluation must be given the opportunity for referral of the matter to nonbinding alternative dispute resolution, as required by Texas Education Code Section 51.942 and in compliance with applicable U. T. System and institutional policies and procedures for alternative dispute resolution, prior to referral of the charges to a hearing tribunal under Subdivision 6.33. A faculty member under review for matters that may result in charges for termination may file a grievance pursuant to a faculty grievance procedure only if the subject of the grievance is not involved in the review. A pending grievance may proceed only if it does not involve a subject under review.

. . .

6.35 Full-time faculty members, including professional librarians with academic titles, who are notified in accordance with Subsection 6.7 that they will not be reappointed or who are notified in accordance with Subdivision 6.23 or Subsections 6.7 or 6.8 that the subsequent academic year will be the terminal year of appointment shall not be entitled to a statement of the reasons upon which the decision for such action is based. Such a decision shall only be subject to review pursuant to the following procedures:

6.351 The affected faculty member may present a grievance, in person, to the chief academic officer on an issue or subject related to the nonrenewal decision. The chief academic officer shall meet with the faculty member. Unless a review by a hearing tribunal is requested and granted pursuant to Subparagraph 6.352 below, the nonrenewal decision shall not be subject to further review.

6.352 A review by a hearing tribunal shall be granted only in those cases where the affected faculty member submits a written request for review by a hearing tribunal to the chief administrative officer and describes in detail the facts relied upon to prove that the decision was made for reasons that are unlawful under the Constitution or laws of Texas or the United States. If the chief administrative officer determines that the alleged facts, if proven by credible evidence, support a conclusion that the decision was made for unlawful reasons, such allegations shall be heard by a hearing tribunal under the procedures in Subsection 6.3 as in the case of dismissal for cause, with the following exceptions:

(1) the burden of proof is upon the affected faculty member to establish by the greater weight of the credible evidence that the decision in question was made for reasons that are unlawful under the Constitution or laws of Texas or the United States;

(2) the administration of the institution need not state the reasons for the questioned decision or offer evidence in support thereof unless the affected faculty member presents credible evidence that, if unchallenged, proves the decision was made for unlawful reasons;

(3) the hearing tribunal shall make written findings and recommendations based on the evidence presented at the hearing and shall forward such findings and recommendations with the transcript and exhibits from the hearing to the chief administrative officer;

(4) the chief administrative officer may approve, reject, or amend the recommendations of the

hearing tribunal or may reach different conclusions based upon the record of the hearing. The decision of the chief administrative officer shall be final.

5. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Approval to Amend Chapter XII (Intellectual Property), Section 5 (Property Rights and Obligations), Subsection 5.2, Subdivision 5.22, and Section 8, Subsection 8.1 (Reporting).--Authorization was given to amend the Regents' Rules and Regulations, Part Two, Chapter XII, regarding intellectual property, as set forth below:

a. Section 5, Subsection 5.2, Subdivision 5.22, regarding approval of release of intellectual property rights, was amended to read as follows:

5.22 If the chief administrative officer recommends that the System not assert and exploit its interest and that recommendation is approved by the Office of General Counsel, the creator shall be notified within one hundred eighty (180) days of the date of submission that he or she is free to obtain and exploit a patent or other intellectual property protection in his or her own right and the System shall not have any further rights, obligations or duties with respect thereto except that, in some instances the System may elect to impose certain limitations or obligations or retain income rights, dependent upon the degree of System support involved in the creation of such property.

b. Section 8, Subsection 8.1, regarding reporting, was amended as follows:

8.1 Any employee covered by Subsections 6.2, 7.1, or 7.2 shall report in writing to the chief administrative officer of the component institution, or to such other person as may be designated by the chief administrative officer, the name of any business entity in which the person has an interest or for which the person serves as a director, officer or employee and shall be responsible for submitting a revised written report upon any change in the interest or position held by such person in such business entity. These reports shall be forwarded to the Vice

Chancellor and General Counsel by October 1 of each year for filing with the Board as required by Section 51.912, Texas Education Code and inclusion in the annual financial report sent to the State officials listed in Section 51.005, Texas Education Code.

The Regents' Rules and Regulations, Part Two, Chapter XII, Section 5, Subsection 5.2, Subdivision 5.22 specify that release of property rights to inventors must be approved by the appropriate Executive Vice Chancellor or Vice Chancellor in addition to the component chief administrative officer and the Office of General Counsel. This amendment simplifies the processing of such intellectual property actions at The University of Texas System level, allowing release approval and notification to inventors to be handled in the Office of General Counsel without routing to the Office of Health Affairs or the Office of Academic Affairs.

Texas Education Code Section 51.912 requires inclusion of information concerning all U. T. System employees who hold equity interests or certain offices in business entities that have agreements with the U. T. System relating to intellectual property owned by the U. T. Board of Regents in the annual financial report to named State officials as required by Texas Education Code Section 51.005. Amendment of Section 8, Subsection 8.1 of Chapter XII, Part Two of the Regents' Rules and Regulations will simplify the routing of information for that report which is currently completed by the Office of General Counsel and filed with the Board pursuant to Section 51.912 and makes the Rules and Regulations consistent with current law.

6. U. T. System: Report of Summary of Gift Acceptance and Related Administrative Actions Conforming to Board Policy for March 1, 1999 Through May 31, 1999.--Vice Chancellor for Development and External Relations Perry reviewed the Summary of Gift Acceptance and Related Administrative Actions Conforming to Board Policy for The University of Texas System for the period March 1, 1999 through May 31, 1999, as set forth on Pages 20 - 24.

Vice Chancellor Perry reported 165 items conforming to Board policy were approved including the acceptance of $12,023,935 in gifts. Other matching contributions from previously accepted Board-held matching funds totaled $100,000, and transfers of previously accepted gifts totaled $1,503,601.

Mrs. Perry noted that this report includes only those funds which relate to endowments, estates, and other funds managed by the U. T. System Office of Development and External Relations.

ACCEPTANCE OF GIFTS HELD BY BOARD

March 1, 1999 Through May 31, 1999

# ALL ITEMS	COMPONENT INSTITUTION	CASH	SECURITIES	REAL ESTATE	PLEDGES	OTHER	TRANSFERS	MATCHING FUNDS	TOTAL VALUE
		ASSET TYPES							
7	U. T. Arlington	$ 25,000	$ -	$ -	$ -	$ 40,000	$ -	$ -	$ 65,000
33	U. T. Austin	$ 3,424,053	$ 367,424	$ -	$ 484,208	$ 1,845	$ 122,400	$ -	$ 4,399,929
41	U. T. El Paso	$ 201,183	$ -	$ -	$ 19,500	$ -	$ 45,136	$ -	$ 220,683 *
2	U. T. Permian Basin	$ 6,861	$ 48,479	$ -	$ 4,660	$ -	$ -	$ -	$ 60,000
1	U. T. San Antonio	$ 25,000	$ -	$ -	$ -	$ -	$ -	$ -	$ 25,000
2	U. T. Tyler	$ 27,500	$ -	$ -	$ 12,500	$ -	$ -	$ -	$ 40,000
7	U. T. SWMC-Dallas	$ 666,600	$ -	$ -	$ -	$ -	$ -	$ 100,000	$ 666,600 *
34	U. T. M.B.-Galveston	$ 862,025	$ 453,986	$ -	$ 130,000	$ -	$ 2,371,244	$ -	$ 3,767,256 *
4	UTHSC-Houston	$ 107,467	$ 1,950	$ -	$ 177,500	$ -	$ -	$ -	$ 286,917
4	UTHSC-San Antonio	$ 128,396	$ -	$ -	$ -	$ -	$ 50,000	$ -	$ 178,396
29	UTMDACC	$ 2,222,596	$ 25,114	$ -	$ 25,000	$ -	$ 1,408,465	$ -	$ 2,272,709 *
1	UTHC-Tyler	$ 41,445	$ -	$ -	$ -	$ -	$ -	$ -	$ 41,445
165	TOTAL	$ 7,738,126	$ 896,953	$ -	$ 853,368	$ 41,845	$ 3,997,245	$ 100,000	$ 12,023,935

* Not included in total: U. T. El Paso - $45,136 of previously accepted gifts;
U. T. M.B.-Galveston - $50,000 transfer of endowment funds;
U. T. SWMC-Dallas - $100,000 of Board-held matching funds;
UTMDACC - $186,786 of previously accepted gifts and $1,221,679 of transfers of endowment funds.

NOTE: Compiled by Office of Development and External Relations

CLASSIFICATION OF GIFTS AND OTHER ACTIONS
March 1, 1999 Through May 31, 1999

COMPONENT INSTITUTION	ENDOWMENTS	CHARITABLE REMAINDER TRUSTS	POOLED INCOME FUND	REMAINDER INTERESTS	HELD IN TRUST BY OTHERS	CURRENT PURPOSE	OTHER
U. T. Arlington	6	---	---	---	---	1	---
U. T. Austin	32	---	---	---	---	1	---
U. T. El Paso	40	1	---	---	---	---	---
U. T. Permian Basin	2	---	---	---	---	---	---
U. T. San Antonio	1	---	---	---	---	---	---
U. T. Tyler	2	---	---	---	---	---	---
U. T. SWMC-Dallas	4	---	---	---	2	1	---
U. T. M.B.-Galveston	32	---	---	---	---	2	---
UTHSC-Houston	3	---	---	---	---	1	---
UTHSC-San Antonio	4	---	---	---	---	---	---
UTMDACC	20	---	---	---	---	9	---
UTHC-Tyler	1	---	---	---	---	---	---
TOTAL	147	1	0	0	2	15	0

PURPOSES OF GIFTS HELD BY BOARD AND OTHERS

March 1, 1999 Through May 31, 1999

COMPONENT INSTITUTION	ENDOWMENT DIST. CHAIR	CHAIR	DIST. PROF'SHIP	PROF'SHIP	FACULTY FELLOWSHIP	GRADUATE FELLOWSHIP	SCHOLARSHIP	OTHER	CURRENT PURPOSE	OTHER PURPOSE
U. T. Arlington	---	---	---	---	---	---	2	---	1	---
U. T. Austin	---	1	---	2	---	5	13	8	1	---
U. T. El Paso	---	---	---	1	---	---	2	4	---	1
U. T. Permian Basin	---	---	---	---	---	---	2	---	---	---
U. T. San Antonio	---	---	---	---	---	---	1	---	---	---
U. T. Tyler	---	---	---	---	---	---	2	---	---	---
U. T. SWMC-Dallas	---	1	---	1	---	---	1	1	1	---
U. T. M.B.-Galveston	---	---	1	3	---	---	8	12	2	---
UTHSC-Houston	---	---	---	2	---	---	---	1	1	---
UTHSC-San Antonio	---	---	---	1	---	---	2	1	---	---
UTMDACC	---	2	---	---	---	---	1	3	9	---
UTHC-Tyler	---	---	---	---	---	---	---	1	---	---
TOTAL	0	4	1	10	0	5	34	31	15	1

Total purposes may not equal the total number of items because some items pertain to multiple purposes.

OTHER ADMINISTRATIVE ACTIONS
March 1, 1999 Through May 31, 1999

COMPONENT INSTITUTION	ESTABLISH ENDOWMENT	REDESIGNATE ENDOWMENT LEVEL	OTHER REDESIGNATION	DISSOLVE ENDOWMENT	APPROVE/ALLOCATE MATCHING	ACCEPT TRUSTEESHIP	OTHER
U. T. Arlington	1	---	4	---	---	---	---
U. T. Austin	29	---	3	---	---	---	---
U. T. El Paso	6	1	34	---	---	1	---
U. T. Permian Basin	2	---	---	---	---	---	---
U. T. San Antonio	1	---	---	---	---	---	---
U. T. Tyler	2	---	---	---	---	---	---
U. T. SWMC-Dallas	4	---	2	---	1	---	---
U. T. M.B.-Galveston	23	---	4	1	4	---	---
UTHSC-Houston	3	---	---	---	2	---	---
UTHSC-San Antonio	3	1	1	---	1	---	---
UTMDACC	6	14	2	---	---	---	---
UTHC-Tyler	1	---	---	---	---	---	---
TOTAL	81	16	50	1	8	1	0

COMPARATIVE SUMMARY OF GIFTS ACCEPTED VIA THE OFFICIAL ADMINISTRATIVE PROCESS

March 1, 1999 Through May 31, 1999

COMPONENT	FY 1998	FISCAL YEAR 1999			
INSTITUTION	FULL YEAR	9/1/98 - 11/30/98	12/1/98 - 2/28/99	3/1/99 - 5/31/99	FULL YEAR
U. T. System	$ ---	$ 60,000	$ 25,000	$ -	
U. T. Arlington	$ 1,633,567	$ 31,386	$ 187,148	$ 65,000	
U. T. Austin	$ 16,888,581	$ 1,166,167	$ 3,098,064	$ 4,399,929	
U. T. Dallas	$ 411,126	$ 1,000,000	$ 60,674	$ -	
U. T. El Paso	$ 4,064,288	$ 1,597,047	$ 291,094	$ 220,683	
U. T. Pan American	$ 1,142,022	$ ---	$ 60,674	$ -	
U. T. Brownsville	$ 10,000	$ ---	$ 60,674	$ -	
U. T. Permian Basin	$ 272,770	$ 10,000	$ 120,674	$ 60,000	
U. T. San Antonio	$ 236,907	$ 53,600	$ 326,674	$ 25,000	
U. T. Tyler	$ 554,169	$ ---	$ 220,749	$ 40,000	
U. T. SWMC-Dallas	$ 35,511,381	$ 2,342,000	$ 4,559,867	$ 666,600	
U. T. M.B.-Galveston	$ 4,135,559	$ 164,293	$ 2,573,483	$ 3,767,256	
UTHSC-Houston	$ 5,595,404	$ 2,259,623	$ 160,674	$ 286,917	
UTHSC-San Antonio	$ 2,330,175	$ 1,000,000	$ 76,846	$ 178,396	
UTMDACC	$ 13,780,273	$ 162,831	$ 4,358,790	$ 2,272,709	
UTHC-Tyler	$ 476,000	$ 602,933	$ 650,000	$ 41,445	
Multi-Component	$ ---	$ ---	$ 170,000	$ -	
				$ -	
TOTAL	$ 87,042,222	$ 10,449,881	$ 17,001,083	$ 12,023,935	

MATTERS RELATED TO THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY (UTIMCO)

1. U. T. System: Report on Investments for the Fiscal Quarter Ended May 31, 1999.--On behalf of The University of Texas Investment Management Company (UTIMCO), Regent Riter, a member of the UTIMCO Board, summarized the Report on Investments for The University of Texas System for the fiscal quarter ending May 31, 1999, for the Permanent University Fund, Long Term Fund, Short/Intermediate Term Fund, and Separately Invested Assets.

Report by Regent Riter on Behalf of UTIMCO

Mr. Chairman and members of the Board, I am pleased to summarize on behalf of UTIMCO the investments for The University of Texas System for the fiscal quarter ending May 31, 1999.

Item a on Page 28 presents the summary report for Permanent University Fund (PUF) Investments. PUF Investments began the quarter with a market value of $7.2 billion. During the quarter, contributions of mineral income from PUF Lands equaled $11.3 million, down 36.5% versus receipts for the third quarter of the prior fiscal year. In addition, total investment return was $292.1 million of which $68.5 million was income return distributed to the Available University Fund (AUF) and $223.6 million was price return. PUF market value ended the quarter at $7.4 billion.

Quarter-end asset allocation was 67% broadly defined equities and 33% fixed income versus an unconstrained neutral allocation of 80% equities and 20% fixed income. Within equities, quarter-end allocation was 47% U. S. large and mid cap stocks, 4% U. S. small cap stocks, 7% non-U. S. equities and 9% alternative equities.

The PUF's accrued investment income of $68.5 million increased by a nominal rate of 5.1% versus $65.2 million for the third quarter of the prior fiscal year and by 2.9% on an inflation adjusted basis. Distributed investment income for the quarter of $68.5 million was $5.7 million over budget and $3.3 million over investment income earned during the third quarter of 1998.

PUF investment income continued to suffer from declining interest rates and the resulting negative reinvestment spreads. The reinvestment spread on maturing and redeemed bonds was a negative 2.5% as bonds ran off at an average yield of 8.5% and were replaced by bonds yielding 6.0%. As of quarter-end, the distributable book yield on the $2.4 billion fixed income portfolio declined to 7.65% versus 7.67% at the beginning of the quarter.

Total investment return for the quarter was 4.06%. The fixed income portfolio posted a total return of (.35%) for the quarter versus (.02%) for the Lehman Aggregate Bond Index. Equities, as an asset class, posted higher relative returns with the S&P 500 Index and Russell 3000 Index posting returns of 5.48% and 6.29%, respectively. The PUF's equity portfolios (including non-U. S. portfolios) produced a higher return of 6.42% (largely due to exposure to high yielding REIT, and small/mid cap equities). Finally, alternative equities produced a 5.03% return for the quarter.

Item b on Page 29 reports summary activity for the Long Term Fund (LTF). During the quarter, net contributions totaled $26.1 million representing a 2.4% increase over the third quarter of the prior fiscal year. Investment return was $114.0 million. Distributions to the 5,003 endowment and other accounts underlying the LTF totaled $25.5 million; an increase of 3.2% versus the third quarter of the prior year. The Fund's market value closed the quarter at $2.5 billion.

Asset allocation at quarter-end was 22% fixed income and 78% broadly defined equities. Within equities, non-U. S. equities were slightly over-weighted at 16% of total assets. U. S. large and mid cap equities were also overweighted at 33% while alternative equities were underweighted at 19% versus a neutral weighting of 25%. Total investment return for the quarter was 4.63% versus the neutral policy portfolio return of 4.99%.

Item c on Page 30 presents quarterly activity for the Short/Intermediate Term Fund. During the quarter, the Fund received net contributions of $9.5 million. It earned $10.8 million in total return and incurred expenses of $100 thousand. Distributions to the U. T. System component institutions equaled $27.2 million, resulting in a quarter-end Fund value of $1.831 billion versus $1.838 billion at the beginning of the quarter. Total return on the Fund was .57% for the quarter versus the Fund's performance benchmark of .93%.

Item d on Page 31 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, increased by $114 million to $842 million during the third quarter. Asset values for the remaining asset classes were fixed income securities: $65.7 million versus $67.2 million at previous quarter-end; equities: $51.2 million versus $46.8 million at previous quarter-end; and other investments of $6.9 million versus $6.9 million at previous quarter-end.

a. **PERMANENT UNIVERSITY FUND**

Summary Investment Report at May 31, 1999 --

PERMANENT UNIVERSITY FUND (1)
INVESTMENT SUMMARY REPORT
($ millions)

	FY97-98	FY98-99			
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	Year-to-date
Beginning Market Value	6,368.3	6,517.1	7,188.9	7,202.1	6,517.1
PUF Lands Receipts (2)	79.5	15.1	11.2	11.3	37.6
Investment Income (3)	260.0	65.5	63.7	68.5	197.7
Investment Income Distributed	(260.0)	(65.5)	(63.7)	(68.5)	(197.7)
Realized Gains	467.6	113.4	117.0	110.9	341.3
Change in Unrealized Gains	(398.3)	543.3	(115.0)	112.7	541.0
Ending Market Value	6,517.1	7,188.9	7,202.1	7,437.0	7,437.0
AUF income:					
Investment Income	260.0	65.5	63.7	68.5	197.7
Surface Income	6.6	2.3	2.2	0.8	5.3
Total	266.6	67.8	65.9	69.3	203.0

Report prepared in accordance with Sec. 51.0032 of the *Texas Education Code*.

(1) Excludes PUF Lands mineral and surface interests with estimated August 31, 1998 values of $385.6 million and $154.9 million, respectively.

(2) As of May 31, 1999: 1,284,195 acres under lease; 523,163 producing acres; 3,395 active leases; and 2,052 producing leases.

(3) Investment income includes amortization of discount and premium bonds in accordance with statutory requirements.

b. LONG TERM FUND

Summary Investment Report at May 31, 1999.--

LONG TERM FUND
SUMMARY REPORT
($ millions)

	FY97-98	FY98-99			
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	Year-To-Date
Beginning Net Assets	2,125.0	2,147.7	2,390.2	2,425.4	2,147.7
Net Contributions	80.5	31.6	17.1	26.1	74.8
Investment Return (1)	42.6	237.2	44.9	114.0	396.1
Receipt of Funds from System for UTIMCO Fee	2.0	0.6	0.5	0.5	1.6
Expenses	(7.2)	(1.6)	(1.9)	(2.2)	(5.7)
Distributions (Payout)	(90.9)	(25.1)	(25.2)	(25.5)	(75.8)
Distribution of Gain on Participant Withdrawals	(4.3)	(0.2)	(0.2)	(0.1)	(0.5)
Ending Net Assets	2,147.7	2,390.2	2,425.4	2,538.2	2,538.2
Net Asset Value per Unit	4.568	5.010	5.048	5.227	
No. of Units (End of Period)	470,190,284	477'070,872	480,447,414	485,586,789	
Distribution Rate per Unit	0.195	0.0525	0.0525	0.0525	

Report prepared in accordance with Sec. 51.0032 of the Texas Education Code.

(1) Investment return for FY 97-98 was adjusted downward $.1 million from previous report to correct rounding difference between other annual reports.

c. <u>SHORT/INTERMEDIATE TERM FUND</u>

<u>Summary Investment Report at May 31, 1999</u>.--

SHORT/INTERMEDIATE TERM FUND
SUMMARY REPORT
($ millions)

	FY97-98	FY98-99			
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	Year-to-Date
Beginning Net Assets	1,631.4	1,809.6	1,845.9	1,838.3	1,809.6
Contributions (Net of Withdrawals)	126.9	29.8	18.7	9.5	58.0
Investment Return	152.8	32.5		10.8	43.3
Expenses	(0.5)	(0.1)	(0.1)	(0.1)	(0.3)
Distributions of Income	(101.0)	(25.9)	(26.2)	(27.2)	(79.3)
Ending Net Assets	1,809.6	1,845.9	1,838.3	1,831.3	1,831.3

Report prepared in accordance with Sec. 51.0032 of the <u>Texas Education Code</u>.

d. SEPARATELY INVESTED ASSETS

Summary Investment Report at May 31, 1999.--

SEPARATELY INVESTED ASSETS
SUMMARY REPORT
($ thousands)

	FUND TYPE													
	CURRENT PURPOSE				ENDOWMENT &		ANNUITY & LIFE							
	DESIGNATED		RESTRICTED		SIMILAR FUNDS		INCOME FUNDS		AGENCY FUNDS		OPERATING FUNDS		TOTAL	
~~ASSET TYPES~~														
Cash & Equivalents:	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
Beginning value 3/1/99	3,674	3,674	2,906	2,906	27,846	27,846	245	245	34	34	693,402	693,402	728,107	728,107
Increase/(Decrease)	49	49	(1,340)	(1,340)	(8,996)	(8,996)	155	155	3	3	123,967	123,967	113,838	113,838
Ending value 5/31/99	3,723	3,723	1,566	1,566	18,850	18,850	400	400	37	37	817,369	817,369	841,945	841,945
Debt Securities:														
Beginning value 3/1/99	-	-	7	5	57,063	58,510	8,176	8,689	-	-	-	-	65,246	67,204
Increase/(Decrease)	-	-	-	-	(55)	(1,387)	1	(158)	-	-	-	-	(54)	(1,545)
Ending value 5/31/99	-	-	7	5	57,008	57,123	8,177	8,531	-	-	-	-	65,192	65,659
Equity Securities:														
Beginning value 3/1/99	42	3,648	3,100	3,253	20,741	33,033	6,513	6,847	-	-	-	-	30,396	46,781
Increase/(Decrease)	-	(312)	(1,202)	(1,228)	3,359	5,137	342	551	-	-	250	246	2,749	4,394
Ending value 5/31/99	42	3,336	1,898	2,025	24,100	38,170	6,855	7,398	-	-	250	246	33,145	51,175
Other:														
Beginning value 3/1/99	-	-	2	2	537	537	6,353	6,378	-	-	-	-	6,892	6,917
Increase/(Decrease)	-	-	20	20	121	121	(459)	(123)	-	-	-	-	(318)	18
Ending value 5/31/99	-	-	22	22	658	658	5,894	6,255	-	-	-	-	6,574	6,935

Report prepared in accordance with Sec. 51.0032 of the Texas Education Code.
Details of individual assets by account furnished upon request.

2. U. T. Board of Regents: Adoption of Amendments to the Investment Policy Statements for the Permanent University Fund, Long Term Fund, and Separately Invested Endowment, Trust, and Other Accounts.--To ensure consistency between the Permanent University Fund, Long Term Fund, and Separately Invested Endowment, Trust, and Other Accounts Investment Policy Statements and the proposed policy statement for the Permanent Health Fund as presented in Item 3 on Page 73, the Board of Directors of The University of Texas Investment Management Company (UTIMCO) recommended and the Board adopted:

   a. The Permanent University Fund Investment Policy Statement as set out on Pages 33 - 47

   b. The Long Term Fund Investment Policy Statement as set out on Pages 48 - 62

   c. The Separately Invested Endowment, Trust, and Other Accounts Investment Policy Statement as set out on Pages 63 - 72.

Section 3 (a) of the Investment Management Services Agreement dated March 1, 1996, between the Board of Regents of The University of Texas System and The University of Texas Investment Management Company (UTIMCO) provides that UTIMCO shall review the investment policies of the assets under its management and recommend any changes to such policies for approval by the U. T. Board of Regents. These amendments address derivative language and other nonsubstantive editorial changes. Technical language regarding the use of derivatives is more appropriately addressed in portfolio manager contracts. Changes to the Separately Invested Endowment, Trust, and Other Accounts Investment Policy Statement eliminate the percentage in which a fixed income security may be placed with any one issuer as this restriction was too narrow in scope for very small accounts under management.

THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT UNIVERSITY FUND
INVESTMENT POLICY STATEMENT

Purpose

The Permanent University Fund (the "Fund") is a public endowment contributing to the support of institutions of The University of Texas System (other than The University of Texas-Pan American and The University of Texas at Brownsville) and institutions of The Texas A&M University System (other than Texas A&M University-Corpus Christi, Texas A&M International University, Texas A&M University-Kingsville, West Texas A&M University, Texas A&M University-Commerce, Texas A&M University-Texarkana, and Baylor College of Dentistry).

Fund Organization

The Permanent University Fund was established in the Texas Constitution of 1876 through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the Permanent University Fund were completed in 1883 with the contribution of an additional one million acres of land. Today, the Permanent University Fund contains 2,109,190 acres of land (the "PUF Lands") located in 24 counties primarily in West Texas.

The 2.1 million acres comprising the PUF Lands produce two streams of income: a) mineral income, primarily in the form of oil and gas royalties and b) surface income, in the form of surface leases and easements. Under the Texas Constitution, mineral income, as a non-renewable source of income, remains a non-distributable part of PUF corpus, and is invested in securities. Surface income, as a renewable source of income, is distributed to the Available University Fund (the "AUF"), as received.

The Constitution prohibits the distribution and expenditure of mineral income contributed to the Fund and the realized and unrealized gains earned from Fund investments. The Constitution also requires the distribution of all PUF investment income to the AUF to be expended for certain authorized purposes.

The expenditure of PUF income distributed to the AUF is subject to a prescribed order of priority:

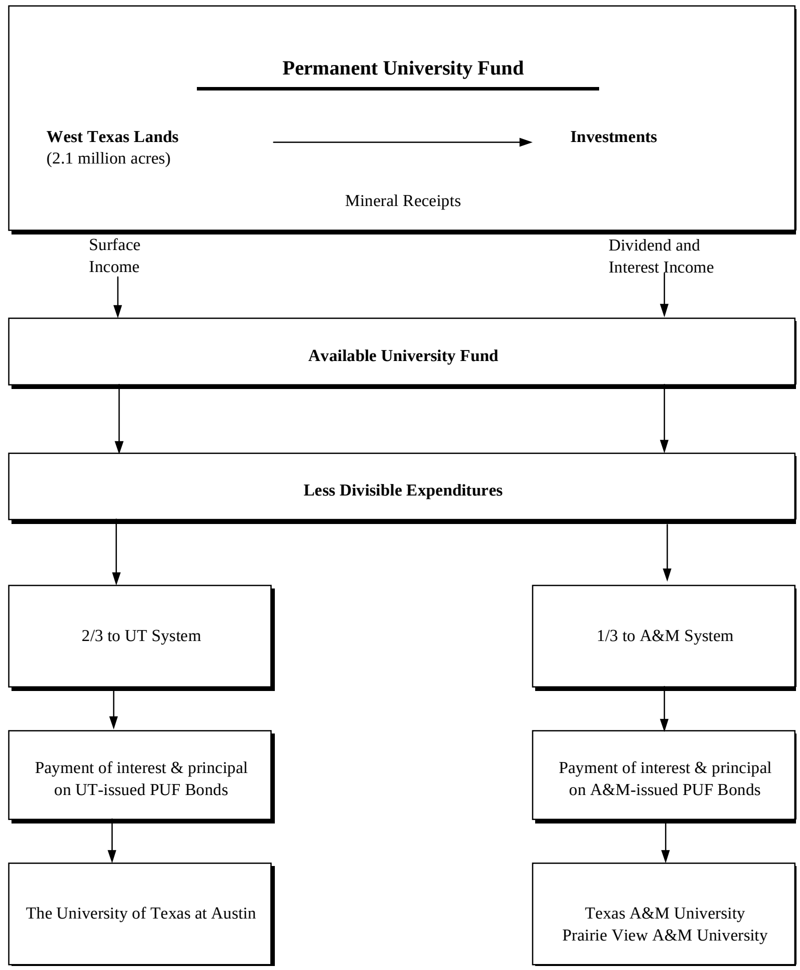
First, expenses incurred in the administration of PUF Lands and Investments. Resolutions adopted by the U. T. Board of Regents (the "U. T. Board") require that administrative expenses of the PUF be restricted to a minimum consistent with prudent business judgment.

Second, following a 2/3rds and 1/3rd allocation of distributed PUF income (net of administrative expenses) to the U. T. System and Texas A&M University System, respectively, expenditures for debt service on PUF bonds. Article VII of the Texas Constitution authorizes the U. T. Board and the Texas A&M University System (the "TAMUS Board") to issue bonds payable from their respective interests in distributed PUF income to finance permanent improvements and to refinance outstanding PUF obligations. The Constitution limits the amount of bonds and notes secured by each System's interest in divisible PUF income to 20% and 10% of the book value of PUF investment securities, respectively. Bond resolutions adopted by both Boards also prohibit the issuance of additional PUF parity obligations unless the projected interest in PUF net income for each System covers projected debt service at least 1.5 times.

Third, expenditures to fund a) excellence programs specifically at U. T. Austin, Texas A&M University and Prairie View A&M University and b) the administration of the university systems.

The distribution of income and expenditures from the PUF to the AUF is depicted below in Exhibit 1:

<u>Exhibit 1</u>



Fund Management

Article VII of the Texas Constitution assigns fiduciary responsibility for managing and investing the Fund to the U. T. Board. Article VII authorizes the U. T. Board, subject to procedures and restrictions it establishes, to invest the Fund in any kind of investments and in amounts it considers appropriate, provided that it adheres to the prudent person investment standard. This standard requires that the U. T. Board, in making investments, shall exercise the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital.

Ultimate fiduciary responsibility for the Fund rests with the Board. Section 66.08 of the Texas Education Code authorizes the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in investment of the PUF. The Fund shall be managed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the Fund, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with Fund objectives, and c) monitor Fund performance against Fund objectives. UTIMCO shall invest the Fund's assets in conformity with investment policy.

Unaffiliated investment managers may be hired by UTIMCO to improve the Fund's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.

Fund Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of Fund assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Fund Investment Objectives

The primary investment objective shall be to preserve the purchasing power of Fund assets and annual distributions by earning an average annual total return after inflation of 5.5% over rolling ten-year periods or longer. The Fund's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objective is to generate a fund return in excess of the Policy Portfolio benchmark over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect Fund asset allocation policy targets.

The U. T. Board recognizes that achievement of Fund investment objectives is substantially hindered by the inability to make distributions on a total return basis and current distribution rates in excess of long-term equilibrium levels.

Asset Allocation

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified herein is the responsibility of UTIMCO. Specific asset allocation targets may be changed from time to time based on the economic and investment outlook.

Fund assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

A. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.

B. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of Fund income. Such bonds should be high quality, and intermediate to long-term maturity with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction.

C. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation of the Fund. Historically, returns for equities have been higher than for bonds over all extended periods. As such, equities represent the best chance of preserving the purchasing power of the Fund.

D. Alternative Investments - generally consist of alternative marketable investments and alternative nonmarketable investments.

- <u>Alternative Marketable Investments</u> -
  These investments are broadly defined to include hedge funds, arbitrage and special situation funds, high yield bonds, distressed debt, market neutral, commodities and other non-traditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. Alternative marketable investments may be made directly by UTIMCO or through partnerships. If these investments are made through partnerships they offer faster drawdown of committed capital and earlier realization potential than alternative nonmarketable investments. Alternative marketable investments made through partnerships will generally provide investors with liquidity at least annually.

- <u>Alternative Nonmarketable Investments</u> –
  Alternative Nonmarketable investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative nonmarketable investments are that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund asset values through their characteristics of low correlation with listed equities and fixed income instruments. The disadvantages of this asset class are that they may be illiquid, require higher and more complex fees, and are frequently dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative nonmarketable investments shall be controlled with extensive due diligence and diversification. These investments are held either through limited partnership or as direct ownership interests. They include special equity, mezzanine venture capital, oil and gas, real estate and other investments that are privately held and which are not registered for sale on public exchanges. In partnership form, these investments require a commitment of capital for extended periods of time with no liquidity.

Asset Allocation Policy

The asset allocation policy and ranges herein recognize that the Fund's return/risk profile can be enhanced by diversifying the Fund's investments across different types of assets whose returns are not closely correlated. The targets and ranges seek to protect the Fund against both routine illiquidity in normal markets and extraordinary illiquidity during a period of extended deflation.

The long-term asset allocation policy for the Fund must recognize that the 5.5% real return objective requires a high allocation to broadly defined equities, including domestic, international stocks, and alternative equity investments of 50% to 90%. The allocation to Fixed Income should therefore not exceed 50% of the Fund.

The Board delegates authority to UTIMCO to establish specific neutral asset allocations and ranges within the broad policy guidelines described above. UTIMCO may establish specific asset allocation targets and ranges for large and small capitalization U. S. stocks, established and emerging market international stocks, marketable and non-marketable alternative equity investments, and other asset classes as well as the specific performance objectives for each asset class. Specific asset allocation policies shall be decided by UTIMCO and reported to the U. T. Board.

Performance Measurement

The investment performance of the Fund will be measured by an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the Fund. Such measurement will occur at least annually, and evaluate the results of the total Fund, major classes of investment assets, and individual portfolios.

Investment Guidelines

The Fund must be invested at all times in strict compliance with applicable law. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment guidelines include the following:

General

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.

- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.

- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of Fund assets in such liquid investment fund.

- No securities may be purchased or held which would jeopardize the Fund's tax-exempt status.

- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.

- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

- The Fund may utilize Derivative Securities with the approval of the UTIMCO Board to a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with Fund investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that: i) no leverage is employed in the implementation of such Derivative purchases or sales; ii) no more than 5% of Fund assets are required as an initial margin deposit for such contracts; iii) the Fund's investments in warrants shall not exceed more than 5% of the Fund's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges. Notwithstanding the above, leverage strategies are permissible within the alternative equities investment class with the approval of the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, and the strategy implements systematic risk control techniques, value at risk measures, and pre-defined risk parameters.

- Such Derivative Securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.

  UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the Fund and the prices of Derivative Security investments by investing in only those contracts whose behavior is expected to resemble that of the Fund's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a Derivative Security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of Derivative Securities purchased or sold over the counter may not represent more than 15% of the net assets of the Fund.

  In the event that there are no Derivative Securities traded on a particular market index such as MSCI EAFE, the Fund may utilize a composite of other Derivative Security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected Derivative Securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.

UTIMCO shall minimize the risk that a party will default on its payment obligation under a Derivative Security agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the Fund will not be able to meet its obligation to the counterparty by investing the Fund in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.

The Fund may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies and between foreign currencies and the U. S. dollar.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include internal short term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds as approved by the chief investment officer.

- Deposits of the Texas State Treasury.

- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).

- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.

- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.

- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.

- Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.

- Eligible Collateral Securities for Repurchase Agreements are limited to U. S. Treasury securities and U. S. Government Agency securities with a maturity of not more than 10 years.

- The maturity for a Repurchase Agreement may be from one day to two weeks.

- The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.

- All collateral shall be delivered to the PUF custodian bank. Tri-party collateral arrangements are not permitted.

- The aggregate amount of Repurchase Agreements with maturities greater than seven calendar days may not exceed 10% of the Fund's fixed income assets.

- Overnight Repurchase Agreements may not exceed 25% of the Fund's fixed income assets.

- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Holdings of domestic fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies and b) issued by corporations and municipalities. Within this overall limitation:

- Not less than 50% of the market value of domestic fixed income securities shall be invested in direct obligations of the U. S. Treasury, U. S. government agencies, and U. S. government sponsored entities.

- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

- The weighted average maturity of the domestic fixed income portfolio shall be not less than ten years unless approved in advance by the UTIMCO Board.

These guidelines shall not require the sale of any fixed income investments prior to their scheduled maturities unless the credit quality of the fixed income portfolio shall decline below Aa2.

Equities

The Fund shall:

A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market

B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the chief investment officer.

Alternative Investments

Investments in alternative assets may be made through management contracts with unaffiliated organizations (including but not limited to limited partnerships, trusts, and joint ventures) so long as such organizations:

A. possess specialized investment skills

B. possess full investment discretion subject to the management agreement

C. are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken

D. align the interests of the investor group with the management as closely as possible

E. charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated.

Investments in alternative nonmarketable assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the Fund has invested prior to the co-investment or in transactions sponsored by investment firms well-known to UTIMCO management, provided that such direct investments shall not exceed 25% of the market value of the alternative nonmarketable assets portfolio at the time of the direct investment.

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Fund assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be

endorsed over to UTIMCO and applied against UTIMCO management fees. Furthermore, UTIMCO Board approval of UTIMCO management's service as a director of an investee company shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's service as a director of an investee company.

Fund Distributions

The Fund shall balance the needs and interests of present beneficiaries with those of the future. Fund spending policy objectives shall be to:

A. provide a predictable, stable stream of distributions over time

B. ensure that the inflation adjusted value of distributions is maintained over the long-term

C. ensure that the inflation adjusted value of Fund assets after distributions is maintained over the long-term.

The goal is for the Fund's average spending rate over time not to exceed the Fund's average annual investment return after inflation in order to preserve the purchasing power of Fund distributions and underlying assets.

The Texas Constitution requires that all dividends, interest and other income earned from Fund investments be distributed to the AUF. At the same time, the Constitution prohibits the distribution of mineral income contributed to the Fund and any realized and unrealized gains earned on such contributions.

UTIMCO shall be responsible for the establishment of the Fund's asset allocation so as to produce an annual income distribution that balances the needs of current beneficiaries with those of future beneficiaries. The Board explicitly recognizes that the generation of income under the Constitutional provisions governing the Fund is highly dependent upon the level of interest rates over which the UTIMCO Board has no control. It also recognizes that the distribution rate as a percentage of the Fund's assets is above average and that the maintenance of current levels of distributed income reduces the UTIMCO Board's ability to grow income over time.

Fund Accounting

The fiscal year of the Fund shall begin on September 1st and end on August 31st. Market value of the Fund shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, industry guidelines, and state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by the chief investment officer and reported to the UTIMCO Board.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all Fund net assets. Such valuation of Fund assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

The fair market value of the Fund's net assets shall include all related receivables and payables of the Fund on the valuation. Such valuation shall be final and conclusive.

Securities Lending

The Fund may participate in a securities lending contract with a bank or nonbank security lending agent for either short-term or long-term purposes of realizing additional income. Loans of securities by the Fund shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U. S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate. The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the agent shall be reviewed by UTIMCO to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the Fund has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the Fund. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Fund solely in the interest of Fund unitholders and shall not invest the Fund so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be August 12, 1999.

PERMANENT UNIVERSITY FUND

SPECIFIC ASSET ALLOCATION, EXPECTED RETURN AND RISK, NEUTRAL POSITION, RANGES, AND PERFORMANCE OBJECTIVES

	Returned Nominal	Expected Risk	Neutral	Range	Performance Objective
Cash and **Equivalents**	3.75%	3.75%	**0%**	**0.0%-5.0%**	91 day T-Bill Ave. Yield
Equities					
u. s. common **Stocks:**					
Med/Large Capitalization Stocks	9.25%	18.50%	**30%**	**25%-35%**	**S&P 500 Index**
Small **Capitalization** Stocks	10.25%	21.25%	**10%**	55%-1 %	Russell 2000 Index
sub-total			40%	**30%-50%**	
International common **Stocks:**					
Established **Markets**	9.75%	20.75%	12%	**5%-20%**	**FT Actuaries** World (ex-U.S.)
Emerging Markets	13.00%	30.00%	**3%**	0%-10%	MSCI-Emerging **Mkts.** Free
sub-total			**15%**	5%-30%	
Total Common Stocks			55%	**35%-80%**	
Altemative **Investments:**					
Marketable	7.75%	9.25%	**7%**	**0%-10%**	91 - Day T-Bills + 7%
Non-Marketable	12.25%	9.50%	**18%**	**5%-25%**	17%
Total Altemative Assets			25%	**5%-35%**	
TOTAL **EQUITIES**			80%	**50%-85%**	
Fixed Income					
u. s. **(Domestic)**	6.25%	9.25%	15%	**15%-50%**	**Lehman** Brothers Aggregate
International	6.50%	13.00%	5%	**0%-5%**	Salomon Non-U.S. WGBI **Unhedged**
TOTAL FIXED INCOME			20%	**15%-50%**	
TOTAL **ASSETS**	9.37%	11.24%	100%		

Achievement of these performance objectives is most **appropriately** evaluated over a **full** market cycle of roughly five years.
The **rebalancing** of Fund assets to achieve the neuhal allocations is subject to the objective of replicating prior **year's** income.
Risk is **defined** as the **standard** deviation of the expected **return.**

THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND
INVESTMENT POLICY STATEMENT

Purpose

The Long Term Fund (the "Fund"), succeeded the Common Trust Fund in February, 1995, and was established by the Board of Regents of The University of Texas System (the "Board") as a pooled fund for the collective investment of private endowments and other long-term funds supporting various programs of The University of Texas System. The Fund provides for greater diversification of investments than would be possible if each account were
managed separately.

Fund Organization

The Fund is organized as a mutual fund in which each eligible account purchases and redeems Fund units as provided herein. The ownership of Fund assets shall at all times be vested in the Board. Such assets shall be deemed to be held by the Board, as a fiduciary, regardless of the name in which the assets may be registered.

Fund Management

Ultimate fiduciary responsibility for the Fund rests with the Board. Section 163 of the Property Code authorizes the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in the investment of the Fund. The Fund shall be governed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the Fund, b) determine specific asset allocation targets, ranges, and performance benchmarks consistent with Fund objectives, and c) monitor Fund performance against Fund objectives. UTIMCO shall invest the Fund assets in conformity with investment policy.

Unaffiliated investment managers may be hired by UTIMCO to improve the Fund's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.

Fund Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of Fund assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase Fund Units

No fund shall be eligible to purchase units of the Fund unless it is under the sole control, with full discretion as to investments, by the Board and/or UTIMCO.

Any fund whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the Fund.

The funds of a foundation which is structured as a supporting organization described in Section 509(a) of the Internal Revenue Code of 1986, which supports the activities of the U. T. System and its component institutions, may purchase units in the Fund provided that:

A. the purchase of Fund units by foundation funds is approved by the chief investment officer

B. all members of the foundation's governing board are also members of the Board

C. the foundation has the same fiscal year as the Fund

D. a contract between the Board and the foundation has been executed authorizing investment of foundation funds in the Fund

E. no officer of such foundation, other than members of the Board, the Chancellor, the chief investment officer or his or her delegate shall have any control over the management of the Fund other than to request purchase and redemption of Fund units.

Fund Investment Objectives

The primary investment objective shall be to preserve the purchasing power of Fund assets and annual distributions by earning an average annual total return after inflation of 5.5% over rolling ten year periods or longer. The Fund's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objectives are to generate a fund return in excess of the Policy Portfolio benchmark and the average median return of the universe of the college and university endowments as reported annually by Cambridge Associates and NACUBO over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect Fund's asset allocation policy targets.

Asset Allocation

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified herein, is the responsibility of UTIMCO. Specific asset allocation targets may be changed from time to time based on the economic and investment outlook. Fund assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

A. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.

B. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of Fund income. Such bonds should be high quality, and intermediate to long-term duration with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction.

C. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation of the Fund. Historically, returns for equities have been higher than for bonds over all extended periods. Therefore, equities represent the best chance of preserving the purchasing power of the Fund.

D. <u>Alternative Investments</u> - generally consist of alternative marketable investments and alternative nonmarketable investments.

- Alternative Marketable Investments -
  These investments are broadly defined to include hedge funds, arbitrage and special situation funds, high yield bonds, distressed debt, market neutral, commodities and other non-traditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. Alternative marketable investments may be made directly by UTIMCO or through partnerships. If these investments are made through partnerships they offer faster drawdown of committed capital and earlier realization potential than alternative nonmarketable investments. Alternative marketable investments made through partnerships will generally provide investors with liquidity at least annually.

- Alternative Nonmarketable Investments -
  Alternative Nonmarketable investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative nonmarketable investments are that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund asset values through their characteristics of low correlation with listed equities and fixed income instruments. The disadvantages of this asset class are that they may be illiquid, require higher and more complex fees, and are frequently dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative nonmarketable investments shall be controlled with extensive due diligence and diversification. These investments are held through either limited partnership or as direct ownership interests. They include special equity, mezzanine venture capital, oil and gas, real estate and other investments that are privately held and which are not registered for sale on public exchanges. In partnership form, these investments require a commitment of capital for extended periods of time with no liquidity. They also generally require an extended period of time to achieve targeted investment levels.

Asset Allocation Policy

The asset allocation policy and ranges herein recognize that the Fund's return/risk profile can be enhanced by diversifying the Fund's investments across different types of assets whose returns are not closely correlated. The targets and ranges seek to protect the Fund against both routine illiquidity in normal markets and extraordinary illiquidity during a period of extended deflation.

The long-term asset allocation policy for the Fund must recognize that the 5.5% real return objective requires a high allocation to broadly defined equities, including domestic, international stocks, and alternative equity investments, of 68% to 90%. The allocation to fixed income investments should therefore not exceed 32% of the Fund.

The Board delegates authority to UTIMCO to establish specific neutral asset allocations and ranges within the broad policy guidelines described above. UTIMCO may establish specific asset allocation targets and ranges for large and small capitalization U. S. stocks, established and emerging market international stocks, marketable and non-marketable alternative equity investments, and other asset classes as well as the specific performance objectives for each asset class. Specific asset allocation policies shall be decided by UTIMCO and reported to the U. T. Board.

Performance Measurement

The investment performance of the Fund will be measured by an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the Fund. Such measurement will occur at least annually, and evaluate the results of the total Fund, major classes of investment assets, and individual portfolios.

Investment Guidelines

The Fund must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

<u>General</u>

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.

- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.

- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of Fund assets in such liquid investment fund.

- No securities may be purchased or held which jeopardize the Fund's tax exempt status.

- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.

- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

- The Fund may utilize Derivative Securities with the approval of the UTIMCO Board to a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with Fund investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that; i) no leverage is employed in the implementation of such Derivative purchases or sales; ii) no more than 5% of Fund assets are required as an initial margin deposit for such contracts; iii) the Fund's investments in warrants shall not exceed more than 5% of the Fund's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges. Notwithstanding the above, leverage strategies are permissible within the alternative equities investment class with the approval of the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, and the strategy implements systematic risk control techniques, value at risk measures, and pre-defined risk parameters.

- Such Derivative Securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.

  UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the Fund and the prices of Derivative Security investments by investing in only those contracts whose behavior is expected to resemble that of the Fund's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a Derivative Security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of Derivative Securities purchased or sold over the counter may not represent more than 15% of the net assets of the Fund.

In the event that there are no Derivative Securities traded on a particular market index such as MSCI EAFE, the Fund may utilize a composite of other Derivative Security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected Derivative Securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.

UTIMCO shall minimize the risk that a party will default on its payment obligation under a Derivative Security agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the Fund will not be able to meet its obligation to the counterparty by investing the Fund in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.

The Fund may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies and between foreign currencies and the U. S. dollar.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include internal short term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds as approved by the chief investment officer.

- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).

- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.

- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.

- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.

    - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.

    - Eligible Collateral Securities for Repurchase Agreements are limited to U. S. Treasury securities and U. S. Government Agency securities with a maturity of not more than 10 years.

    - The maturity for a Repurchase Agreement may be from one day to two weeks.

    - The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.

    - All collateral shall be delivered to the LTF custodian bank. Tri-party collateral arrangements are not permitted.

- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the Fund's fixed income assets.

- Overnight Repurchase Agreements may not exceed 25% of the Fund's fixed income assets.

- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Domestic Fixed Income

Holdings of domestic fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies, and b) issued by corporations and municipalities. Within this overall limitation:

- Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-indices 1) Government: Treasury and Agency; 2) Corporate: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; and 4) Asset-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities;
  b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.

- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition.

- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

Non-U.S. Fixed Income

- Not more than 35% of the Fund's fixed income portfolio may be invested in non-U. S. dollar bonds. Not more than 15% of the Fund's fixed income portfolio may be invested in bonds denominated in any one currency.

- Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio.

- Not more than 7.5% of the Fund's fixed income portfolio may be invested in Emerging Market debt.

- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

The Fund shall:

A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market.

B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the chief investment officer.

Alternative Investments

Investments in alternative assets may be made through management contracts with unaffiliated organizations (including but not limited to limited partnerships, trusts, and joint ventures) so long as such organizations:

A. possess specialized investment skills

B. possess full investment discretion subject to the management agreement

C. are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken

D. align the interests of the investor group with the management as closely as possible

E. charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated.

Investments in alternative nonmarketable assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the Fund has invested prior to the co-investment or in transactions sponsored by investment firms well known to UTIMCO management, provided that such direct investments shall not exceed 25% of the market value of the alternative nonmarketable assets portfolio at the time of the direct investment.

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Fund assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and applied against UTIMCO management fees. Furthermore, UTIMCO Board approval of UTIMCO management's service as a director of an investee company shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's service as a director of an investee company.

Fund Distributions

The Fund shall balance the needs and interests of present beneficiaries with those of the future. Fund spending policy objectives shall be to:

A. provide a predictable, stable stream of distributions over time

B. ensure that the inflation adjusted value of distributions is maintained over the long-term

C. ensure that the inflation adjusted value of Fund assets after distributions is maintained over the long-term.

The goal is for the Fund's average spending rate over time not to exceed the Fund's average annual investment return after inflation in order to preserve the purchasing power of Fund distributions and underlying assets.

