
AVAILABLE UNIVERSITY FUND REPORT

December 2016



Prepared by
The University of Texas System
Office of the Controller

Report to the Legislature and Governor
Pursuant to Rider No. 5 to Available University Fund Appropriation
HB 1, 84th Legislature, Regular Session, Page III-62

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RIDER NO. 5 TO AVAILABLE UNIVERSITY FUND APPROPRIATION

The text of Rider No. 5 to the Available University Fund Appropriation in House Bill 1, 84th Legislature, Regular Session, is as follows:

“Reporting.

a. The University of Texas System Board of Regents and the Texas A&M University System Board of Regents shall report to the Legislature and the Governor no later than December 1 of each year the uses of the Available University Fund (AUF) for each system component and for the system office operations for the two previous years, the current year, and two future years (projected). Each report shall contain detailed information on the following:

- (1) debt service allocations, by component;
- (2) bond proceeds allocations, by component;
- (3) excellence allocations, by component or system office, and their purposes;
- (4) Available University Fund income, interest, beginning-and-end-of-year balances; and
- (5) the rationale used by the respective boards to distribute AUF funds.

b. In addition, by December 1 of each year, authorized managers of permanent funds and endowments whose earnings are appropriated above shall submit an annual financial report which shall include, at a minimum, an income statement and balance sheet and a summary of the investment return of the fund during the preceding fiscal year. The annual financial report shall also contain:

- (1) a summary of all gains, losses and income from investments and an itemized list of all securities held for the fund on August 31;
- (2) any other information needed by the Governor or the Legislative Budget Board to clearly indicate the nature and extent of investments made of the fund and all income realized from the components of the fund.

The annual financial report shall be distributed to the Governor and Legislative Budget Board by December 1 of each year of the biennium.”

AVAILABLE UNIVERSITY FUND

RATIONALE FOR DISTRIBUTION FROM PERMANENT UNIVERSITY FUND

The *Texas Constitution* defines the Available University Fund (AUF) as consisting of distributions from the total return on all investment assets of the Permanent University Fund (PUF) including the net income attributable to the surface of PUF land. The U. T. System Board of Regents has adopted a policy designed to provide the AUF with a stable and predictable stream of distributions over time, as well as to maintain the purchasing power of both the PUF assets and AUF distributions.

The *Texas Constitution* limits the discretion of the U. T. System Board of Regents to determine the amount of PUF distributions in any given year by stipulating that annual distributions cannot exceed 7% of the average market value of PUF investments. In addition, distributions cannot increase year to year if the purchasing power of PUF investments has not been preserved over rolling 10-year periods. The only exception to these provisions is that distributions must be sufficient to meet annual debt service requirements on PUF bonds and notes.

The Board of Directors of The University of Texas Investment Management Company (UTIMCO) recommended, and the U. T. System Board of Regents approved, distributions from the PUF to the AUF for the fiscal years ending August 31, 2016 and 2017. The U. T. System Board of Regents has established a U. T. System Board of Regents' *Rules and Regulations, Rule 80303* (Regents' Rule 80303) on "Uses of the Available University Fund." Regent's Rule 80303 sets UTIMCO's recommended distribution at 4.75% of the trailing 12-quarter average of the net asset value of the PUF for the quarter ending in February prior to the beginning of the new fiscal year. If the average annual rate of return on PUF investments over the trailing 12 quarters exceeds the expected return by 25 basis points or more, the recommended distribution rate is to be 5.0%.

For FY 2016, the average annual return of the PUF investments for the trailing 12 quarters ending February 28, 2015, exceeded the expected return by at least 25 basis points. The U. T. System Board of Regents approved the policy distribution rate of 5.0%, or \$772,876,690.

For FY 2017, the average annual returns of the PUF investments for the trailing 12 quarters ending February 28, 2016, exceeded the expected return by at least 25 basis points. The U. T. System Board of Regents approved the policy distribution rate of 5.0%, or \$839,441,000 for FY 2017. The distribution for FY 2017 is illustrated in [Appendix A](#) and satisfies the limitations in the *Texas Constitution*. For FY 2018 and FY 2019, the default distribution rate of 4.75% has been assumed. Deposits credited to the AUF are administered by the Texas Comptroller of Public Accounts and, along with other funds of the State of Texas, are invested in accordance with State law.

Table 1

THE UNIVERSITY OF TEXAS SYSTEM AVAILABLE UNIVERSITY FUND FY 2015 – FY 2019		
	Actual FY 2015	Actual FY 2016
Income and PUF Distributions		
Divisible with Texas A&M University		
Investment Income and Distributions	\$ 763,552,645	\$ 772,876,690
Surface and Other Income	<u>49,601,951</u>	<u>44,851,286</u>
Net Divisible Income and Distributions	813,154,596	817,727,976
Less: A&M Share (1/3)	<u>(271,051,532)</u>	<u>(272,575,992)</u>
U. T. Share (2/3)	542,103,064	545,151,984
AUF Interest Income	<u>2,172,899</u>	<u>4,336,757</u>
Income and Distributions Available to U. T.	<u>544,275,963</u>	<u>549,488,741</u>
Transfers/Expenditures		
Debt Service on PUF Bonds	(116,974,058)	(141,539,407)
U. T. System Administration:		
Administration	(47,751,481)	(100,356,616)
Operating Budget - Tuition Offset	(1,003,690)	-
External Audit	(1,839,360)	(1,002,653)
U. T. System Initiatives	(139,839,116)	(28,200,000)
Return of Project Funds to AUF	4,934,071	-
U. T. Austin:		
Excellence	(238,190,000)	(242,845,000)
Medical School	(25,000,000)	(25,000,000)
Systemwide Technology and Telecommunications	(1,060,000)	(1,060,000)
Other U. T. Austin Support	(4,098,800)	(32,321,000)
Return of Project Funds to AUF	<u>12,087</u>	<u>3,500,000</u>
Total Transfers/Expenditures	<u>(570,810,347)</u>	<u>(568,824,676)</u>
Net Surplus/ (Deficit)	(26,534,383)	(19,335,935)
Net Assets – Beginning of Year	<u>200,535,722</u>	<u>174,001,339</u>
Net Assets – End of Year	<u>\$ 174,001,339</u>	<u>\$ 154,665,404</u>
Note: FY 2017 Budget and FY 2018-19 Projections are subject to change due to market conditions and unforeseen emergencies or opportunities.		
Source: U. T. System Administration Financial Statements, Annual Operating Budget, and projections from the U. T. System Office of Finance.		

