



TABLE OF CONTENTS FOR FINANCE AND PLANNING COMMITTEE

Committee Meeting: 11/12/2008

Robert B. Rowling, Chairman
John W. Barnhill, Jr.
Paul Foster
Janiece Longoria

Board Meeting: 11/13/2008
El Paso, Texas

	Committee Meeting	Board Meeting	Page
Convene	<i>2:00 p.m. Chairman Rowling</i>		
1. U. T. System: Discussion and appropriate action related to approval of <i>Docket No. 136</i>	<i>2:00 p.m. Discussion Dr. Kelley</i>	Action	43
2. U. T. System: Key Financial Indicators Report	<i>2:02 p.m. Report Dr. Kelley</i>	Not on Agenda	43
3. U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the fiscal year and quarter ended August 31, 2008	<i>2:07 p.m. Report Mr. Zimmerman</i>	Report	52
4. U. T. Medical Branch – Galveston, U. T. Health Science Center – Houston, and U. T. M. D. Anderson Cancer Center: Request for authorization to a) file Federal Emergency Management Agency (FEMA) documents, b) dispose of salvageable property, and c) execute all documents related thereto	<i>2:12 p.m. Action Mr. Dendy</i>	Action	58
5. U. T. System: Adoption of a Resolution related to a contract to hedge the price and sell a portion of the future oil and gas royalty production from the Permanent University Fund Lands	<i>2:16 p.m. Action Dr. Kelley</i>	Action	59
6. U. T. System: Update on the credit markets and the impact on U. T. System debt programs and credit ratings	<i>2:20 p.m. Report Mr. Aldridge</i>	Not on Agenda	69
7. U. T. System Board of Regents: Adoption of Resolutions authorizing the use of tender programs and direct debt repurchases to refund and retire outstanding Permanent University Fund Bonds and Revenue Financing System Bonds, and authorization to complete all related transactions	<i>2:25 p.m. Action Mr. Aldridge</i>	Action	69

	Committee Meeting	Board Meeting	Page
8. U. T. System Board of Regents: Adoption of a Resolution authorizing the issuance, sale, and delivery of Permanent University Fund Bonds, and authorization to complete all related transactions	2:30 p.m. Action <i>Mr. Aldridge</i>	Action	77
9. U. T. System: Shared Services Initiative Report including Regional Data Centers, North Texas Student Information System, Time and Effort Reporting, and Supply Chain Alliance	2:35 p.m. Report <i>Dr. Kelley</i>	Not on Agenda	78
10. U. T. System: Discussion with representative chief business officers regarding the challenges of institutional budget and finance	2:30 p.m. Discussion <i>Dr. Kelley</i> <i>Ms. Cynthia Villa,</i> <i>U. T. El Paso</i> <i>Mr. Gregg Lassen,</i> <i>U. T. Tyler</i>	Not on Agenda	79
Adjourn	3:00 p.m.		

1. **U. T. System: Discussion and appropriate action related to approval of Docket No. 136**

RECOMMENDATION

It is recommended that *Docket No. 136* be approved.

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

Supplemental Materials: Green pages following the Docket tab at the back of Volume 2.

2. **U. T. System: Key Financial Indicators Report**

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Key Financial Indicators Report, as set forth on Pages 44 - 51 that follow. The report represents the consolidated and individual operating results of the U. T. System institutions.

REPORT

The Key Financial Indicators Report compares the Systemwide results of operations, key revenues and expenses, reserves, and key financial ratios in a graphical presentation from Fiscal Year 2004 through July 2008. Ratios requiring balance sheet data are provided for Fiscal Year 2003 through Fiscal Year 2007.

THE UNIVERSITY OF TEXAS SYSTEM



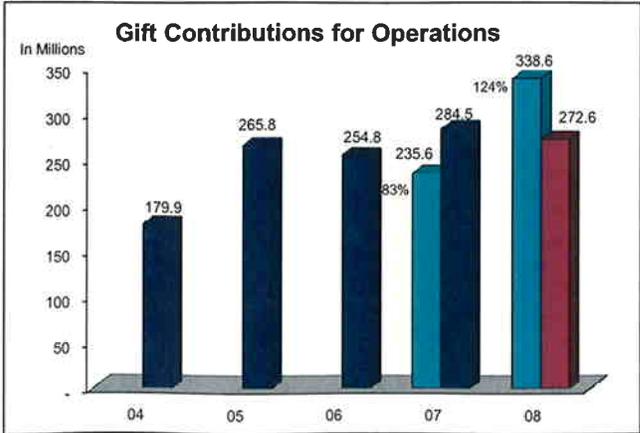
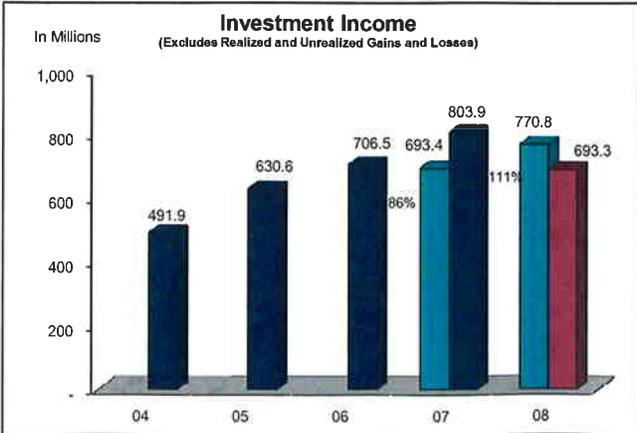
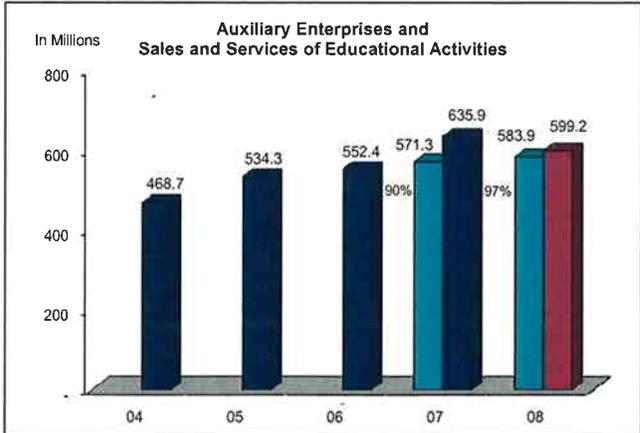
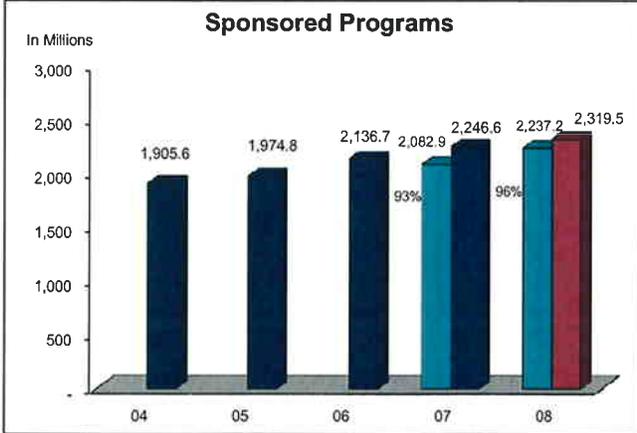
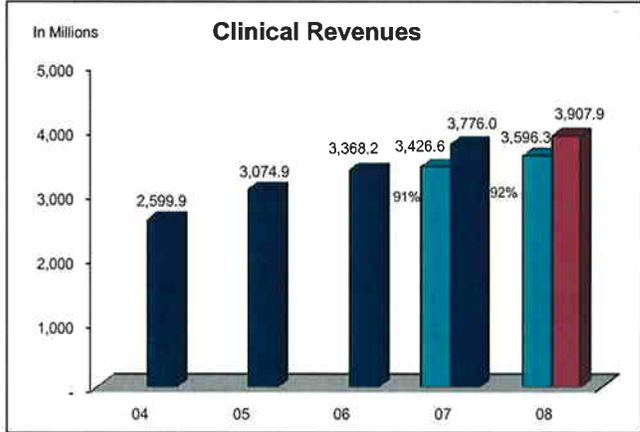
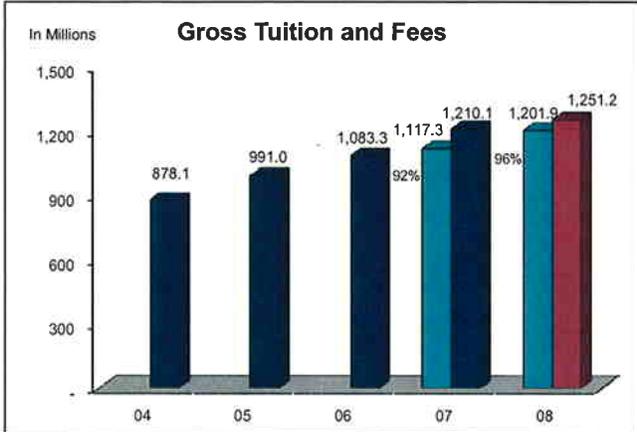
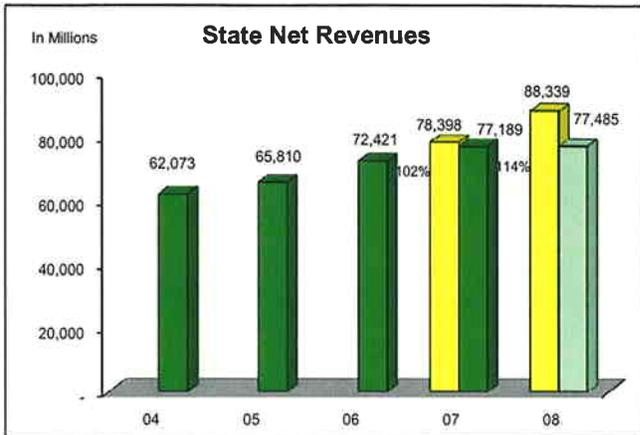
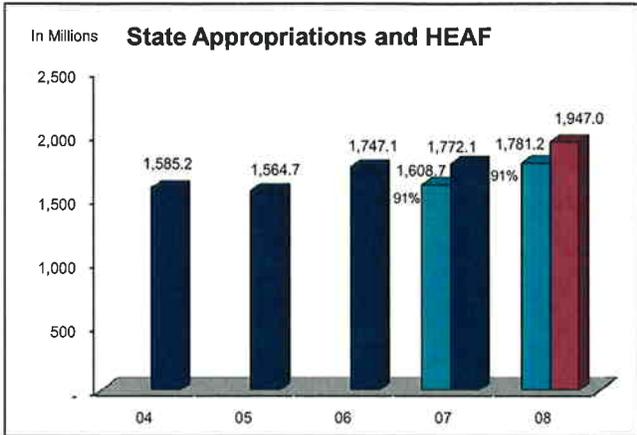
KEY FINANCIAL INDICATORS REPORT