Pursuant to the Uniform Management of Institutional Funds Act, a governing board may distribute, for the uses and purposes for which the fund is established, the net realized appreciation in the fair market value of the assets of an endowment fund over the historic dollar value of the fund to the extent prudent under the standard provided by the Act. In addition, income may be distributed for the purposes associated with the endowments/foundations.

UTIMCO shall be responsible for establishing the Fund's distribution percentage and determining the equivalent per unit rate for any given year. Unless otherwise established by UTIMCO and approved by the Board or prohibited by the Act, fund distributions shall be based on the following criteria:

The annual unit distribution amount shall be adjusted annually based on the following formula:

A. Increase the prior year's per unit distribution amount (cents per unit) by the average inflation rate (C.P.I.) for the previous twelve quarters. This will be the per unit distribution amount for the next fiscal year. This amount may be rounded to the nearest $.0005 per unit.

B. If the inflationary increase in Step A. results in a distribution rate below 3.5% (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit), the UTIMCO Board, at its sole discretion, may grant an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 5.5%.

C. If the distribution rate exceeds 5.5% (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit), the UTIMCO Board at its sole discretion, may reduce the per unit distribution amount.

Notwithstanding any of the foregoing provisions, the Board of Regents may approve a per unit distribution amount that, in their judgment, would be more appropriate than the rate calculated by the policy provisions.

Distributions from the Fund to the unitholders shall be made quarterly as soon as practicable on or after the last business day of November, February, May, and August of each fiscal year.

Fund Accounting

The fiscal year of the Fund shall begin on September 1st and end on August 31st. Market value of the Fund shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, or industry guidelines, whichever is applicable. Significant asset write-offs or write-downs shall be approved by the chief investment officer and reported to the UTIMCO Board.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all Fund net assets and the net asset value per unit of the Fund. Such valuation of Fund assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

The fair market value of the Fund's net assets shall include all related receivables and payables of the Fund on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Purchase of Fund Units

Purchase of Fund units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the Fund or contribution of assets approved by the chief investment officer, at the net asset value per unit of the Fund as of the most recent quarterly valuation date.

In order to permit complete investment of funds and to avoid fractional units, any purchase amount will be assigned a whole number of units in the Fund based on the appropriate per unit value of the Fund. Any fractional amount of purchase funds which exceeds the market value of the units assigned will be transferred to the Fund but no units shall be issued. Each fund whose monies are invested in the Fund shall own an undivided interest in the Fund in the proportion that the number of units invested therein bears to the total number of all units comprising the Fund.

Redemption of Fund Units

Redemption of Units shall be paid in cash as soon as practicable after the quarterly valuation date of the Fund. If the withdrawal is greater than $10 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than $10 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the Fund's net asset value, the Board may redeem the requested units in installments and on a pro-rata basis over a reasonable period of time that takes into consideration the best interests of all Fund unitholders. Withdrawals from the Fund shall be at the market value price per unit determined for the period of the withdrawal except as follows: withdrawals to correct administrative errors shall be calculated at the per unit value at the time the error occurred. To be considered an administrative error, the contribution shall have been invested in the Fund for a period less than or equal to one year determined from the date of the contribution to the Fund. This provision does not apply to transfer of units between endowment unitholders.

Securities Lending

The Fund may participate in a securities lending contract with a bank or nonbank security lending agent for either short-term or long-term purposes of realizing additional income. Loans of securities by the Fund shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U. S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions.

The contract may include other provisions as appropriate. The securities lending program will be evaluated from time-to-time as deemed necessary by the UTIMCO Board. Monthly reports issued by the agent shall be reviewed by UTIMCO to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the Fund has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the Fund. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Fund solely in the interest of Fund unitholders and shall not invest the Fund so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be August 12, 1999.

LONG TERM FUND

SPECIFIC ASSET ALLOCATION, EXPECTED RETURN AND RISK, NEUTRAL POSITION, RANGES, AND PERFORMANCE **OBJECTIVES**

	Expected Nominal Return	Expected Risk	Neutral	Range	Performance Objective
Cash and Equivalents	3.75%	3.75%	0%	**0.0%-5.0%**	91 day T-Bill Ave. Yield
Equities					
U. S. Common Stocks:					
Med/Large Capitalization Stocks	**9.25%**	18.50%	30%	**10%-40%**	**S&P 500 Index**
Small Capitalization Stocks	10.25%	21.25%	**10%**	**5%-15%**	Russell 2000 Index
sub-total			**40%**	**15%-55%**	
International Common Stocks:					
Established Markets	**9.75%**	20.75%	12%	**5%-20%**	**FT** Actuaries World (ex-U.S.)
Emerging Markets	13.00%	30.00%	**3%**	O%-10%	MSCI-Emerging **Mkts**. Free
sub-total			**15%**	5%30%	
Total Common Stocks			55%	**35%-80%**	
Alternative Investments:					
Marketable	7.75%	**9.25%**	**7%**	**0%-10%**	91 - Day T-Bills + 7%
Non-Marketable	12.25%	**9.50%**	**18%**	**5%-25%**	17%
Total Alternative Assets			**25%**	**5%-35%**	
TOTAL EQUITIES			**80%**	**68%-90%**	
Fixed Income					
U. S. (Domestic)	6.25%	9.25%	15%	lo%-25%	**Lehman** Brothers Aggregate
International	6.50%	13.00%	5%	**0%-7%**	**Salomon** Non-U.S. WGBI **Unhedged**
TOTAL, FIXED INCOME			20%	**10%-32%**	
TOTAL ASSETS	**9.37%**	**11.24%**	100%		

Achievement of these **performance** objectives is most appropriately evaluated over a full market cycle of roughly five years.
The rebalancing of Fund assets to achieve the neutral allocations shall be subject to the **funding** of **alternative** assets.
Risk is **defined** as the standard deviation of the **expected** return.

THE UNIVERSITY OF TEXAS SYSTEM
SEPARATELY INVESTED ENDOWMENT, TRUST, AND OTHER ACCOUNTS INVESTMENT POLICY STATEMENT

Purpose

The Separately Invested Endowment, Trust, and Other Accounts are Accounts established in the name of the Board of Regents of The University of Texas System (the "Board") as trustee, and are Accounts which are not solely invested in one of the pooled investment vehicles. These Accounts are not invested in the pooled investment vehicle because: a) they are charitable trusts; b) of investment restrictions incorporated into the endowment document; c) of inability to sell the gifted investment asset; or d) they are assets being migrated upon liquidation into a pooled investment vehicle.

Investment Management

Ultimate fiduciary responsibility for the assets of the Accounts rests with the Board. Section 163 of the Property Code authorizes the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in the investment of the institutional assets for the Account (endowment and operating accounts). The applicable trust instrument will apply to the management of trust investments. The assets for the Account shall be governed through The University of Texas Investment Management Company ("UTIMCO") which shall: a) recommend investment policy for the Accounts, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with the Account objectives, and if appropriate c) monitor the Account's performance against Account objectives. UTIMCO shall invest the Account's assets in conformity with investment policy.

Unaffiliated investment managers may be hired by UTIMCO to improve the Account's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.

Account Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and Accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of assets in the Account shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Investment Objectives

Endowment Accounts - The primary investment objective shall be to invest the Account in assets that comply with the terms of the applicable endowment agreement, taking into consideration the investment time horizon of the Account.

Trust Accounts - Trust Accounts are defined as either Foundation Accounts or Charitable Trusts (Charitable Remainder Unitrusts (CRUT), Charitable Remainder Annuity Trusts (CRAT), Pooled Income Funds (PIF), Charitable Trusts (CT), or Charitable Lead Trusts (CLT)). The Board recognizes that the investment objective of a trust is dependent on the terms and conditions as defined in the trust document of each trust. The conditions that will affect the investment strategy are a) the trust payout provisions; b) the ages of the income beneficiaries; c) the ability to sell the gifted assets that were contributed to the trust; and d) consideration to investment preferences of the income beneficiaries. Taking these conditions into consideration, the fundamental investment objectives of the trust will be to generate a low to moderate growth in trust principal and to provide adequate liquidity in order to meet the payout provisions of the trust.

Operating Accounts - These are separate operating accounts of the Component institutions which invest in an Equity Index Fund and U. S. Debt Index Fund as approved by the Chief Investment Officer. The amount of component operating funds invested in the index funds is governed by the U. T. System Financial Policy.

Asset Allocation

Asset allocation is the primary determinant of the volatility of investment return and subject to the asset allocation ranges specified by UTIMCO. Specific asset allocation targets may be changed from time to time based on the economic and investment outlook.

If appropriate, the Account’s assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

A. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.

B. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of income for the Account. Such bonds should be high quality, with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction. This classification shall include fixed income mutual funds.

C. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation for the Account. Historically, returns for equities have been higher than for bonds over all extended periods. Therefore, equities represent the best chance of preserving the purchasing power of the Account. This classification shall include equity mutual funds.

D. Variable Annuities - These are insurance contracts purchased on the life or lives of the income beneficiaries and for which the funds underlying the contract are invested in various mutual funds which offer diversification of the Account's assets. These contracts offer some downside market risk protection in case of the income beneficiary's death in the early years of the contract. These investment assets are only appropriate for the charitable remainder trusts.

Asset Allocation Policy

The asset allocation policy and ranges for each trust or endowment herein is dependent on the terms and conditions of the endowment or trust document. With respect to the operating accounts, the U. T. System financial policies shall govern. If possible, the Account's assets shall be diversified among different types of assets whose returns are not closely correlated in order to enhance the return/risk profile of the Account.

The Board delegates authority to UTIMCO to establish specific asset allocation targets and ranges for each trust or endowment Account.

Performance Measurement

The investment performance of the actively managed Accounts, where cost effective, will be calculated and evaluated annually.

Investment Guidelines

The Accounts must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.

- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.

- Investment policies of any unaffiliated liquid investment Account must be reviewed and approved by the chief investment officer prior to investment of Account's assets in such liquid investment Account.

- No securities may be purchased or held which would jeopardize, if applicable, the Account's tax-exempt status.

- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.

- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

- The Account may utilize Derivative Securities with the approval of the UTIMCO Board to a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with Account investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that: i) no leverage is employed in the implementation of such Derivative purchases or sales; ii) no more than 5% of the Accounts assets are required as an initial margin deposit for such contracts; iii) the Account's investments in warrants shall not exceed more than 5% of the Account's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.

- Such Derivative Securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.

UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the Account and the prices of Derivative Security investments by investing in only those contracts whose behavior is expected to resemble that of the Account's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a Derivative Security contract and the resulting inability to close a position prior to its maturity date by
entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of Derivative Securities purchased or sold over the counter may not represent more than 15% of the net assets of the Account.

In the event that there are no Derivative Securities traded on a particular market index, the Account may utilize a composite of other Derivative Security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected Derivative Securities with its index by
investing in contracts whose behavior is expected to resemble that of the underlying securities.

UTIMCO shall minimize the risk that a party will default on its payment obligation under a Derivative Security agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the Account will not be able to meet its obligation to the counterparty by investing the Account in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.

The Account may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies and between foreign currencies and the U. S. dollar.

Risk Management

- Credit risk shall be controlled by UTIMCO who is responsible for the development and maintenance of credit quality standards for the Account.

- Counterparty exposure in the area of Repurchase Agreements and Reverse Repurchase Agreements – Not more than 5% of the total value of the securities in the Account shall be placed with any one counterparty.

- Diversification of credit risk shall be determined on an account basis.

Eligible Investments

Holdings of cash and cash equivalents may include the following:

- Unaffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation.

- Approved Tax Exempt unaffiliated liquid investment fund.

- Internal short term pooled investment fund managed by UTIMCO.

- Commercial paper, negotiable certificates of deposit, and Bankers' Acceptances must be rated at least A-1 by Standard & Poor's Corporation and P-1 by Moody's Investors Service, Inc.

- Floating rate securities, if they are based on a spread over or under a well known index such as LIBOR or a Constant Maturity Treasury index. No internally leveraged floating rate securities are permitted (i.e., a coupon equivalent to a formula that creates a multiplier of an index value). The following types of floating rate securities are not eligible for investment; inverse floaters, non-money market based floaters, interest only or principal only floaters, non-dollar based floaters, and range note floaters.

- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.

    - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.

    - Eligible Collateral Securities for Repurchase Agreements are limited to U. S. Treasury securities and U. S. Government Agency securities with a maturity of not more than 10 years.

    - The maturity for a Repurchase Agreement may be from one day to two weeks.

    - The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.

    - All collateral shall be delivered to the Account's custodian bank. Tri-party collateral arrangements are not permitted.

- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the Account's total assets.

- Overnight repurchase agreements may not exceed 10% of the Account's total assets.

- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Holdings of eligible fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies, and b) issued by corporations and municipalities. Within this overall limitation:

- Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-indices; 1) Government: Treasury and Agency; 2) Corporate: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; and 4) Asset-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities;
b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and
d) structured notes issued by LBAGG qualified entities.

- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition.

- Not more than 35% of the Account's fixed income portfolio may be invested in non-U. S. dollar bonds. Not more than 15% of the Account's fixed income portfolio may be invested in bonds denominated in any one currency.

- Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio.

- Not more than 7.5% of the Account's fixed income portfolio may be invested in Emerging Market debt.

- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

- Permissible securities for investment include Fixed Income Mutual Funds and Debt Index Funds as approved by the Chief Investment Officer.

- Permissible securities for investment include Fixed Income Variable Annuity Contracts as approved by the Chief Investment Officer.

<u>Equities</u>

The Account may purchase equity securities as long as it:

A. holds no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market.

B. holds no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the Chief Investment Officer.

The Account may purchase Equity Mutual Funds and Equity Variables Annuity Contracts as approved by the Chief Investment Officer.

The provisions concerning investment in fixed income and equities securities shall not apply to an endowment in which the agreement prohibits the sale of an equity or fixed income security. Donor preferences shall be considered in determining the disposition of a gifted security.

Distributions

Distributions of income or amounts from the Accounts to the beneficiaries shall be made as soon as practicable, either: a) based on the terms of the trust instrument; b) following the fiscal quarter end for endowments; or c) on or after the last day of the month for operating Accounts.

Accounting

The fiscal year of the Accounts shall begin on September 1st and end on August 31st. Trusts will also have a tax year end which may be different than August 31st. Market value of the Accounts shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, industry guidelines, or federal income tax laws, whichever is applicable. Significant asset write-offs or write-downs shall be approved by the chief investment officer and reported to the UTIMCO Board.

Valuation of Assets

As of the close of business for each month, UTIMCO shall determine the fair market value of all assets in the Accounts. Such valuation of assets shall be based on the bank trust custody agreement in effect or other external source if not held in the bank custody account at the date of valuation.

Securities Lending

The Account may participate in a securities lending contract with a bank or nonbank security lending agent for either short-term or long-term purposes of realizing additional income. Loans of securities by the Accounts shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U. S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate. The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the agent shall be reviewed by UTIMCO to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the Account has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the Account. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Account solely in the interest of the beneficiaries and shall not invest the Account so as to achieve temporal benefits for any purpose, including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be August 12, 1999.

3. U. T. Board of Regents: Approval of (a) the Investment Policy Statement for the Permanent Health Fund, (b) the Third Amendment to Investment Management Services Agreement with The University of Texas Investment Management Company, (c) the Permanent Health Fund Distribution Rate and (d) the Investment Administration of Other Permanent Funds.--Upon recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) and upon motion of Regent Miller, duly seconded, the Board approved the following in relation to public endowments established by the 76th Texas Legislature with proceeds from the settlement of tobacco litigation:

a. The Investment Policy Statement for the Permanent Health Fund as set out on Pages 76 - 90

b. The Third Amendment of the Investment Management Services Agreement dated March 1, 1996, between the U. T. Board of Regents and UTIMCO to amend Section 1. (Definitions) as set forth on Pages 91 - 92

c. A distribution rate of $0.045 per unit for the Permanent Health Fund effective November 30, 1999.

Further, the Board authorized the Chief Executive Officer of UTIMCO to execute an agreement with the Comptroller of Public Accounts to administer, on behalf of the U. T. Board of Regents, funds assigned by statute to the Comptroller for the creation of the Permanent Fund for Higher Education Nursing, Allied Health and Other Health Related Programs and for the Permanent Fund for Minority Health, Research, and Education.

The Permanent Health Fund (PHF) is a pooled fund for the collective investment of permanent funds for health-related institutions of higher education created, effective August 30, 1999, by Chapter 63 of the Texas Education Code. The PHF consists of:

1. The Permanent Health Fund for Higher Education (PHFHE) -- Distributions will fund programs that benefit medical research, health education, or treatment programs at 10 health-related institutions of higher education in Texas; and

2. Separate Permanent Funds for Health Related Institutions (PFHRIs) -- Distributions will fund research and other programs that benefit public health at certain U. T. System component institutions.

Chapter 63 of the Texas Education Code designates: a) the U. T. Board of Regents as the administrator for the PHFHE, and b) the governing board of an institution for which a PFHRI fund is established as the administrator for that institution's PFHRI fund.

Initially, the PHF shall consist of: a) the $350 million PHFHE; and b) eight separate PFHRI endowments with a combined value of $470 million, for a total initial PHF value of $820 million. According to the PHF Investment Policy Statement, the PHF shall be managed in a manner similar to that of the U. T. System Long Term Fund. The proposed investment management budget for the fiscal year ended August 31, 2000 (approved by the UTIMCO Board of Directors on June 24, 1999), is $2,844,795, or approximately 0.35% of initial PHF value.

Chapter 63 of the Texas Education Code states that the Board may manage and invest the PHF in the same manner as the Board manages and invests other permanent endowments. It requires that the Board invest the funds in a manner that preserves the purchasing power of the PHF's assets and distributions and that the Board make distributions in a manner consistent with the Board's policies and procedures for making distributions to the beneficiaries of its own endowments in the case of the PHFHE or the funds themselves in the case of the PFHRI funds.

Furthermore, Chapter 63 of the Texas Education Code authorizes the State Comptroller to contract with the governing board of any institution or component that is eligible to receive a grant as provided for in this Chapter. If the U. T. Board of Regents contracts with the State Comptroller to be the administrator of these other funds and furthermore authorizes UTIMCO to invest these funds in the Permanent Health Fund, such funds shall be managed subject to the PHF Investment Policy Statement.

The PHF Investment Policy Statement is identical to the Investment Policy Statement for the U. T. System Long Term Fund approved by the U. T. System Board of Regents on February 11, 1999, except for: a) conforming changes; and b) updated annual return and risk expectations for each asset class (see Exhibit A). The PHF Investment Policy Statement was approved by the UTIMCO Board on June 24, 1999.

The amendment of the Investment Management Services Agreement (the Agreement) dated March 1, 1996, between the U. T. Board of Regents and UTIMCO authorizes UTIMCO to invest the Permanent Health Fund, on behalf of the U. T. Board of Regents, through revision of the "Definitions" portion of the Agreement.

THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT HEALTH FUND
INVESTMENT POLICY STATEMENT

Purpose

The Permanent Health Fund (the "Fund"), is hereby established by the Board of Regents of The University of Texas System, (the "Board"), as a pooled fund for the collective investment of permanent funds for health-related institutions of higher education created, effective August 30, 1999, by Chapter 63 of the Texas Education Code. These permanent health funds consist of:

A. The Permanent Health Fund for Higher Education, ("PHFHE"), the distributions from which are to fund programs that benefit medical research, health education, or treatment programs at 10 health-related institutions of higher education; and

B. Separate Permanent Funds for Health Related Institutions, ("PFHRIs"), the distributions from which are to fund research and other programs, at certain U. T. System component institutions, that benefit public health.

The Fund provides for greater diversification of investments than would be possible if each account were managed separately.

Fund Organization

The Fund is organized as a mutual fund in which each eligible account purchases and redeems Fund units as provided herein.

Fund Management

Chapter 63 of the Texas Education Code designates: a) the Board as the administrator for the PHFHE; and b) the governing board of an institution for which a PFHRI fund is established as the administrator for its own PFHRI fund. Chapter 63 further states that the Board may manage and invest the Fund in the same manner as the Board manages and invests other permanent endowments. It also requires that the administrator invest the funds in a manner that preserves the purchasing power of the funds' assets and distributions. It further requires that the administrator make distributions in a manner consistent with the administrator's policies and procedures for making distributions to the beneficiaries of its own endowments in the case of the PHFHE or the funds themselves in the case of the PFHRI funds.

Section 163 of the Texas Property Code provides the guidelines for the management, investment and expenditure of endowment funds. It also authorizes the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in the investment of the Fund. The Fund shall be governed through The University of Texas Investment Management Company ("UTIMCO") which shall: a) recommend investment policy for the Fund; b) determine specific asset allocation targets, ranges, and performance benchmarks consistent with Fund objectives; and c) monitor Fund performance against Fund objectives. UTIMCO shall invest the Fund assets in conformity with investment policy.

Unaffiliated investment managers may be hired by UTIMCO to improve the Fund's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.

Fund Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of Fund assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase Fund Units

No fund shall be eligible to purchase units of the Fund unless it is a permanent health fund established pursuant to Chapter 63 of the Texas Education Code, under the control, with full discretion as to investments, by the Board and/or UTIMCO.

Any fund whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the Fund.

Fund Investment Objectives

The primary investment objective shall be to preserve the purchasing power of Fund assets and annual distributions by earning an average annual total return after inflation of 5.5% over rolling ten year periods or longer. The Fund's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objectives are to generate a fund return in excess of the Policy Portfolio benchmark and the average median return of the universe of the college and university endowments as reported annually by Cambridge Associates and NACUBO over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect Fund's asset allocation policy targets.

Asset Allocation

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified herein, is the responsibility of UTIMCO. Specific asset allocation targets may be changed from time to time based on the economic and investment outlook. Fund assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

A. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.

B. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of Fund income. Such bonds should be high quality, and intermediate to long-term duration with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction.

C. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation of the Fund. Historically, returns for equities have been higher than for bonds over all extended periods. Therefore, equities represent the best chance of preserving the purchasing power of the Fund.

D. Alternative Investments - generally consist of alternative marketable investments and alternative nonmarketable investments.

- Alternative Marketable Investments -
  These investments are broadly defined to include hedge funds, arbitrage and special situation funds, high yield bonds, distressed debt, market neutral, commodities and other non-traditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. Alternative marketable investments may be made directly by UTIMCO or through partnerships. If these investments

are made through partnerships they offer faster drawdown of committed capital and earlier realization potential than alternative nonmarketable investments. Alternative marketable investments made through partnerships will generally provide investors with liquidity at least annually.

- Alternative Nonmarketable Investments -
  Alternative Nonmarketable investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative nonmarketable investments are that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund asset values through their characteristics of low correlation with listed equities and fixed income instruments. The disadvantages of this asset class are that they may be illiquid, require higher and more complex fees, and are frequently dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative nonmarketable investments shall be controlled with extensive due diligence and diversification. These investments are held through either limited partnership or as direct ownership interests. They include special equity, mezzanine venture capital, oil and gas, real estate and other investments that are privately held and which are not registered for sale on public exchanges. In partnership form, these investments require a commitment of capital for extended periods of time with no liquidity. They also generally require an extended period of time to achieve targeted investment levels.

Asset Allocation Policy

The asset allocation policy and ranges herein recognize that the Fund's return/risk profile can be enhanced by diversifying the Fund's investments across different types of assets whose returns are not closely correlated. The targets and ranges seek to protect the Fund against both routine illiquidity in normal markets and extraordinary illiquidity during a period of extended deflation.

The long-term asset allocation policy for the Fund must recognize that the 5.5% real return objective requires a high allocation to broadly defined equities, including domestic, international stocks, and alternative equity investments, of 68% to 90%. The allocation to fixed income investments should therefore not exceed 32% of the Fund.

The Board delegates authority to UTIMCO to establish specific neutral asset allocations and ranges within the broad policy guidelines described above. UTIMCO may establish specific asset allocation targets and ranges for large and small capitalization U. S. stocks, established and emerging market international stocks, marketable and non-marketable alternative equity investments, and other asset classes as well as the specific performance objectives for each asset class. Specific asset allocation policies shall be decided by UTIMCO and reported to the U. T. Board.

Performance Measurement

The investment performance of the Fund will be measured by an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the Fund. Such measurement will occur at least annually, and evaluate the results of the total Fund, major classes of investment assets, and individual portfolios.

Investment Guidelines

The Fund must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

<u>General</u>

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.

- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.

- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of Fund assets in such liquid investment fund.

- No securities may be purchased or held which jeopardize the Fund's tax exempt status.

- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.

- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

- The Fund may utilize Derivative Securities with the approval of the UTIMCO Board to: a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with Fund investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that; i) no leverage is employed in the implementation of such Derivative purchases or sales; ii) no more than 5% of Fund assets are required as an initial margin deposit for such contracts; iii) the Fund's investments in warrants shall not exceed more than 5% of the Fund's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges. Notwithstanding the above, leverage strategies are permissible within the alternative equities investment class with the approval of the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, the strategy implements systematic risk control techniques, value at risk measures, and pre-defined risk parameters.

- Such Derivative Securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.

  UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the Fund and the prices of Derivative Security investments by investing in only those contracts whose behavior is expected to resemble that of the Fund's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a Derivative Security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of Derivative Securities purchased or sold over the counter may not represent more than 15% of the net assets of the Fund.

In the event that there are no Derivative Securities traded on a particular market index such as MSCI EAFE, the Fund may utilize a composite of other Derivative Security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected Derivative Securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.

UTIMCO shall minimize the risk that a party will default on its payment obligation under a Derivative Security agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the Fund will not be able to meet its obligation to the counterparty by investing the Fund in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.