As of 12.01.2016

Table 1 (Continued)

Budgeted FY 2017	Projected FY 2018	Projected FY 2019
\$ 839,441,000	\$ 837,910,453	\$ 857,612,520
<u>47,819,000</u>	<u>47,819,000</u>	<u>47,819,000</u>
887,260,000	885,729,453	905,431,520
<u>(295,753,333)</u>	<u>(295,243,151)</u>	<u>(301,810,507)</u>
591,506,667	590,486,302	603,621,013
<u>4,000,000</u>	<u>4,000,000</u>	<u>5,387,000</u>
<u>595,506,667</u>	<u>594,486,302</u>	<u>609,008,013</u>
(148,124,300)	(166,697,688)	(189,489,849)
(108,910,297)	(112,252,221)	(115,694,402)
-	-	-
(2,487,164)	(2,487,164)	(2,487,164)
-	-	-
-	-	-
(271,560,000)	(267,520,000)	(274,055,000)
(25,000,000)	(25,000,000)	(25,000,000)
(1,060,000)	(1,060,000)	(1,060,000)
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
<u>(557,141,761)</u>	<u>(575,017,073)</u>	<u>(607,786,415)</u>
38,364,906	19,469,229	1,221,598
<u>154,665,404</u>	<u>193,030,310</u>	<u>212,499,539</u>
<u>\$ 193,030,310</u>	<u>\$ 212,499,539</u>	<u>\$ 213,721,137</u>

As of 12.01.2016

USES OF THE AVAILABLE UNIVERSITY FUND BY U. T. SYSTEM

The AUF is used for four primary purposes:

- (1) to pay interest and principal due on PUF bonds,
- (2) to provide for the expenses of U. T. System Administration,
- (3) to provide for academic excellence and other support for U. T. Austin, and
- (4) to fund special U. T. System initiatives.

PUF Debt Service

Bonds supported by income generated by the PUF are periodically issued by the U. T. System Board of Regents to finance capital improvements, equipment, and library books or materials for U. T. System Administration and all fourteen U. T. System institutions. U. T. System institutions eligible for PUF funding, as specified in the *Texas Constitution*, are:

U. T. Arlington	U. T. Southwestern Medical Center
U. T. Austin	U. T. Medical Branch - Galveston
U. T. Dallas	U. T. Health Science Center - Houston
U. T. El Paso	U. T. Health Science Center - San Antonio
U. T. Permian Basin	U. T. M. D. Anderson Cancer Center
U. T. Rio Grande Valley	U. T. Health Science Center - Tyler
U. T. San Antonio	U. T. System Administration
U. T. Tyler	

The 83rd Legislature enacted legislation entitling The University of Texas Rio Grande Valley to participate in the PUF to the same extent as all other U. T. System institutions. Legacy institutions, U. T. Pan American and U. T. Brownsville were supported by the Higher Education Assistance Fund which funds similar capital expenditures for institutions not participating in the PUF.

Capital improvement needs of the institutions are extensively evaluated on an ongoing basis and incorporated in a six-year Capital Improvement Program (CIP). The General Policies applicable to the formulation of the CIP are illustrated in [Appendix B](#).

Issuance of PUF bonds for capital improvements reflects the assessments made in the CIP process, the availability of other resources, and the projected availability of AUF funds to finance the bonds in conformance with Regents' *Rule 80303* (see [Appendix C](#) for a discussion of this rule).

The first use of AUF funds authorized by the *Texas Constitution* is to service the PUF-backed debt discussed above. [Appendix D](#) provides a history of the U. T. System PUF Bond Proceeds appropriated to each institution through FY 2016 as well as projected appropriations through FY 2019. While U. T. System Administration pays all PUF debt service directly from the AUF, [Appendix E](#) provides estimates of PUF debt service attributable to each institution for FY 2015 through FY 2019.

U. T. System Administration

A second use of the AUF is for support and maintenance of the U. T. System Administration. Chapter 65 of the *Texas Education Code* authorizes “oversight and coordination of the activities of the system and each component institution within the system.” As part of its role of oversight and coordination, U. T. System Administration has absorbed certain costs to offset potential 2015 tuition increases at the academic campuses and has obtained an external financial statement audit for the entire System. The uses of these funds are further described in [Appendix F](#).

Academic Excellence Funds – U. T. Austin

Pursuant to the terms of the *Texas Constitution*, U. T. Austin is the only U. T. System institution other than U. T. System Administration eligible to receive resources from the AUF for support and maintenance purposes. According to Regents’ *Rule* 80303, AUF transfers to U. T. Austin for program enrichment (academic excellence) purposes must not be less than 45% of the projected U. T. System share of the net divisible AUF annual income and distributions. U. T. Austin received excellence distributions based on this policy as indicated on *Table 1*.

U. T. Austin depends on academic excellence funds from the AUF for needs such as library enhancement; enhancement of academic department operations; specialized science, engineering, and computing equipment; scholarships and fellowships; and support of special units. These special units conduct research, disseminate research and scholarship information to the general public, and provide public service. [Appendix G](#) further describes the uses of the AUF transfers to U. T. Austin for excellence purposes.

Other Support – U. T. Austin

The U. T. System Board of Regents has committed an AUF allocation toward the creation and operation of a medical school at U. T. Austin. This commitment is to be equal to the greater of \$25 million annually or a 3% increase in the annual AUF distribution to U. T. Austin from 45% to 48%. *Table 1* includes this allocation at \$25 million annually for FY 2015-19.

The financial commitments of the U. T. System Board of Regents were contingent upon the continuation of the Seton Healthcare Family support of graduate medical education residency programs and clinical faculty positions at current or increased levels and the availability of reliable and continuing funding of \$35 million annually from local community sources for the direct support of a medical school at U. T. Austin. In November 2012, residents in the Central Health district adopted a tax increase sufficient to provide this community support. The U. T. System Board of Regents will review the funding streams to support the medical school 10 years after its establishment consistent with their fiduciary responsibilities.