JULY 2008

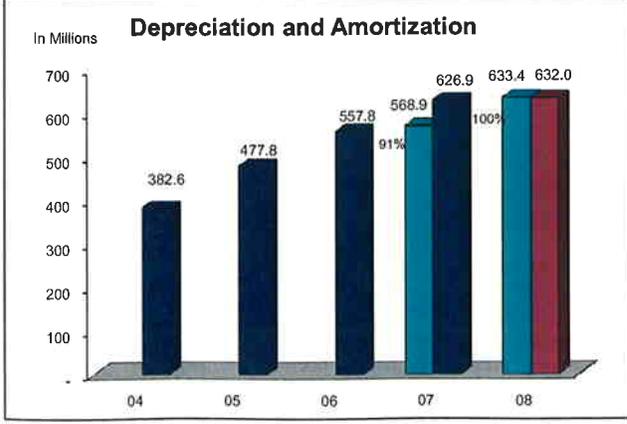
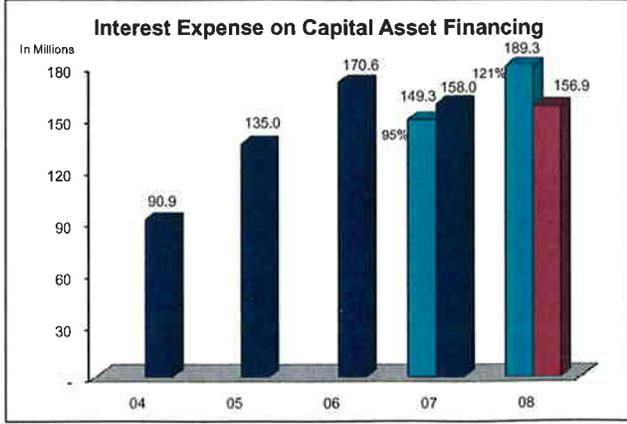
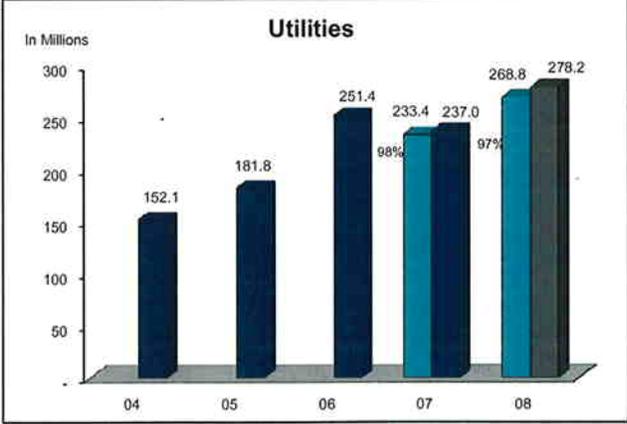
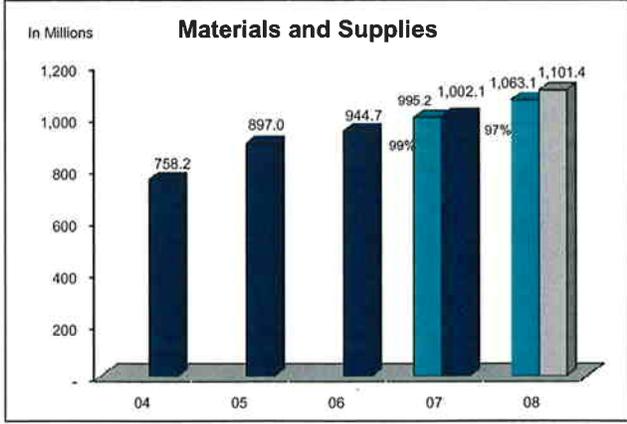
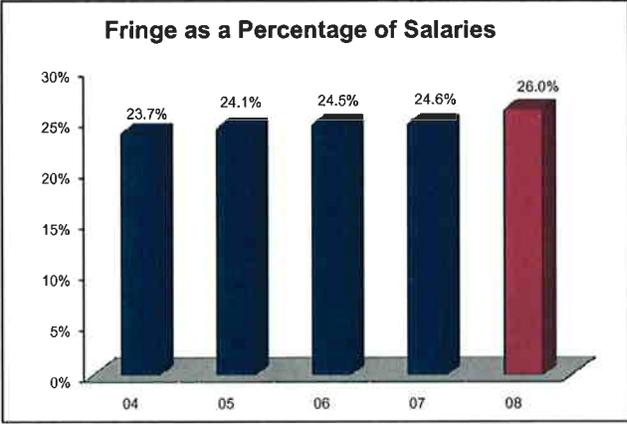
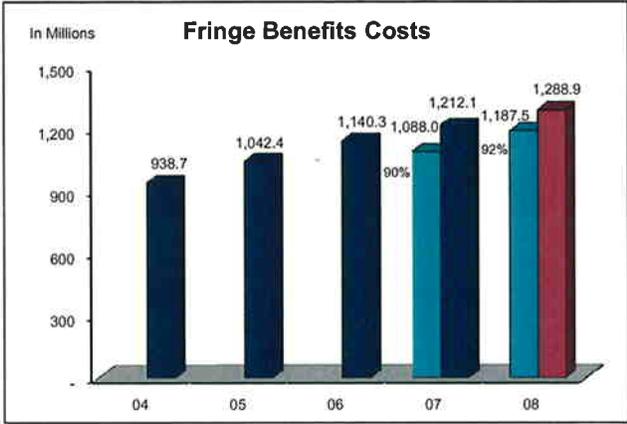
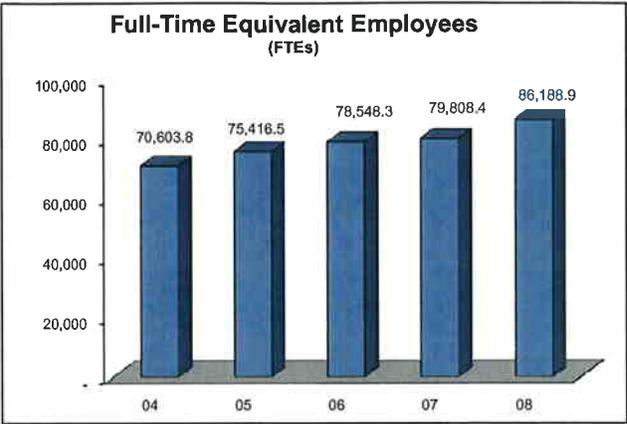
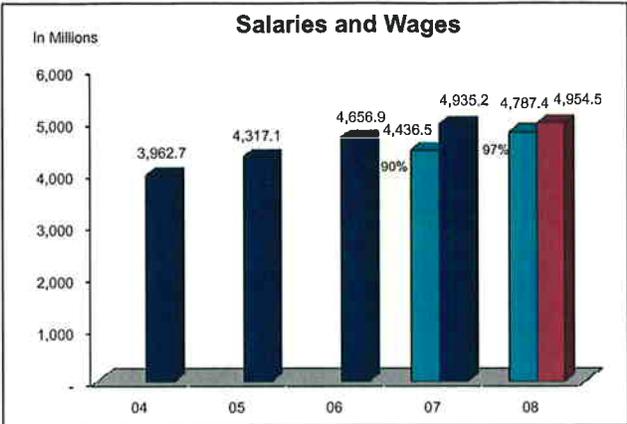
KEY

	Actual Annual Amounts (SOURCE: Annual Financial Reports)
	Budget amounts (SOURCE: Operating Budget Summary)
	Projected Amounts (trend based on the average change of the previous four years of data)
	Monthly Financial Report Year-to-Date Amounts
	Annual State Net Revenue Collections (SOURCE: Texas Revenue History by Source and Texas Net Revenue by Source, State Comptroller's Office)
	Year-to-Date State Net Revenue Collections (SOURCE: State Comptroller's Office)
	Estimated State Revenue Collections (SOURCE: Biennial Revenue Estimate, State Comptroller's Office)
	Annual and Quarterly Average of FTEs (SOURCE: State Auditor's Office Quarterly FTE Report)
	Year-to-Date Margin (SOURCE: Monthly Financial Report)
	Projected Margin (SOURCE: Monthly Financial Report Year-End Projections)
	Year-to-Date Margin (SOURCE: Monthly Financial Report)
	Target Normalized Rates
	Aaa/Aa1 Median (SOURCE: Moody's)
	A2 Median (SOURCE: Moody's)
	Good Facilities Condition Index (Below 5%)
	Fair Facilities Condition Index (5% - 10%)

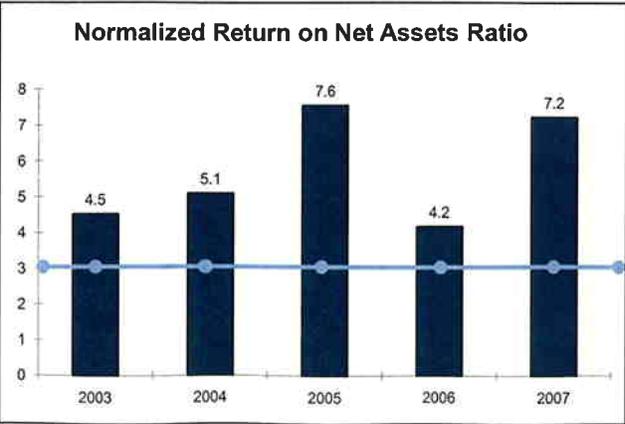
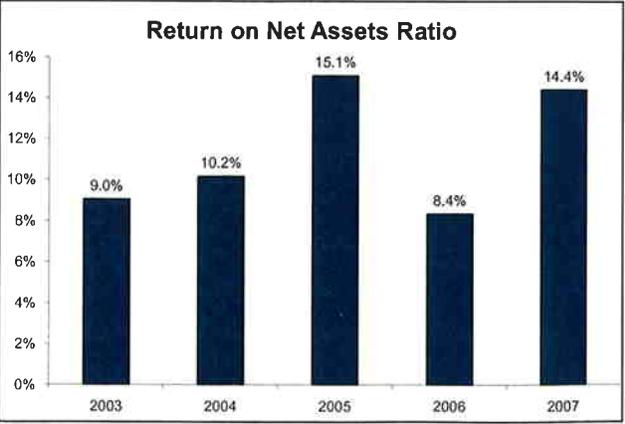
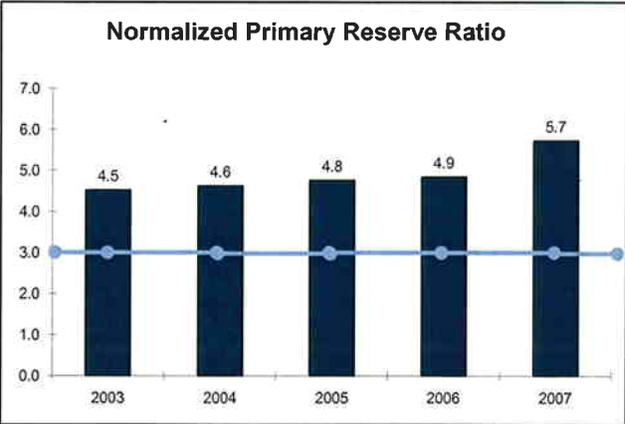
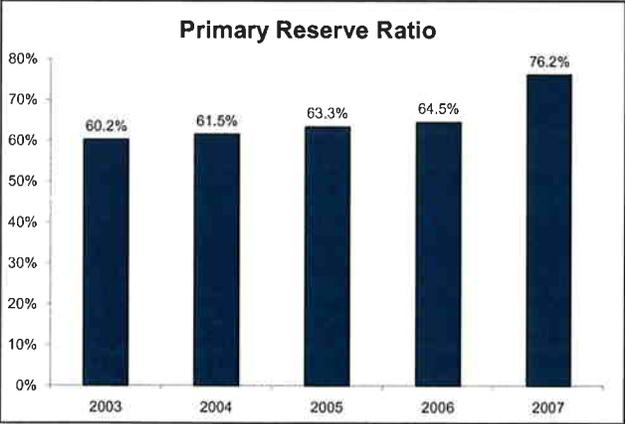
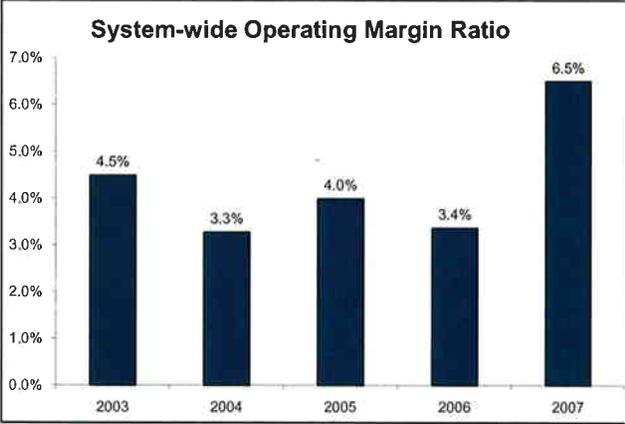
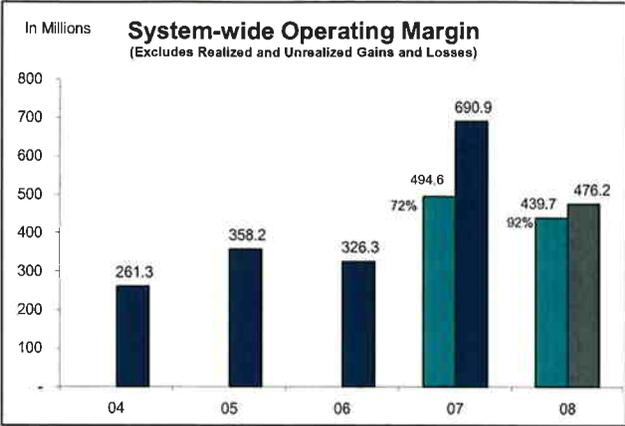
KEY INDICATORS OF REVENUES
ACTUAL 2004 THROUGH 2007
PROJECTED 2008
YEAR-TO-DATE 2007 AND 2008 FROM JULY MONTHLY FINANCIAL REPORT