The Fund may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies and between foreign currencies and the U. S. dollar.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include internal short term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds as approved by the chief investment officer.

- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).

- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.

- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.

- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.

  - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.

  - Eligible Collateral Securities for Repurchase Agreements are limited to U. S. Treasury securities and U. S. Government Agency securities with a maturity of not more than 10 years.

  - The maturity for a Repurchase Agreement may be from one day to two weeks.

  - The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.

  - All collateral shall be delivered to the PHF custodian bank. Tri-party collateral arrangements are not permitted.

- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the Fund's fixed income assets.

- Overnight Repurchase Agreements may not exceed 25% of the Fund's fixed income assets.

- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Domestic Fixed Income

Holdings of domestic fixed income securities shall be limited to those securities: a) issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies; and b) issued by corporations and municipalities. Within this overall limitation:

- Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-indices: 1) Government: Treasury and Agency; 2) Corporate: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; and 4) Asset-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.

- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition.

- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

<u>Non-U.S. Fixed Income</u>

- Not more than 35% of the Fund's fixed income portfolio may be invested in non-U. S. dollar bonds. Not more than 15% of the Fund's fixed income portfolio may be invested in bonds denominated in any one currency.

- Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio.

- Not more than 7.5% of the Fund's fixed income portfolio may be invested in Emerging Market debt.

- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

The Fund shall:

A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market

B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the chief investment officer.

Alternative Investments

Investments in alternative assets may be made through management contracts with unaffiliated organizations (including but not limited to limited partnerships, trusts, and joint ventures) so long as such organizations:

A. possess specialized investment skills

B. possess full investment discretion subject to the management agreement

C. are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken

D. align the interests of the investor group with the management as closely as possible

E. charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated.

Investments in alternative nonmarketable assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the Fund has invested prior to the co-investment or in transactions sponsored by investment firms well known to UTIMCO management, provided that such direct investments shall not exceed 25% of the market value of the alternative nonmarketable assets portfolio at the time of the direct investment.

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Fund assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and applied against UTIMCO management fees. Furthermore, UTIMCO Board approval of UTIMCO management's service as a director of an investee company shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's service as a director of an investee company.

Fund Distributions

The Fund shall balance the needs and interests of present beneficiaries with those of the future. Fund spending policy objectives shall be to:

A. provide a predictable, stable stream of distributions over time

B. ensure that the inflation adjusted value of distributions is maintained over the long-term

C. ensure that the inflation adjusted value of Fund assets after distributions is maintained over the long-term.

The goal is for the Fund's average spending rate over time not to exceed the Fund's average annual investment return after inflation in order to preserve the purchasing power of Fund distributions and underlying assets.

UTIMCO shall be responsible for establishing the Fund's distribution percentage and determining the equivalent per unit rate for any given year. Unless otherwise established by UTIMCO and approved by the Board, fund distributions shall be based on the following criteria:

The annual unit distribution amount shall be adjusted annually based on the following formula:

A. Increase the prior year's per unit distribution amount (cents per unit) by the average inflation rate (C.P.I.) for the previous twelve quarters. This will be the per unit distribution amount for the next fiscal year. This amount may be rounded to the nearest $.0005 per unit.

B. If the inflationary increase in Step A. results in a distribution rate below 3.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit) the UTIMCO

Board, at its sole discretion, may grant an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 5.5%.

C. If the distribution rate exceeds 5.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit) the UTIMCO Board at its sole discretion, may reduce the per unit distribution amount.

Notwithstanding any of the foregoing provisions, the Board of Regents may approve a per unit distribution amount that, in their judgment, would be more appropriate than the rate calculated by the policy provisions.

Distributions from the Fund to the unitholders shall be made quarterly as soon as practicable on or after the last business day of November, February, May, and August of each fiscal year.

Fund Accounting

The fiscal year of the Fund shall begin on September 1st and end on August 31st. Market value of the Fund shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, or industry guidelines, whichever is applicable. Significant asset write-offs or write-downs shall be approved by the chief investment officer and reported to the UTIMCO Board.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all Fund net assets and the net asset value per unit of the Fund. Such valuation of Fund assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

The fair market value of the Fund’s net assets shall include all related receivables and payables of the Fund on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Purchase of Fund Units

Purchase of Fund units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the Fund or contribution of assets approved by the chief investment officer, at the net asset value per unit of the Fund as of the most recent quarterly valuation date.

Each fund whose monies are invested in the Fund shall own an undivided interest in the Fund in the proportion that the number of units invested therein bears to the total number of all units comprising the Fund.

Redemption of Fund Units

Redemption of Units shall be paid in cash as soon as practicable after the quarterly valuation date of the Fund. If the withdrawal is greater than $5 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than $5 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the Fund's net asset value, the Board may redeem the requested units in installments and on a pro-rata basis over a reasonable period of time that takes into consideration the best interests of all Fund unitholders. Withdrawals from the Fund shall be at the market value price per unit determined for the period of the withdrawal.

Securities Lending

The Fund may participate in a securities lending contract with a bank or nonbank security lending agent for either short-term or long-term purposes of realizing additional income. Loans of securities by the Fund shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U. S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate. The securities lending program will be evaluated from time-to-time as deemed necessary by the UTIMCO Board. Monthly reports issued by the agent shall be reviewed by UTIMCO to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the Fund has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the Fund. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Fund solely in the interest of Fund unitholders and shall not invest the Fund so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be August 30, 1999.

EXHIBIT A

PERMANENT HEALTH FUND

SPECIFIC ASSET ALLOCATION, EXPECTED RETURN AND RISK, NEUTRAL POSITION, RANGES, AND PERFORMANCE OBJECTIVES

	Expected Nominal Return	Expected Risk	Neutral	Range	Performance Objective
Cash and Equivalents	3.75%	3.75%	0%	0.0%-5.0%	91 day T-Bill Ave. Yield
Equities					
U. S. Common Stocks:					
Med/Large Capitalization Stocks	9.25%	18.50%	30%	10%-40%	S&P 500 Index
Small Capitalization Stocks	10.25%	21.25%	10%	5%-15%	Russell 2000 Index
sub-total			40%	15%-55%	
International Common Stocks:					
Established Markets	9.75%	20.75%	12%	5%-20%	FT Actuaries World (ex-U.S.)
Emerging Markets	13.00%	30.00%	3%	0%-10%	MSCI-Emerging Mkts. Free
sub-total			15%	5%-30%	
Total Common Stocks			55%	35%-80%	
Alternative Investments:					
Marketable	7.75%	9.25%	7%	0%-10%	91 - Day T-Bills + 7%
Non-Marketable	12.25%	9.50%	18%	5%-25%	17%
Total **Alternative** Assets			25%	5%-35%	
TOTAL EQUITIES			80%	68%-90%	
Fixed Income					
U. s. **(Domestic)**	6.25%	9.25%	15%	10%-25%	Lehman Brothers Aggregate
International	6.50%	13.00%	5%	0%-7%	Salomon Non-U.S. WGBI Unhedged
TOTAL FIXED **INCOME**			20%	10%-32%	
TOTAL ASSETS	9.37%	11.24%	100%		

Achievement of these **performance** objectives is most **appropriately** evaluated over **a full** market cycle of roughly five years.
The **rebalancing** of Fund assets to achieve the neutral allocations shall be subject to the funding of altemative assets.
Risk is defined as the standard deviation of the expected return.

THIRD AMENDMENT TO THE
INVESTMENT MANAGEMENT SERVICES AGREEMENT

This Third Amendment to the Investment Management Services Agreement (this "Amendment") by and between the Board of Regents (the "U. T. Board") of The University of Texas System (the "U. T. System") and The University of Texas Investment Management Company ("UTIMCO"), a Texas nonprofit corporation, is effective August 30, 1999 (the "Effective Date").

RECITALS

WHEREAS, the U. T. Board and UTIMCO entered into a certain Investment Management Services Agreement (the "Agreement"), as amended, effective March 1, 1996 to authorize UTIMCO to invest certain designated funds under the control and management of the U. T. Board; and

WHEREAS, the U. T. Board and UTIMCO desire to enter into this Amendment to the Agreement in order to authorize UTIMCO to invest permanent funds for health-related institutions established pursuant to Chapter 63, Texas Education Code.

NOW THEREFORE, in consideration of the premises and the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1 of the Agreement will be amended to revise "Accounts" and add "Permanent Health Fund" as follows:

Accounts shall mean those funds for which the U. T. Board has responsibility, namely (a) the Permanent University Fund, excluding PUF Lands, (b) the Permanent Health Fund, (c) the U. T. Board Accounts and (d) the U. T. Board Trust Accounts.

Permanent Health Fund or **PHF** shall mean collectively the permanent funds for health-related institutions established pursuant to Chapter 63, Texas Education Code for which the U. T. Board is an administrator.

Section 2. Agreement in Effect.

Except as specifically amended herein, all provisions and sections of the Agreement are valid and in full effect.

BOARD OF REGENTS OF THE
UNIVERSITY OF TEXAS SYSTEM

By:____________________________
Donald L. Evans
Chairman

THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

By:____________________________
Thomas G. Ricks
President and CEO

Chairman Evans stated that last spring he had called on Regents Miller, Oxford, and Riter to look carefully at policies that govern UTIMCO and strongly recommended to the Board that UTIMCO be required to operate under the same open meetings laws, regulations, and guidelines under which the U. T. Board of Regents operates. In this vein, Chairman Evans stated that he would ask Chancellor Cunningham to develop a policy that reflects open government and to look carefully at what the 76th Texas Legislature passed with regard to holding of briefing sessions of the Texas Growth Fund. Mr. Evans stated that there are certain rare, but unique, situations where UTIMCO considers private investments and the Legislature realized there may be reasons to hold closed sessions from time to time if the information disclosed would in fact give a competitive advantage to someone. He reiterated his strong recommendation that the Board pass a policy in the near future that will govern UTIMCO's meetings and recommended a special called meeting be held soon to adopt such a policy for UTIMCO.

Regent Miller commended the Chairman for the recommendation and expressed his strong endorsement of the Chairman's recommendation, stating that there was evidence in the recent Legislative sessions when the Legislature asked for direction concerning the tobacco settlement. He said the Legislature expressed a certain amount of confidence that is deserved and for UTIMCO to open up their meetings will allow the community at large to see the quality of the management of those funds.

Chancellor Cunningham assured the Board that he would make development of such a policy a high priority and would put together a proposal in the next few days.

Chairman Evans thanked Regents Miller, Oxford, and Riter for their time and efforts related to UTIMCO issues.

<u>Executive Secretary's Note</u>: A special called telephone meeting was held on September 3, 1999, to approve an Open Meeting Policy Statement for UTIMCO.

4. U. T. Board of Regents: Appointment of Mr. Woody L. Hunt, El Paso, Texas, and Mr. A. R. (Tony) Sanchez, Jr., Laredo, Texas, to Board of Directors of The University of Texas Investment Management Company (UTIMCO) Effective Immediately.--Chairman Evans stated that Regents Miller and Oxford had, in the past few days, requested to resign from the Board of Directors of The University of Texas Investment Management Company (UTIMCO) and that a recommendation to appoint Regents Hunt and Sanchez to the UTIMCO Board was before the Board on yellow paper.

In accordance with Texas Education Code Section 66.08, which requires that the U. T. Board of Regents appoint all members of the Board of Directors of UTIMCO, the Board appointed the following to the UTIMCO Board of Directors to serve until February 1, 2001, or until their successors are chosen and qualify, or until their earlier resignation or removal:

a. Mr. Woody L. Hunt, El Paso, Texas
(to replace Mr. Patrick C. Oxford)

b. Mr. A. R. (Tony) Sanchez, Jr., Laredo, Texas
(to replace Mr. Charles Miller)

Chairman Evans thanked Regents Miller and Oxford for the time and efforts they devoted to UTIMCO issues since they were appointed to the Board of Directors and noted for the record that Regents Hunt and Sanchez abstained from voting on this item.

RECESS FOR COMMITTEE MEETINGS AND COMMITTEE REPORTS TO THE BOARD.--At 11:46 a.m., the Board recessed for the meetings of the Standing Committees, and Chairman Evans announced that at the conclusion of each committee meeting the Board would reconvene to approve the report and recommendations of that committee.

The meetings of the Standing Committees were conducted in open session and the reports and recommendations thereof are set forth on the following pages.

REPORTS AND RECOMMENDATIONS OF STANDING COMMITTEES

REPORT OF EXECUTIVE COMMITTEE (Page 95).--In compliance with Section 7.14 of Chapter I of Part One of the Regents' Rules and Regulations, Chairman Evans reported that there were no items referred from the Executive Committee to the Board.

REPORT AND RECOMMENDATIONS OF THE BUSINESS AFFAIRS AND AUDIT COMMITTEE (Pages 96 - 132).--Committee Chairman Riter reported that the Business Affairs and Audit Committee met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, the actions set forth in the Minute Orders which follow were recommended by the Business Affairs and Audit Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. System: Approval of Chancellor's Docket No. 98 (Catalog Change).--Upon recommendation of the Business Affairs and Audit Committee, the Board approved Chancellor's Docket No. 98 in the form distributed by the Executive Secretary. It is attached following Page 177 in the official copies of the Minutes and is made a part of the record of this meeting.

2. U. T. Board of Regents - Regents' Rules and Regulations, Part One: Amendment of Chapter I, Section 9 (Documents Executed on Behalf of the Board), Subsection 9.2, Subdivision 9.22.--The Board amended the Regents' Rules and Regulations, Part One, Chapter I, Section 9, Subsection 9.2, Subdivision 9.22, relating to documents executed on behalf of the Board, to read as set forth below:

Sec. 9. Documents Executed on Behalf of the Board.

. . .

9.22 All contracts or agreements, including purchase orders and vouchers, with a cost or monetary value to the U. T. System Administration or the component institution of more than $500,000 must be approved by the Executive Committee of the Board or approved by the Board via the docket or the agenda except the following, which do not require prior approval or ratification by the Executive Committee of the Board or the Board regardless of the contract amount:

9.221 Contracts, agreements, and documents relating to construction projects previously approved by the Board in the Capital Improvement Program and Capital Budget.

9.222 Contracts or grant proposals for sponsored research, including institutional support grants, that do not include a license for or conveyance of intellectual property owned or controlled by the Board.

9.223 Contracts or agreements for the purchase of replacement equipment or replacement software.

9.224 Contracts or agreements for the purchase of routinely purchased supplies.

9.225 Purchases made under a group purchasing program.

9.226 Purchases of new equipment or new software identified specifically in the institutional budget approved by the Board.

9.227 Loans of institutional funds to certified nonprofit health corporations, which loans have been approved as provided in Part Two, Chapter III, Section 4, Subsection 4.5 of these Rules and Regulations.

. . . .

These amendments to the Regents' Rules and Regulations, Part One, Chapter I, Section 9, Subsection 9.2, Subdivision 9.22 clarify the provision relating to the requirement that the U. T. Board of Regents or the Executive Committee of the Board approve certain contracts or agreements, including purchase orders and vouchers, with a cost or value of more than $500,000, to show that the cost or value of the contract or agreement is determined by considering the cost or monetary value to U. T. System Administration or a component institution.

3. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter III, Section 1, Subsection 1.4 (Receipts, Admission Tickets, and Charges).--To require payment of certain oil and gas royalties to the U. T. Board of Regents by electronic funds transfer and filing of certain reports to the U. T. Board of Regents by electronic transmission, the Board amended the Regents' Rules and Regulations, Part Two, Chapter III, Section 1, Subsection 1.4, relating to receipts, admission tickets, and charges, to read as set forth on Page 98 .

Sec. 1. Receipts, Admission Tickets, and Charges.

. . .

1.4 Any person who paid oil and gas royalties to the Board in a total amount of $20,000 or more during a fiscal year, being September 1 to August 31, shall make timely oil and gas royalty payments to the Board by means of electronic funds transfer during the subsequent calendar year. Any person required to pay electronically shall timely take all actions necessary to facilitate payment of oil and gas royalties by electronic funds transfer, including completing any documents required by the Comptroller of the State of Texas and the University Lands Accounting Office. Electronic funds transfers shall be made in accordance with applicable laws, including Section 404.095, Texas Government Code. This Subsection applies only to oil and gas royalties from Permanent University Fund lands to the extent authorized by Section 404.095, Texas Government Code. Reports relating to oil and gas royalty payments shall also be filed electronically as described in Subdivisions 1.41-1.43.

1.41 Any person required to submit payments electronically shall also timely file the required Oil and Condensate Report (Form UT-1), Gas Report (Form UT-2), and Royalty Payment Summary (Form UT-3) by means of electronic transmission in a manner compatible with the requirements, equipment, and facilities of the University Lands Accounting Office.

1.42 Any lessee, operator, or reporting company who was required to file monthly an average of ten (10) or more oil or gas royalty reports to the Board during the last fiscal year, shall timely file the required Forms UT-1, UT-2 and UT-3 by means of electronic transmission during the subsequent calendar year in a manner compatible with the requirements, equipment, and facilities of the University Lands Accounting Office.

1.43 Any person, lessee, operator, or reporting company required to file reports electronically under Subdivisions 1.41 and 1.42, shall timely take all actions necessary to facilitate the electronic filing of the Forms UT-1, UT-2 and UT-3, including completing any documents required by the University Lands Accounting Office. Electronic transmission of UT-1s, UT-2s, and UT-3s in a form and manner compatible with the requirements, equipment, and facilities of the University Lands Accounting Office shall satisfy Section 66.77(d), Texas Education Code. Any person, lessee, operator, or reporting company who electronically submits these reports shall not be routinely required to submit purchase statements or other records to the Board unless requested by the University Lands Accounting Office. Nothing in Subsection 1.4 shall limit the authority to inspect, examine, copy, or audit all records, books and accounts, including purchase statements, as provided by applicable law and rules of the Board for Lease of University Lands.

. . . .

By lowering the threshold for requiring the electronic transfer of oil and gas royalties, this amendment to the Regents' Rules and Regulations, Part Two, Chapter III, Section 1, Subsection 1.4 provides a higher degree of internal control over a greater percentage of oil and gas royalties paid to the Permanent University Fund.

The new Subdivisions 1.41-1.43 of the Rules segregate and expand the requirements for electronically reporting information concerning oil and gas royalties. Electronic reporting is more convenient, more efficient, and less susceptible to error. These new Subdivisions require certain reporting entities and anyone paying electronically to file all their royalty reports electronically beginning January 2000. The University Lands Accounting Office will require that anyone filing electronic reports on leases where the Board for Lease of University Lands accepts oil and gas royalties paid in-kind continue to mail in monthly purchase statements and other records, but other electronic reporters will be required to provide such statements and records only upon the written request of the University Lands Accounting Office.

4. U. T. Board of Regents: Amendments to the Regents' Rules and Regulations, Part Two, Chapter V, Section 1 (Classified Personnel).--Authorization was given to amend the Regents' Rules and Regulations, Part Two, Chapter V, Section 1, relating to Classified Personnel, to read as set forth below:

Sec. 1. Classified Personnel.--The policy of the Board on the development and coordination of the classified personnel programs is as follows:

. . .

1.2 Development and Coordination of the System-wide Classified Personnel Program.

1.21 The Classification Plan.

. . .

1.22 The Pay Plan.

1.221 All classified positions will have a minimum and maximum defined for each salary range. The salary ranges shall be determined by annual market studies and the local economy. Merit increases will be awarded within the established salary ranges according to budget instructions and institutional policy approved for inclusion in the institutional Handbook of Operating Procedures.

1.222 A System-wide Personnel Pay Plan setting forth the salary ranges for each job classification shall be utilized encompassing the salary ranges reflected in the component unit pay plans.

1.223 Salary ranges for each job classification shall be dependent upon the competitive labor market environment for each institution.

1.224 The System-wide Personnel Pay Plan shall be approved annually by the Board. Subsequent changes to a component institution pay plan in a given fiscal year shall be processed as follows:

(a) The System Office of Human Resources shall process requested amendments to a component institution pay plan based on the impact of the change upon the System-wide Personnel Pay Plan.

(b) The System Office of Human Resources is authorized to approve the following proposed changes to a component institution pay plan:

(1) The adjustment of a salary range within the established System-wide salary range, if the change will not change the System-wide Personnel Pay Plan.
(2) Deletion of a title.
(3) Change of a title.
(4) Change of a code number.
(5) Addition of a title that is in the System-wide Personnel Pay Plan if the salary range requested is within the established System-wide salary range.

(c) The following proposed changes to a component institution pay plan require the approval of the System Office of Human Resources and the Chancellor or his or her delegate:

(1) The addition of a new title that is not included in the System-wide Personnel Pay Plan.
(2) The addition of a title that is included in the System-wide Personnel Pay Plan at a salary range not within the established System-wide Personnel Pay Plan range for the title.
(3) The adjustment of a salary range that would change the established System-wide range by setting a new System-wide minimum or maximum salary.

(d) The System Office of Human Resources shall notify a component institution of the approval or disapproval of a requested pay plan change as soon as practicable. No requested change may be implemented until authorized in writing.

In addition, the Regents' Rules and Regulations, Part Two, Chapter V, Section 1, Subsection 1.2, Subdivisions 1.23 and 1.24 were deleted and Subdivision 1.25 was renumbered as Subdivision 1.23.

The System-wide Personnel Pay Plan (Pay Plan) is the compilation of all component institution and System Administration classified personnel pay plans. Each August, the Pay Plan for the following fiscal year is presented to the U. T. Board of Regents for approval via the docket. Prior to the amendment, requested changes to a component pay plan or the System Administration Pay Plan that required Regental approval included the addition of a new classified title; the use of a classified title already included in the pay plan at a salary range not within the System-wide salary range maximum or minimum; and the adjustment of the salary range for a current classified title to a level that would require adjustment to the System-wide salary range minimum or maximum.

The amendments to Subdivision 1.22, relating to approval of pay plans, will continue to provide sufficient oversight of component institution plans and administration of the System-wide Personnel Pay Plan by the Chancellor or his or her delegate. The approved change will streamline The University of Texas System business procedures and increase the efficiency of administrative procedures by:

a. Changing the requirement to produce detailed docket items from four times a year to once per year

b. Permitting the U. T. System Office of Human Resources to process component pay plan modification requests, obtain authorization from the Chancellor or his or her delegate, and provide a final response to the institution within days versus months as often required under current procedures

c. Streamlining the currently utilized process for pay plan amendments to effect a simple, effective operational system.

5. U. T. Board of Regents: Adoption of Ninth Supplemental Resolution to the Master Resolution Approving and Authorizing the Issuance of Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1999A and Series 1999B, in an Amount Not to Exceed $295,750,000; Authorization for Sale of the Series 1999A Bonds to Lehman Brothers Inc., New York, New York, and Sale of the Series 1999B Bonds to Goldman, Sachs & Co., New York, New York; Appointment of McCall, Parkhurst & Horton, L.L.P., Dallas, Texas, as Bond Counsel; Bankers Trust Company, New York, New York, as Escrow Agent; South Trust Bank, N.A., Birmingham, Alabama, as Paying Agent; and Ernst & Young, Memphis, Tennessee, as Escrow Verification Agent; Authorization for Officers of U. T. System to Complete All Transactions; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--Upon recommendation of the Business Affairs and Audit Committee, the Board:

a. Adopted the Ninth Supplemental Resolution to the Master Resolution to authorize the issuance of Board of Regents of The University of Texas System Bonds, Series 1999A and Series 1999B, in an aggregate principal amount not to exceed $295,750,000 with a final maturity not to exceed August 15, 2020, to be used to refund Revenue Financing System Commercial Paper Notes, Series A in the amount of $114,890,000, to provide new money of $169,400,00 to fund construction and acquisition cost of projects in the Capital Improvement Program and to fund cost of issuance and any original issue discount

b. Authorized the sale of the Revenue Financing System Bonds, Series 1999A, to Lehman Brothers Inc., New York, New York, and the Series 1999B to Goldman, Sachs & Co., New York, New York

c. Appointed McCall, Parkhurst & Horton, L.L.P., Dallas, Texas, as Bond Counsel

d. Appointed Bankers Trust Company, New York, New York, as Escrow Agent

e. Appointed the South Trust Bank, N.A., Birmingham, Alabama, as Paying Agent

f. Appointed Ernst & Young, Memphis, Tennessee, as Escrow Verification Agent

g. Authorized appropriate officers and employees of the U. T. System as set forth in the related documents to take any and all actions necessary to carry out the intentions of the U. T. Board of Regents to complete the transactions as provided in the Resolution.

Note: The Ninth Supplemental Resolution to the Master Resolution with related documents, which were before the Board, are not included in these Minutes but are on file in the Office of the Board of Regents.

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, and amended on October 8, 1993, and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as set out on Page 105, the Board resolved that:

a. Parity Debt shall be issued to pay the project's costs 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. 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

d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

Proceeds of the Revenue Financing System Bonds, Series 1999A, will be used to refund outstanding Revenue Financing System Commercial Paper Notes, Series A, in the amount of $32,400,000, and fund construction costs of $70,350,000 for projects authorized by Section 55.1722 of the Texas Education Code. Section 55.1722 identified Tuition Revenue Bonds as the method of financing for projects at specific U. T. System component institutions.

Proceeds of the Revenue Financing System Bonds, Series 1999B, will be used to refund outstanding Revenue Financing System Commercial Paper Notes, Series A, in the amount of $82,490,000, and to fund construction costs for projects that generate revenues from the use of the facility in the amount of $99,050,000. The remaining proceeds will be used to pay costs of issuance and provide for an original issue discount.

Generally, commercial paper debt is issued during the construction phase and the debt is not amortized. Once construction is complete, the commercial paper is refunded with 20-year, fixed-rate bonds. With municipal long-term interest rates at a relatively low level, outstanding commercial paper and new money for construction are being financed with 20-year, fixed-rate bonds.