For FY 2015, the U. T. System Board of Regents approved the following other AUF support to U. T. Austin:

- \$2.4 million over the next five years to fund direct expansion of Collegiate Education, Intervention and Recovery Programs at each of the U. T. System academic institutions.
- \$1.7 million for the Institute on Domestic Violence and Sexual Assault to administer a Systemwide biennial campus climate survey, conduct more extensive research at U. T. Austin, U. T. El Paso, and U. T. Medical Branch-Galveston, and prepare a multiyear cohort study of students at U. T. Austin and a cost analysis of sexual assault crimes.

For FY 2016, approved allocations to U. T. Austin include:

- \$9.3 million approved in August 2015 to provide a competitive advantage to research and support faculty recruitment and retention by funding the ongoing evolution of the U. T. Research Cyberinfrastructure through expanded support for Big Health Analytics. This funding contains efforts begun by U. T. Austin's Texas Advanced Computing Center in FY 2011.
- \$2.6 million approved in August 2015 to increase performance of the U. T. System network to support growth in health, research and administrative computing needs. This network is managed by U. T. Austin Office of Telecommunication Services.
- \$2.0 million approved in December 2015 for the Engineer Your World Program at U. T. Austin. Designed by faculty in the Cockrell School of Engineering and the College of Education, and in collaboration with NASA engineers and secondary education specialist, Engineer Your World is transforming how engineering is introduced and taught in high schools across Texas and the United States.
- \$16.4 million for the Extended Campus Initiative. This was funded out of the \$56.4 million approved by the U. T. System Board of Regents in FY 2014 for online and on campus enrollment growth with excellence.
- \$0.9 million to U. T. Austin for the retention of a faculty member and \$1.1 million for unexpended plant expenditures.

U. T. System Initiatives

The AUF is used to support operational programs at U. T. System Administration and various strategic priorities and initiatives undertaken by the U. T. System Board of Regents, all of which benefit U. T. System institutions and students. As with the many operational programs provided by U. T. System Administration, each of the initiatives either provides a service across a broad number of institutional campuses or provides oversight and coordination of activities that benefit a broad number of campuses and the students of those campuses. In addition to a review by U. T. System Administration staff, the U. T. System Board of Regents makes a determination that the system initiatives represent an appropriate use of the AUF and meet the applicable constitutional standards.

Beginning in FY 2016, U. T. System provided advanced 30-day notification to the Legislative Budget Board prior to the U. T. System Board of Regents taking action on System Initiatives as required by Rider 8 of the Available University Fund of the General Appropriations Act.

For FY 2015, the following U. T. System initiatives received AUF allocations from the U. T. System Board of Regents:

- \$5 million to support Phase 1 of the U. T. Systemwide Diabetes Obesity Control Initiative. The goals of the initiative is to support and further U. T. System institution's ability to care for patients with or at risk for diabetes and obesity in Texas and to enhance U. T. System's research and education missions by developing novel types of access to patient big data and leveraging other U. T. System initiatives.
- A continuing allocation for FY 2015 to the Office of Technology Commercialization (OTC), not to exceed \$10 million for additional Horizon Fund investments and \$2.5 million for OTC administrative activities associated with these investments. Future OTC activities have been incorporated into the U. T. System Administration annual operating budget.
- \$68.9 million approved by the U. T. System Board of Regents in FY 2014 for the purpose of supporting online and on-campus enrollment growth with excellence at the academic campuses other than U. T. Austin. Out of the allocation, \$47.9 million has been utilized to launch a personalized, competency based education program system wide aimed at learners from high school through post graduate studies. This program focuses on offering personalized and adaptive degrees and certificates that are industry aligned and via technology developed by the U. T. System, can systematically improve success, access and completion rates in areas of high employment demand. The balance of the distribution for online and on-campus enrollment of \$21.1 million and has been moved to a reserve cost center for future allocation.

- \$5 million to develop initiatives to improve the health of Texas. This funding will support the development and implementation of a sustainable population health strategic plan to identify and assess current conditions and assets, provide analytical expertise, and support collaborative efforts throughout Texas. This effort embodies the mission of academic medicine to improve health.
- \$7 million for a Shared Services spend analytics project. This proposal is part of an overall strategy that identifies future opportunities for the U. T. System health institutions to pursue and collaborate on other activities across the procure-to-pay business process. The spend analytics solution is projected to achieve incremental savings from cross-campus collaborations resulting from lower pricing achieved through greater aggregation of existing spend across campuses, and through subjecting more spend to competitive procurements, in both cases while maintaining or improving the quality of goods and services purchased.
- \$5 million to support Phase 1B of the U. T. Systemwide Diabetes Obesity Control Initiative. This phase includes the integration of data from at least two different clinical record sources, create a summary of relevant information extracted from electronic medical records and establish core training data for creating a diabetes management system. Other activities will include securing the participation of key stakeholders in South Texas and exploring the interest and participation of employers, health care players and retail businesses.
- \$15 million for Phase 2 of the U. T. Systemwide Diabetes Obesity Control Initiative. The \$15 million of AUF will serve to attract an additional \$30 million of philanthropy, grants, and industry funds, for a total of \$45 million. Phase 2 will involve product development and the scaling up of Project DOC to serve 3,000 patients in a pilot program based in Cameron County, Texas. It also provides operating funds to direct and manage this project by the newly formed Institute for Health Transformation under the direction of the U. T. System Office of Health Affairs.
- \$21.4 million for expenses associated with Systemwide (UTShare) sponsored projects data clean up and reconciliation, PeopleSoft remediation, Information Technology security review, and providing functional business processes. The initial allocation of \$1.9 million in May 2015 was complemented with a \$19.5 million allocation in August 2015.

For FY 2016, the U. T. System Board of Regents approved the following System Initiatives:

- \$10.8 million to be deployed over four fiscal years to support a new U. T. System Virtual Health Network Infrastructure, including the implementation of a pilot telemedicine project across the U. T. System health institutions. The U. T. System is in a very unique position to leverage its world-class Health Science Centers

and Medical Schools to create a model for coordinated care delivery through a Virtual Health Care Network.

- \$5.0 million to be deployed over four fiscal years to support a new cooperative initiative with the National Council of Science and Technology (CONACYT) in Mexico. The partnership with CONACYT is a U. T. System program to be administered through an office located on the U. T. San Antonio campus. The office staff will function under contract with U. T. System Administration through the Office of Academic Affairs. The allocation of AUF will also be used to reimburse U. T. Austin for expenses related to U. T. Austin participation in the program.
- \$12.4 million to be deployed over three fiscal years to support a new U. T. System Clinical Data Network. It will create infrastructure for clinical data collection, aggregation within institutions, analysis and appropriate sharing between institutions.