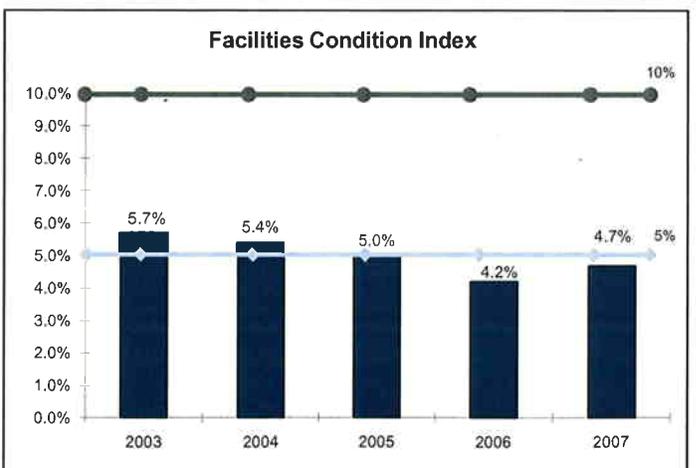
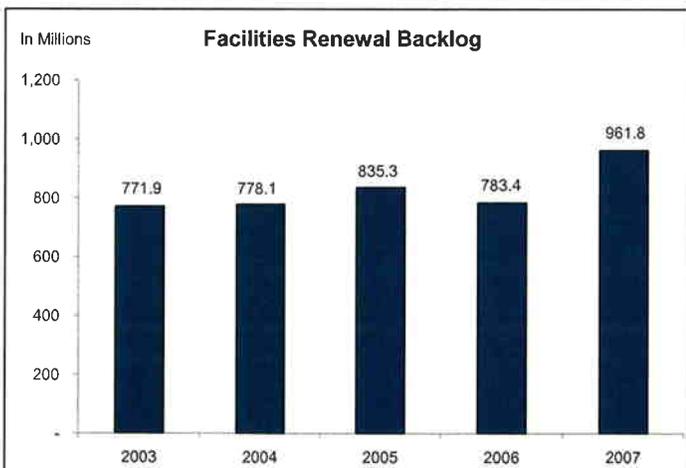
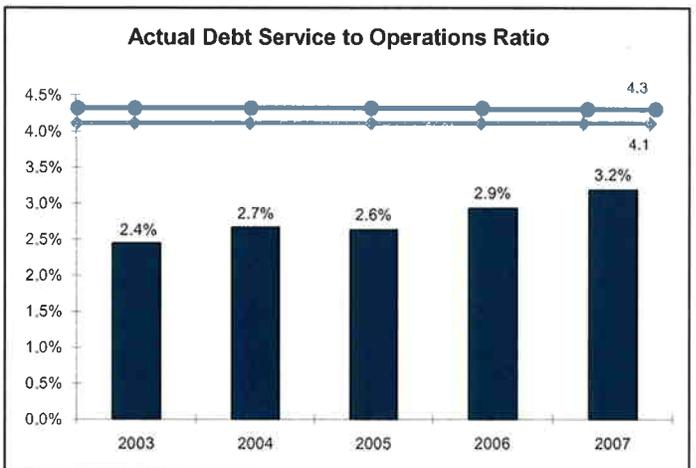
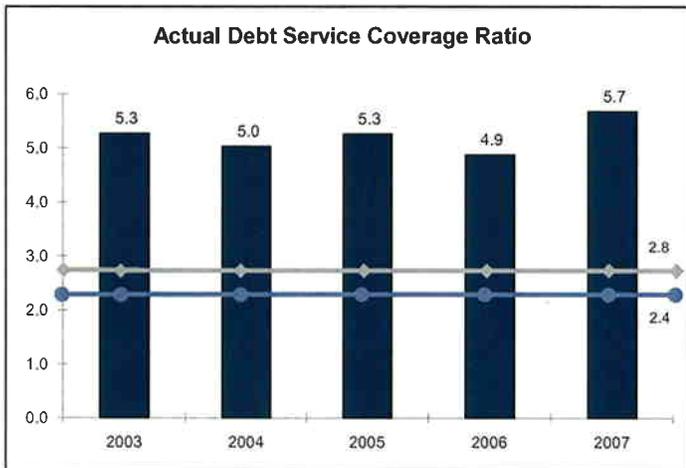
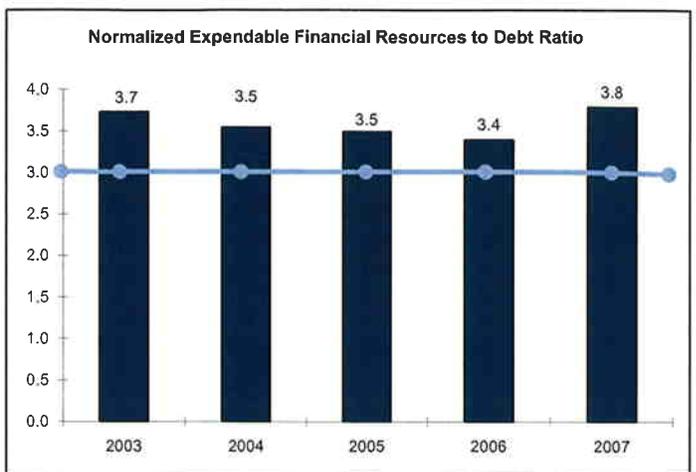
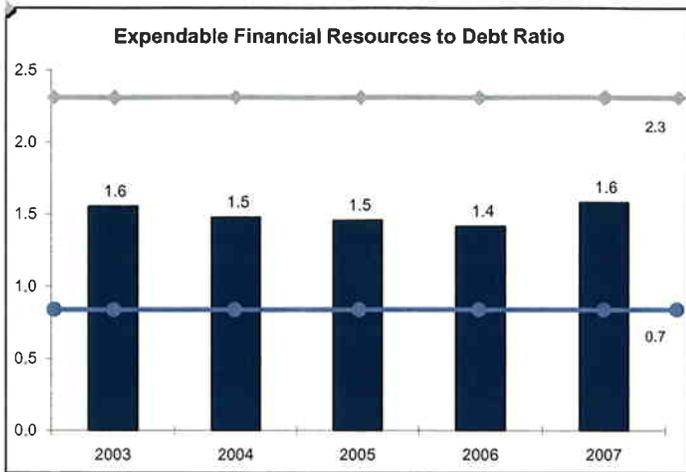
**KEY INDICATORS OF EXPENSES
ACTUAL 2004 THROUGH 2007
PROJECTED 2008
YEAR-TO-DATE 2007 AND 2008 FROM JULY MONTHLY FINANCIAL REPORT**



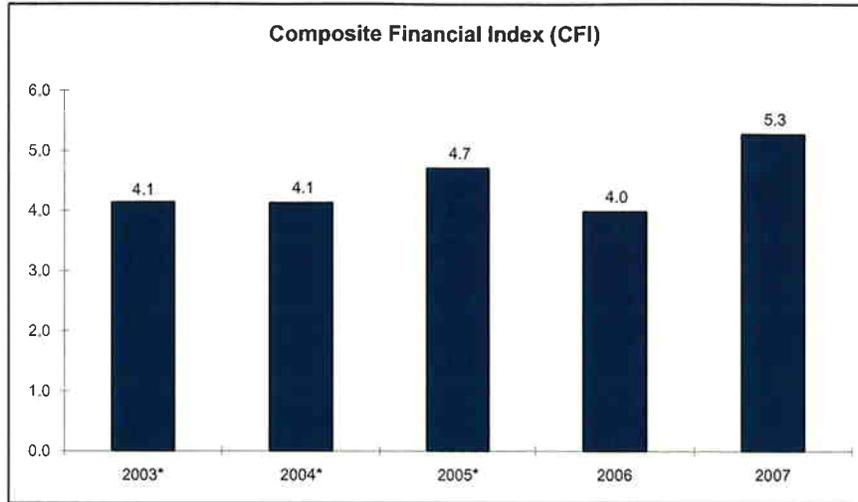
KEY INDICATORS OF RESERVES
ACTUAL 2003 THROUGH 2007
PROJECTED 2008
YEAR-TO-DATE 2007 AND 2008 FROM JULY MONTHLY FINANCIAL REPORT



KEY INDICATORS OF CAPITAL NEEDS AND CAPACITY 2003 THROUGH 2007

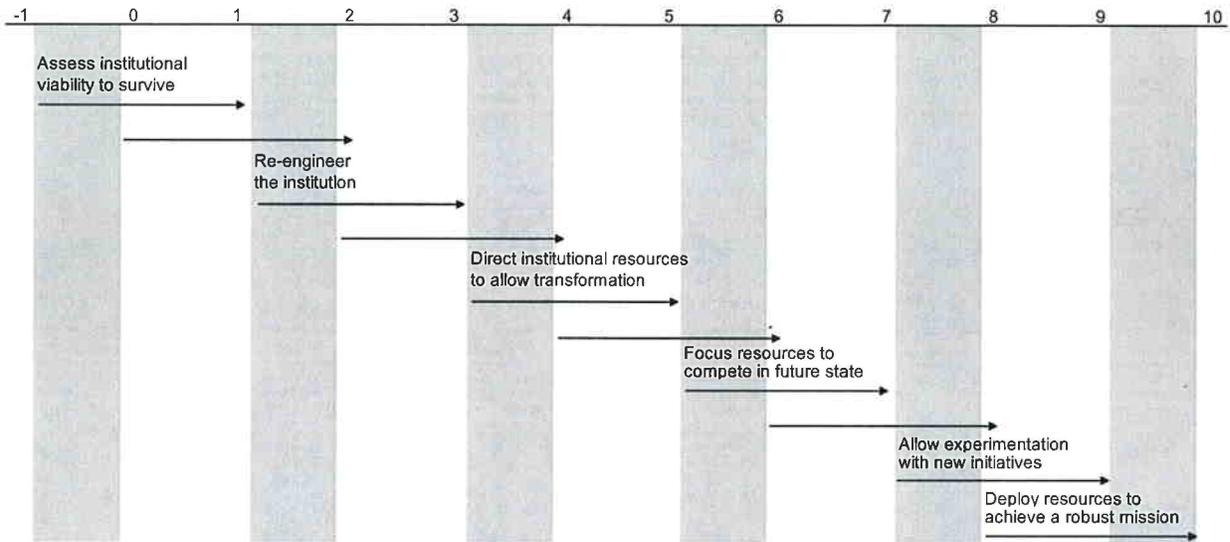


KEY INDICATORS OF FINANCIAL HEALTH 2003 THROUGH 2007

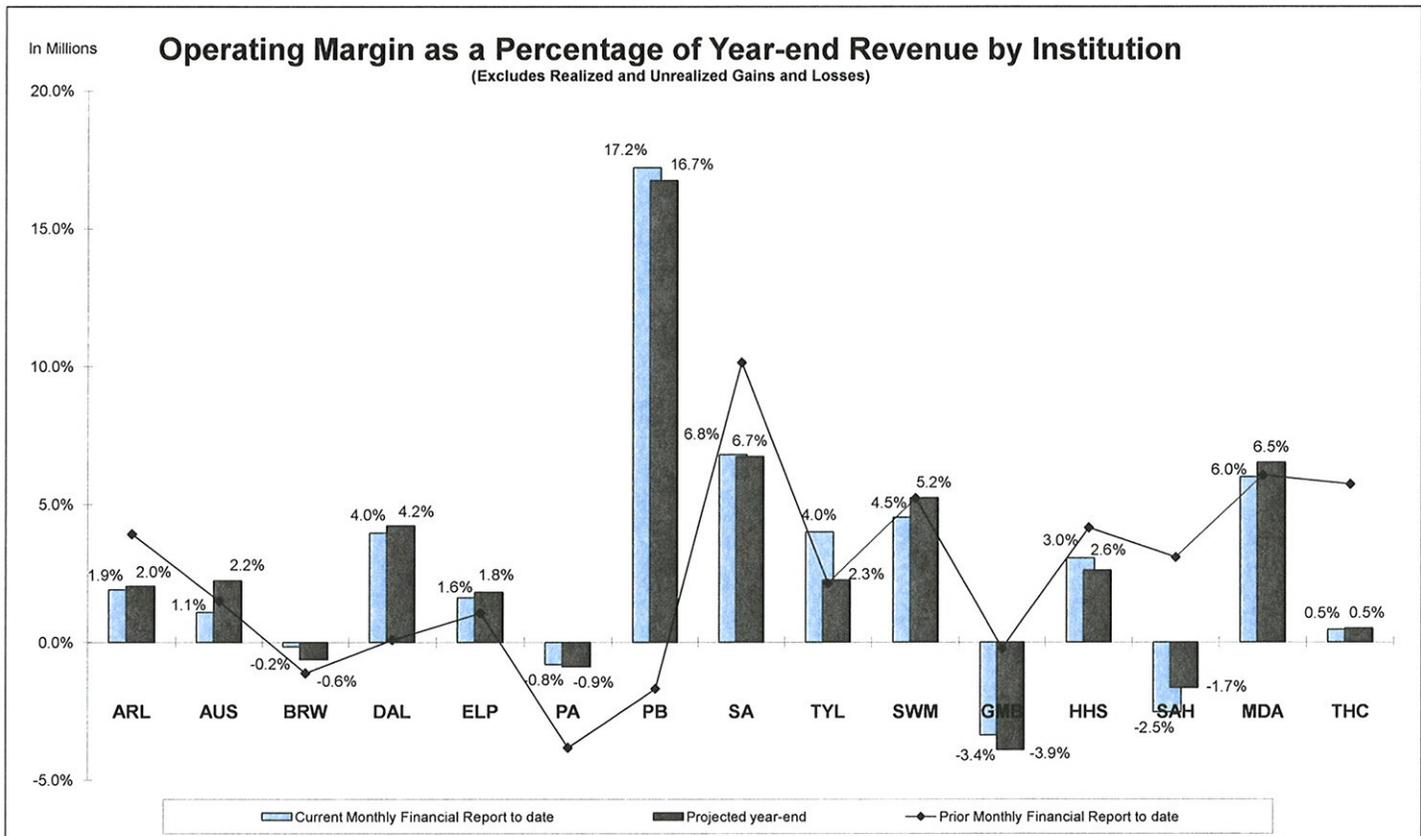
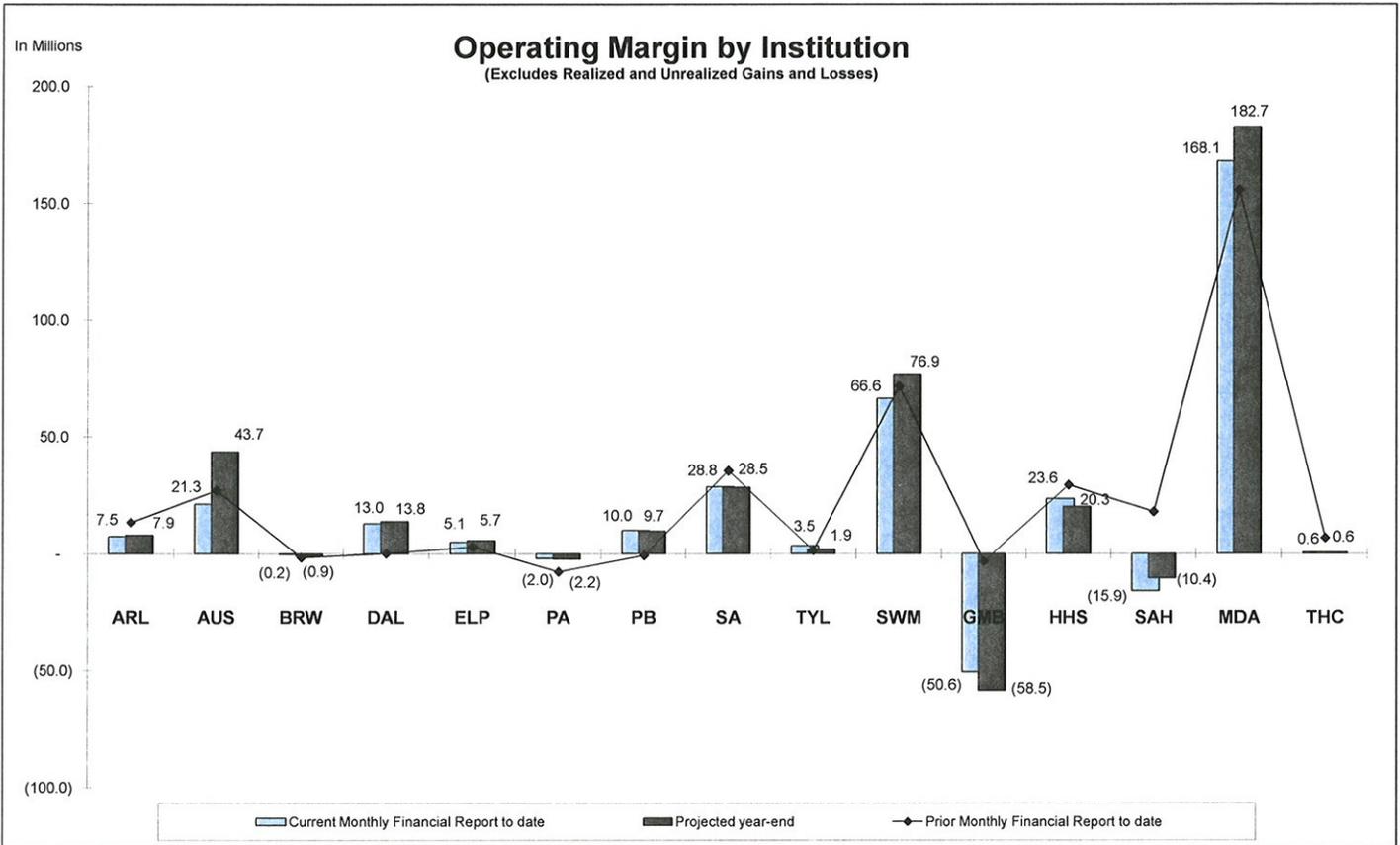