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, and the Eighth Supplemental Resolution.

EXECUTED this 7th day of July, 1999

/s/ Pamela K. Clayton
Assistant Vice Chancellor for Finance

6. U. T. System: Approval of Non-Personnel Aspects of the Operating Budgets for the Fiscal Year Ending August 31, 2000, 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.--Committee Chairman Riter called on Chancellor Cunningham who, with the aid of a PowerPoint slide presentation, presented a comprehensive overview of the proposed Operating Budgets for The University of Texas System for the Fiscal Year ending August 31, 2000. A copy of Chancellor Cunningham's report entitled "U. T. System Operating Budget Fiscal Year 2000" is on file in the Office of the Board of Regents.

Following Dr. Cunningham's presentation and upon recommendation of the Academic Affairs, Health Affairs, and Business Affairs and Audit Committees, the Board approved the non-personnel aspects of the U. T. System Operating Budgets as listed below for the Fiscal Year ending August 31, 2000, Including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans and authorized the Chancellor to make editorial corrections therein with subsequent adjustments to be ratified by the U. T. Board of Regents through the institutional dockets:

The University of Texas System Administration (including the Available University Fund)
The University of Texas at Arlington
The University of Texas at Austin
The University of Texas at Brownsville
The University of Texas at Dallas
The University of Texas at El Paso
The University of Texas - Pan American
The University of Texas of the Permian Basin
The University of Texas at San Antonio
The University of Texas at Tyler
The University of Texas Southwestern Medical Center at Dallas
The University of Texas Medical Branch at Galveston
The University of Texas Health Science Center at Houston
The University of Texas Health Science Center at San Antonio

The University of Texas M. D. Anderson
Cancer Center
The University of Texas Health Center
at Tyler

These budgets are a part of the Minutes of this meeting and the official copy is in bound Volume LIV entitled Annual Budget for 1999-2000.

Further, Permanent University Fund Bond Proceeds in the amount of $18,000,000 were appropriated from reserves to fund Library, Equipment, Repair and Rehabilitation Projects for Fiscal Year 2000.

In addition, the U. T. System component institutions were 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 appropriate Executive Vice Chancellor or 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 2000 funds from these reserves not expended or obligated by contract/purchase order within six months after the close of Fiscal Year 2000 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 chief administrative officer and the appropriate Executive Vice Chancellor or Vice Chancellor.

Upon motion of Regent Riter, the Board also approved the personnel aspects of the Operating Budgets for the Fiscal Year ending August 31, 2000. See Page 3 related to approval of the personnel aspects of the Operating Budgets.

Note: The Operating Budget for the U. T. System Administration includes title changes from Vice Chancellor for Academic Affairs to Executive Vice Chancellor for Academic Affairs and from Vice Chancellor for Telecommunications and Information Technology to Vice Chancellor for Information Technology and Distance Education.

7. U. T. System: Authorization for an Aggregate Amount of Equipment Financing for Fiscal Year 2000 and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--The Business Affairs and Audit Committee recommended and the Board approved an aggregate amount of $9,700,000 under the Revenue Financing System for equipment to be purchased in Fiscal Year 2000 by The University of Texas System component institutions as set forth below:

U. T. Austin	$2,500,000
U. T. Southwestern Medical Center – Dallas	$4,000,000
U. T. M. D. Anderson Cancer Center	$3,000,000
U. T. System Administration	$ 200,000

Following a presentation by Ms. Pam Clayton, Assistant Vice Chancellor for Finance for The University of Texas System, related to the qualifications of this project for the U. T. System Revenue Financing System and 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 109, the Board resolved that:

a. Parity Debt shall be issued to pay the project's cost 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 $9,700,000 for the purchase of equipment

d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

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 equipment cost at U. T. Austin, U. T. Southwestern Medical Center - Dallas, U. T. M. D. Anderson Cancer Center, 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, and the Eighth Supplemental Resolution.

EXECUTED this 7th day of July, 1999

/s/ Pamela K. Clayton
Assistant Vice Chancellor for Finance

8. U. T. System: Approval to Exceed the Full-Time Equivalent Limitation on Employees Paid from Appropriated Funds as Required by the General Appropriations Act of the 76th Texas Legislature, Article IX, Section 9-6.15.--Article IX, Section 9-6.15 of House Bill 1 (General Appropriations Act) passed by the 76th Texas Legislature, Regular Session places a limit on the number of full-time equivalent (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 Board approved those institutions, as set forth in the table on Page 111 to exceed the number of full-time equivalent (FTE) employees that are authorized in the General Appropriations Act.

Committee Chairman Riter explained that these institutions need an exception to the employee limits to meet the demands of their student recruitment and retention efforts, to maintain health care quality in light of increasing patient volume, and to implement the Regional Academic Health Center (RAHC) and Laredo Campus Extension Initiatives mandated by the Texas Legislature. In addition, The University of Texas at Brownsville needs an exception because the limit set forth in the Act includes only upper-division U. T. Brownsville employees while the quarterly State Auditor's Report also includes the employees serving the lower-division portion of the educational partnership with Texas Southmost College.

Further, as required by Article IX, Section 9-6.15 of the General Appropriations Act, the U. T. Board of Regents will 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.

Executive Secretary's Note: On September 13, 1999, the U. T. Board of Regents submitted the required letter and supporting materials to the Governor's Office and the Legislative Budget Board and a copy of same is on file in the Office of the Board of Regents.

The University of Texas System
REQUEST TO EXCEED FULL-TIME EQUIVALENT LIMITATION ON EMPLOYEES PAID FROM APPROPRIATED FUNDS
(House Bill No. 1, Article IX, Section 9-6.15)
Fiscal Year 2000

Component	H. B. 1 FTE Limitation	Estimated Average FTE FY2000	Requested Increase In Number of FTEs
U. T. Arlington	1,828.00	1,851.00	23.00
U. T. Brownsville	294.00	667.28	373.28
U. T. Dallas	1,044.00	1,114.10	70.10
U. T. El Paso	1,419.00	1,494.00	75.00
U. T. Pan American	1,067.00	1,164.32	97.32
U. T. SWMC - Dallas	1,579.50	1,629.50	50.00
U. T. HSC - San Antonio	2,188.00	2,331.00	143.00
U. T. MDA Cancer Center	6,029.00	6,852.47	823.47

9. U. T. System: Approval of Revised Standard Bank Depository Agreement.--The Board, upon recommendation of the Business Affairs and Audit Committee, revised the standard Bank Depository Agreement for The University of Texas System as set out on Pages 113 - 126 include the option for banks to secure deposits with a surety bond in lieu of providing securities as collateral as allowed for in the Regents' Rules and Regulations, Part Two, Chapter III, Section 4 (Local Institutional Funds) and to reduce the percentage of securities as collateral required on deposits from 103% to 102%.

Amendments to the Bank Depository Agreement requiring U. T. Board of Regents' approval were last approved at the October 11, 1991, Board of Regents' meeting.

Form, BDA -1
(Rev. 9/66, 8/67, 10/91& 8/99)

THE STATE OF TEXAS

BANK DEPOSITORY AGREEMENT

COUNTY OF TRAVIS

This Bank Depository Agreement (the "Agreement") is made and entered into on the date last herein written by and between the BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM hereinafter called the “Board” and

_____ a national banking association, organized under the laws of the United States of America, or
_____ a state banking association, organized under the laws of a state within the United States of America which is a member of the Federal Reserve System and the Federal Deposit Insurance Corporation

and is authorized by law to conduct banking business in the State of Texas and now carrying on such business in said State, hereinafter called the “Bank”, and is as follows:

SECTION I. AUTHORIZATION

The Board hereby designates the Bank as a depository for the period beginning ________________ and continuing until this Agreement has been canceled in accordance with its provisions, for certain accounts in the name of THE UNIVERSITY OF TEXAS SYSTEM, hereinafter called the “System”, including accounts in the name of any component institution which is now or may hereafter become a part of the System. Such accounts shall be opened by the Board or its component by designating the accounts and making deposits therein and by the Bank accepting said deposits. The Bank and the Board may from time to time enter into such Service Agreements as are deemed necessary to further define the rights and duties of the Bank and the Board with regard to specific deposit banking services which may include Bank compensation levels, service termination dates, authorization designations and codes, or such other covenants as required for the proper implementation of the proposed services. Such Service Agreements shall be subordinate to this Agreement and should any conflict arise, the terms of this Agreement shall in all cases prevail. Service Agreements may be entered into on behalf of the Board by the chief administrative officer and chief business officer of a component institution of the System or the Executive Vice Chancellor for Business Affairs for the System or any other Authorized Representative of the Board and must be cancelable by Board on no more than 90 days written notice. Except for any indemnity provisions, such Service Agreements are hereby null and void upon the termination of this Agreement as provided in Section XII.

The Board may open or close accounts, as needed, under this Agreement and any Service Agreements. As evidence to the Bank that such new account has been properly authorized by the Board, each such account shall be identified and the authorized signers designated by the Executive Vice Chancellor for Business Affairs of the System or, in the case of components institutions of the System, the chief administrative officer and the chief business officer as authorized under the Rules and Regulations of the Board such rules having been adopted by an official resolution of the Board. Under such Rules and Regulations said representatives may remove, substitute or add signers to the account as may be deemed necessary.

SECTION II. DEPOSIT OF FUNDS

The Board shall deposit such of its funds as it may choose and the Bank shall accept such deposits in the form of “Demand Deposits”, “Time Deposits-Open Account” and “Time Certificates of Deposit” as designated by the Board, and shall hold said deposits subject to payment in accordance with the terms of the deposit. The Bank will allow, credit, and pay interest at rates and payment dates on such deposits as determined by negotiation between the Bank and the Board. Provided, however, that notwithstanding any other provisions of this Agreement, the Bank shall never be required to accept initially any Time Deposit-Open Account or Time Certificate of Deposit from Board that it does not elect to accept, but once having initially accepted any such deposit, the Bank may terminate such deposit only in accordance with the terms of such deposit and this Agreement.

SECTION III. PAYMENT OF DEPOSITS

Subject to the provisions of the deposit in the case of time deposits, the Bank shall pay on demand to the order of the Board upon the proper presentation of wire transfer instructions, checks, drafts, or vouchers properly issued, all or any portion of the funds now on deposit or to be deposited with the Bank. The Bank shall make no deductions for its own account from the Board’s account except as authorized in writing by the Board or to correct operational errors in the normal course of business. The obligations of the Bank under this Section shall survive the termination of this Agreement.

SECTION IV. COMPENSATION

The Bank shall have a right to compensation for any and all services properly rendered to the Board under this Agreement and such Service Agreement (s) as may be executed. An account analysis shall be provided to the Board each month on transaction accounts which details deposit activity, earnings credits, if any, services used, volumes, unit prices and total fees. Compensation shall be based upon the terms of a Service agreement between the Bank and the Board or, if no such Service Agreement exists and the Board elects to use such services, the standard charges for such services as published by the Bank. The Bank agrees to offset monthly service fees first against an earnings credit for deposit balances in the Board's transaction accounts as may be defined in a Service Agreement or if not so defined based on its customary earnings credit for commercial accounts. No such service fees may be offset against deposits including any interest payments that accrue to the Board. Should such earnings credits be insufficient to cover the monthly service fees or if no earnings credit is provided by the Bank, a statement of such fees shall be provided the Board which will then have 30 days to examine such statement and remit payment as provided by this Agreement or a Service Agreement to the Bank.

SECTION V. COLLATERAL CUSTODY

In accordance with the Rules and Regulations of the Board of Regents of The University of Texas System, Part Two, Chapter III, Section 4.2, the Bank shall furnish to the Board adequate securities or surety bonds to assure the safety of the deposited funds, hereinafter called "Collateral." The Bank will determine which method it will utilize to provide Collateral, taking into consideration cost savings to the Board. Under no circumstance will cost savings outweigh the need for compliance with the terms of this Agreement.

If Collateral is provided in the form of Government Securities, the Board hereby designates the Federal Reserve Bank of Dallas - Houston Branch, (the "Custodian"), an unrelated third party (see "Operating Circular No. 7, Book-Entry Securities Account Maintenance and Transfer Services", Exhibit "B") to hold in a Restricted Securities Account of the Board, the Governmental Securities of the Bank pledged to the Board. The Bank acknowledges and accepts that it will maintain the required Collateral with the Custodian or through the Insurer and will pay charges for custody or surety bond services as set by and between the Custodian or Insurer and the Bank. All administrative fees and charges of the Custodian related to the receipt, delivery, and holding of income on securities, collection of income, annual administration, and transfer in or out of securities of the Bank shall be paid by the Bank. Without limiting the Bank's liability to pay such fees and charges, the

Custodian shall have the right, but shall not be under any duty, to collect such fees and charges from the income received on Collateral if so directed by the Bank or upon the Bank's failure to pay the same. The Board may substitute at its discretion a new Custodian upon 15 days written notice to the Bank.

SECTION VI. ELIGIBLE COLLATERAL

If the Collateral is to be in the form of securities, the Bank hereby pledges to the Board a security interest in the securities delivered to the Custodian as collateral to secure all the deposits of the Board. The Bank hereby represents that it shall pledge as security for deposits of the Board only those securities in which it is the legal and actual owner, free and clear of all other liens or claims. Securities eligible for pledge shall be Government Securities defined as follows:

"Government Securities" shall mean book entry U.S. Treasury Securities (as defined Subpart O, 306.115 (d) of Treasury Department Circular No. 300, 31 CFR Part 306) and any other securities issued or guaranteed by the United States Government or any agency or instrumentality thereof (except declining principal securities) and registered in the form of an entry on the records of the Federal Reserve System.

If the Collateral is in the form of a Surety Bond, the Insurer must be licensed to do business in the state of Texas and have and maintain a "AAA" rating on its claims paying resources from a Nationally Recognized Ratings Agency. If the rating of the Insurer falls below a "AAA" rating at any time, the Bank must simultaneously provide for Collateral in the form of Government Securities as defined above.

SECTION VII. REQUIRED COLLATERAL

If Government Securities are pledged as Collateral, they shall have an aggregate Market Value as determined by the Board, exclusive of accrued interest, at all times at least equal to 102% (the "Required Collateral Percent") of the sum of the Ledger Balances on deposit with the Bank in all accounts of the Board.

If, after the close of trading on any business day, the Market Value (as defined in Exhibit A) of the Government Securities then held by the Custodian as a percent of the Ledger Balances on deposit of the Board is less than the Required Collateral Percent, the Bank agrees to deliver to the Custodian, without notice from the Board, Collateral in an amount such that the Market Value of the Government Securities then held by the Custodian plus the Market Value of the Government Securities and/or the Insured amount of a Surety Bond so delivered as a percent of the total deposits of the Board will at least equal the Required Collateral Percent.

If a Surety Bond is pledged as Collateral, the Insured Amount will initially be equal to the highest daily Ledger Balances on deposit during a three months period. The Campus Representative will determine the initial Insured Amount. Subsequent to the initial determination, the Insured Amount is subject to change based on agreement between the Campus Representative and the Bank. In the event the amount of Ledger Balances held by the Bank exceeds the Surety Bond amount, the Bank will either increase the amount of the Surety Bond or provide Collateral in the form of Government Securities defined above. The Bank will hold any such Government Securities as Collateral until such time the amount of Ledger Balances no longer exceeds the value of the Surety Bond.

SECTION VIII. DELIVERY, RELEASE AND SUBSTITUTION OF COLLATERAL

If Collateral is in the form of Government Securities, the Bank will deliver by means of the Custodian's National Book-Entry System, Government Securities sufficient in amount to cover at least the Required Collateral Percent of the funds of the Board now or hereafter on deposit as provided above. By not later than 12:00 P.M. Central Time on the day the Government Securities are delivered to the Custodian hereunder, including any substituted Government Securities as described under this Section, the Bank shall deliver by facsimile transmission or other written means to the Board and the Custodian a list of such Government Securities on which the Bank shall record the then Market Value thereof based on the closing market price as received from a recognized bond pricing data service or as published in The Wall Street Journal dated the close of the business day next preceding the date such Government Securities are first pledged. Written notice to the Board and the Custodian must be in the form of a completed Securities and Exchange Commission Form 19-A (see "Request for Substitution of Non-U.S. Government or Agency Securities and or Immediate Withdrawal of any Securities Held by the Federal Reserve Bank of Dallas in Joint Safekeeping", Exhibit "C"). Such Government Securities shall be kept and retained by the Custodian in trust for the Board until such time as the Board, in its sole discretion, shall have authorized the Custodian, in writing, to release such Government Securities as the Board may designate. Requests for release from the Bank must be received by the Board not later than 12:00 P.M. Central Time, the business day next preceding the business day on which the Bank requests the Government Securities be released. Should the Board approve such release, a signed approval detailing such Government Securities shall be delivered by the Board to the Bank by not later that 9:00 A.M. Central Time, the business day on which Government Securities are requested to be released.

If the Bank shall desire to substitute any one or more of the Government Securities deposited with the Custodian, it may, with prior approval of the Board, substitute for any one or more of such Government Securities, other Government Securities of the same or higher Market Value, of the character authorized herein and in accordance with Operating Circular No. 7. Any request for substitution shall be delivered to the Board no later than 12:00 P.M.

Central Time on the day preceding the day on which such Government Securities are requested to be released and delivered to the Bank or its designee. Such request for substitution shall include the current Market Value, as defined in Exhibit A, of the proposed new Government Securities and the Government Securities to be released.

If the Collateral is in the form of a Surety Bond, the form of the Surety Bond must be approved in advance by legal counsel for the Board, and the Bank will provide to the Board, at the time the Surety Bond issued: (a) a copy of the certificate of insurance; (b) a letter of proof of the Board's ownership of the deposits; and (c) a complete list of any other documents the Insurer and its assigns require to pay out under the Surety Bond in the event of the Bank's default. The Surety Bond, in accordance with the Texas Education Code, Section 51.003, must be payable to the Governor of the State of Texas and his or her successors in office. The Surety Bond must also state that the venue for a suit to recover an amount claimed by the state to be due on a Surety Bond is in Travis County, Texas.

SECTION IX. INCOME ON SECURITIES

So long as the Bank is in compliance with this Agreement, the Bank shall be entitled to income on Government Securities held by the Custodian in accordance with Paragraph 9.2 of Operating Circular No. 7., and the Custodian may dispose of such income as directed by the Bank without approval of the Board. Fees associated with the payment of income by the Custodian shall be for the account of the Bank.

SECTION X. EVENTS OF DEFAULT

The following events shall be considered Events of Default by the Bank:

A. The Bank fails at any time to pay immediately and satisfy upon presentation an order for payment lawfully issued against any deposit and the Board has determined, in its sole discretion, that such failure has not occurred due to operational errors of the Bank and such failure has not been corrected after one additional business day from the date the failure first occurred, or

B. The Bank is declared insolvent by a State or Federal bank regulatory agency, or

C. The Bank shall fail to maintain Collateral of the type and in the amount required under Sections VI and VII of this Agreement and such failure to maintain Collateral has not been corrected by the Bank by 12:00 P.M. Central Time the next business day after written notice by the Board has been sent (by facsimile transmission or other immediately available method) to the Bank, or

D. Other than the events listed above, the Bank shall breach its contract with the Board and such failure has not been corrected to the satisfaction of the Board after the Bank has been sent (by facsimile transmission or other immediately available method) three days written notice by the Board.

SECTION XI. REMEDIES

If an Event of Default shall occur, the Board may:

A. Immediately withdraw any or all its funds on deposit including accrued interest with the Bank without penalty regardless of the form of the deposit instrument, and to the extent the Board is unable to withdraw such funds,

B. If the Collateral is in the form of Government Securities, pursuant to Paragraph 6.1 of Appendix C of Operating Circular No. 7, direct the Custodian to sell the Collateral, and out of the proceeds therefrom transfer specific amounts and issues of Collateral and, if applicable, specific amounts of interest payments or other proceeds of Collateral not previously credited to the Bank or otherwise released, to designated accounts on the books of the Custodian.

C. If the Collateral is in the form of surety bonds, present the Surety Bond to the Insurer for payment of the deposits as defined above.

Any sale by the Custodian herein made of such Government Securities, or any part thereof, may be in any market for such Government Securities after notice to the Bank and shall convey the Government Securities absolutely to purchaser. Notice to the Bank shall be deemed to have been properly given by transmission of a facsimile message and shall be transmitted to the Bank at least two hours before such sale. The Bank may bid at any such sale of Government Securities. The Board shall also have all other rights of a secured party under the Texas Uniform Commercial Code whether or not the Government Securities are subject to a security interest of the type governed by the Texas Uniform Commercial Code. The Board may apply the Government Securities to any obligation of the Bank under this Agreement or any Service Agreement including prior accrued interest due to the Board hereunder and not paid by the Bank. The Board shall immediately notify the Bank after any such action. The rights of the Board, the Custodian and the Bank under this Section shall survive the cancellation or termination of this Agreement.

SECTION XII. TERMINATION

The Board or the Bank shall have the right to terminate this Agreement by advance written notice to the other of its election so to do, and this Agreement and any Service Agreements, except for the provisions of Section III and XII, shall be void from and after the expiration of ninety (90) days after the receipt of such notice, provided all provisions of this Agreement have been fulfilled. The Board may immediately terminate this Agreement upon an Event of Default as listed in Section XI.

SECTION XIII. RETURN OF COLLATERAL

When the depository relationship of the Board and the Bank shall have ceased to exist, and when the Bank shall have paid out all deposits of the Board, it shall be the duty of the Board to give the Custodian a certificate to that effect, whereupon the Custodian shall, with the approval of the Board, redeliver to the Bank all Government Securities held as Collateral then in its possession belonging to the Bank, or if a Surety Bond is pledged as Collateral, the Board will provide all necessary consent or approval to terminate coverage under the Surety Bond.

SECTION XIV. MISCELLANEOUS

A. No failure or delay by the Board in exercising any right, power or privilege hereunder or under any Service Agreement shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provide by law.

B. Any provision of this Agreement may be amended or modified if, and only if, such amendment or modification is in writing and is signed by the Board and the Bank.

C. Any provision of this Agreement which is prohibited, unenforceable or not authorized shall be ineffective to the extent of such prohibition, un-enforceability or non-authorization without invalidating the remaining provisions thereof.

D. This Agreement shall be deemed to be a contract made under and shall be construed in accordance with and governed by the laws of the State of Texas and all applicable laws of the United States of America. The venue for any legal action to enforce or interpret this Agreement shall be in Travis County, Texas.

E. This Agreement may not be assigned by the Bank without the prior written consent of the Board. Any successor to the Bank whether by sale, merger or operation of law shall be bound by the terms of this Agreement and any Service Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers or representatives as of the _____ day of ____________, _____.

Address:	BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
201 West Seventh Street Austin, Texas 78701	
	By:________________________________
	Its:________________________________

ATTEST:

____
Francie A. Frederick
Executive Secretary to the Board of Regents

Address:	___________________________________ Bank
______________________________	
______________________________	
	By:________________________________
	Its:________________________________

ATTEST:

____

Its:___________________________

EXHIBIT A

DEFINITIONS

As used in this Agreement the following terms and expressions shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

“Agreement” shall mean this Bank Depository Agreement.

“Authorized Representative of the Board” shall mean one or more of the following officers or employees of The University of Texas System, to wit: the Chancellor, the Executive Vice Chancellor for Business Affairs, the Assistant Vice Chancellor for Finance, or such other officer or employee of The University of Texas System authorized by the Board to act as a Authorized Representative.

“Bank” shall mean a national banking association, organized under the laws of the United States of America, or a state banking association, organized under the laws of a state within the United States of America which is a member of the Federal Reserve System and the Federal Deposit Insurance Corporation and is authorized by law to conduct banking business in the State of Texas and now carrying on such business in said State.

“Board” shall mean the Board of Regents of The University of Texas System or any successor thereto.

“Campus Representative” shall mean the Chief Business Officer of a Component or his/her assignee.

“Component” is defined under "System"

“Custodian” shall mean the Federal Reserve Bank of Dallas - Houston Branch or other subsequent party the Board designates as its agent to maintain Restricted Securities Accounts for the purpose of providing collateral for bank deposits.

“Collateral” shall mean adequate Government Securities or Surety Bonds furnished by the Bank to ensure the safety of the System's deposits.

“Insurer” shall mean the AAA rated Surety Company providing the Surety Bond for the Bank as Collateral for the deposits.

“Ledger Balances” shall mean the total ledger account balances as reflected on the books of the Bank.

"Market Value" shall mean the closing market price of the security, determined using the most recent available closing market price information as received from a recognized bond pricing data service or as published in the most recent issue of The Wall Street Journal, times the par amount of the security.

"Nationally Recognized Rating Agency" shall mean Moody's Investor Service, A. M. Best Company, Standard and Poor's or Fitch Investors Service, L.P.

"Operating Circular No. 7" shall mean the Federal Reserve Bank of Dallas' Operating Circular No. 7: Book-Entry Securities Account Maintenance and Transfer Service.

"Required Collateral Percent" shall mean 102% of the sum of the Ledger Balances on deposit with the Bank in all accounts of the Board.

"Restricted Securities Account" shall have the meaning pursuant to Operating Circular No. 7.

"Surety Bond" shall mean an insurance policy guaranteeing payment of principal and interest on deposits of the System at the Bank, in the event of nonpayment by the Bank.