Currently no system initiatives are reflected for FY 2017, FY 2018, and FY 2019 on *Table 1*.

U. T. SYSTEM ENDING AVAILABLE UNIVERSITY FUND NET ASSETS

As of August 31, 2016, the AUF cash balance in the State Treasury as reflected in the annual financial report was \$688,468,286. This balance does not include receivables of \$369,565 or payables of \$534,172,447. The payables include \$311,619,551 due to U. T. Austin; \$221,763,850 due to other U. T. System Administration fund groups; and \$789,046 of other obligations. After considering the receivables and payables, the AUF net assets are \$154,665,404. Of these net assets, \$40,000,000 has been committed by the U. T. System Board of Regents to supporting online and on-campus enrollment growth at U. T. Austin as part of the FY 2014 supplemental distribution.

The minimum AUF balance of \$30 million set by Regents' *Rule 80303* would repair or replace less than 1% of the facilities in the event unexpected needs for repair or replacement should arise. Additionally, the AUF balance serves as a financial cushion against capital market volatility, which can adversely impact future PUF distributions to the AUF. In the event of any negative variance between projected and actual distributions from the PUF or unexpected capital needs, the AUF balance would be used to support the operating expenses or to pay PUF debt service.

AUF-funded operations of U. T. System Administration and most special initiatives are primarily accounted for in the administration's Educational and General Fund. As of August 31, 2016, the unexpended net assets resulting from transfers from the AUF and available for expenditure were \$183.7 million largely for Systemwide initiatives, excluding balances associated with \$13.5 million of investment assets held for the U. T. Horizon Fund.

In addition to the funds held by U. T. System Administration, U. T. Austin also maintains AUF net assets. As of August 31, 2016, U. T. Austin had ending net assets as reflected in its annual financial report of \$250.6 million. This balance includes reservations for encumbrances and prepaid expenses of \$ 6.4 million. Net of reservations, the AUF net assets at U. T. Austin are \$244.2 million at August 31, 2016.

Table 2 presents a reconciliation of U. T. System Administration AUF cash held in the State Treasury with net assets for FY 2015 and 2016.

Table 2		
Reconciliation of U. T. System AUF Cash		
	At Aug. 31, 2015 (Actual)	At Aug. 31, 2016 (Actual)
Cash in Treasury	\$ 691,051,036	\$ 688,468,286
Receivables	957,939	369,565
Sub-total	692,008,975	688,837,851
Payables	(518,007,636)	(534,172,447)
AUF Net Assets	\$ 174,001,339	\$ 154,665,404

Appendices

APPENDIX A – PERMANENT UNIVERSITY FUND MARKET VALUE AND DISTRIBUTION TO THE AVAILABLE UNIVERSITY FUND

The Board of Directors of UTIMCO recommended a distribution based on policy of 5.0% or \$839,441,000 that was approved by the U. T. System Board of Regents for FY 2017. This distribution is equal to 5.0% of the average market value of PUF assets for the trailing 12 fiscal quarters ended February 28, 2016.

Table 3	
Permanent University Fund Market Value	
May 2013	14,630,924,697
August 2013	14,852,538,510
November 2013	15,625,425,857
February 2014	16,284,907,290
May 2014	16,912,325,818
August 2014	17,364,902,520
November 2014	17,533,457,255
February 2015	18,043,442,921
May 2015	18,200,267,855
August 2015	17,490,041,365
November 2015	17,549,833,950
February 2016	16,977,772,075
12-quarter average	\$16,788,820,009
Distribution percentage	X 5.0%
Distribution to the AUF, FY 2017	\$ 839,441,000

APPENDIX B – CAPITAL IMPROVEMENT PROGRAM – GENERAL POLICIES

The Capital Improvement Program (CIP) is a six-year projection of major new construction and repair and rehabilitation projects to be implemented and funded from institution and Systemwide revenue sources. The U. T. System Board of Regents has established criteria for adding projects to the CIP and for appropriating funds from the AUF or from PUF bond proceeds for those projects. The CIP is to reflect the institutions' continuous processes of strategic planning and master planning for institutional programs, as well as for the future development and preservation of the physical plant of the campus.

In evaluating the assignment of AUF or PUF funding to a project, the following justification criteria documented in Regents' *Rule* 80303 are considered:

- (1) consistency with institution's mission;
- (2) project need;
- (3) unique opportunity;
- (4) matching funds/leverage;
- (5) cost effectiveness;
- (6) state of existing facility condition; and
- (7) other available funding sources.

APPENDIX C – U. T. SYSTEM BOARD OF REGENTS’ RULE 80303 ON “USES OF AVAILABLE UNIVERSITY FUND”

Regents’ Rule 80303 establishes procedures for the approval of PUF-funded projects, criteria for project selection, minimum debt service coverage, and a minimum reserve balance. The rule specifies:

“No project will be recommended for approval, if in any of the forecasted years the required appropriations from AUF or PUF bond proceeds would cause:

- (a) the forecasted AUF expenditures for program enrichment at U. T. Austin to fall below 45% of the sum of the projected U. T. System share of the net divisible AUF annual income and interest income on AUF balances [subject to the limits imposed by (b) and (c) below];
- (b) debt service coverage to be less than 1.50:1:00; and
- (c) the forecasted end-of-year AUF balance to be less than \$30 million.”

PUF Bond Ratings

In late 1997 and 1998, the three major rating agencies that rate PUF debt (Moody’s, S&P, and Fitch) assigned to the PUF outstanding bonds the highest rating of Aaa, AAA and AAA, respectively.