*Restated to reflect appreciation on endowments as restricted expendable net assets as a result of the 2006 external audit

Scale for Charting CFI Performance



**KEY INDICATORS OF RESERVES
YEAR-TO-DATE 2007 AND 2008 FROM JULY MONTHLY FINANCIAL REPORT
PROJECTED 2008 YEAR-END MARGIN**



3. U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the fiscal year and quarter ended August 31, 2008

REPORT

The August 31, 2008, UTIMCO Performance Summary Report is attached on Page 53.

The Investment Reports for the fiscal year and quarter ended August 31, 2008, are set forth on Pages 54 – 57.

Item I on Page 54 reports activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the fiscal year was negative 3.34% versus its composite benchmark return of negative 5.20%. The PUF's net asset value decreased by \$383 million since the beginning of the fiscal year to \$11,359 million. This change in net asset value includes increases due to contributions from PUF Land receipts and decreases in net investment and by the annual distribution of \$449 million.

Item II on Page 55 reports activity for the General Endowment Fund (GEF) investments. The GEF's net investment return for the fiscal year was negative 3.09% versus its composite benchmark return of negative 5.20%. The GEF's net asset value decreased during the fiscal year to \$6,310 million.

Item III on Page 56 reports activity for the Intermediate Term Fund (ITF). The ITF's net investment return for the fiscal year was negative .71% versus its composite benchmark return of negative 4.15%. The net asset value has increased to \$3,875 million due to contributions, net of distributions of \$119 million.

For all funds, all exposures were within their asset class ranges, generally very close to target, and liquidity was within policy.

Item IV on Page 57 presents book and market value of cash, debt, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus money market fund, decreased by \$242 million to \$1,560 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$25 million versus \$26 million at the beginning of the period; equities: \$72 million versus \$68 million at the beginning of the period; and other investments: \$4 million versus \$15 million at the beginning of the period.

UTIMCO Performance Summary

August 31, 2008

	Net Asset Value 8/31/2008 (in Millions)	Periods Ended August 31, 2008 (Returns for Periods Longer Than One Year are Annualized)																		
		Short Term		Year to Date		Historic Returns														
		1 Mo	3 Mos	Calendar	Fiscal	1 Yr	3 Yrs	5 Yrs	10 Yrs											
ENDOWMENT FUNDS																				
Permanent University Fund	\$ 11,359	(2.14)	(7.63)	(6.79)	(3.34)	(3.34)				(3.34)	7.41	11.05	8.20							
General Endowment Fund		(2.16)	(7.62)	(6.68)	(3.09)	(3.09)				(3.09)	7.66	11.22	N/A							
Permanent Health Fund	1,026	(2.09)	(7.60)	(6.70)	(3.14)	(3.14)				(3.14)	7.58	11.11	N/A							
Long Term Fund	5,285	(2.09)	(7.60)	(6.70)	(3.13)	(3.13)				(3.13)	7.59	11.11	9.07							
Separately Invested Funds	173	N/A	N/A	N/A	N/A	N/A				N/A	N/A	N/A	N/A							
Total Endowment Funds	17,843																			
OPERATING FUNDS																				
Short Term Fund	1,489	0.23	0.68	2.21	3.97	3.97					4.65	3.49	3.79							
Intermediate Term Fund	3,875	(1.79)	(6.52)	(4.68)	(0.71)	(0.71)					N/A	N/A	N/A							
Total Operating Funds	5,364																			
Total Investments	\$ 23,207																			
VALUE ADDED																				
Permanent University Fund		0.24	0.57	1.55	1.86	1.86					0.87	1.55	0.62							
General Endowment Fund		0.22	0.58	1.66	2.11	2.11					1.12	1.72	N/A							
Short Term Fund		0.08	0.17	0.68	0.98	0.98					0.45	0.27	0.22							
Intermediate Term Fund		0.35	0.35	2.15	3.44	3.44					N/A	N/A	N/A							
VALUE ADDED (\$ IN MILLIONS)																				
Permanent University Fund		28	69	188	218	218					273	798	N/A							
General Endowment Fund		14	40	113	139	139					197	475	N/A							
Intermediate Term Fund		14	15	87	131	131					N/A	N/A	N/A							

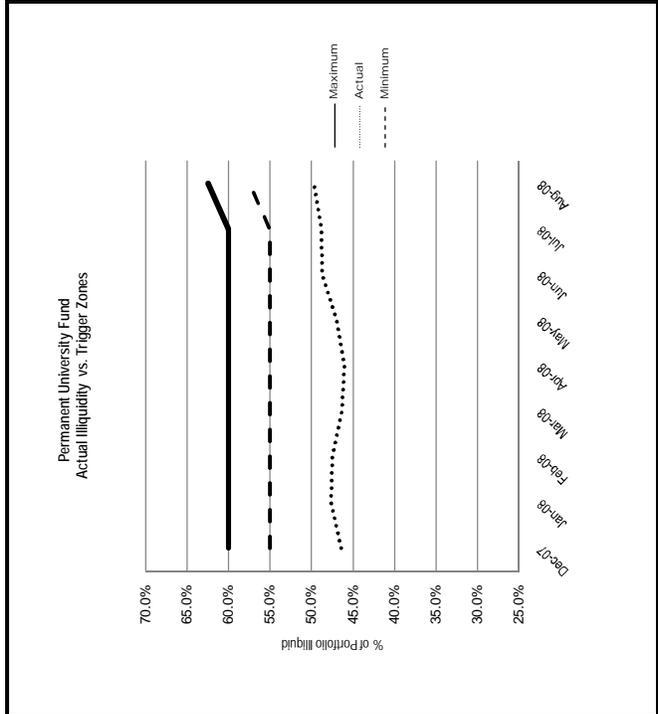
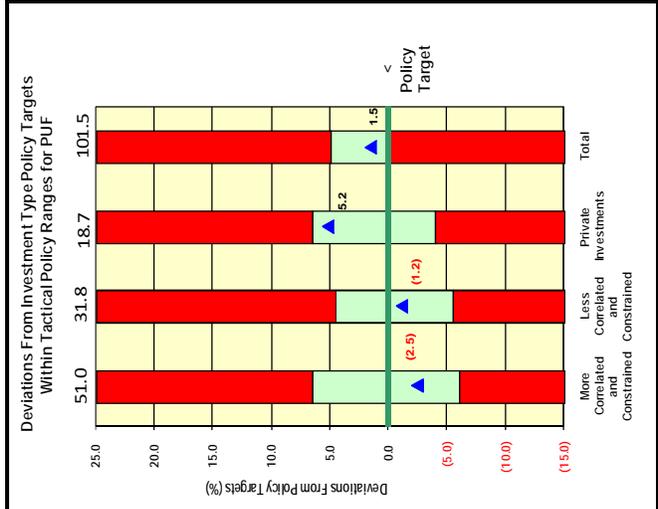
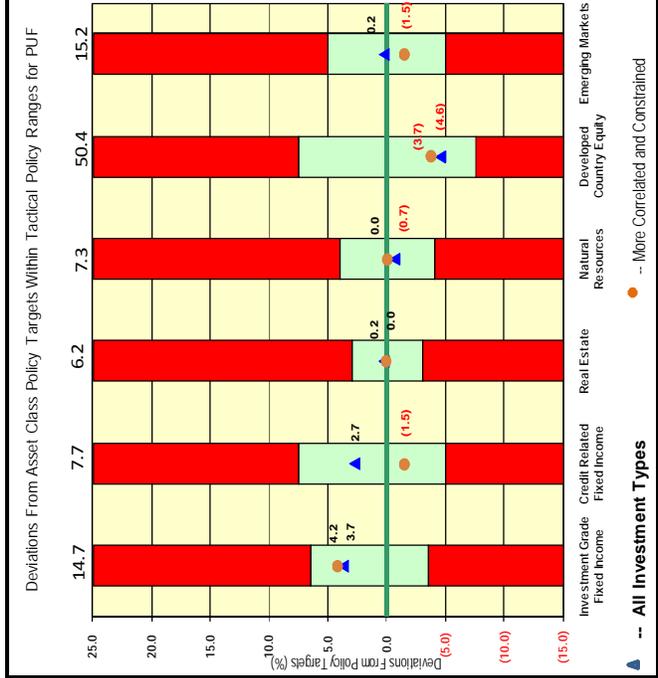
Footnotes available upon request.

I. PERMANENT UNIVERSITY FUND Investment Reports for Periods Ended August 31, 2008

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows			
	Fiscal Year Ended August 31, 2007	Quarter Ended August 31, 2008	Fiscal Year Ended August 31, 2008
Beginning Net Assets (\$ millions)	\$ 10,313.4	\$ 12,246.0	\$ 11,742.8
PUF Lands Receipts	272.8	155.8	457.7
Investment Return	1,639.8	(923.1)	(339.5)
Expenses	(82.5)	(7.0)	(52.6)
Distributions to AUF	(400.7)	(112.2)	(448.9)
Ending Net Assets	\$ 11,742.8	\$ 11,359.5	\$ 11,359.5

	Fiscal Year to Date			
	Returns		Value Added	
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection
More Correlated and Constrained:				
Investment Grade	5.03%	5.11%	-0.01%	-0.07%
Credit-Related	N/A	-0.46%	-0.10%	0.01%
Real Estate	-17.93%	-22.08%	-0.01%	0.25%
Natural Resources	23.86%	20.14%	0.60%	0.18%
Developed Country	-14.98%	-13.27%	0.18%	-0.56%
Emerging Markets	-9.71%	-10.09%	0.16%	-0.04%
Total More Correlated and Constrained	-7.57%	-8.54%	0.82%	-0.23%
Less Correlated and Constrained	1.47%	-5.86%	-0.21%	2.15%
Private Investments	2.30%	9.23%	0.08%	-0.75%
Total	-3.34%	-5.20%	0.69%	1.17%
				1.86%