"System" shall mean THE UNIVERSITY OF TEXAS SYSTEM and includes each of the following existing and operating Components, respectively:

The University of Texas at Arlington;
The University of Texas at Austin;
The University of Texas at Brownsville;
The University of Texas at Dallas;
The University of Texas at El Paso;
The University of Texas - Pan American;
The University of Texas of the Permian Basin;
The University of Texas at San Antonio;
The University of Texas at Tyler;
The University of Texas Southwestern Medical Center at Dallas;
The University of Texas Medical Branch at Galveston;
The University of Texas Health Science Center at Houston;
The University of Texas Health Science Center at San Antonio;
The University of Texas M. D. Anderson Cancer Center;
The University of Texas Health Center at Tyler

together with every other institution or branch thereof now or hereafter operating by or under the jurisdiction of the Board pursuant to law.

EXHIBIT B

FEDERAL RESERVE BANK OF DALLAS
OPERATING CIRCULAR NO. 7
(Exhibit B not included in this sample contract)

EXHIBIT C

SECURITY AND EXCHANGE COMMISION FORM 19-A

(Exhibit C not included in this sample contract)

10. U. T. System: Adoption of Transfer of Funds Between Legislative Appropriation Items During the Biennium Beginning September 1, 1999.--
In order to provide the most effective utilization of the General Revenue Appropriations during the biennium beginning September 1, 1999, the following resolution was adopted by the Board:

RESOLUTION

Pursuant to the appropriate transfer provisions of the General Appropriations Act of the 76th Legislature, it is hereby resolved that the State Comptroller be requested to make necessary transfers within the Legislative Appropriations (and/or Cost Centers) from the General Revenue Fund for each of the following components as authorized by the Chief Financial Officer of The University of Texas System institution concerned:

The University of Texas at Arlington
The University of Texas at Austin
The University of Texas at Brownsville
The University of Texas at Dallas
The University of Texas at El Paso
The University of Texas - Pan American
The University of Texas of the Permian Basin
The University of Texas at San Antonio
The University of Texas at Tyler
The University of Texas Southwestern Medical Center at Dallas
The University of Texas Medical Branch at Galveston
The University of Texas Health Science Center at Houston
The University of Texas Health Science Center at San Antonio
The University of Texas M. D. Anderson Cancer Center
The University of Texas Health Center at Tyler
The University of Texas System Administration

11. U. T. Board of Regents: Authorization (a) to Acquire Approximately 1.1098 Acres of Land in Houston, Harris County, Texas, from the Texas Medical Center, Inc., for the Use and Benefit of U. T. M. D. Anderson Cancer Center, and to Submit Request to Coordinating Board for Approval of the Transaction; (b) to Transfer Ownership of Approximately 1.0366 Acres of Land in Houston, Harris County, Texas, Held on Behalf of U. T. Health Science Center - Houston, to the Texas Medical Center, Inc.; (c) to Transfer Approximately .1844 Acres of Land in Houston, Harris County, Texas, Held on Behalf of U. T. Health Science Center - Houston, to be Held on Behalf of U. T. M. D. Anderson Cancer Center; (d) to Transfer Additional Consideration from U. T. M. D. Anderson Cancer Center to U. T. Health Science Center - Houston in Exchange for the Above 1.0366 Acres and .1844 Acres of Land; and (e) for the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to Execute All Documents Related Thereto.--Authorization was granted by the U. T. Board of Regents, on behalf of The University of Texas Health Science Center at Houston and The University of Texas M. D. Anderson Cancer Center, to:

a. Acquire ownership, for the use and benefit of U. T. M. D. Anderson Cancer Center, of approximately 1.1098 acres of land located southeast of Bertner Avenue in the P. W. Rose Survey, Abstract No. 645, Houston, Harris County, Texas, referred to as the portion of the K-Lot, from the Texas Medical Center, Inc., Houston, Texas, and submit a request to the Texas Higher Education Coordinating Board for approval of this transaction

b. Transfer ownership of approximately 1.0366 acres of land located southwest of Moursund Street in the P. W. Rose Survey, Abstract No. 645, Houston, Harris County, Texas, from the U. T. Board of Regents, for the use and benefit of U. T. Health Science Center - Houston, to the Texas Medical Center, Inc., Houston, Texas, in exchange for the tract referenced in a. above

c. Transfer ownership of approximately .1844 acres of land located southwest of Moursund Street in the P. W. Rose Survey, Abstract No. 645, Houston, Harris County, Texas, from the U. T. Board of Regents, for the use and benefit of U. T. Health Science Center - Houston to the U. T. Board of Regents, for the use and benefit of U. T. M. D. Anderson Cancer Center

d. Approve transfer of additional consideration from U. T. M. D. Anderson Cancer Center to U. T. Health Science Center - Houston in consideration for the approximate 1.0366 acres of land to be transferred to the Texas Medical Center, Inc., Houston, Texas, and the .1844 acres to be transferred for the use and benefit of U. T. M. D. Anderson Cancer Center. This consideration to be exchanged shall be determined at a later date and the form of this consideration shall be acceptable to both component institutions.

e. Authorize the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to execute all documents, instruments, and other agreements, following approval from the Office of General Counsel, and to take all such actions deemed necessary or desirable to carry out the purpose and intent of the foregoing actions.

U. T. M. D. Anderson Cancer Center plans to construct a Basic Science Research Building which will house research laboratories, a vivarium for small animals, space for the Graduate School of Biomedical Sciences, connections to existing structures, and associated support space. See Item 13 on Page 163 related to this construction project.

U. T. M. D. Anderson Cancer Center initially investigated seven potential sites for this building and the K-Lot owned by the Texas Medical Center, Inc., was chosen for these reasons: (1) proximity to recent research facility construction; (2) superior ability to phase construction; (3) better long-term development compared to other sites; and (4) potential development of common areas and other amenities benefiting U. T. M. D. Anderson Cancer Center.

The Texas Medical Center, Inc., U. T. Health Science Center - Houston, and U. T. M. D. Anderson Cancer Center will swap land whereby the U. T. Board of Regents acquires title to a 1.1098 acre portion of the K-Lot site to construct a Basic Science Research Building for U. T. M. D. Anderson Cancer Center. In exchange for this 1.1098 acre tract, the U. T. Board of Regents will convey a 1.0366 acre tract located west of the existing Dental Branch Building and held for the use and benefit of U. T. Health Science Center - Houston to the Texas Medical Center, Inc.

Transfer of the 1.0366 acre tract to the Texas Medical Center, Inc., and transfer of the .1844 acre tract to U. T. M. D. Anderson Cancer Center will be made with the stipulation that U. T. Health Science Center - Houston receive additional consideration to be mutually determined at a later date.

The Texas Medical Center, Inc., intends to build an underground parking lot on the remainder portion of the K-Lot and to lease the 1.0366 acres to the Baylor College of Medicine for the construction of a research building that will connect to the Basic Science Research Building at U. T. M. D. Anderson Cancer Center.

See Item 12 below related to an additional land swap between Texas Medical Center, Inc., and U. T. M. D. Anderson Cancer Center.

12. U. T. M. D. Anderson Cancer Center: Approval (a) to Acquire Approximately 1.1528 Acres of Land Located in Houston, Harris County, Texas, from Texas Medical Center, Inc.; (b) to Transfer Ownership of Approximately 1.1197 Acres of Land Located in Houston, Harris County, Texas, to Texas Medical Center, Inc.; and (c) for the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to Execute All Documents Related Thereto.--Upon recommendation of the Business Affairs and Audit Committee and on behalf of The University of Texas M. D. Anderson Cancer Center, the Board:

    a. Acquired ownership of approximately 1.1528 acres of land located in the P. W. Rose Survey, Abstract No. 645, Houston, Harris County, Texas, from Texas Medical Center, Inc., Houston, Texas

    b. Transferred ownership of approximately 1.1197 acres of land located in the P. W. Rose Survey, Abstract No. 645, Houston, Harris County, Texas, to Texas Medical Center, Inc. in exchange for the 1.1528 acres in a. above

    c. Authorized the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to execute all documents, instruments, and other agreements following approval of the Office of General Counsel and to take all such actions deemed necessary or desirable to carry out the purpose and intent of the foregoing land swaps.

The U. T. Board of Regents has previously approved three construction projects for U. T. M. D. Anderson Cancer Center located in the Texas Medical Center area bound by Holcombe Boulevard to the north, Pressler Street to the south, Braeswood Drive to the east, and Bertner Avenue to the west: the Faculty Center, Jesse H. Jones Rotary House International Phase II, and the Parking Structure Medical - Model Fitness Center (Fitness Center).

At its meeting in February 1999, the U. T. Board of Regents approved Design Development Plans for construction of the Faculty Center that will provide office space, conference rooms, and support facilities for the growing U. T. M. D. Anderson Cancer Center faculty.

At its meeting in May 1998, the U. T. Board of Regents approved an amendment to the FY 1998-2003 Capital Improvement Program to include the Jesse H. Jones Rotary House International Phase II and the Parking Structure Medical - Model Fitness Center (Fitness Center) at U. T. M. D. Anderson Cancer Center.

U. T. M. D. Anderson Cancer Center will use the 1.1528 acre tract as the site for the Fitness Center. The conveyance of the 1.1197 acre tract to Texas Medical Center, Inc., will provide a suitable site for the construction of a covered parking garage. The garage will be constructed by Texas Medical Center, Inc., and will serve the Faculty Center, Rotary House International, and the Fitness Center at U. T. M. D. Anderson Cancer Center.

No cash consideration will be exchanged between the parties, as the tracts are considered to be of equivalent value. The tract to be conveyed to the U. T. Board of Regents, on behalf of U. T. M. D. Anderson Cancer Center, is larger than the tract to be conveyed to the Texas Medical Center, Inc., but an easement will be granted to the Texas Medical Center, Inc., across the 1.1528 acre tract to facilitate access from the parking garage south to Pressler Street.

See Item 11 on Page 128 related to an additional land swap with Texas Medical Center, Inc., U. T. M. D. Anderson Cancer Center, and The University of Texas Health Science Center at Houston.

INFORMATIONAL REPORT

U. T. System: Presentation of the June 1999 Monthly Financial Report.--Mr. R. D. Burck, Executive Vice Chancellor for Business Affairs, reviewed the June 1999 Monthly Financial Report for The University of Texas System and emphasized that there were no variances from budget which did not have reasonable explanations.

A copy of The University of Texas System Monthly Financial Report as of June 1999 is on file in the Office of the Board of Regents.

At the conclusion of the Business Affairs and Audit Committee, Chairman Evans thanked Chancellor Cunningham for his presentation on the budget. He said there are a lot of numbers and behind the numbers are people: people who care about the University and this State. He noted that the University is sending a clear signal across the State that higher education really matters in this State. Chairman Evans noted that the amount of growth in funding per student is heartening. He remarked that the Board has said many times in its meetings that its number one mission is to make higher education more accessible and more affordable to the students of Texas, and when we see that kind of increase we can conclude only one thing -- that higher education is going to be more affordable and more accessible to the students of Texas. He reiterated that the numbers are about this great State we live in and the State's commitment to higher education.

Chancellor Cunningham then thanked the elected leadership including the Governor, the Lieutenant Governor, and the Speaker, and everyone who worked so hard on U. T. issues during the past Legislative Session.

REPORT AND RECOMMENDATIONS OF THE ACADEMIC AFFAIRS COMMITTEE (Pages 133 - 139).--Committee Chairman Miller thanked The University of Texas Medical Branch at Galveston for the hospitality extended to the Board during their time in Galveston and noted particular appreciation since he was "Born on the Island." He reported that the Academic Affairs Committee met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, the actions set forth in the Minute Orders which follow were recommended by the Academic Affairs Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Approval of Amendments to Chapter I, Section 7 (General Admission Policy).--Upon recommendation of the Academic Affairs Committee and the Health Affairs Committee, the Board amended the Regents' Rules and Regulations, Part Two, Chapter I, Section 7, regarding the general admission policy, to read as set forth below:

   Sec. 7. General Admission Policy.

   The component institutions of the U. T. System will make maximum use of resources, consistent with standards of appropriate accrediting bodies and enrollment and admissions policies approved by the Board, to admit and educate as many qualified students as possible.

   These amendments to the Regents' Rules and Regulations, Part Two, Chapter I, Section 7, regarding the general admission policy, delete outdated language restricting the use of appropriated funds for recruitment of students within The University of Texas System which was added in 1969 as required by a rider now absent from the General Appropriations Act. Also deleted is language detailing the intent of the recruitment restriction that was added to the Regents' Rules and Regulations in 1972 to provide clarification for the statutory requirement. The first sentence of Section 7 was retained with non-substantive revisions to delete repetitive language and make this general policy statement consistent with the review of multiple individual criteria now utilized in the admissions process. Criteria for admission at each institution are submitted to the U. T. Board of Regents for approval via the institutional docket.

Committee Chairman Miller noted that a technical amendment to Section 7 as presented in the Material Supporting the Agenda would be made to retain the word "qualified" to describe students and thanked those who urged the word be retained.

2. U. T. System: Adoption of Academic Program Approval Standards at the General Academic Institutions.--Upon recommendation of the Academic Affairs Committee, the Board adopted standards for approval of new academic programs at The University of Texas System general academic institutions as set forth in the following policy which describes the principles and standards that are used for program proposal review by the Academic Affairs Committee and the staff of the Office of Academic Affairs in support of the work of the Committee.

Academic Program Approval Standards

The standards used for review and approval of academic program proposals are derived from three overarching principles that guide decisions about program goals, design, and implementation at the U. T. System general academic institutions. These principles are:

1. *New university degree and certificate programs should be consistent with the higher education goals and mission of the State of Texas, The University of Texas System, and the offering institution*. This principle has implications not only for which programs should be offered by U. T. institutions, but also for how they are designed and delivered so as to be responsive to the needs of students, parents, the business, and public sectors.

2. *U. T. degree and certificate programs should be of excellent quality*. Program design, resources, and implementation plan, judged critically in view of the stated goals for a particular program, should compare favorably with state, national, and international standards and competing programs. In general, they should exceed minimum standards of the Texas Higher Education Coordinating Board or appropriate accrediting bodies.

3. *Academic programs at U. T. universities should represent good investments and efficient use of public and private resources*. Program choice, design, and implementation plans should reflect wise use of institutional and inter-institutional or shared resources.

Applying these principles of excellence to review of proposed new academic degree or certificate programs, the Academic Affairs Committee approves proposals that provide good evidence of meeting the following standards:

A. Standards Relating to Goals, Need, Fit

1. Program goals and educational objectives are clear.

2. Connections between proposed program goals and State and U. T. System goals and mission are strong and convincing.

3. Program goals advance institutional mission and strategic plan. Program is on the approved Table of Programs.

4. Program would meet a well-documented unmet need related to present or future manpower or social needs or regional priorities.

5. Program complements and builds upon existing university programs, strengths, and resources.

B. Standards for Quality of Implementation

1. Design of the degree or certificate program reflects understanding of state-of-the-art in the discipline.

2. Resources, including faculty, facilities, special equipment, field placement sites for internships, library and information access, and others as necessary, are adequate to deliver program of excellent quality, meeting or exceeding Southern Association of Colleges and Schools (SACS) standards and those of other professional accrediting bodies where applicable.

3. Faculty responsible for program design and delivery have appropriate, relevant content expertise, scholarship records, and other professional experience and credentials.

4. New graduate programs are built upon demonstrated competence in related areas at the undergraduate or (where appropriate) master's level.

5. Program implementation and delivery plans are responsive to student needs and supportive of student retention and graduation, in light of program goals and resource availability.

6. The program proposal includes a plan for periodic program evaluation focusing on the program objectives, productivity, faculty and resources, changes in environment such as competition and delivery modes, student outcomes, retention, and graduation.

7. An efficient administration plan for the program is described, with clear accountability and appropriate roles for faculty committees and unit administrators.

8. Interdisciplinary, cross-departmental, or cross-college programs are supported by administrative reporting structures likely to preserve interdisciplinary cooperation.

C. Standards for Costs and Revenues

1. Proposal presents clear, logically consistent estimates of program costs and revenues.

2. Prospective student demand adequate for an efficient program is convincingly demonstrated, with specific attention to competing programs, other providers, and other delivery systems.

3. Proposal establishes growth potential to generate adequate resources to support program costs from state formula funding sources after the first three years and, where appropriate, from non-state sources.

4. Available inter-institutional, shared resources are utilized where appropriate.

5. Overall program costs are justifiable in light of potential program benefits and impact.

D. Compliance Standard

Proposal complies in content and format with Coordinating Board rules and instructions for program authorization, so that approval is not likely to be delayed or complicated unnecessarily at that level.

E. Additional Standards for Doctoral Programs

1. There is a sufficient base of sponsored research programs in place to support student and faculty research.

2. Proposal presents convincing plans for recruitment of a critical mass of very talented students, carefully screened in accord with the goals of the program.

3. Proposed program addresses preparation for graduates' future roles of teaching, research or creative endeavor, and work in nonacademic professional settings as appropriate.

4. Appropriate student support is available and/or there is a convincing plan for development of future support.

5. Because of the high level of resource requirements for doctoral programs, particularly rigorous attention must be applied to almost all approval standards in this document.

In remarks related to the standards, Committee Chairman Miller noted that the U. T. Board of Regents is responsible for approval of all academic degree programs at the fifteen component institutions. He pointed out that while final authorization of degree programs in Texas is vested in the Texas Higher Education Coordinating Board, the Coordinating Board advised the University, that they want us to look more closely at degree programs. The Coordinating Board will depend on the Board of Regents to make decisions related to policies and procedures and make sure that attention is paid to the details of the review and approval. Regent Miller noted that the U. T. System took the Coordinating Board's general standards and placed them in context of the quality standards U. T. System institutions should have. The standards put in place what we should expect from a new degree program.

Mr. Miller also reported that Vice Chancellor for Academic Affairs Sharpe and his staff have put together a large amount of information on all academic components which allows review of existing resources and their utilization prior to decisions regarding allocation or reallocation of resources. He stated that the Academic Affairs Committee should provide some oversight and sharing of information and ideas on how programs get used and how resources are allocated and reallocated.

Regent Miller mentioned that the program for tenure review provides evaluation over a period of several years as these academic positions are reviewed in a constructive way. Mr. Miller noted this type of review creates positive accountability and gives the public comfort that the University is paying attention to that part of its business.

He noted that the new degree program review, resource allocation review, and tenure review are a major part of accountability procedures in place for the University.

INFORMATIONAL REPORT

U. T. Austin: Presentation of the UTeach Program.--After a brief overview by Committee Chairman Miller, Dr. Larry Faulkner, President of The University of Texas at Austin, introduced Dr. Mary Ann Rankin, Dean of the College of Natural Sciences, who gave a presentation on the UTeach Program, a collaborative effort between the College of Natural Sciences and the College of Education at U. T. Austin, and the Austin Independent School District to prepare future science and mathematics teachers.

Dean Rankin explained that the UTeach program began as a pilot program with 28 students in Fall 1997 and the program has grown steadily with a projection of more than 200 students in Fall 2000. UTeach differs from the typical program in that future teachers have early exposure to real teaching experience through field experience with teacher models such as master teachers. The primary goal of the program is to increase the number of well prepared students entering careers in K-12 math and science education, with emphasis on secondary school math and science. Students will complete the program in four years with certification and it is expected the program will produce future leaders for the State -- those who will have an impact on the quality of education in their schools and communities. The program provides field experiences with teacher models as master teachers.

Dean Rankin showed a five-minute videotape on the UTeach program which illustrated the success of the program.

Committee Chairman Miller and Board Chairman Evans thanked Dean Rankin for her efforts. Regent Miller said the program will bring more reverence back to teaching and Chairman Evans saluted Dean Rankin as a shining example. Dean Rankin accepted the accolades on behalf of U. T. Austin and noted the program could not be successful without the strong dedication of the Dean of the College of Education, Dr. Manuel J. Justiz.

A copy of Dean Rankin's handout on the UTeach program is on file in the Office of the Board of Regents.

REPORT AND RECOMMENDATIONS OF THE HEALTH AFFAIRS COMMITTEE (Pages 140 - 148).--Committee Chairman Loeffler reported that the Health Affairs Committee met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, the actions set forth in the Minute Orders which follow were recommended by the Health Affairs Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. Board of Regents: Authorization to Transfer the Moncrief Radiation Center from U. T. M. D. Anderson Cancer Center to U. T. Southwestern Medical Center - Dallas; Delegation of Authority to Enter into a Third Amended and Restated Gift Agreement, Assignment of the Second Amended and Restated Gift Agreement and Related Agreements; Approval for Sublicenses to Use Trademark Names; Amendment of Applicable Charters and Termination of Applicable Agreements; and Authorization for the Chancellor to Execute All Documents Related Thereto.--Upon recommendation of the Health Affairs Committee, the U. T. Board of Regents:

   a. Authorized the transfer of the Moncrief Radiation Center from The University of Texas M. D. Anderson Cancer Center to The University of Texas Southwestern Medical Center at Dallas

   b. Delegated to the Chancellor and the Presidents of the U. T. M. D. Anderson Cancer Center and the U. T. Southwestern Medical Center - Dallas the authority to negotiate and enter into a Third Amended and Restated Gift Agreement, an assignment of the Second Amended and Restated Gift Agreement, and other related and necessary agreements, all as fully approved by the Office of General Counsel

   c. Authorized the U. T. Southwestern Medical Center - Dallas to sublicense Board trademarks for use of the name "The University of Texas Southwestern Medical Center" and/or "U. T. Southwestern Health Systems" and/or "Southwestern Health Systems" in connection with the operation of the Moncrief Radiation Center facilities

d. Authorized the President of U. T. M. D. Anderson Cancer Center to amend the Articles of Incorporation and Bylaws of the M. D. Anderson Cancer Center Outreach Corporation to implement the above actions

e. Authorized the President of U. T. Southwestern Medical Center - Dallas to amend the Articles of Incorporation and Bylaws of the U. T. Southwestern Health Systems, as needed and in accordance with such Bylaws, and/or to establish a separate similar nonprofit corporate entity in which the President of U. T. Southwestern Medical Center - Dallas is the sole member to implement the above actions

f. Authorized the President of U. T. M. D. Anderson Cancer Center to amend the Articles of Incorporation and Bylaws of the Moncrief Radiation and Research Foundation to implement the above actions

g. Authorized and approved the following corporations to take such steps necessary or advisable to implement the above actions: the M. D. Anderson Cancer Center Outreach Corporation, the M. D. Anderson Moncrief Cancer Center at Fort Worth and the M. D. Anderson Cancer Network - Tarrant County

h. Authorized the termination of the following agreements between the M. D. Anderson Cancer Center Outreach Corporation and the M. D. Anderson Cancer Network - Tarrant County: Clinical Support Services Agreement and Sublicense Agreement

i. Authorized the Chancellor or his delegate(s) to execute all documents, instruments, and other agreements following approval from the Office of General Counsel and to take all such steps deemed necessary or desirable to carry out the purpose and intent of the foregoing actions.

At the February 1995 meeting, the U. T. Board of Regents approved a Gift Agreement dated December 12, 1994, regarding the Moncrief Radiation Center (Center) in Fort Worth, Texas, and related matters. This Gift Agreement contained provisions for donation of the Center to the M. D. Anderson Cancer Center Outreach Corporation (Outreach) and transferred control of the Radiation and Medical Research Foundation of the Southwest (Foundation) to the President of U. T. M. D. Anderson Cancer Center as its sole member.

The U. T. Southwestern Medical Center - Dallas is much closer in proximity to the Moncrief Radiation Center than the U. T. M. D. Anderson Cancer Center. The Moncrief Radiation Center, which will be transferred from Outreach and U. T. M. D. Anderson Cancer Center to the U. T. Southwestern Medical Center - Dallas and U. T. Southwestern Health Systems or to another nonprofit corporate entity in which the President of U. T. Southwestern Medical Center - Dallas will be the sole member, will allow the Center to pursue a Metroplex-wide strategy in the Dallas-Fort Worth area.

2. U. T. Medical Branch - Galveston: Authorization to Submit a Revised Mission Statement to the Coordinating Board.--Section 61.051 of the Texas Education Code requires the Texas Higher Education Coordinating Board to periodically review the Role and Mission Statements, Tables of Programs, and all degree and certificate programs offered by public institutions of higher education.

In May 1998, the U. T. Board of Regents approved a Mission Statement for The University of Texas Medical Branch at Galveston. In order to provide a more simplified format, the Board authorized The University of Texas System Administration to submit to the Texas Higher Education Coordinating Board a revised Mission Statement for U. T. Medical Branch - Galveston as set out on Page 143. The revised Mission Statement is consistent with the component institution's long-range strategic plans.

THE UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON

MISSION STATEMENT

The mission of The University of Texas Medical Branch at Galveston is to provide scholarly teaching, innovative scientific investigation, and state-of-the-art patient care, in a learning environment to better the health of society.

UTMB's education programs enable the State's talented individuals to become outstanding practitioners, teachers, and investigators in the health care sciences, thereby meeting the needs of the people of Texas and its national and international neighbors. UTMB's comprehensive primary, specialty, and subspecialty care clinical programs support the educational mission and are committed to the health and well-being of all Texans through the delivery of state-of-the-art preventive, diagnostic and treatment services.

UTMB's research programs are committed to the discovery of new, innovative biomedical and health services knowledge leading to increasingly effective and accessible health care for the citizens of Texas.

3. <u>U. T. M. D. Anderson Cancer Center: Establishment of a Bachelor of Science in Allied Health Degree with Majors in Cytogenetic Technology, Cytotechnology, Medical Technology, Medical Dosimetry, and Radiation Therapy; Authorization to Submit the Degree Programs to the Coordinating Board for Approval (Catalog Change); and Authorization of Certification that Coordinating Board Criteria for Approval are Met.</u>--The Health Affairs Committee recommended and the Board:

   a. Established a Bachelor of Science degree in Allied Health with majors in Cytogenetic Technology, Cytotechnology, Medical Technology, Medical Dosimetry, and Radiation Therapy at The University of Texas M. D. Anderson Cancer Center

   b. Authorized submission of the proposal to the Texas Higher Education Coordinating Board for review and appropriate action

   c. Authorized the Executive Vice Chancellor for Health Affairs to certify on behalf of the Board of Regents that relevant Coordinating Board criteria for approval by the Commissioner of Higher Education have been met.