In its July 2016 Rating Update, Moody’s Investors Service affirmed The University of Texas System’s long-term Aaa rating, stating “The Permanent University Funds’ Aaa rating reflects strong coverage provided by pledged revenue, constitutional limitations on additional debt issuance and spending from the PUF, and diversified asset allocation and strong investment oversight. Bondholders additionally have ultimate access to the total value of the PUF to pay debt service. As of June 30, 2016, the PUF value is estimated at \$17.3 billion compared to \$2.5 billion of PUF debt outstanding.” Standard & Poor’s affirmed its AAA long-term rating in its November 2015 report, citing “the absolute size of the PUF, which had an estimated market value of \$17.6 billion (excluding land assets) as of Oct 31, 2015; the dedicated nature of the fund, established by the state constitution in 1876 as an endowment to support The University of Texas System and Texas A&M University System; solid estimated maximum pro forma debt service coverage of PUF bonds and notes at 4.1x, payable from the AUF, coupled with statutory limits on the issuance of additional debt secured by PUF investment earnings; and strong oversight and capable asset management by the University of Texas Investment Management Company.” Fitch affirmed its AAA long-term rating in its July 2016

report, stating “The PUF’s highly diversified investment holdings (\$17.3 billion market value at May 31, 2016 excluding land value), supported by the expertise of The University of Texas Investment Management Company, underpin the ‘AAA’ rating. Credit risks are minimal due to the constitutional debt limits and strong debt service coverage.”

The U. T. System Board of Regents expects management to implement policies that will help U. T. System achieve the highest possible credit ratings while pursuing its mission, thereby allowing debt to be issued at the lowest possible rates.

APPENDIX D – ANALYSIS OF PERMANENT UNIVERSITY FUND BONDS ISSUED AND ALLOCATIONS

FISCAL YEAR	PUF BONDS/ VAR. RATE NOTES ISSUED	ALLOCATIONS					
		UT SYSTEM ADMIN	UT ARLINGTON	UT AUSTIN	UT DALLAS	UT EL PASO	UT PERMIAN BASIN
1932-1984 \$	424,500,000	7,178,027	-	250,369,234	-	73,691,316	-
1985	54,000,000	311,031	-	5,845,680	-	-	-
1986	175,000,000	20,600,250	43,361,000	47,555,060	4,267,553	9,005,067	1,617,000
1987	-	457,470	1,870,138	(3,105,558)	5,950,000	286,158	271,000
1988	25,000,000	1,271,859	6,257,482	25,914,821	23,674,180	2,888,604	493,000
1989	50,000,000	112,327	3,332,000	12,915,383	2,750,000	8,125,000	809,835
1990	165,000,000	2,830,000	12,802,500	14,351,763	2,760,000	1,270,000	525,000
1991	20,000,000	32,202,234	216,639	7,654,983	488,603	50,000	-
1992	70,000,000	7,292,184	4,595,000	7,815,000	6,298,803	4,698,569	3,407,000
1993	-	-	(582,153)	(11,500,000)	641,149	600,000	769,000
1994	40,000,000	165,348	(4,128,000)	(397,207)	557,246	552,424	1,731,000
1995	-	(18,991,942)	1,844,438	34,196,322	1,410,000	1,054,106	1,886,000
1996	25,000,000	(223,631)	3,934,989	1,246,914	5,259,774	2,806,876	460,000
1997	85,000,000	2,300,000	8,015,015	5,598,930	1,939,004	6,335,000	590,000
1998	52,000,000	5,314,606	4,241,735	5,620,000	1,689,074	2,512,000	553,748
1999	30,000,000	-	1,750,000	3,646,100	1,350,000	1,625,000	240,900
2000	70,000,000	-	5,273,646	5,037,806	31,799,347	2,470,000	3,114,200
2001	100,000,000	3,845,250	14,304,633	499,733	1,600,000	-	200,000
2002	234,000,000	(284,632)	1,900,427	43,629,994	33,990,000	19,104,998	1,300,000
2003	125,000,000	1,830,910	15,322,500	3,381,859	2,100,000	10,500,000	3,734,000
2004	100,000,000	1,752,879	2,359,600	4,266,717	19,691,465	2,994,603	1,160,000
2005	125,000,000	23,250,329	7,989,541	15,254,316	13,739,061	9,002,474	1,814,929
2006	100,000,000	14,599,048	5,199,762	11,513,900	18,726,000	4,649,600	974,000
2007	100,000,000	23,585,912	6,825,267	63,510,045	10,011,360	17,410,559	3,131,248
2008	300,000,000	(15,417,378)	44,386,107	65,605,374	28,525,000	4,085,232	879,000
2009	250,000,000	3,309,025	30,547,383	13,388,016	4,650,000	71,964,000	13,330,000
2010	260,000,000	28,297,567	1,866,735	47,924,991	19,249,413	20,600,000	518,000
2011	-	29,192,627	3,375,241	4,722,986	40,762,000	2,899,035	777,500
2012	75,000,000	(9,134,488)	2,514,353	19,892,431	6,709,390	5,242,678	2,254,700
2013	133,000,000	(10,508,449)	10,010,000	356,137	12,732,531	15,555,000	2,684,200
2014	267,500,000	23,151,829	11,369,999	127,753,932	91,384,568	3,410,000	2,278,400
2015	294,500,000	(4,277,754)	6,944,491	30,168,700	14,719,242	5,757,243	1,974,455
2016	502,500,000	210,759,033	37,481,644	47,191,439	50,041,476	6,123,377	4,283,999
Subtotal	4,252,000,000	384,771,473	295,182,112	911,825,799	459,466,238	317,268,919	57,762,114
Est. 2017	-	37,114,246	1,986,000	112,856,225	90,950,000	1,950,000	15,155,000
Est. 2018	-	-	-	-	-	-	-
Est. 2019	-	-	-	-	-	-	-
TOTAL \$	4,252,000,000	421,885,719	297,168,112	1,024,682,024	550,416,238	319,218,919	72,917,114

As of 12.01.2016

Note: Estimates for FY 2017 include projects approved through November 2016. U. T. System FY 2017 allocation relates to various academic and health initiatives and is expected to be allocated to eligible U. T. institutions during FY 2017.