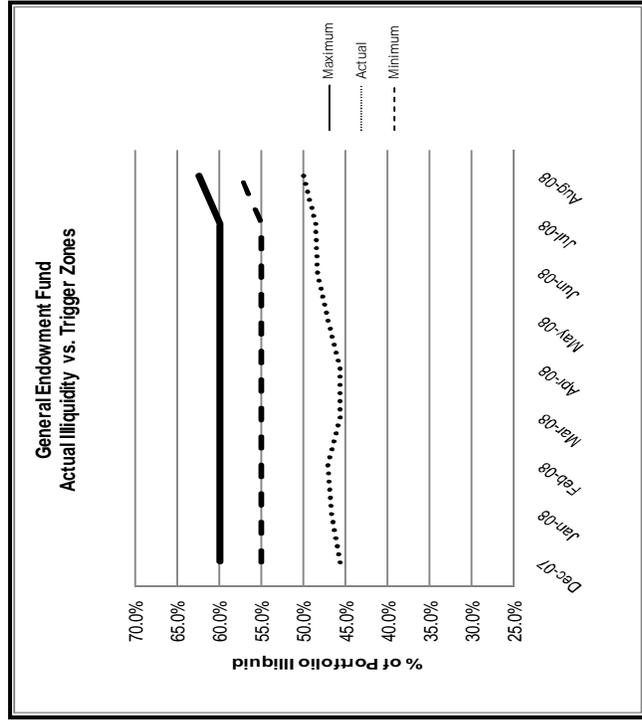
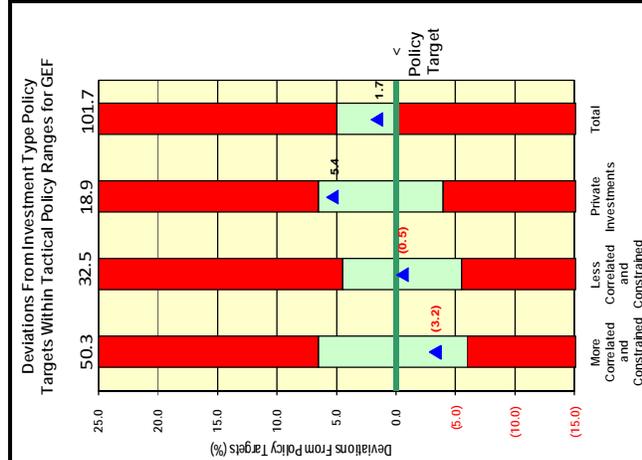
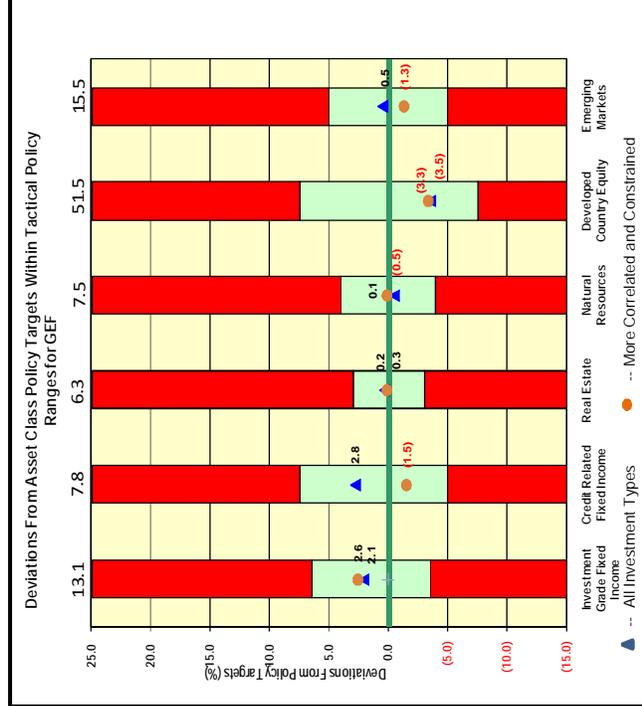
II. GENERAL ENDOWMENT FUND

Investment Reports for Periods Ended August 31, 2008

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows			
	Fiscal Year Ended August 31, 2007	Quarter Ended August 31, 2008	Fiscal Year Ended August 31, 2008
Beginning Net Assets (\$ millions)	\$ 5,427.8	\$ 6,830.9	\$ 6,433.1
Contributions	360.7	73.0	358.6
Withdrawals	(6.2)	(4.5)	(20.2)
Distributions	(239.6)	(66.0)	(259.0)
Investment Return	928.5	(521.3)	(180.8)
Expenses	(38.1)	(1.7)	(21.3)
Ending Net Assets	\$ 6,433.1	\$ 6,310.4	\$ 6,310.4

	Fiscal Year to Date				
	Returns	Value Added			
	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:					
Investment Grade	5.29%	5.11%	0.00%	-0.05%	-0.05%
Credit-Related	N/A	-0.46%	-0.10%	0.01%	-0.09%
Real Estate	-17.80%	-22.08%	0.28%	0.28%	0.29%
Natural Resources	23.22%	20.14%	0.56%	0.14%	0.70%
Developed Country	-14.78%	-13.27%	0.18%	-0.49%	-0.31%
Emerging Markets	-9.81%	-10.09%	0.15%	-0.06%	0.09%
Total More Correlated and Constrained	-7.47%	-8.54%	0.80%	-0.17%	0.63%
Less Correlated and Constrained					
Private Investments	1.48%	-5.86%	-0.19%	2.12%	1.93%
Total	-3.09%	-5.20%	0.09%	-0.54%	-0.45%
			0.70%	1.41%	2.11%

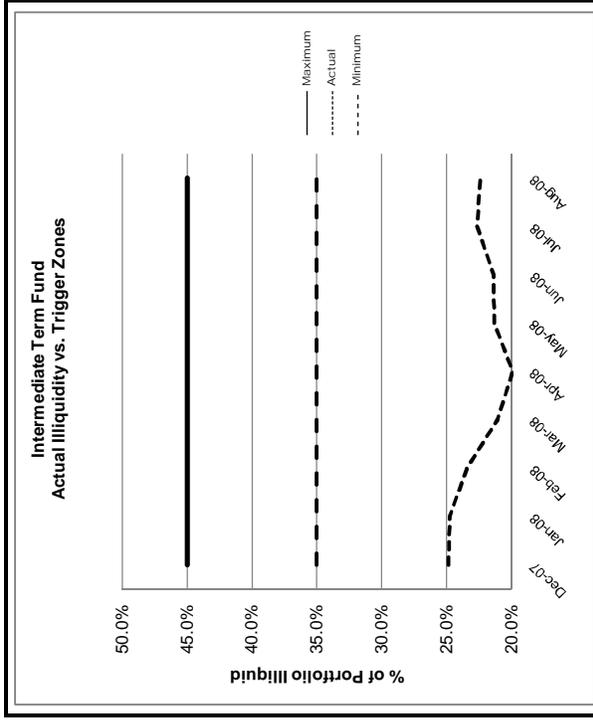
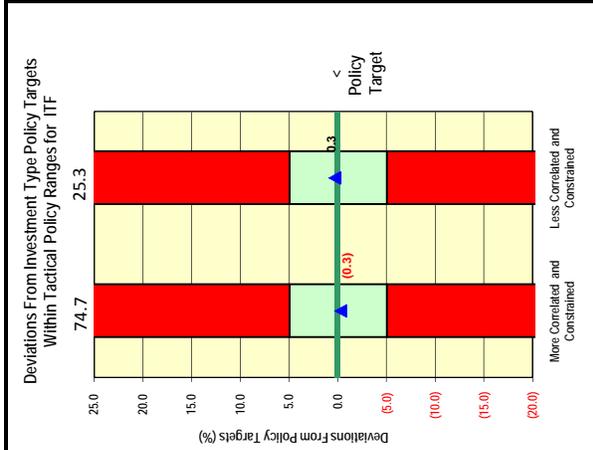
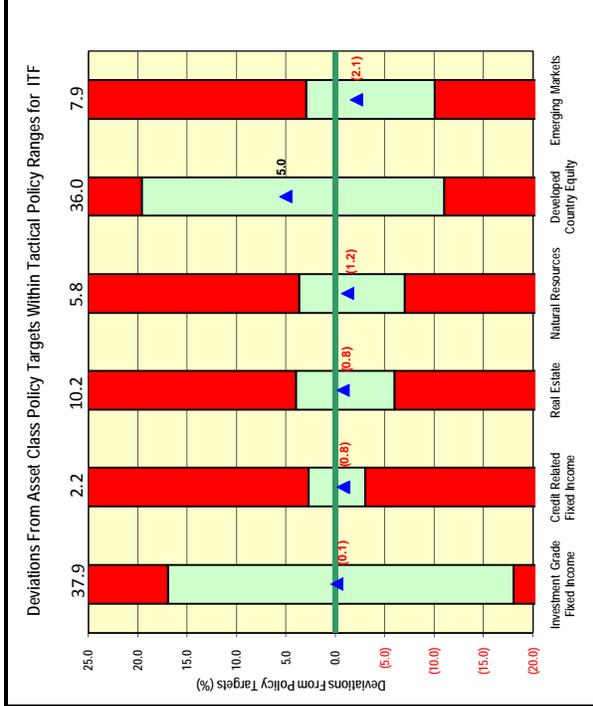


III. INTERMEDIATE TERM FUND Investment Reports for Periods Ended August 31, 2008

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows			
	Fiscal Year Ended August 31, 2007	Quarter Ended August 31, 2008	Fiscal Year Ended August 31, 2008
Beginning Net Assets (\$ millions)	\$ 3,048.8	\$ 4,129.5	\$ 3,720.6
Contributions	664.6	189.8	1,639.1
Withdrawals	(228.6)	(145.4)	(1,335.3)
Distributions	(104.0)	(30.3)	(118.6)
Investment Return	377.4	(266.5)	(7.5)
Expenses	(37.6)	(2.3)	(23.5)
Ending Net Assets	\$ 3,720.6	\$ 3,874.8	\$ 3,874.8

		Fiscal Year to Date	
		Returns	Value Added
More Correlated and Constrained:	Portfolio	Policy Benchmark	From Asset Allocation
Investment Grade	6.14%	4.83%	0.05%
Credit-Related	N/A	-0.46%	-0.12%
Real Estate	-18.03%	-22.08%	-0.03%
Natural Resources	26.60%	20.15%	0.24%
Developed Country	-13.03%	-13.59%	0.28%
Emerging Markets	-11.72%	-10.09%	-0.03%
Total More Correlated and Constrained	-1.58%	-3.60%	0.39%
Less Correlated and Constrained	1.82%	-5.86%	0.00%
Private Investments	0.00%	0.00%	0.00%
Total	-0.71%	-4.15%	0.39%
			From Security Selection
			0.39%
			0.01%
			0.50%
			0.25%
			0.12%
			-0.11%
			1.16%
			1.89%
			0.00%
			0.00%
			3.05%
			3.44%



IV. SEPARATELY INVESTED ASSETS
Summary Investment Report at August 31, 2008
 Report prepared in accordance with Texas Education Code Sec. 51.0032

ASSET TYPES	FUND TYPE																
	CURRENT PURPOSE DESIGNATED		RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		TOTAL EXCLUDING OPERATING FUNDS		OPERATING FUNDS (SHORT TERM FUND)		TOTAL		
	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	
Cash & Equivalents:																	
Beginning value 05/31/08	2,459	2,459	2,339	2,339	36,281	36,281	2,433	2,433	9,267	9,267	52,779	52,779	1,748,786	1,748,786	1,801,565	1,801,565	
Increase/(Decrease)	(2,459)	(2,459)	829	829	25,871	25,871	(350)	(350)	(5,776)	(5,776)	18,115	18,115	(259,719)	(259,719)	(241,604)	(241,604)	
Ending value 08/31/08	-	-	3,168	3,168	62,152	62,152	2,083	2,083	3,491	3,491	70,894	70,894	1,489,067	1,489,067	1,559,961	1,559,961	
Debt Securities:																	
Beginning value 05/31/08	-	-	264	244	12,730	13,413	11,708	12,091	-	-	24,702	25,748	-	-	24,702	25,748	
Increase/(Decrease)	-	-	1	15	(125)	(179)	(32)	(132)	-	-	(156)	(296)	-	-	(156)	(296)	
Ending value 08/31/08	-	-	265	259	12,605	13,234	11,676	11,959	-	-	24,546	25,452	-	-	24,546	25,452	
Equity Securities:																	
Beginning value 05/31/08	18	2,595	428	402	34,437	38,138	25,359	26,465	-	-	60,242	67,600	-	-	60,242	67,600	
Increase/(Decrease)	-	10,968	12	13	(531)	(3,374)	93	(2,992)	-	-	(426)	(4,615)	-	-	(426)	(4,615)	
Ending value 08/31/08	18	13,563	440	415	33,906	34,764	25,452	23,473	-	-	59,816	72,215	-	-	59,816	72,215	
Other:																	
Beginning value 05/31/08	-	-	12,934	12,934	1	1	304	130	1,829	1,829	15,068	14,894	-	-	15,068	14,894	
Increase/(Decrease)	-	-	(9,738)	(9,738)	2	2	17	-	(775)	(775)	(10,494)	(10,511)	-	-	(10,494)	(10,511)	
Ending value 08/31/08	-	-	3,196	3,196	3	3	321	130	1,054	1,054	4,574	4,383	-	-	4,574	4,383	
Total Assets:																	
Beginning value 05/31/08	2,477	5,054	15,965	15,919	83,449	87,833	39,804	41,119	11,096	11,096	152,791	161,021	1,748,786	1,748,786	1,901,577	1,909,807	
Increase/(Decrease)	(2,459)	8,509	(8,896)	(8,881)	25,217	22,320	(272)	(3,474)	(6,551)	(6,551)	7,039	11,923	(259,719)	(259,719)	(252,680)	(247,796)	
Ending value 08/31/08	18	13,563	7,069	7,038	108,666	110,153	39,532	37,645	4,545	4,545	159,830	172,944	1,489,067	1,489,067	1,648,897	1,662,011	

Details of individual assets by account furnished upon request.