   In addition, the Coordinating Board will be asked to change the U. T. M. D. Anderson Cancer Center's Table of Programs to reflect authorization for the degree programs. The bachelor's degree programs are consistent with U. T. M. D. Anderson Cancer Center's mission and plans for offering quality degree programs to meet student needs.

   Since undergraduate Allied Health education programs were discontinued at The University of Texas Health Science Center at Houston, U. T. M. D. Anderson Cancer Center has assumed the duties of providing training in the cited professional disciplines and is the only University of Texas System component in Houston offering baccalaureate-level training in these fields.

   U. T. M. D. Anderson Cancer Center currently provides three semesters of Allied Health professional education to students in each of the following five disciplines - Cytogenetic Technology, Cytotechnology, Medical Technology, Medical Dosimetry, and Radiation Therapy. As most of these professional disciplines require the bachelor's degree to sit for their registry examination, it is necessary for students entering U. T. M. D. Anderson Cancer Center programs to already possess their baccalaureate degree and to register for

an additional three semesters. The total number of undergraduate credit hours required to award the Bachelor of Science degree in each of the professional disciplines is: Cytotechnology, 132; Cytogenetic Technology and Medical Technology, 134; Radiation Therapy, 145; and Medical Dosimetry, 146. Prior to admission to these professional curricula in Allied Health, the student must have completed a preprofessional course of study consisting of a minimum of 90 semester credit hours in specified prerequisites with
a minimum grade point average of 2.5, with a 2.7 in science courses, on a 4.0 scale from an accredited college or university.

Currently, there are 11 full-time equivalent faculty members and 73 adjunct faculty members providing clinical and didactic support to the five professional programs. Academic program administration to support the current certificate programs is in place, including a chief academic officer and a dean for Allied Health.

No new or supplemental funds will be associated with adding degree-granting status to these ongoing certificate programs. Current program funding is supported through the institution's education and general budget funds.

The program meets all applicable Coordinating Board criteria (8) for degree programs which may be approved by the Commissioner of Higher Education on behalf of the Coordinating Board.

Upon approval by the Coordinating Board, the next appropriate catalog published at U. T. M. D. Anderson Cancer Center will be amended to reflect this action.

4. U. T. M. D. Anderson Cancer Center: Authorization to Lease Approximately 4.9 Acres of Land on Old Spanish Trail in Houston, Harris County, Texas, to Proton Therapy Center - Houston, Ltd., L.L.P.; Authorization to Enter into a Limited Partnership Agreement with Proton Therapy Center of Texas, Inc., and PTCA Investments, Inc.; Authorization to Enter into a Medical Direction Agreement, a Professional Services Agreement, a Program Services Agreement, a Research Agreement, and a Sublicense Agreement, All with Proton Therapy Center - Houston, Ltd., L.L.P.; and Authorization for the President to Take All Actions Necessary to Carry Out the Intent of the Foregoing Agreements.--The Board, upon recommendation of the Health Affairs Committee, authorized the President of The University of Texas M. D. Anderson Cancer Center, on behalf of U. T. M. D. Anderson Cancer Center to:

a. Enter into the following agreements, in substantially the form provided to the U. T. Board of Regents by Vice Chancellor and General Counsel Farabee and as finally approved by the Office of General Counsel:

   (1) a Ground Lease of approximately 4.9 acres of land on Old Spanish Trail in Houston, Harris County, Texas, between the U. T. Board of Regents, for the use and benefit of U. T. M. D. Anderson Cancer Center, and the Proton Therapy Center - Houston, Ltd., L.L.P.

   (2) a Limited Partnership Agreement between Proton Therapy Center of Texas, Inc., PTCA Investments, Inc., and U. T. M. D. Anderson Cancer Center

   (3) a Medical Direction Agreement, a Professional Services Agreement, a Program Services Agreement, a Research Agreement, and a Sublicense Agreement between U. T. M. D. Anderson Cancer Center and Proton Therapy Center - Houston, Ltd., L.L.P.

b. Take any and all actions necessary or desirable to carry out the purpose and intent of the foregoing agreements including, without limitation, the authority to sublicense trademarks owned by the U. T. Board of Regents for the specific purposes set forth in the Sublicense Agreement and the authority to take any and all such actions necessary to fulfill the rights and obligations and receive the benefits provided in each of the above listed agreements, on behalf of the U. T. Board of Regents and U. T. M. D. Anderson Cancer Center.

Tenet Healthcare Corporation, a Nevada corporation, and U. T. M. D. Anderson Cancer Center negotiated to create a series of documents that authorizes investment in a Texas registered limited liability limited partnership (LLLP) consisting of a Tenet Healthcare Corporation subsidiary, Proton Therapy Center of Texas, Inc.; a holding company subsidiary, PTCA Investments, Inc.; and U. T. M. D. Anderson Cancer Center. As envisioned, the three parties will invest in a business entity in which Proton Therapy Center of Texas, Inc., would serve as the general partner with a 1% interest in the LLLP. U. T. M. D. Anderson Cancer Center will hold an approximate 5% interest in the LLLP, and PTCA Investments, Inc. will hold the balance of the 94% interest in the LLLP.

As structured, Tenet Healthcare Corporation will contribute building and equipment valued at approximately $77.5 million, free of debt, to the LLLP. The U. T. Board of Regents, for the use and benefit of U. T. M. D. Anderson Cancer Center and acting through the President of U. T. M. D. Anderson Cancer Center, will lease to the LLLP a parcel of approximately 4.9 acres of land in the south campus research area on Old Spanish Trail in Houston, Texas. The lease provides for a $1.00 a year rental for a maximum term of 99 years with the further provision that, in the event that U. T. M. D. Anderson Cancer Center no longer participated in the LLLP, the U. T. Board of Regents, for the use and benefit of U. T. M. D. Anderson Cancer Center, will be entitled to receive fair market value rental or a discounted fair market value rental, depending upon the circumstances of the withdrawal of U. T. M. D. Anderson Cancer Center from the LLLP. If the LLLP expires at its primary term of forty years or after a renewal period, the lease will also terminate.

In addition to the Limited Partnership Agreement and the lease, there are five additional related agreements: (1) a Medical Direction Agreement which, for a fee to be received by U. T. M. D. Anderson Cancer Center, provides that the Division Head for Radiation Oncology of U. T. M. D. Anderson Cancer Center is appointed as the Medical Director of the facility; (2) a Professional Services Agreement under which U. T. M. D. Anderson Cancer Center provides the doctors, dosimetrists, and physicists for the delivery of proton therapy and bills and collects for the professional fees so generated; (3) a Program Services Agreement which provides for other services that either voluntarily or mandatorily will be purchased by the LLLP from U. T. M. D. Anderson Cancer Center for support services (such as triage nurses and other support personnel); (4) a Research Agreement which provides certain obligations of the LLLP to provide facilities and resources to U. T. M. D. Anderson Cancer Center researchers for research; and (5) a Sublicense Agreement for the use of the name, U. T. M. D. Anderson Cancer Center, for the promotion of proton therapy services at the proton therapy facility.

At the conclusion of the Health Affairs Committee meeting, Chairman Evans noted that Thomas N. James, M.D., former President of U. T. Medical Branch - Galveston, was in attendance at the meeting and upheld Dr. James as one of the outstanding leaders in the health field. Dr. James received a round of applause.

REPORT AND RECOMMENDATIONS OF THE FACILITIES PLANNING AND CONSTRUCTION COMMITTEE (Pages 149 - 169).--Committee Chairman Clements reported that the Facilities Planning and Construction Committee met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, the actions set forth in the Minute Orders which follow were recommended by the Facilities Planning and Construction Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter VIII, Section 2, Subsection 2.1, Subdivision 2.11 (Major Construction and Repair and Rehabilitation Projects); Section 3, Subsection 3.1 (Minor Construction and Repair and Rehabilitation Projects); and Section 5, Sections 5.1 and 5.2 (Constitutional and Legislative Restrictions).--Upon recommendation of the Facilities Planning and Construction Committee, the Regents' Rules and Regulations, Part Two, Chapter VIII, relating to physical plant improvements, were amended as follows:

   a. Section 2, Subsection 2.1, Subdivision 2.11, relating to major construction and repair and rehabilitation projects, was amended to read as follows:

      2.11 Subject to Subdivisions 2.12, 2.13, 2.14 and 2.15 of this Section and the general provisions of Part One, Chapter I, Section 9 and except as otherwise specified in these Rules and Regulations, the Chancellor with the advice of the appropriate Executive Vice Chancellor or Vice Chancellor and chief administrative officer is authorized to appoint architects, approve plans and execute contracts for all new construction projects exceeding $1,000,000 and for major repair and rehabilitation projects exceeding $2,000,000 ("Major Projects") that have previously been approved or authorized by the Board.

b. Section 3, Subsection 3.1, relating to minor construction and repair and rehabilitation projects, was amended to read as set forth below:

3.1 Delegation of Authority.--Subject to Subsections 3.2 and 3.3 of this Section and the general provisions of Part One, Chapter I, Section 9 and except as otherwise specified in these Rules and Regulations, each chief administrative officer is authorized to appoint architects, approve plans and Construction Documents, and execute and deliver contracts, agreements, guaranteed maximum price or stipulated sum proposals, and other documents on behalf of the Board for all new construction projects of $1,000,000 or less and for repair and rehabilitation projects of $2,000,000 or less ("Minor Projects").

c. Section 5, Subsections 5.1 and 5.2, relating to constitutional and legislative restrictions, were amended to read as follows:

5.1 Improvements Financed by Bonds.--Sections 17 and 18 of Article VII of the Texas Constitution (regarding the Permanent University Fund and the Higher Education Fund) require approval by the Legislature, or an agency designated by the Legislature, prior to the construction of physical improvements financed by bonds authorized under those Sections at components other than The University of Texas at Austin.

5.2 Texas Higher Education Coordinating Board.--Unless otherwise authorized by law, new construction proj??ects in excess of $1,000,000 and major repair and rehabilitation projects in excess of $2,000,000 must be approved by the Texas Higher Education Coordinating Board. Format for submission will be as prescribed by the Coordinating Board. Submission will be prepared by the component, in consultation with and assisted by the Office of Facilities Planning and Construction, if necessary, and forwarded to System

Administration for review, approval, and handling of submission. It is anticipated that necessary documents will be submitted to the Coordinating Board when the project scope and estimated cost are sufficiently defined to meet the Coordinating Board's requirements for approval. Normally, submission will be made after the Chancellor and the Board have approved the Design Development Plans and the related cost estimate.

The Texas Higher Education Coordinating Board has delegated to its Commissioner approval authority for certain projects qualifying under Coordinating Board Rule 17.46. This delegation requires a certification that the project meets specified criteria. The authority to execute this certification for the Board of Regents is delegated to the Executive Vice Chancellor for Business Affairs or his delegate, the Director of the Office of Facilities Planning and Construction.

These amendments to the Regents' Rules and Regulations, Part Two, Chapter VIII, more accurately align these Sections with the action of the 76th Texas Legislature which raised the Texas Higher Education Coordinating Board approval level for new construction and major repair and rehabilitation projects. These amendments also delegate more authority to The University of Texas System component institutions to manage smaller construction proj??ects and delegate authority to the Executive Vice Chancellor for Business Affairs or his delegate, the Director of the Office of Facilities Planning and Construction, to certify that a project meets specified Coordinating Board criteria.

2. U. T. Board of Regents - Replacement Research Facility/Land Acquisition Project: Authorization for U. T. M. D. Anderson Cancer Center to Amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to Modify Preliminary Project Cost and Appropriate Funds for the Replacement Research Facility/Land Acquisition Project; Authorization to Transfer Real Property Located at 1300 Moursund Street, Houston, Harris County, Texas, Known as the Mental Sciences Institute, Held on Behalf of U. T. Health Science Center - Houston, to be Held on Behalf of U. T. M. D. Anderson Cancer Center; Approval to Transfer Funds from U. T. M. D. Anderson Cancer Center to U. T. Health Science Center - Houston in Exchange for the Above Property and in Accordance with a Mutually Acceptable Payment Schedule; and Authorization for the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to Execute All Documents Related Thereto.--The Facilities Planning and Construction Committee recommended and the Board, on behalf of The University of Texas Health Science Center at Houston and The University of Texas M. D. Anderson Cancer Center:

a. Amended the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to modify the preliminary project cost and funding for the Replacement Research Facility/Land Acquisition project to reflect and appropriate $15,000,000 from Hospital Revenue Funds for total project funding

b. Transferred ownership of real property including land and improvements located at 1300 Moursund Street, Houston, Harris County, Texas, known as the Mental Sciences Institute and further described as 5.019 acres in the P. W. Rose Survey, Abstract No. 645, Houston, Harris County, Texas, from the U. T. Board of Regents, for the use and benefit of U. T. Health Science Center - Houston, to the U. T. Board of Regents for the use and benefit of U. T. M. D. Anderson Cancer Center

c. Transferred Hospital Revenue Funds totaling $15,000,000 from U. T. M. D. Anderson Cancer Center to U. T. Health Science Center - Houston in exchange for the property referenced in b. above and in accordance with a mutually acceptable payment schedule

d. Authorized the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to execute all documents, instruments, and other agreements following approval from the Office of General Counsel and to take all such actions deemed necessary or desirable to carry out the purpose and intent of the foregoing actions.

The Replacement Research Facility/Land Acquisition project at U. T. M. D. Anderson Cancer Center is included in the FY 1998-2003 Capital Improvement Program at a cost of $10,000,000 with funding from Unexpended Plant Funds. Currently, the building and land identified as the Mental Sciences Institute is owned by the U. T. Board of Regents for the use and benefit of U. T. Health Science Center - Houston. In connection with the establishment of the Texas Medical Center Research Campus located in the Texas Medical Center, as well as other related transactions, it has been agreed between the parties that U. T. Health Science Center - Houston will transfer its interest in the Mental Sciences Institute, including both the land and improvements located thereon, to U. T. M. D. Anderson Cancer Center in exchange for the payments totaling $15,000,000 from Hospital Revenues described therein. A Memorandum of Understanding concerning the exchange and the schedule of payments has been executed by M. David Low, M.D., President of U. T. Health Science Center - Houston, and John Mendelsohn, M.D., President of U. T. M. D. Anderson Cancer Center. The terms and conditions for payment may be revised based upon the completion of the replacement facility.

Funds transferred from U. T. M. D. Anderson Cancer Center to U. T. Health Science Center - Houston will be used to finance a replacement facility for the Mental Sciences Institute at U. T. Health Science Center - Houston.

See Item 11 on Page 128 and Item 12 on Page 130 related to land exchanges between U. T. M. D. Anderson Cancer Center and U. T. Health Science Center - Houston and Item 13 on Page 163 related to redesignation of the U. T. M. D. Anderson Cancer Center Replacement Research Facility - Phase I.

3. U. T. System: Authorization to Award Contracts at U. T. Dallas, U. T. Permian Basin, and U. T. San Antonio for Operation, Maintenance, and Management of the Central Utility Plants.--In August 1980, the U. T. Board of Regents entered into contracts with Win-Sam, Inc., Oklahoma City, Oklahoma, for operation and maintenance of the central chilling station plants for The University of Texas at Dallas, The University of Texas of the Permian Basin, and The University of Texas at San Antonio. These contracts will expire on September 1, 1999.

In order to continue outside management and maintenance of these campus plants, the Board, upon recommendation of the Facilities Planning and Construction Committee, authorized the Executive Vice Chancellor for Business Affairs to award operation, maintenance, and management contracts for the central utility plants at U. T. Dallas, U. T. Permian Basin, and U. T. San Antonio at a preliminary cost not to exceed $15,000,000, with funding from appropriated Institutional Funds.

Results of the contract award will be submitted in the November 1999 U. T. System docket. Any extensions or expansions of the initial contract will be submitted through the docket.

4. U. T. Austin - Disch-Falk Field - Replacement of Artificial Turf: Approval to Amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to Include Project; Authorization of Local Management of Project; and Appropriation of Funds.--Upon recommendation of the Facilities Planning and Construction Committee, the Board:

a. Amended the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the Disch-Falk Field - Replacement of Artificial Turf project at The University of Texas at Austin at a preliminary project cost of $1,500,000, with funding from Auxiliary Enterprise Balances

b. Authorized U. T. Austin to manage the total project budget, prepare final plans, and award contracts associated with the project

c. Appropriated funds of $1,500,000 from Auxiliary Enterprise Balances for total project funding.

The current artificial surface at Disch-Falk Field, the U. T. Austin men's baseball stadium, was installed in 1985 and has exceeded the expected life span for this type of surface.

Approval of this item amends the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the Disch-Falk Field - Replacement of Artificial Turf project at U. T. Austin at a total project cost of $1,500,000, with funding from Auxiliary Enterprise Balances.

5. U. T. Austin - Jester Center Dining Renovations (Project No. 102-993): Appropriation of Funds.--In response to the stated goals of The University of Texas at Austin to focus on the first-year freshman experience and its relation to retention and academic success rates and in anticipation of a doubling of the on-campus residential community, the Board appropriated $13,000,000 for the Jester Center Dining Renovations project at U. T. Austin with funding from Auxiliary Enterprise Balances.

The Jester Center Dining Renovations project at U. T. Austin will expand dining service capabilities to meet the increased demand from the new residence hall, upgrade the facility infrastructure, and redesign the food service facilities. The redesign of the facility is required to meet current student demand and to create a food service facility which can be quickly reconfigured to meet changing customer tastes.

The renovation of the Jester Center Dining will be phased. As it will be financed completely from the Division of Housing and Food Service Reserves, the separate phases will begin when funds are available. The total renovated area is approximately 53,000 gross square feet on three floors, two dining floors, and one preparation facility. Each dining floor will have a separate serving concept to provide eating options for the residents. The first part of the work is projected to start in December 1999.

This project is included in the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget at a preliminary project cost of $13,000,000, with funding from Auxiliary Enterprise Balances.

6. U. T. Permian Basin - The Presidential Museum: Amendment of the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to Include Project.--Upon recommendation of the Facilities Planning and Construction Committee, the Board amended the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include The Presidential Museum at The University of Texas of the Permian Basin at a preliminary project cost of $2,500,000, with funding from General Revenues.

   The Presidential Museum at U. T. Permian Basin involves the construction of a new campus facility of approximately 25,000 gross square feet. The building will be located adjacent to the Ellen Noël Art Museum of the Permian Basin and will display memorabilia from past Presidents of the United States of America.

   The Presidential Museum is currently housed in a downtown building in Odessa. The location near the Ellen Noël Art Museum will unlock The Presidential Museum's potential by enhancing tourism, expanding the Museum's education mission, and creating a cultural cluster for the community. Relocation of The Presidential Museum to the campus was supported by an appropriation of $2,500,000 in the General Appropriations Act passed by the 76th Texas Legislature for the 2000-2001 biennium and will benefit both the citizenry of the Permian Basin and the students.

   Approval of this item amends the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include The Presidential Museum at U. T. Permian Basin at a preliminary project cost of $2,500,000, with funding from General Revenues.

7. U. T. San Antonio - 1604 Campus Thermal Energy Plant Upgrade: Approval to Amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to Include Project.--The Facilities Planning and Construction Committee recommended and the Board amended the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the 1604 Campus Thermal Energy Plant Upgrade project at The University of Texas at San Antonio at a preliminary project cost of $9,000,000, with funding from Revenue Financing System Bond Proceeds.

The 1604 Campus Thermal Energy Plant Upgrade project at U. T. San Antonio will upgrade approximately 3,000 tons of chiller capacity, modify the existing chilled water piping, and extend the existing loop. This will provide future tie-in and thermal energy capabilities for Academic Building III, a future Engineering/Biotechnology Building, and a future Recreation/Wellness Center. As part of this project, energy performance measures will replace inefficient pumps, motors, controls, and lights, thus reducing current campus thermal loads.

The U. T. San Antonio 1604 campus is comprised of ten buildings with an aggregate of approximately 1,130,000 gross square feet (GSF) that are served by the present 6,000-ton capacity of the central thermal energy plant. Planned major construction projects comprise an additional 450,000 GSF and are scheduled to require chilled water in the Fall 2000, resulting in demand exceeding capacity. This project must be completed by Fall 2000 to meet the chilled water requirements of these projects.

Approval of this item amends the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the 1604 Campus Thermal Energy Plant Upgrade at U. T. San Antonio at a preliminary project cost of $9,000,000, with funding from Revenue Financing System Bond Proceeds.

8. U. T. Medical Branch - Galveston: Authorization to Rename the Medical Research Building as The Truman Graves Blocker, Jr. Medical Research Building (Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Honorific Namings) (No Publicity).--In honor of Truman G. Blocker, Jr., M.D., the first person to hold the title of President at The University of Texas Medical Branch at Galveston, approval was given to rename the Medical Research Building as The Truman Graves Blocker, Jr. Medical Research Building.

Truman G. Blocker, Jr., M.D., served the U. T. Medical Branch - Galveston as chief administrative officer from 1964 to 1974, and in 1967 became the first person to hold the title of President, a position he held until his retirement in 1974. A 1933 graduate of the School of Medicine at the U. T. Medical Branch - Galveston, Dr. Blocker served on the faculty and in various senior administrative positions, including Chairman of the Department of Surgery, during the period 1937-1974. Dr. Blocker was an internationally renowned plastic surgeon who distinguished himself as a talented clinician, revered teacher, tireless administrator, devoted researcher, and accomplished fund-raiser.

Numerous letters have been received from Dr. Blocker's former students, urging the naming of a prominent campus building in his honor; moreover, the Board of Trustees of the School of Medicine Alumni Association has unanimously endorsed this honorific naming recommendation. The Medical Research Building is an imposing twelve-floor structure situated on the western side of the main campus. The building consists of 290,309 gross square feet dedicated to medical research and is headquarters for the Sealy Center for Molecular Sciences, the Sealy Center for Molecular Cardiology, the Marine Biomedical Institute, and several School of Medicine departments. The Medical Research Building was completed in 1993 and will be a fitting tribute to the memory of Dr. Truman G. Blocker, Jr.

The naming of the Medical Research Building at U. T. Medical Branch - Galveston as The Truman Graves Blocker, Jr. Medical Research Building is consistent with the Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, and institutional guidelines on the honorific naming of buildings.

It was requested that no publicity be given to this matter.

Chairman Evans saluted the renaming of the building in honor of Dr. Blocker.

9. U. T. Medical Branch - Galveston: Approval to Redesignate the John and Jennie Sealy Hospitals Renovation as the John Sealy Hospitals Complex Renovation; Authorization of Local Management of Projects; Approval of Revised Preliminary Project Cost; and Appropriation of Funds.--Upon the recommendation of the Facilities Planning and Construction Committee, the Board:

   a. Redesignated the John and Jennie Sealy Hospitals Renovation at The University of Texas Medical Branch at Galveston as the John Sealy Hospitals Complex Renovation

   b. Authorized U. T. Medical Branch - Galveston to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts associated with the renovations

c. Approved a revised preliminary project cost of $7,000,000, with funding of $3,500,000 from Gifts and Grants and $3,500,000 from Hospital Revenues

d. Appropriated funds of $3,500,000 from Gifts and Grants and $3,500,000 from Hospital Revenues for total project funding.

The John and Jennie Sealy Hospitals Renovation project at U. T. Medical Branch - Galveston will expand and reconfigure approximately 45,000 gross square feet of space in hospital areas for various departments. The redesignation of this project to John Sealy Hospitals Complex Renovation more clearly describes various buildings that are included within the scope of this project.

Several major patient care initiatives have been identified by the U. T. Medical Branch - Galveston. These include expanded facilities for the elderly, intensive care, family support areas, and inpatient rehabilitation. These expanded programs directly address the institution's goal of improving access to patient care and outcomes while controlling costs. This project also supports the Capital Improvement Program directive of placing priorities on the renovation and maintenance of existing facilities and the Campus Master Plan emphasis of responding to changes in the health care industry as these relate to patient care, along with reducing operations and maintenance costs.

Funding appropriations of $14,800,000 from Hospital Revenues for this project were previously approved in August 1997. The scope of this project has been revised since that time and now the preliminary project cost will be reduced to $7,000,000, with funding of $3,500,000 from Gifts and Grants and $3,500,000 from Hospital Revenues.

U. T. Medical Branch - Galveston has developed a staff of professional proj??ect managers that are trained to execute clinical renovation projects under the difficult conditions of construction in occupied space. Because of the nature of the work and the specialized ability of U. T. Medical Branch - Galveston personnel, it has been determined that U. T. Medical Branch - Galveston is best able to manage this project.

Approval of this item amends the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to redesignate the John and Jennie Sealy Hospitals Renovation as the John Sealy Hospitals Complex Renovation at U. T. Medical Branch - Galveston at a preliminary project cost of $7,000,000, with funding of $3,500,000 from Gifts and Grants and $3,500,000 from Hospital Revenues.

10. U. T. Health Science Center - Houston - Buildout of the University Center Tower: Amendment of the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to Include Project; Authorization of Local Management of Project; and Appropriation of Funds.--The Board, upon recommendation of the Facilities Planning and Construction Committee:

    a. Amended the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the Buildout of the University Center Tower project at The University of Texas Health Science Center at Houston at a preliminary project cost of $10,000,000, with funding from Designated Tuition Funds

    b. Authorized U. T. Health Science Center - Houston to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts associated with the project

    c. Appropriated funds of $10,000,000 from Designated Tuition Funds for total project funding.