APPENDIX D – ANALYSIS OF PERMANENT UNIVERSITY FUND BONDS ISSUED AND ALLOCATIONS (CONTINUED)

FISCAL YEAR	ALLOCATIONS				
	UT RIO GRANDE VALLEY	UT SAN ANTONIO	UT TYLER	UT SOUTHWESTERN	UTMB GALVESTON
1932-1984 \$	-	-	-	55,484,877	60,059,928
1985	-	-	-	-	(44,324)
1986	-	2,859,110	4,364,394	4,776,925	6,350,417
1987	-	1,529,000	330,000	487,165	2,005,000
1988	-	4,830,546	580,300	16,454,523	2,660,527
1989	-	14,258,390	303,000	2,236,000	20,925,000
1990	-	4,332,490	423,000	21,649,051	1,087,000
1991	-	500,000	11,800,000	500,000	4,125,000
1992	-	3,700,000	1,038,000	3,216,000	2,943,204
1993	-	599,120	360,000	20,925,000	648,000
1994	-	500,000	985,482	800,000	(504,000)
1995	-	1,216,200	719,716	375,000	393,540
1996	-	13,537,160	410,000	22,461,000	1,721,000
1997	-	7,754,433	4,847,000	4,500,000	2,272,000
1998	-	241,000	670,000	5,700,000	451,115
1999	-	1,150,000	225,000	(1,462,990)	1,350,000
2000	-	51,032,154	1,030,000	2,350,000	2,094,855
2001	-	55,750	14,500,000	89,000,000	4,192,000
2002	-	56,390,000	1,050,000	1,800,000	1,909,000
2003	-	2,446,303	2,970,474	2,400,000	20,165,489
2004	-	2,902,500	13,135,000	2,100,000	2,720,857
2005	-	7,851,307	2,549,776	3,400,000	7,630,000
2006	-	3,200,000	1,200,000	6,418,517	4,398,182
2007	-	49,152,183	9,445,152	48,390,000	4,844,369
2008	-	2,629,903	1,500,000	6,730,000	3,497,011
2009	-	2,225,676	1,310,979	3,145,000	3,826,107
2010	-	2,020,000	506,768	2,760,000	2,050,000
2011	-	1,974,006	877,465	7,798,666	5,383,077
2012	-	25,902,064	1,227,460	10,662,964	1,911,931
2013	-	2,847,360	4,983,300	8,123,017	1,978,944
2014	19,898,597	4,289,270	954,543	1,205,000	2,418,438
2015	63,422,600	3,898,649	7,090,500	19,202,307	35,816,597
2016	96,795,623	10,014,834	12,211,208	50,749,449	3,200,000
Subtotal	180,116,820	285,839,408	103,598,518	424,337,471	214,480,264
Est. 2017	1,691,946	2,052,994	945,000	41,068,589	26,300,000
Est. 2018	-	-	-	-	-
Est. 2019	-	-	-	-	-
TOTAL \$	181,808,766	287,892,402	104,543,518	465,406,060	240,780,264

As of 12.01.2016

Note: Estimates for FY 2017 include projects approved through November 2016.

APPENDIX D – ANALYSIS OF PERMANENT UNIVERSITY FUND BONDS ISSUED AND ALLOCATIONS (CONTINUED)

FISCAL YEAR	ALLOCATIONS				TOTAL
	UTHSC HOUSTON	UTHSC SAN ANTONIO	UT MD ANDERSON	UTHSC TYLER	ALL INSTITUTIONS
1932-1984 \$	13,552,106	-	12,052,125	-	472,387,613
1985	-	-	-	-	6,112,387
1986	11,601,600	3,372,711	2,520,000	821,000	163,072,087
1987	10,000	19,556,053	-	440,000	30,086,426
1988	4,063,843	3,873,813	2,997,040	592,349	96,552,887
1989	2,388,000	13,363,927	5,923,000	1,150,000	88,591,862
1990	3,755,000	9,440,399	(1,410,000)	1,490,000	75,306,203
1991	-	2,943,417	-	-	60,480,876
1992	4,399,000	2,261,582	963,000	3,200,200	55,827,542
1993	856,000	30,000	29,452	917,000	14,292,568
1994	3,500,000	(124,160)	545,000	5,730,000	9,913,133
1995	950,000	(823,000)	414,000	603,000	25,247,380
1996	2,000,000	(61,917)	556,555	746,628	54,855,348
1997	1,100,000	11,140,200	2,133,315	2,093,650	60,618,547
1998	1,695,000	6,200,000	-	502,500	35,390,778
1999	11,850,000	(519,000)	1,263,000	1,350,000	23,818,010
2000	20,504,148	10,699,712	32,097,915	3,720,000	171,223,783
2001	(200,433)	16,000,000	(128)	2,370,000	146,366,805
2002	2,015,763	16,520,290	1,219,349	1,999,022	182,544,211
2003	51,714,373	8,700,000	2,051,048	805,472	128,122,428
2004	2,290,000	2,800,000	403,000	2,284,531	60,861,152
2005	2,500,000	4,520,000	1,897,485	1,850,000	103,249,218
2006	11,866,911	590,000	3,070,000	2,000,000	88,405,920
2007	61,914,307	53,899,588	5,839,000	2,355,476	360,314,466
2008	22,546,376	12,503,197	33,400,000	2,150,000	213,019,822
2009	4,466,929	14,649,981	4,873,560	11,994,995	183,681,651
2010	4,760,000	2,108,100	4,559,997	1,260,000	138,481,571
2011	3,065,994	5,436,151	8,105,373	2,118,070	116,488,191
2012	2,095,604	22,768,325	5,397,958	25,853,700	123,299,071
2013	2,945,661	125,054,375	7,594,485	5,250,000	189,606,562
2014	3,427,216	62,145,300	9,229,448	3,875,000	366,791,539
2015	5,942,478	59,809,000	6,380,484	3,080,000	259,928,993
2016	9,839,306	4,519,330	13,467,139	10,277,000	566,954,856
Subtotal	273,415,182	493,377,374	167,572,601	102,879,593	4,671,893,886
Est. 2017	32,050,000	40,830,000	11,000,000	41,300,000	457,200,000
Est. 2018	-	-	-	-	-
Est. 2019	-	-	-	-	-
TOTAL \$	305,465,182	534,207,374	178,572,601	147,179,593	5,129,093,886

As of 12.01.2016

Note: Estimates for FY 2017 include projects approved through November 2016.