4. **U. T. Medical Branch – Galveston, U. T. Health Science Center – Houston, and U. T. M. D. Anderson Cancer Center: Request for authorization to a) file Federal Emergency Management Agency (FEMA) documents, b) dispose of salvageable property, and c) execute all documents related thereto**

RECOMMENDATION

Dr. Kenneth I. Shine, in his roles as Chancellor ad interim and Executive Vice Chancellor for Health Affairs, concurs in the recommendation of the Executive Vice Chancellor for Business Affairs and the Vice Chancellor and General Counsel that Presidents Callender, Kaiser, and Mendelsohn be authorized to execute Federal Emergency Management Agency (FEMA) documents relating to damage sustained in September 2008 as a result of Hurricane Ike and to take all necessary related steps and provide such additional information as may be required by FEMA.

It is also recommended that President Callender be authorized to contract with a salvage company or companies to dispose of damaged property in a manner deemed in the interest of U. T. Medical Branch - Galveston, consistent with State law.

BACKGROUND INFORMATION

Hurricane Ike resulted in extensive wind and water damage to U. T. Medical Branch – Galveston and some wind and water damage to U. T. Health Science Center – Houston and U. T. M. D. Anderson Cancer Center. The presidents of the institutions support the filing of applications for public assistance grants from FEMA. FEMA requires that an applicant appoint an authorized representative to file and execute documents in connection with the application and to provide such additional information as FEMA may require. To expedite the reimbursement process, affected institutions request that the Board of Regents delegate authority to their presidents to file applications for public assistance and enter into contracts or settlements necessary to accomplish the recovery and restoration.

The recommendation concerning disposal of damaged property will allow U. T. Medical Branch – Galveston to recover salvage value more quickly than through the property disposal procedures governed by Regents' *Rules and Regulations*, Rule 80201, which covers the routine disposition of unused and outdated equipment. U. T. System staff will also review the Regents' *Rules* and may suggest *Rules* changes for the future.

(See Item 5 on Page 100 in the Facilities Planning and Construction Committee regarding application for emergency interim financing for campuswide repair and renovation capital improvements at these three U. T. System institutions.)

5. **U. T. System: Adoption of a Resolution related to a contract to hedge the price and sell a portion of the future oil and gas royalty production from the Permanent University Fund Lands**

RECOMMENDATION

The Chancellor ad interim concurs in the recommendation of the Executive Vice Chancellor for Business Affairs and the Vice Chancellor and General Counsel that the U. T. System Board of Regents

- a. adopt the Resolution on Pages 60 - 63 related to a contract to hedge the price and sell a portion of the future oil and gas royalty production from the Permanent University Fund (PUF) Lands; and
- b. authorize appropriate officers and employees of U. T. System and The University of Texas Investment Management Company (UTIMCO) as set forth in the Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein.

BACKGROUND INFORMATION

On July 24, 2008, the Board of Regents approved an initial recommendation to enter into a contract to sell a portion of future oil and gas royalty production from the PUF Lands. While the substance of the proposed transaction is unchanged, the attached proposed Resolution provides significant additional detail regarding the statutory and Constitutional authorization for such a transaction. The Resolution also more fully describes the authorities that are being granted to U. T. System and UTIMCO staff.

Adoption of this Resolution would authorize appropriate officers and employees of U. T. System and UTIMCO to move forward with a transaction within parameters set in consultation with the Chairman and Vice Chairmen of the Board of Regents, consistent with the authority granted at the July 24, 2008 meeting of the Board. The passage of this Resolution will allow staff to move expeditiously once market conditions return to more attractive levels.

The PUF lands encompass 2.1 million acres of surface and mineral interests in 19 counties in West Texas. Royalty production net to the U. T. System in Fiscal Year 2007 totaled 1.8 million barrels of oil and 14.7 billion cubic feet of natural gas. Total oil and gas royalty income in Fiscal Year 2007 was \$210.8 million and is expected to exceed \$350 million in Fiscal Year 2008.

Note: An excerpt from the Reserve Report referenced in the fourth paragraph on Page 60 is set forth on Pages 64 – 68. The complete Reserve Report is available online at <http://www.utsystem.edu/bor/AgendaBook/Nov08/11-12&13-08Meetingpage.htm>.

RESOLUTION AUTHORIZING
PERMANENT UNIVERSITY FUND FORWARD SALE TRANSACTION

WHEREAS, the Permanent University Fund of the State of Texas (the “PUF”) is a constitutional fund created by the Texas Constitution of 1876 and currently consists of approximately 2,109,000 acres of land located in 24 North and West Texas Counties (the “PUF Lands”) and over \$10 billion in investment assets;

WHEREAS, except as provided below, the Board of Regents (the “Board”) of The University of Texas System (the “U. T. System”) is responsible for managing all the assets of the PUF, including the PUF Land and the investment assets;

WHEREAS, the Board for Lease of University Lands (the “Board for Lease”) is authorized to lease PUF Lands for oil and gas exploration and development (“Mineral Leases”) and to contract for the sale or other disposition of crude oil and natural gas royalties taken in kind;

WHEREAS, the Board commissioned the petroleum consulting firm of Netherland, Sewell & Associates, Inc. (“NSA”) to study the estimated proven, probable and possible crude oil and natural gas reserves and future PUF royalty net revenue from certain Mineral Leases, which study resulted in a written report from NSA to the Board, dated September 12, 2008 (see attached “Reserve Report”);

WHEREAS, in managing the assets of the PUF, the Board is authorized by Article VII, Section 11b of the State Constitution to “acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment . . . that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements, or other circumstances of the [PUF] then prevailing, taking into consideration the investment of all the assets of the [PUF] rather than a single investment”;

WHEREAS, the U. T. System staff, based upon consultation with the staff of UTIMCO, has submitted to the Board the recommendation (the “Staff Recommendation”) to approve one or more investment transactions for the PUF (each, a “Transaction”), pursuant to which the Board, as manager of the PUF, would agree to sell to one or more unrelated counterparties (each, a “Counterparty”) certain quantities of crude oil and natural gas to be delivered by the Board over a multiyear period, and the applicable Counterparty would agree to purchase such quantities from the Board by paying an upfront purchase price, said agreements to be set forth in one or more commodity prepayment agreements (each, a “Commodity Prepayment Agreement”);

WHEREAS, the Staff Recommendation calls for each Transaction to be structured, based upon the Reserve Report, such that the obligation of the Board, as manager of the PUF, to sell and deliver crude oil and natural gas pursuant to all Commodity Prepayment Agreements does not exceed the estimated PUF royalty production per the Reserve Report from total proved reserves in any given calendar year, during the delivery period of the Transactions; and

WHEREAS, in connection with a Transaction, it may be necessary or appropriate for the Board, as manager of the PUF, to enter into one or more of the following basic documents

(together with the applicable Commodity Prepayment Agreement, the “Basic Transaction Documents”) in furtherance of the prudent execution of the Transaction:

- (i) Physical commodity sales agreement(s) with one or more commodity marketers pursuant to which the Board would purchase, or exchange for PUF royalties taken in kind, crude oil and natural gas to be delivered in amounts necessary to satisfy its obligations under the applicable Commodity Prepayment Agreement; and
- (ii) Financial commodity price swap agreement(s) with two or more swap counterparties pursuant to which the Board would agree to pay a floating-price for a notional volume of crude oil and natural gas and the swap counterparty would agree to pay a fixed-price for such notional volume.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM THAT:

1. Subject to the other provisions of this Resolution, the U. T. System staff, in consultation with the staff of UTIMCO, is hereby authorized and directed to determine the size, timing, participants and other terms of each Transaction and to complete all negotiations and finalize all arrangements with respect to the Transaction, all as may be deemed necessary or appropriate and in the best interests of the PUF; provided, however, that (i) each Transaction shall be structured, based upon the Reserve Report, such that the obligations of the Board, as manager of the PUF, to sell and deliver crude oil and natural gas pursuant to all Commodity Prepayment Agreements does not exceed the estimated PUF royalty production in any given calendar year from total proved reserves, and (ii) the term of the Transaction shall not exceed six years.

2. In connection with the actions authorized by Section 1 above, the U. T. System staff, in consultation with the staff of UTIMCO, is hereby authorized and directed to assist the Board for Lease in reviewing the terms of the Mineral Leases and exercising such rights contained therein as are deemed necessary or appropriate to facilitate the Transactions, including the rights to take crude oil and natural gas royalties in kind, to sell and dispose of such royalties taken in kind and to determine the delivery location of such royalties taken in kind.

3. Subject to the requirements of paragraph 1 above, in connection with each Transaction, the Chancellor, the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for Finance and Business Development, and the Vice Chancellor and General Counsel are hereby severally authorized and directed to execute and deliver the applicable Basic Transaction Documents on behalf of the Board, as manager of the PUF, in such forms and with such terms as they determine to be necessary or desirable and in the best interests of the Board, as manager of the PUF, such determination to be conclusively evidenced by such execution thereof.

4. The members of the staffs of U. T. System and UTIMCO, and the officers of the Board, and each of them shall be and each is expressly authorized, empowered and directed from time-to-time to do and perform all acts and things and to execute, acknowledge and deliver in the name and on behalf of the Board all certificates, instruments and other papers, whether or not

herein mentioned, as they may determine to be necessary or desirable in order to carry out the terms and provisions of this Resolution and the Transactions authorized hereunder, such determination to be conclusively evidenced by the performance of such acts and things and the execution of certificate, instrument or paper.

5. In reliance upon the Staff Recommendation, the Reserve Report, the recitals to this Resolution and the foregoing paragraphs 1 through 4,

(a) the Board hereby finds and determines that each Transaction is prudent and appropriate for the PUF in light of the purpose, terms, distribution requirements, and other circumstances of the PUF then prevailing, taking into consideration the investment of all the assets of the PUF rather than a single investment and, thus, is an authorized investment under Article VII, Section 11b of the State Constitution; and

(b) the Board specifically further finds and determines that:

(i) because the upfront purchase payment pursuant to all Commodity Prepayment Agreements, when credited to the PUF, will be invested in investment assets pursuant to the Board's investment policies in effect from time to time, which investment assets are expected to produce revenue for the PUF, (a) distributions to the Available University Fund ("AUF") from the total return on all investment assets of the PUF are expected to increase as a result of the Transactions, and (b) the amount of bonds payable from the AUF authorized to be issued by the Board and the Board of Regents of The Texas A&M University System is expected to increase;

(ii) because each Transaction will be structured, based upon the Reserve Report, such that the obligation of the Board, as manager of the PUF, to sell and deliver crude oil and natural gas pursuant to all Commodity Prepayment Agreements is expected to be fully satisfied from PUF royalty production from total proved reserves in any given calendar year, during the delivery period of the Transactions, the Board's sale and delivery obligation is not speculative, but is fully hedged by the PUF's expected royalty production;

(iii) because the upfront purchase payment pursuant to all Commodity Prepayment Agreements will be deposited to the credit of the PUF and invested in investment assets in accordance with the Board's investment policies in effect from time-to-time, the Transactions will reduce the PUF's reliance upon volatile crude oil and natural gas commodity prices, thereby prudently further diversifying the assets of the PUF; and

- (iv) because the upfront purchase payment to the Board will be calculated based upon commodity prices and interest rates established at or prior to execution of the applicable Transaction, the Transactions will allow the PUF to lock in what currently appear to be relatively high market prices for crude oil and natural gas and relatively low interest rates.

6. This Resolution shall be in full force and effect from and after its passage, and it is accordingly so resolved.

PASSED AND APPROVED BY THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM THIS ____ DAY OF NOVEMBER, 2008.

Reserve Report Excerpt

Summary Projections of Reserves and Revenue

Note: The complete Reserve Report is available online at
<http://www.utsystem.edu/bor/AgendaBook/Nov08/11-12&13-08Meetingpage.htm>.