    The Buildout of the University Center Tower project at the U. T. Health Science Center - Houston consists of the demolition and build-back of approximately 75,000 gross square feet on nine floors of the University Center Tower. The work will be phased over a six-year period. As various floors are renovated, academic functions and academic and research support personnel will be relocated to the University Center Tower. Floors will be renovated to include modernized heating, venting, and air conditioning and life safety systems. The work will also include abatement of asbestos-containing material and renovation of rest rooms to comply with the Americans with Disabilities Act.

    U. T. Health Science Center - Houston has developed a staff of professional project managers that are trained to execute clinical renovation projects under the difficult conditions of construction in occupied space. They work closely with facilities operating personnel to coordinate construction activities with minimal disruption. Because of the nature and lengthy duration of the work and the specialized ability of U. T. Health Science Center - Houston personnel, it has been determined that U. T. Health Science Center - Houston is best able to manage this project.

Approval of this item amends the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the Buildout of the University Center Tower project at the U. T. Health Science Center - Houston at a total project cost of $10,000,000, with funding from Designated Tuition Funds.

11. U. T. M. D. Anderson Cancer Center - Biochemistry and Molecular Biology Laboratory Renovation: Approval to Amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to Include Project; Authorization of Local Management of Project; and Appropriation of Funds.--The Facilities Planning and Construction Committee recommended and the Board:

a. Amended the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the Biochemistry and Molecular Biology Laboratory Renovation project at The University of Texas M. D. Anderson Cancer Center at a preliminary proj??ect cost of $1,900,000, with funding from Hospital Revenues

b. Authorized U. T. M. D. Anderson Cancer Center to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts associated with the project

c. Appropriated funds of $1,900,000 from Hospital Revenues for total project funding.

The Biochemistry and Molecular Biology Laboratory Renovation project at U. T. M. D. Anderson Cancer Center will renovate approximately 6,600 gross square feet of research lab space for biochemistry and molecular biology. Work will include the upgrade of mechanical, electrical, and plumbing systems to meet laboratory requirements and life safety and building codes. The existing space is inadequate to support the utility and performance demands of this mission critical program now housed in the Bates-Freeman Building of the main complex. The strategic plan for the research program includes recruiting and retaining outstanding scientific leaders and new investigators. The existing infrastructure of the Bates-Freeman Building has proven to be inadequate to support current technology.

U. T. M. D. Anderson Cancer Center has developed a staff of professional project managers that are trained to execute clinical renovation projects under the difficult conditions of construction in occupied space. They are trained to maintain specialized conditions required in hospital operations such as infection control, compliance with Joint Commission on Accreditation of Healthcare Organizations interim life safety codes, and critical utility systems. They also work closely with facilities operating personnel and medical/nursing staff to coordinate construction activities with minimal disruption. Because of the nature of the work and the specialized ability of U. T. M. D. Anderson Cancer Center personnel, it has been determined that U. T. M. D. Anderson Cancer Center is best able to manage this project.

Approval of this item amends the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the Biochemistry and Molecular Biology Laboratory Renovation project at the U. T. M. D. Anderson Cancer Center at a total project cost of $1,900,000, with funding from Hospital Revenues.

12. U. T. M. D. Anderson Cancer Center - Life Safety/Fire Access/Pedestrian Traffic Improvements at R. Lee Clark Clinic Entrance: Amendment of the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to Include Project; Authorization of Local Management of Project; and Appropriation of Funds.--In order to alleviate traffic congestion and improve safety for patients, guests, and employees of The University of Texas M. D. Anderson Cancer Center, the Board:

a. Amended the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the Life Safety/Fire Access/Pedestrian Traffic Improvements at R. Lee Clark Clinic Entrance project at U. T. M. D. Anderson Cancer Center at a preliminary proj??ect cost of $3,500,000, with funding from Hospital Revenues

b. Authorized U. T. M. D. Anderson Cancer Center to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts associated with the project

c. Appropriated funds of $3,500,000 from Hospital Revenues for total project funding.

The Life Safety/Fire Access/Pedestrian Traffic Improvements at R. Lee Clark Clinic Entrance project at the U. T. M. D. Anderson Cancer Center will reconstruct Bates Street and associated drives that serve the Clark Clinic entrance. The project encompasses approximately 85,000 gross square feet of road surface and setbacks along Bates Street and the Bates Street entrance from Holcombe Boulevard.

U. T. M. D. Anderson Cancer Center has developed a staff of professional project managers that are trained to execute renovation projects under the difficult conditions of construction in heavily utilized areas. They work closely with facilities operating personnel and staff to coordinate construction activities with minimal disruption. Because of the nature of the work and the specialized ability of U. T. M. D. Anderson Cancer Center personnel, it has been determined that U. T. M. D. Anderson Cancer Center is best able to manage this project.

Approval of this item amends the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the Life Safety/Fire Access/Pedestrian Traffic Improvements at R. Lee Clark Clinic Entrance project at U. T. M. D. Anderson Cancer Center at a total project cost of $3,500,000, with funding from Hospital Revenues.

13. U. T. M. D. Anderson Cancer Center: Approval to Redesignate the Replacement Research Facility - Phase I Project as the Basic Science Research Building and Authorization to Revise Preliminary Project Cost.--Upon recommendation of the Facilities Planning and Construction Committee, the Board:

a. Approved redesignation of the Replacement Research Facility - Phase I at The University of Texas M. D. Anderson Cancer Center as the Basic Science Research Building

b. Approved a revised preliminary project cost of $137,200,000, with funding sources to be identified in the FY 2000-2005 Capital Improvement Program.

The FY 1998-2003 Capital Improvement Program includes the construction of a Replacement Research Facility - Phase I at the U. T. M. D. Anderson Cancer Center consisting of 250,000 gross square feet at a cost of $68,000,000, with funding of $40,000,000 from Revenue Financing System Bond Proceeds, and $28,000,000 from Gifts and Grants. Since its conceptual approval in 1994, the implementation strategy for the Replacement Research Facility has undergone a number of changes. U. T. M. D. Anderson Cancer Center proposes to proceed with a single phased project of approximately 400,000 gross square feet at a cost of $137,200,000. There has been a steady increase in grant-funded research by the National Cancer Institute, including an upward adjustment of the core grant to U. T. M. D. Anderson Cancer Center, and the National Institutes of Health has announced planned cancer research increases over the next several years. To have the facilities necessary to better perform this research, the concept of the project has been adjusted from a single building with a shell vivarium (for future fit-out) to a phased, master planned, multibuilding development in the Texas Medical Center. The Basic Science Research Building at the U. T. M. D. Anderson Cancer Center will be part of a collaborative research campus which includes The University of Texas Health Science Center at Houston and the Baylor College of Medicine.

As part of its commitment, the institutional Facilities Steering Committee recommended an increase in the scope of the Replacement Research Facility. As envisioned, the revised project scope for the Basic Science Research Building includes research laboratories, a complete vivarium for small animals, and space for the Graduate School of Biomedical Sciences (a shared program with the U. T. Health Science Center - Houston). The facility will be constructed on the property currently known as the K-Lot property that is to be transferred from the Texas Medical Center to the U. T. M. D. Anderson Cancer Center. See Item 11 on Page 128 relating to this land transfer.

Future buildings on the site will provide additional research space supported by the new vivariums: one planned by the U. T. M. D. Anderson Cancer Center and the other currently under construction at Baylor College of Medicine. In addition, the site will eventually include loading docks, auditoriums, seminar space, and other support facilities to be shared by the three institutions.

The Basic Science Research Building will be approximately 403,000 gross square feet including 145,000 gross square feet for laboratory and lab support space, 138,000 gross square feet for a vivarium, 87,000 gross square feet for laboratory and lab support space (shell only), and 33,000 gross square feet for facilities support space (such as Graduate School of Biomedical Sciences, dock, maintenance, and electrical transformer vault) and connections to existing structures.

Approval of this item amends the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to redesignate the Replacement Research Facility - Phase I at U. T. M. D. Anderson Cancer Center as the Basic Science Research Building and revise the preliminary project cost, with funding sources to be identified in the FY 2000-2005 Capital Improvement Program which will be presented at the November 1999 U. T. Board of Regents' meeting.

Executive Secretary's Note: Although funding sources were identified in the original agenda material, the Board did not approve specific sources of funding.

14. U. T. M. D. Anderson Cancer Center - Research Lab Renovations: Authorization to Amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to Include Project; Authorization of Local Management of Project; and Appropriation of Funds.--The Board, upon recommendation of the Facilities Planning and Construction Committee:

a. Amended the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the Research Lab Renovations at The University of Texas M. D. Anderson Cancer Center at a preliminary project cost of $11,800,000, with funding from Hospital Revenues

b. Authorized U. T. M. D. Anderson Cancer Center to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts associated with the project

c. Appropriated funds of $11,800,000 from Hospital Revenues for total project funding.

The Research Lab Renovations project at the U. T. M. D. Anderson Cancer Center consists of renovations of approximately 36,700 gross square feet of laboratory space. The following departments are included in this project: Experimental Radiation Oncology with 10,000 gross square feet of major renovation; Human Cancer Genetics with 5,900 gross square feet of medium renovation; and Human Cancer Genetics with 10,000 gross square feet of medium renovation. In addition, this project includes the buildout of existing shell space for research lab and animal support areas of approximately 10,800 gross square feet.

The strategic plan for the research program includes recruiting and retaining outstanding scientific leaders and new investigators. This project provides for the renovation of laboratory space for research recruitment and retention as well as the technology support each requires. The existing research facilities, which are inadequate to support current technology or to support the utility and performance demands of mission critical programs, will require significant mechanical, electrical, and plumbing upgrades to meet lab requirements, life safety, and building codes.

U. T. M. D. Anderson Cancer Center has developed a staff of professional project managers that are trained to execute clinical renovation projects under the difficult conditions of construction in occupied space. They are trained to maintain specialized conditions required in hospital operations such as infection control, compliance with Joint Commission on Accreditation of Healthcare Organizations interim life safety codes, and critical utility systems. They also work closely with facilities operating personnel and medical/nursing staff to coordinate construction activities with minimal disruption. Because of the nature of the work and the specialized ability of U. T. M. D. Anderson Cancer Center personnel, it has been determined that U. T. M. D. Anderson Cancer Center is best able to manage this project.

Approval of this item amends the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the Research Lab Renovations at U. T. M. D. Anderson Cancer Center at a total project cost of $11,800,000, with funding from Hospital Revenues.

15. U. T. M. D. Anderson Cancer Center - Roof Replacement Gimbel, Bates-Freeman, M. D. Anderson Hospital Center, New R. Lee Clark Clinic Buildings: Amendment of the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to Include Project; Authorization of Local Management of Project; and Appropriation of Funds.--The Board, upon the recommendation of the Facilities Planning and Construction Committee:

a. Amended the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include Roof Replacement at the Gimbel, Bates-Freeman, M. D. Anderson Hospital Center, and new R. Lee Clark Clinic Buildings at The University of Texas M. D. Anderson Cancer Center at a preliminary project cost of $4,000,000, with funding from Hospital Revenues

b. Authorized U. T. M. D. Anderson Cancer Center to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts associated with the project

c. Appropriated funds of $4,000,000 from Hospital Revenues for total project funding.

The Roof Replacement at Gimbel, Bates-Freeman, M. D. Anderson Hospital Center, and new R. Lee Clark Clinic Buildings project at the U. T. M. D. Anderson Cancer Center consists of roof replacement of approximately 60,000 gross square feet on the Gimbel, Bates-Freeman, and M. D. Anderson Hospital Center Buildings, and approximately 40,000 gross square feet of roof replacement on the new Clark Clinic Building. The project also includes relocation, demolition, or replacement of selected rooftop equipment.

The Gimbel, Bates-Freeman, and M. D. Anderson Hospital Center existing roof systems were installed approximately twenty years ago and have reached the end of their life expectancy. Numerous mechanical, electrical, and plumbing penetrations added after the original roof installation have created water drainage obstructions and damage to the roof and interior finish. Some of the equipment creating the obstructions will require relocation, equipment that has been abandoned in place and not scheduled for reuse will be removed and deck repairs made, and many of the roof equipment support curbs will be replaced. Removal and replacement of this roof will provide a watertight roofing system to protect the building's interior finishes and occupants. Additionally, the roof system's insulating thermal "R" value will be increased by removing water trapped in the roof system and by replacing deteriorated fiberglass insulation.

The new R. Lee Clark Clinic's existing roof system was installed approximately fifteen years ago and consists of a loose aggregate surface. An infrared moisture survey and test cut data revealed wet insulation in several areas. Removal and replacement of this roof will eliminate the hazards associated with loose aggregate becoming airborne during high winds and provide a watertight roofing system. It will also increase the roof system's insulating "R" value by removing trapped water and wet insulation.

U. T. M. D. Anderson Cancer Center has developed a staff of professional project managers that are trained to execute renovation projects under the difficult conditions of construction in heavily utilized areas. They work closely with facilities operating personnel and staff to coordinate construction activities with minimal disruption. Because of the nature of the work and the specialized ability of U. T. M. D. Anderson Cancer Center personnel, it has been determined that U. T. M. D. Anderson Cancer Center is best able to manage this project.

Approval of this item amends the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the Roof Replacement at Gimbel, Bates-Freeman, M. D. Anderson Hospital Center, and new R. Lee Clark Clinic Buildings at U. T. M. D. Anderson Cancer Center at a total project cost of $4,000,000, with funding from Hospital Revenues.

INFORMATIONAL REPORT

U. T. System: Presentation of Campus Master Plan Process.--Committee Chairman Clements reported on the status of the Campus Master Plan Process by stating that the Facilities Planning and Construction Committee had reviewed the Executive Summaries for the Campus Master Plans for The University of Texas at Austin, The University of Texas at El Paso, The University of Texas - Pan American, The University of Texas of the Permian Basin, The University of Texas Health Science Center at San Antonio, and The University of Texas Health Center at Tyler. She indicated that all Summaries were well received by the Committee, and it was noted that copies would be provided to the Regents upon completion of final edits.

Committee Chairman Clements asked Committee members to review the draft Campus Master Plans for the remaining nine campuses when received and to send their comments to her. It is anticipated the Plans will be completed in early 2000.

Chairman Evans complimented Committee Chairman Clements on her focus on the Campus Master Plan Process.

* * * * *

At the conclusion of the Facilities Planning and Construction Committee meeting, Committee Chairman Clements reported that, since the last regular meeting, the Chancellor had approved five (5) general construction contracts totaling $28,754,795 which included a 5.63% participation by Historically Underutilized Businesses, 1.70% by women-owned firms and 3.93% by minority-owned firms. In addition, one (1) architect/engineer contract for $226,000 has been awarded since the last meeting which included a 13.28% participation by Historically Underutilized Businesses, 1.34% by women-owned firms and 11.94% by minority-owned firms.

RECONVENE.--At 1:20 p.m., the Board reconvened as a committee of the whole to consider those items remaining on the agenda.

REPORT OF BOARD FOR LEASE OF UNIVERSITY LANDS

The Board for Lease of University Lands met on Wednesday, May 19, 1999, at the Center for Energy and Economic Diversification in Midland, Texas, for a general business meeting and to hold Regular Oil and Gas Lease Sale No. 95.

Following is a report on the result of the lease sale:

> Regular Oil and Gas Lease Sale No. 95: Total bonuses were received in the amount of $1,064,508.47 for 14,468.400 acres (49 tracts) leased out of 21,137.25 acres (74 tracts) of Permanent University Fund lands nominated for lease. The single highest bid was $71,170.75 ($152/acre) for a 469-acre tract in Ward County.

Following is a report on the general business meeting:

a. Approved the Minutes of the November 17, 1998 meeting of the Board for Lease

b. Elected Regent Raul R. Romero as Vice Chairman of the Board for Lease

c. Appointed Pamela S. Bacon as Secretary to the Board for Lease

d. Staff presented to the Board an overview of operations on University Lands and management of resources at the West Texas Operations office

e. Approved lease procedures and terms for Regular Oil and Gas Lease Sale No. 96 to be held in November 1999

f. Approved management of the royalty in-kind programs as presented by staff

g. Approved the application of Rust Oil Corporation for approval of two proposed 20-Acre Pooled Units - Section 10, Block 13, Andrews County, Texas

h. Approved the application of Arco Permian for proposed Horizontal Fusselman Well Pooled Unit - Section 13, Block 58, Upton County, Texas

i. Staff presented information regarding the proposed Henry Petroleum Secondary Recovery Unit and historical information relating to another secondary recovery unit on University Lands that became effective in 1995.

The next meeting of the Board for Lease of University Lands and lease awards for Regular Oil and Gas Lease Sale No. 96 is scheduled in the Board Room of The University of Texas Health Science Center at Houston in Houston, Texas, on November 17, 1999. Bids will be opened at the Center for Energy and Economic Diversification in Midland, Texas, on November 16, 1999.

OTHER MATTERS

U. T. Board of Regents: Presentation on the U. T. Advanced Placement Initiative.--Chairman Evans called on Regent Raul R. Romero, Chairman of the Special Committee on Minorities and Women, for a report on the activities of that Committee. Regent Romero spoke from a written statement, as follows:

Statement by Regent Romero on the U. T. Advanced Placement (AP) Initiative

> The Special Regental Committee on Minorities and Women announces an Advanced Placement Initiative designed to support the expansion of the College Board Advanced Placement Program in Texas. The purpose of the program is to assist middle and high school students complete a challenging college curriculum and, therefore, increase their opportunities to complete successfully a college degree. In 1998 slightly more than half of the schools in Texas had students taking either the AP or the International Baccalaureate exam. Participation in Advanced Programs continues to lag for disadvantaged students.

The rationale for the initiative follows:

- Founded in 1900, the College Board is a national, nonprofit membership association of schools, colleges, and other educational organizations working together to help students succeed in the transition from high school to college.

- The Advanced Placement Program supports college level curricula for 29 courses in 16 subject areas.

- In the past decade, the number of high schools that prepare students for Advanced Placement college level exams has increased 50 percent nationally. Women are the majority of Advanced Placement exam takers and these numbers are rising faster than those of men. Minority participation has increased from 19 percent of participating students ten years ago to 29 percent this year.

U. T. System institutions can impact availability and participation in advanced course work in several key ways including, but not limited to, the continuation and expansion of summer institutes for AP teacher training, collaborative projects with the College Board intended to increase the number of qualified AP teachers, and direct contact with pre-collegiate students through summer programs offering Pre-AP and AP courses.

U. T. System institutions are committed to continuing the more than 450 programs currently offered to assist K-12 students and teachers with academic preparation and enrichment. The Advanced Placement Initiative is an initiative that will build on existing programs and extend opportunities for success to a larger group of students and teachers.

Desiring to build on effective, ongoing efforts in many areas and in cooperation with the Texas Education Agency, local school districts and other entities, The University of Texas System institutions will seek to increase the number of students participating in the Advanced Placement Program throughout Texas. This support will include:

- Aid in the dissemination of information about the Advanced Placement Program and the appropriate Pre-Advanced Placement curriculum to middle and high school students in Texas;

- Provide training for teachers who teach Pre-Advanced Placement and Advanced Placement courses;

- Expansion of learning opportunities to pre-collegiate students at component institutions of the U. T. System.

The Advanced Placement Initiative will be a major priority of the Special Committee on Minorities and Women of The University of Texas System Board of Regents chaired by Regent Raul R. Romero. The University of Texas System Administration and the U. T. component institutions will engage in the effort.

Chairman Evans commended Regent Romero on his leadership and the work of the Committee on this important initiative.

ITEM FOR THE RECORD

U. T. System: Change in Title for Vice Chancellor for Academic Affairs to Executive Vice Chancellor for Academic Affairs.--Chancellor Cunningham took the opportunity to announce that the approved budget includes a change in the title of Dr. Edwin R. Sharpe, Vice Chancellor for Academic Affairs for The University of Texas System, to Executive Vice Chancellor for Academic Affairs effective September 1, 1999. Dr. Cunningham commended Dr. Sharpe for the outstanding job he has done in several capacities over the years and stated that the component presidents will now work directly with Dr. Sharpe. Vice Chancellor Sharpe graciously accepted the resulting applause.

MEETING WITH REPRESENTATIVES OF THE UNIVERSITY OF TEXAS SYSTEM FACULTY ADVISORY COUNCIL.--On behalf of the Board, Chairman Evans welcomed the Executive Committee members of The University of Texas System Faculty Advisory Council to the annual meeting with the Board and asked Chair Joel Dunnington to make the appropriate introductions and to begin the discussions per the agenda before the Board and on file in the Office of the Board of Regents.

PARTICIPANTS

Dr. Joel S. Dunnington, M.D., Chair, Faculty Advisory Council,
The University of Texas M. D. Anderson Cancer Center

Dr. Betty Travis, Ph.D., Chair-Elect, Faculty Advisory Council,
The University of Texas at San Antonio

Dr. Terese Verklan, Ph.D., Secretary, Faculty Advisory Council,
The University of Texas Health Science Center at Houston

Dr. Robert Nelsen, Ph.D., Co-Chair Governance Committee,
The University of Texas at Dallas

Dr. Jerry McLarty, Ph.D., Co-Chair Governance Committee,
The University of Texas Health Center at Tyler

Dr. Corbett Gaulden, Ph.D., Co-Chair Academic Affairs,
The University of Texas of the Permian Basin

Professor Martha Hilley, M.A., Co-Chair Academic Affairs,
The University of Texas at Austin

Dr. James Bartlett, Ph.D., Co-Chair Faculty Quality,
The University of Texas at Dallas

Dr. Mellick Sykes, M.D., Co-Chair Health Affairs,
The University of Texas Health Science Center at San Antonio

AGENDA AND DISCUSSION

1. The use of Regents' Rule 6.35 at U. T. M. D. Anderson Cancer Center and the improvements being made on campus in the tenure process, credentialling process, and the grievance process

   Dr. Dunnington reported progress related to the handling of nonrenewals but noted concerns about a draft Regents' Rules revision concerning the grievance process that would be covered by Dr. Nelsen.

2. Concern with the proposed Regents' Rules on grievance procedures

   Dr. Nelsen asked that the Faculty Advisory Council have an opportunity for additional input regarding amendments to Part One, Chapter III of the Regents' Rules and Regulations to add a new Section 38, to assure that current institutional grievance policies are not automatically replaced or revised.

   Chairman Evans noted he is pleased The University of Texas M. D. Anderson Cancer Center grievance policy is now viewed as satisfactory. He said that he has not heard of problems related to the draft faculty grievance policy from U. T. staff; he asked the Faculty Advisory Council to first work through the U. T. System staff if communications became an issue.

3. Follow-up on the fields of study and core curriculum laws passed in 1997 and their continued implementation by the Coordinating Board and the campuses

   The Council expressed concern about the quality of course work and whether all students satisfying the core curriculum were ready for more advanced work. The Council reported that, over the year, it would track individual student records, extract information on academic progress and report back to the Board. Vice-Chairman Loeffler suggested that the process be expedited to be of value.

4. Discussion of distance learning, including a draft four-part resolution from the Faculty Advisory Council

Dr. Gaulden reported on the Faculty Advisory Council's satisfaction with the distance learning guidelines written by Vice Chancellor Mario Gonzalez and Ms. Georgia Harper of the Office of General Counsel and noted that the Council had been consulted several times during the drafting process.

Dr. Gaulden urged that faculty oversight for the implementation of degree programs to be offered via the UT TeleCampus is critical and introduced a draft four-part resolution (on file in the Office of the Board of Regents) that outlined a philosophy for campus control of academic quality. Regent Sanchez agreed that faculty input is important, but that the success of the initiative must be based upon trust. Regent Oxford noted that others are implementing distance learning programs and that we need to move forward with implementation and evaluation now. Regent Sanchez said that we must attempt new things and be prepared to react to what works and what doesn't. Vice-Chairman Clements agreed that trust and a close relationship on these issues were important. Regent Miller noted he would give the approval to faculty if institutional committees would agree to immediate program closures as needed.

Chairman Evans asked how the U. T. distance education effort compares to the rest of the country. Dr. Bartlett and Dr. Gaulden noted that U. T. is behind in some ways, but that the new MBA degree online is viewed as a leading edge program. Dr. Gaulden commented that he knew the campuses and the faculty were not moving as fast as Vice Chancellor Gonzalez wished.

Chairman Evans thanked the Council members for their input and views and stated that he hopes U. T. will become a leader in distance education.

5. Board of Regents' search for a new Chancellor and whether this will include faculty representatives

Regarding the search for a new Chancellor for the U. T. System, Dr. Dunnington recommended consideration of an individual with strong academic credentials and recommended that the Chair and

Chair-Elect of the Faculty Advisory Council serve on the Search Committee. Chairman Evans assured the Council that the Board will listen to input but had not decided on a specific structure to gather those comments.

6. Discussion of the proposed U. T. System compliance document and its effect on faculty

   Discussion centered on the perceived lack of faculty involvement in institutional implementation of the model compliance document. This issue was referred to Vice Chancellor Sharpe for further review in consultation with Executive Vice Chancellor Mullins, Executive Vice Chancellor Burck, and Mr. Charles Chaffin, Director of Audits.

Dr. Dunnington commended Ms. Francie Frederick, former Acting Vice Chancellor for Academic Affairs and current Executive Secretary to the Board of Regents, for her very able assistance to the faculty over the years.

He announced the Council would skip the last two items on the agenda (Faculty Satisfaction Survey and Summary of Legislative Issues) due to the shortage of time.

SCHEDULED MEETING.--Chairman Evans announced that the next scheduled meeting of the U. T. Board of Regents would be held on November 10-11, 1999, at The University of Texas Southwestern Medical Center at Dallas. He also reminded the Board of the Health Affairs Committee retreat scheduled for October 8, 1999.

ADJOURNMENT.--There being no further business, the meeting was adjourned at 2:50 p.m.

/s/ Francie A. Frederick
Executive Secretary

September 14, 1999