APPENDIX E – ANALYSIS OF ESTIMATED PERMANENT UNIVERSITY FUND BOND DEBT SERVICE

INSTITUTION	FISCAL YEAR				
	2015	2016	2017	2018	2019
UT System Administration	\$ 4,690,660	13,333,012	13,864,434	15,502,885	17,736,250
UT Arlington	7,322,576	8,916,983	8,161,649	9,085,024	10,308,248
UT Austin	18,411,716	20,891,216	23,685,075	26,688,299	30,356,273
UT Dallas	14,025,190	16,305,340	18,708,099	21,170,606	24,141,007
UT El Paso	8,129,697	8,534,826	7,865,400	8,818,308	10,005,064
UT Permian Basin	1,637,637	1,840,012	2,281,114	2,567,144	2,918,144
UT Rio Grande Valley	3,240,181	7,246,818	6,872,968	7,818,122	8,924,972
UT San Antonio	9,393,017	9,568,064	8,783,771	9,968,522	11,350,442
UT Tyler	2,737,193	3,312,022	2,962,486	3,333,954	3,808,746
UT Southwestern	9,591,873	11,054,228	11,790,694	13,135,778	15,102,341
UTMB Galveston	4,304,645	4,515,107	5,154,726	5,834,419	6,594,247
UTHSC Houston	8,504,014	9,100,984	9,731,767	10,985,378	11,975,758
UTHSC San Antonio	16,902,751	17,664,118	17,730,479	19,870,364	22,757,731
UT MD Anderson	5,064,977	5,746,500	5,747,223	6,517,880	7,390,104
UTHSC Tyler	3,017,931	3,510,177	4,784,415	5,401,005	6,120,522
	\$ 116,974,058	141,539,407	148,124,300	166,697,688	189,489,849

As of 12.01.2016

Note: This schedule includes estimated allocations of PUF bond debt service paid by the AUF. In reality, the debt is not serviced by individual institutional allocations, but as a Systemwide total. The allocation is based on a rolling 20-year average of PUF appropriations received by each institution.

APPENDIX F – U. T. SYSTEM ADMINISTRATION APPLICATION OF AVAILABLE UNIVERSITY FUND

The University of Texas System Administration depends on funding from the AUF for needs such as major repairs and rehabilitation, equipment, maintenance and operation, salaries, and support for units that provide assistance to the U. T. System Board of Regents and the U. T. institutions.

The categories of spending from the AUF are shown in *Table 4* and are explained further in the following sections.

INSTITUTIONAL SUPPORT

Office of the Board of Regents. This budget item supports operations of the staff and other expenses associated with the activities of the U. T. System Board of Regents. No funds are expensed for Board travel, food or meeting arrangements.

System Operations. The U. T. System Administration is the central administrative office providing oversight, coordination, leadership and administrative support for the fourteen institutions of the U. T. System. Among the areas requiring more specialized expertise, which can be more efficiently provided by a central administrative unit, are compliance management, internal audit, legal counsel, intellectual property protection, governmental relations, policy planning and development for academic and health-related programs, and various business operation support activities. The business operations include financial reporting, historically underutilized businesses program, budget, finance, human resources, employee benefits, security, planning, and construction of facilities, information resources, and real estate. U. T. System also provides assistance to the development programs of the institutions. As part of a plan to mitigate potential 2015 tuition increases, the U. T. System Board of Regents authorized the transfer of certain activities and costs to U. T. System Administration in FY 2015. These activities include support for administering a shared administrative computing system, consolidation of internal audit functions, and relief from Systemwide shared technology, risk and digital library assessments. The initial cost of the transferred activities for FY 2015 was funded by a special initiative approved in August of 2014. Recurring costs have been incorporated into the cost of System Operations beginning with FY 2016.

U. T. System Administration – Uses of AUF		
	FY 2016 (Actual)	FY 2017 (Budget)
Institutional Support		
Board of Regents	\$ 1,819,904	\$ 1,793,817
System Operations	88,181,863	95,916,480
Staff Benefits	10,354,849	11,200,000
Total Administration	100,356,616	108,910,297
External Audit	1,002,653	2,487,164
Systemwide Initiatives	28,200,000	-

APPENDIX F – U. T. SYSTEM ADMINISTRATION APPLICATION OF AVAILABLE UNIVERSITY FUND (CONTINUED)

Staff Benefits. Matching and employer contributions for social security, retirement, unemployment compensation insurance, workers' compensation insurance, longevity pay, accrued vacation and sick leave, and premium sharing payments are available for U. T. System Administration staff members whose salaries are paid from the AUF.

EXTERNAL AUDIT

The U. T. System Board of Regents has engaged an external audit firm to conduct an audit of the annual financial report of the U. T. System. This cost is expected to be recurring.

SYSTEMWIDE INITIATIVES

The U. T. System Board of Regents has approved various other Systemwide initiatives that are further discussed on pages 8-10.

APPENDIX G – U. T. AUSTIN APPLICATION OF AVAILABLE UNIVERSITY FUND

	Actual FY 2016	Budget FY 2017
EXCELLENCE IN MISSION		
INSTRUCTIONAL EXCELLENCE		
Enhanced Academic Programs	35,127,173	104,581,241
Instructional Program Services	5,059,126	3,732,136
Instructional Initiatives and Programs	2,141,380	24,518,354
Academic Infrastructure (Libraries, Instructional Technology)	30,785,252	30,303,886
Student Programs and Services	6,669,083	3,700,051
RESEARCH EXCELLENCE		
Research Competitiveness	17,564,335	14,432,426
OUTREACH EXCELLENCE		
Academic Program/Community Interface	3,328,379	3,418,666
TOTAL	100,674,728	184,686,760
RECRUITMENT AND RETENTION OF TALENT		
Faculty	7,175,887	3,093,301
K-12 Outreach and Undergraduate Students	15,887,837	16,018,433
Graduate Students	35,959,660	36,701,116
TOTAL	59,023,384	55,812,850
INSTITUTIONAL ACCOUNTABILITY AND ENHANCED CONNECTIONS TO THE PUBLIC	76,267,976	30,187,750
REGENTS' OUTSTANDING TEACHERS AWARDS	302,500	-
DELL MEDICAL SCHOOL	10,314,628	24,977,265
SYSTEMWIDE TECHNOLOGY AND TELECOMMUNICATIONS FUND	6,927,482	1,955,375
TOTAL	\$253,510,698	\$297,620,000

APPENDIX G – U. T. AUSTIN APPLICATION OF AVAILABLE UNIVERSITY FUND (CONTINUED)**EXPLANATION OF U. T. AUSTIN AUF EXPENDITURES**

The mission of U. T. Austin is to achieve excellence in the interrelated areas of undergraduate education, graduate education, research and public service. And all sources of funds (appropriated, AUF, tuition, grants and gifts) are expended to this end.