ESTIMATE
of
RESERVES AND FUTURE REVENUE
to
THE UNIVERSITY OF TEXAS SYSTEM
UNIVERSITY LANDS ROYALTY INTEREST
in
CERTAIN OIL AND GAS PROPERTIES
located in
TEXAS
as of
AUGUST 31, 2008

BASED ON PRICE AND COST PARAMETERS
specified by
THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY



**NETHERLAND, SEWELL
& ASSOCIATES, INC.**

WORLDWIDE PETROLEUM
CONSULTANTS
ENGINEERING • GEOLOGY
GEOPHYSICS • PETROPHYSICS

SUMMARY PROJECTION OF RESERVES AND REVENUE AS OF 8 -31 - 8

THE UNIVERSITY OF TEXAS SYSTEM UNIVERSITY LANDS ROYALTY INTEREST

SUMMARY - ALL PROPERTIES LOCATED IN TEXAS

TOTAL PROVED RESERVES

PERIOD ENDING	GROSS OIL/COND	NET OIL/COND	GROSS GAS	NET GAS	GROSS NGL	NET NGL	GROSS REVENUE	PROD+AV TAXES	NET CAP COST	OPERATING EXPENSE	NET REVENUE	CUM P.W. 10,000%
	MBBL	MBBL	MMCF	MMCF	MBBL	MBBL	M\$	M\$	M\$	M\$	M\$	M\$
12-31-8	28674.141	553.435	28674.141	4112.046	872.813	126.905	102282.0	0.0	0.0	0.0	102282.0	100863.6
12-31-9	12602.238	1532.580	75146.108	10428.808	2311.373	335.246	279521.1	0.0	0.0	0.0	279521.1	359170.1
12-31-10	11251.315	1349.969	63050.623	8464.079	1945.478	281.634	242952.3	0.0	0.0	0.0	242952.3	563563.1
12-31-11	9951.351	1154.735	51440.683	6506.033	1663.010	240.014	201242.2	0.0	0.0	0.0	201242.2	717442.7
12-31-12	8946.074	1014.790	43885.132	5376.503	1447.887	208.552	172878.8	0.0	0.0	0.0	172878.8	837587.9
12-31-13	8150.590	906.873	38223.402	4614.177	1269.590	182.753	152218.1	0.0	0.0	0.0	152218.1	933745.7
12-31-14	7442.223	812.870	33712.838	4050.153	1115.589	160.704	135457.7	0.0	0.0	0.0	135457.7	1011531.2
12-31-15	6869.687	739.245	30006.015	3607.489	982.638	141.515	122300.3	0.0	0.0	0.0	122300.3	1075368.4
12-31-16	6352.538	674.357	26885.849	3249.854	871.748	125.632	111028.7	0.0	0.0	0.0	111028.7	1128049.9
12-31-17	5875.079	615.949	24159.718	2943.147	774.900	111.802	101031.9	0.0	0.0	0.0	101031.9	1171629.1
12-31-18	5056.764	516.956	21732.871	2675.950	690.353	99.740	87002.2	0.0	0.0	0.0	87002.2	1205761.2
12-31-19	4628.896	467.825	19699.210	2458.664	619.964	89.639	79024.6	0.0	0.0	0.0	79024.6	1233931.6
12-31-20	4229.995	419.591	13563.569	2132.830	384.179	59.051	69127.6	0.0	0.0	0.0	69127.6	1256343.6
12-31-21	3923.621	382.023	11585.208	1939.152	306.618	48.288	62591.3	0.0	0.0	0.0	62591.3	1274784.6
12-31-22	3683.944	354.184	10721.693	1798.118	278.237	43.774	57959.2	0.0	0.0	0.0	57959.2	1290306.5
12-31-23	3479.044	330.676	9941.148	1669.708	251.907	39.488	53934.2	0.0	0.0	0.0	53934.2	1303437.4
12-31-24	3274.374	307.114	9254.540	1553.086	229.159	35.920	50035.7	0.0	0.0	0.0	50035.7	1314511.6
12-31-25	3065.557	281.371	8542.630	1434.763	207.911	32.645	45903.5	0.0	0.0	0.0	45903.5	1323750.9
12-31-26	2855.623	253.107	7871.843	1322.629	189.699	29.700	41547.0	0.0	0.0	0.0	41547.0	1331350.8
12-31-27	2687.822	233.687	7296.461	1225.816	174.653	27.211	38365.6	0.0	0.0	0.0	38365.6	1337730.2
SUBTOTAL	118872.613	12901.337	535393.682	71563.005	16587.706	2420.213	2206404.0	0.0	0.0	0.0	2206404.0	1337730.2
REMAINING	37152.732	2665.605	84035.212	13632.481	1677.288	258.148	429073.5	0.0	0.0	0.0	429073.5	1371635.0
TOTAL OF 50.0 YRS	156025.345	15566.942	619428.894	85195.486	18264.994	2678.361	2635477.5	0.0	0.0	0.0	2635477.5	1371635.0
CUM PROD2005103.800			5554490.276									
ULTIMATE2161129.145			6173919.170									

BASED ON UTTIMCO PRICING PARAMETERS

PRESENT WORTH PROFILE
 FOR 5.00 PCT, PRESENT WORTH \$ 1778871.8
 FOR 6.00 PCT, PRESENT WORTH \$ 1675747.0
 FOR 7.00 PCT, PRESENT WORTH \$ 1585527.0
 FOR 8.00 PCT, PRESENT WORTH \$ 1506901.5
 FOR 9.00 PCT, PRESENT WORTH \$ 1435072.3

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

SUMMARY PROJECTION OF RESERVES AND REVENUE AS OF 8 -31 - 8

THE UNIVERSITY OF TEXAS SYSTEM UNIVERSITY LANDS ROYALTY INTEREST

SUMMARY - ALL PROPERTIES LOCATED IN TEXAS

PROVED DEVELOPED PRODUCING RESERVES

PERIOD ENDING	GROSS OIL/COND	NET OIL/COND	GROSS GAS	NET GAS	GROSS NGL	NET NGL	GROSS REVENUE	PROD+AV TAXES	NET CAP COST	OPERATING EXPENSE	NET REVENUE	CUM P.W. 10.000%
	MBBL----	MBBL----	MMCF----	MMCF----	MBBL----	MBBL----	M\$-----	M\$-----	M\$-----	M\$-----	M\$-----	M\$-----
12-31-8	4414.688	526.664	27562.978	3847.383	871.871	126.669	97254.9	0.0	0.0	0.0	97254.9	95749.7
12-31-9	11927.012	1385.621	69365.217	9060.579	2303.743	333.337	251894.2	0.0	0.0	0.0	251894.2	328838.3
12-31-10	10456.393	1179.638	56049.369	6813.348	1935.813	279.215	210006.2	0.0	0.0	0.0	210006.2	505477.2
12-31-11	9371.954	1033.699	47058.320	5478.750	1656.847	238.472	179099.8	0.0	0.0	0.0	179099.8	642403.7
12-31-12	8476.658	918.218	40631.992	4616.403	1443.200	207.380	155845.3	0.0	0.0	0.0	155845.3	750703.7
12-31-13	7747.876	824.848	35592.808	4001.093	1265.711	181.784	138082.8	0.0	0.0	0.0	138082.8	837929.0
12-31-14	7086.365	740.852	31485.107	3532.026	1112.238	159.867	123224.4	0.0	0.0	0.0	123224.4	908688.5
12-31-15	6549.449	674.698	28063.295	3156.413	979.664	140.771	111436.7	0.0	0.0	0.0	111436.7	966853.1
12-31-16	5958.738	603.401	25142.512	2847.260	869.060	124.958	99853.7	0.0	0.0	0.0	99853.7	1014256.6
12-31-17	5156.128	507.841	22534.521	2573.844	772.436	111.185	86029.6	0.0	0.0	0.0	86029.6	1051365.5
12-31-18	4798.488	465.807	20304.043	2345.572	688.072	99.171	78607.8	0.0	0.0	0.0	78607.8	1082188.1
12-31-19	4465.599	429.438	18394.242	2156.033	617.837	89.107	72265.1	0.0	0.0	0.0	72265.1	1107948.6
12-31-20	4076.803	383.552	12357.852	1853.532	382.182	58.552	62818.4	0.0	0.0	0.0	62818.4	1128317.2
12-31-21	3779.228	348.037	10469.803	1681.126	304.742	47.819	56680.8	0.0	0.0	0.0	56680.8	1145017.3
12-31-22	3547.328	322.013	9688.805	1559.558	276.473	43.333	52406.9	0.0	0.0	0.0	52406.9	1159053.1
12-31-23	3349.374	300.109	8983.777	1449.011	250.247	39.074	48706.1	0.0	0.0	0.0	48706.1	1170910.5
12-31-24	3150.932	278.006	8366.384	1348.759	227.601	35.530	45101.1	0.0	0.0	0.0	45101.1	1180892.0
12-31-25	2959.412	256.510	7741.356	1248.933	206.445	32.279	41602.6	0.0	0.0	0.0	41602.6	1189263.9
12-31-26	2785.615	236.861	7190.868	1159.447	188.322	29.356	38417.2	0.0	0.0	0.0	38417.2	1196290.2
12-31-27	2632.859	220.441	6689.679	1077.609	173.358	26.888	35700.6	0.0	0.0	0.0	35700.6	1202226.5
SUBTOTAL	112690.899	11636.254	493672.928	61806.679	16525.862	2404.747	1985034.2	0.0	0.0	0.0	1985034.2	1202226.5
REMAING	36736.272	2563.443	79235.061	12439.619	1676.132	257.864	408246.1	0.0	0.0	0.0	408246.1	1234067.1
TOTAL OF 50.0 YRS	149427.171	14199.697	572907.989	74246.298	18201.994	2662.611	2393280.3	0.0	0.0	0.0	2393280.3	1234067.1
CUM PROD2005080.050			5554486.951									
ULTIMATE2154507.221			6127394.940									

BASED ON UTIMCO PRICING PARAMETERS

PRESENT WORTH PROFILE
 FOR 5.00 PCT, PRESENT WORTH \$ 1604169.3
 FOR 6.00 PCT, PRESENT WORTH \$ 1510124.7
 FOR 7.00 PCT, PRESENT WORTH \$ 1428036.2
 FOR 8.00 PCT, PRESENT WORTH \$ 1355719.6
 FOR 9.00 PCT, PRESENT WORTH \$ 1291500.0

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

SUMMARY PROJECTION OF RESERVES AND REVENUE AS OF 8 -31- 8

THE UNIVERSITY OF TEXAS SYSTEM UNIVERSITY LANDS ROYALTY INTEREST

SUMMARY - ALL PROPERTIES LOCATED IN TEXAS

PROVED UNDEVELOPED RESERVES

PERIOD ENDING	GROSS OIL/COND MBBL	NET OIL/COND MBBL	GROSS GAS MMCF	NET GAS MMCF	GROSS NGL MBBL	NET NGL MBBL	GROSS REVENUE M\$	PROD+AV TAXES M\$	NET CAP COST M\$	OPERATING EXPENSE M\$	NET REVENUE M\$	CUM P.W. 10,000% M\$
12-31- 8	131.190	26.771	1111.163	264.663	0.942	0.236	5027.1	0.0	0.0	0.0	5027.1	4933.9
12-31- 9	675.226	146.959	5780.891	1388.229	7.630	1.909	27626.9	0.0	0.0	0.0	27626.9	30331.8
12-31-10	794.922	170.331	7001.254	1650.731	9.665	2.419	32946.1	0.0	0.0	0.0	32946.1	58085.9
12-31-11	579.397	121.036	4382.363	1027.283	6.163	1.542	22142.4	0.0	0.0	0.0	22142.4	75039.0
12-31-12	469.416	96.572	3253.140	760.100	4.687	1.172	17033.5	0.0	0.0	0.0	17033.5	86884.2
12-31-13	402.714	82.025	2630.594	613.084	3.879	0.969	14135.3	0.0	0.0	0.0	14135.3	95816.7
12-31-14	355.858	72.018	2227.731	518.127	3.351	0.837	12233.3	0.0	0.0	0.0	12233.3	102842.7
12-31-15	320.238	64.547	1942.720	451.076	2.974	0.744	10863.6	0.0	0.0	0.0	10863.6	108515.3
12-31-16	393.800	70.956	1743.337	402.594	2.688	0.674	11175.0	0.0	0.0	0.0	11175.0	113793.3
12-31-17	718.951	108.108	1625.197	369.303	2.464	0.617	15002.3	0.0	0.0	0.0	15002.3	120263.6
12-31-18	258.276	51.149	1428.828	330.378	2.281	0.569	8394.4	0.0	0.0	0.0	8394.4	123573.1
12-31-19	163.297	38.387	1304.968	302.631	2.127	0.532	6759.5	0.0	0.0	0.0	6759.5	125983.0
12-31-20	153.192	36.039	1205.717	279.298	1.997	0.499	6309.2	0.0	0.0	0.0	6309.2	128026.4
12-31-21	144.393	33.986	1115.405	258.026	1.876	0.469	5910.5	0.0	0.0	0.0	5910.5	129767.3
12-31-22	136.616	32.171	1032.888	238.560	1.764	0.441	5552.3	0.0	0.0	0.0	5552.3	131253.4
12-31-23	129.670	30.567	957.371	220.697	1.660	0.414	5228.1	0.0	0.0	0.0	5228.1	132526.9
12-31-24	123.442	29.108	888.156	204.327	1.558	0.390	4934.6	0.0	0.0	0.0	4934.6	133619.6
12-31-25	106.145	24.861	801.274	185.830	1.466	0.366	4300.9	0.0	0.0	0.0	4300.9	134487.0
12-31-26	70.008	16.246	680.975	163.182	1.377	0.344	3129.8	0.0	0.0	0.0	3129.8	135060.6
12-31-27	54.963	13.246	606.782	148.207	1.295	0.323	2665.0	0.0	0.0	0.0	2665.0	135503.7
SUBTOTAL	6181.714	1265.083	41720.754	9756.326	61.844	15.466	221369.8	0.0	0.0	0.0	221369.8	135503.7
REMAINING	416.460	102.162	4800.151	1192.862	1.156	0.284	20827.4	0.0	0.0	0.0	20827.4	137567.9
TOTAL OF 34.4 YRS	6598.174	1367.245	46520.905	10949.188	63.000	15.750	242197.2	0.0	0.0	0.0	242197.2	137567.9
CUM PROD	23.750		3.325									
ULTIMATE	6621.924		46524.230									

BASED ON UTMCO PRICING PARAMETERS

PRESENT WORTH PROFILE	WORTH M\$
FOR 5.00 PCT.	174702.5
FOR 6.00 PCT.	165622.3
FOR 7.00 PCT.	157490.8
FOR 8.00 PCT.	150181.9
FOR 9.00 PCT.	143572.3

All estimates and exhibits herein are part of this NSAI report and are subject to its parameters and conditions.

6. **U. T. System: Update on the credit markets and the impact on U. T. System debt programs and credit ratings**

REPORT

Mr. Philip Aldridge, Vice Chancellor for Finance and Business Development, will provide an update on the current status of the credit markets and the impact on U. T. System debt programs and credit ratings.