According to the Texas Constitution, one of the uses of the AUF is the support and maintenance of U. T. Austin. Over the years, the AUF has provided the margin of excellence that permits U. T. Austin to achieve and maintain its place as one of the premier public institution of higher education in the nation. The margin of excellence and operations support of U. T. Austin is described below:

EXCELLENCE IN MISSION:*INSTRUCTIONAL EXCELLENCE*

Enhanced Academic Programs. Academic initiatives at the college and departmental level enhanced by the AUF include curriculum innovation, development of new degree programs, interdisciplinary program planning and coordination, honors programs, internship programs, academic technology and facility support, K-12 and community outreach activities, and continuing education. For FY 2017, it also includes reserves to be allocated by new executive leadership (Executive Vice President & Provost and Senior Vice President & CFO).

Instructional Program Services. These services include educational innovation, student success initiatives, college computing services, instructional and technology enhanced teaching support, provision of Web-based student-faculty communication platforms, teaching effectiveness services, credit by examination, new and experienced faculty training, assessment methods, student course-instructor evaluations, the U. T. Elementary School, and coordination of U. T. Austin institution-wide K-12 activities.

APPENDIX G – U. T. AUSTIN APPLICATION OF AVAILABLE UNIVERSITY FUND (CONTINUED)

Instructional Initiatives and Programs. The School of Undergraduate Studies was developed to enhance the education for all undergraduates through core curriculum, advising, learning communities, signature courses, interdisciplinary programs, and research. Other instructional initiatives and programs include course transformation and innovation and visiting lecturers. Students have access to specialized centers for arts & entertainment technology; clinical legal, pharmacy and nursing experiences; fine arts productions; and the UTeach program.

Academic Infrastructure (Libraries and Instructional Technology). Instructional technology services include providing access to computing, voice and data networks, internet, and email. Library services include access to comprehensive print and digital resources supporting all disciplines, and access to specialized collections within the Humanities Research Center, the Benson Latin American Collection and the Law Library.

Student Programs and Services. These services encompass new student orientation, career services, welcoming and mentoring programs, student organizations, campus and community involvement, Greek life, services for students with disabilities, student governance, judicial services, volunteer and service learning, the International Office, and study abroad programs.

RESEARCH EXCELLENCE

Research Competitiveness. Support is provided for the critical research infrastructure required for faculty to be competitive for federal, state, and private sector research grant funding, to meet the ever increasing regulatory and compliance requirements associated with this external funding, to provide specialized services for areas such as animal care and high performance computing, and to help support research centers and institutes targeting areas critical to the economic development of Texas and the nation.

OUTREACH EXCELLENCE

Academic Program/Community Interface. These programs help define and characterize the role of a flagship institution within the larger community and include such units as: Texas Performing Arts, Blanton Museum, and Winedale Historical Center.

APPENDIX G – U. T. AUSTIN APPLICATION OF AVAILABLE UNIVERSITY FUND (CONTINUED)**RECRUITMENT AND RETENTION OF TALENT:***FACULTY*

U. T. Austin is committed to continuing to advance as one of the world's finest universities. Achieving this goal is directly connected to our ability to recruit and retain faculty of the highest caliber. U. T. Austin must compete for this top talent.

K-12 OUTREACH AND UNDERGRADUATE STUDENTS

The University Outreach Centers provide an intensive college preparatory program for under-represented students beginning in eighth grade and continuing through high school. The purpose is to increase the number of educationally disadvantaged students who graduate from Texas high schools prepared to matriculate and be successful in Texas colleges and universities. Funds for various admission, scholarship and retention programs (Gateway, Multicultural Engagement Center, satellite admission offices) help ensure the quality and diversity of students.

GRADUATE STUDENTS

The intellectual and research accomplishments of U. T. Austin depend critically on its ability to recruit and retain the very best graduate students from across the nation. These funds provide the scholarships, fellowships and infrastructure support necessary for U. T. Austin to compete with its peer institutions for these excellent students.

APPENDIX G – U. T. AUSTIN APPLICATION OF AVAILABLE UNIVERSITY FUND (CONTINUED)***INSTITUTIONAL ACCOUNTABILITY AND ENHANCED CONNECTION TO THE PUBLIC:***

Institutional accountability programs and offices are dedicated to providing support services for excellence in teaching, research, and public service. Development efforts expand private support by presenting evidence of U. T. Austin's distinctive character, valuable service, and efficient management. University Communications has leadership responsibility for the institution's interaction with the media and with the public at large. The Office of the Executive Vice President and Provost serves as the chief academic officer of the institution overseeing the academic programs on campus. The Office of Institutional Reporting, Research and Information Systems provides information and analytical support to university decision makers and submits numerous reports to the Texas Higher Education Coordinating Board and the U.S. Department of Education. University Operations is dedicated to enhancing the development and delivery of most supporting services for on-campus clients, including public and environmental safety and the integrity of the physical infrastructure of the campus. Project Information Quest uses business intelligence tools to provide critical information to U. T. Austin decision makers.

REGENTS' OUTSTANDING TEACHER AWARDS:

The awards program recognizes tenured, tenure-track and other instructional faculty for outstanding teaching, personal commitment to students and the learning process, and the ability to inspire and motivate students in the classroom. The program provides a framework that fosters excellence in teaching at all levels, rewards outstanding teachers, stimulates innovation in education, and promotes continuous quality improvement in education. The program requires a demonstration of sustained excellence in teaching, instructional development and curricular design, and advising and mentoring. Funding received is transferred from U. T. System Administration based on awards made. The U. T. System Board of Regents has allocated funding for this program through FY 2017 and makes annual awards to U. T. Austin.

APPENDIX G – U. T. AUSTIN APPLICATION OF AVAILABLE UNIVERSITY FUND (CONTINUED)**DELL MEDICAL SCHOOL:**

The Dell Medical School at U. T. Austin will improve health in Travis County and throughout the country by training new physicians, providing treatment in a new teaching hospital and conducting research to expand knowledge of medicine and medical technology.

SYSTEMWIDE TECHNOLOGY AND TELECOMMUNICATIONS FUND:

The U. T. System Office of Telecommunication Services and the Network Bandwidth were established by the U. T. System Board of Regents to provide all U. T. System institutions with inter-institutional voice, video, and computer communications in support of their missions of instruction, research and health care. At the request of U. T. System, these services are managed by U. T. Austin and therefore appear in U. T. Austin's budget.