7. **U. T. System Board of Regents: Adoption of Resolutions authorizing the use of tender programs and direct debt repurchases to refund and retire outstanding Permanent University Fund Bonds and Revenue Financing System Bonds, and authorization to complete all related transactions**

RECOMMENDATION

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

- a. adopt Resolutions, substantially in the form before the U. T. System Board of Regents on Pages 71 - 76, authorizing the use of tender programs and direct debt repurchases in connection with the refunding and retirement of outstanding Permanent University Fund (PUF) Bonds and Revenue Financing System (RFS) Bonds; and
- b. authorize appropriate officers and employees of U. T. System as set forth in the Resolutions to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the tender and repurchase of such bonds.

BACKGROUND INFORMATION

Current market conditions may allow the U. T. System Board to achieve significant debt service savings by tendering and/or directly repurchasing outstanding PUF Bonds and RFS Bonds. The tender and/or direct repurchase would be financed by the issuance of new bonds, commercial paper notes, or the use of other lawfully available funds. Depending on market conditions, the U. T. System could purchase outstanding bonds at a significant discount to par resulting in debt service savings, a reduction in the amount of debt outstanding, and an increase in the U. T. System's net assets.

Adoption of the Resolutions would allow a U. T. System Representative to undertake tender programs or direct repurchases of debt in connection with a refunding transaction, to determine the price at which offers will be made, and to determine the method for establishing such price, such as through the use of a Dutch auction, all provided that the present value savings requirements or other thresholds set forth in the tender Resolutions are met.

The proposed Resolutions have been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

A RESOLUTION AUTHORIZING REFUNDING OF OUTSTANDING PERMANENT UNIVERSITY FUND DEBT THROUGH A TENDER PROGRAM AND AUTHORIZING OTHER AGREEMENTS AND PROCEDURES RELATING THERETO

November 13, 2008

WHEREAS, the Board of Regents (the “Board”) of The University of Texas System (the “System”) is the governing body of the System, an institution of higher education under the *Texas Education Code* and an agency of the State of Texas (the “State”);

WHEREAS, the Permanent University Fund is a constitutional fund and public endowment created in the Texas Constitution of 1876, as created, established, implemented and administered pursuant to Sections 10, 11, 11a, 11b, 15 and 18 of Article VII of the Constitution of the State, as amended, and by other applicable present and future constitutional and statutory provisions, and further implemented by the provisions of Chapter 66, *Texas Education Code*, as amended (the “Permanent University Fund”);

WHEREAS, the Available University Fund is defined by the Constitution of the State and consists of distributions made to it from the total return on all investment assets of the Permanent University Fund, including the net income attributable to the surface of Permanent University Fund land, as determined by the Board pursuant to Section 18 of Article VII of the Constitution of the State (the “Available University Fund”);

WHEREAS, Section 18 of Article VII of the Constitution of the State, as may hereafter be amended (the “Constitutional Provision”), authorizes the Board to issue bonds and notes (“PUF Debt”) not to exceed a total amount of 20% of the cost value of investments and other assets of the Permanent University Fund, exclusive of real estate, at the time of issuance thereof and to pledge all or any part of its two-thirds interest in the Available University Fund (the “Interest of the System”) to secure the payment of the principal of and interest on PUF Debt, for the purpose of acquiring land, constructing and equipping buildings or other permanent improvements, major repair and rehabilitation of buildings and other permanent improvements, acquiring capital equipment and library books and library materials, and refunding bonds or notes issued under the Constitutional Provision or prior law, at or for the System Administration and institutions of the System as listed in the Constitutional Provision;

WHEREAS, the Board heretofore has authorized, issued and delivered, pursuant to the Constitutional Provision, various series of PUF Debt, all of which are secured by a pledge of the Interest of the System in the Available University Fund;

WHEREAS, of even date herewith the Board has adopted a resolution (the “Bond Resolution”) authorizing issuance of its Permanent University Fund Bonds (the “Bonds”) in the maximum aggregate principal amount of \$500,000,000 for the purpose, among others, of refunding certain “Outstanding Parity Bonds”, “Flexible Rate Notes” or “Commercial Paper Notes” (as each such quoted term is defined in the Bond Resolution);

WHEREAS, capitalized terms used herein and not otherwise defined shall have the respective meanings given to such terms in the Bond Resolution;

WHEREAS, due to certain current market conditions, the Board may have the opportunity to achieve a debt service savings or to otherwise restructure the debt service requirements of the Outstanding Parity Bonds in a manner that is economically advantageous to the Board by the issuance of Bonds or Commercial Paper Notes or the use of other lawfully available funds to refund certain Outstanding Parity Bonds through a tender program pursuant to which the holders of such Outstanding Parity Bonds would

tender their Outstanding Parity Bonds for purchase at a price that results in debt service savings or would otherwise restructure the debt service requirements of such Outstanding Parity Bonds in a manner that is economically advantageous to the Board, as applicable;

WHEREAS, in order to provide for the efficient management of its PUF Debt, the Board hereby desires to specifically authorize the use of a tender program to accomplish the refunding of Outstanding Parity Bonds under the Constitutional Provision, Chapters 1207 and 1371, *Texas Government Code*, Section 65.46, *Texas Education Code*, and other applicable laws; and

WHEREAS, the Board finds that such program is in the best interest of the Board and the System.

NOW THEREFORE BE IT RESOLVED, that

SECTION 1. Authorization of Tender Program. The Board specifically authorizes the refunding of any of its Outstanding Parity Bonds (the “Potential Tendered Bonds”) pursuant to a tender program whereby the holders thereof are given the opportunity to tender such bonds for purchase at a price that (i) satisfies the savings requirement set forth in Section 7.04 of the Bond Resolution, in the event such refunding is accomplished by the issuance of the Bonds, (ii) is determined by an Authorized Representative (as hereinafter defined) to satisfy the requirements set forth in Section 3.02(b) of the resolution of the Board authorizing the issuance of the Commercial Paper Notes (the “Commercial Paper Resolution”), in the event such refunding is accomplished by the issuance of Commercial Paper Notes, or (iii) is determined by an Authorized Representative to be economically advantageous to the Board in the event lawfully available funds other than those described in clauses (i) and (ii) are used to accomplish such purpose, as the case may be. The “Authorized Representative” (as such quoted term is defined in the Bond Resolution or the Commercial Paper Resolution, as applicable) is hereby authorized to determine which Potential Tendered Bonds are to be included in any offer under such tender program and to enter into any necessary tender agreement with a tender agent selected by the Authorized Representative to accomplish the refunding of any Potential Tendered Bonds pursuant to such tender program. The Authorized Representative is authorized to determine the price at which offers will be made under the tender program or to determine the method for establishing such price, such as through the use of a Dutch auction, all provided that the requirement set forth in Section 7.04 of the Bond Resolution or Section 3.02(b) of the Commercial Paper Resolution, as applicable, is satisfied. Such refunding may be accomplished through the purchase and cancellation of the Potential Tendered Bonds actually tendered by the holders thereof and purchased (the “Tendered Bonds”).

SECTION 2. Sources of Funds. Any refunding of Tendered Bonds authorized by this Resolution may be funded through the issuance of the Bonds under the terms of the Bond Resolution, Commercial Paper Notes under the Commercial Paper Resolution, as applicable, or lawfully available funds of the Board as determined by the Authorized Representative. Notwithstanding anything to the contrary in this Resolution or in the Bond Resolution, a refunding of Tendered Bonds may be accomplished as determined by the Authorized Representative through the issuance of the Bonds as exchange refunding bonds to be exchanged for Tendered Bonds pursuant to Subchapter D of Chapter 1207, *Texas Government Code*.

SECTION 3. Disclosure Statement. The Authorized Representative is authorized to provide for and oversee the preparation of a disclosure statement and any related materials in connection with the tender program contemplated by this Resolution, and to approve such disclosure statement and related materials, deem them final and provide them to holders of Potential Tendered Bonds anticipated to be participants in the tender program contemplated by this Resolution.

SECTION 4. Expiration of Tender Program. No tender transaction pursuant to the tender program described in this Resolution shall be conducted after August 31, 2009.

SECTION 5. Additional Authorization. (a) The Authorized Representative and all officers or officials of the Board are severally authorized to execute and deliver such other agreements and documents as are contemplated by this Resolution or are otherwise necessary in connection with accomplishing a tender of Potential Tendered Bonds related to the tender program described in this Resolution, as any such officer or official shall deem appropriate, including without limitation, officer's certificates, legal opinions, disclosure documents, tender agency agreements, tender notices and any other related documents or instruments.

(b) All officers or officials of the Board and its agents and counsel are authorized to take all such further actions, to execute and deliver such further instruments and documents in the name and on behalf of the Board and to pay all such expenses, as in his or her judgment, shall be necessary or advisable in order fully to carry out the purposes of this Resolution.

A RESOLUTION AUTHORIZING REFUNDING OF OUTSTANDING REVENUE FINANCING SYSTEM DEBT THROUGH A TENDER PROGRAM AND AUTHORIZING OTHER AGREEMENTS AND PROCEDURES RELATING THERETO

November 13, 2008

WHEREAS, the Board of Regents (the "Board") of The University of Texas System (the "System") is the governing body of the System, an institution of higher education under the *Texas Education Code* and an agency of the State of Texas;

WHEREAS, on February 14, 1991, the Board adopted the First Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System and amended such resolution on October 8, 1993, and August 14, 1997 (referred to herein as the "Master Resolution");

WHEREAS, unless otherwise defined herein, terms used herein shall have the meaning given in the Master Resolution and the Twentieth Supplement (as defined below);

WHEREAS, the Master Resolution establishes the Revenue Financing System comprised of the institutions now or hereafter constituting components of the System that are designated "Members" of the Financing System by action of the Board and pledges the Pledged Revenues attributable to each Member of the Financing System to the payment of Parity Debt to be outstanding under the Master Resolution;

WHEREAS, the Board has outstanding certain Parity Debt issued pursuant to Supplemental Resolutions to the Master Resolution as special, limited obligations of the Board payable solely from and secured by a lien on and pledge of Pledged Revenues pledged for the equal and proportionate benefit and security of all owners of Parity Debt;

WHEREAS, on August 14, 2008, the Board adopted the Twentieth Supplemental Resolution to the Master Resolution (the "Twentieth Supplement") authorizing the future issuance of up to \$800,000,000 of additional Revenue Financing System bonds as Parity Debt (the "Bonds") which may be issued for the purpose, among other purposes, of refunding certain previously issued outstanding Parity Debt;

WHEREAS, the Board has also authorized a commercial paper program under which up to \$1,250,000,000 of Revenue Financing System commercial paper notes as Parity Debt (the "Commercial Paper Notes") may be outstanding at any time and may be issued for the purpose, among other purposes, of refunding other outstanding Parity Debt;

WHEREAS, due to certain current market conditions, the Board may have the opportunity to achieve a debt service savings or to otherwise restructure the debt service requirements of its currently outstanding Parity Debt in a manner that is economically advantageous to the Board by the issuance of Bonds or Commercial Paper Notes or the use of other lawfully available funds to refund certain currently outstanding Parity Debt through a tender program pursuant to which the holders of such Parity Debt would tender their bonds for purchase at a price that results in debt service savings or would otherwise restructure the debt service requirements of outstanding Parity Debt in a manner that is economically advantageous to the Board, as applicable;

WHEREAS, in order to provide for the efficient management of its Revenue Financing System debt service obligations, the Board hereby desires to specifically authorize the use of a tender program to accomplish the refunding of such Parity Debt under the Chapters 1207 and 1371, *Texas Government Code*, Section 65.46, *Texas Education Code* and other applicable laws; and

WHEREAS, the Board finds that such program is in the best interest of the Board and the Members of such Revenue Financing System.

NOW THEREFORE BE IT RESOLVED, that

SECTION 1. Authorization of Tender Program. The Board specifically authorizes the refunding of any of its currently outstanding Parity Debt previously issued pursuant to the Second through the Nineteenth Supplemental Resolutions to the Master Resolution (the "Potential Tendered Bonds") pursuant to a tender program whereby the holders thereof are given the opportunity to tender such bonds for purchase at a price that (i) satisfies the savings requirement set forth in Section 3(c) of the Twentieth Supplement, in the event such refunding is accomplished by the issuance of the Bonds, (ii) is determined by the U. T. System Representative in accordance with Section 2.01 of the resolution of the Board authorizing the issuance of the Commercial Paper Notes (the "Commercial Paper Resolution"), in the event such refunding is accomplished by the issuance of Commercial Paper Notes, or (iii) is determined by the U. T. System Representative to be economically advantageous to the Board in the event lawfully available funds other than those described in clauses (i) and (ii) are used to accomplish such purpose, as the case may be. The U. T. System Representative is hereby authorized to determine which Potential Tendered Bonds are to be included in any offer under such tender program and to enter into any necessary tender agreement with a tender agent selected by the U. T. System Representative to accomplish the refunding of any Potential Tendered Bonds pursuant to such tender program. The U. T. System Representative is authorized to determine the price at which offers will be made under the tender program or to determine the method for establishing such price, such as through the use of a Dutch auction, all provided that the other applicable requirements set forth in this section are complied with. Such refunding may be accomplished through the purchase and cancellation of the Potential Tendered Bonds actually tendered by the holders thereof and purchased (the "Tendered Bonds").

SECTION 2. Sources of Funds. Any refunding of Tendered Bonds authorized by this Resolution may be funded through the issuance of the Bonds under the terms of the Twentieth Supplement, Commercial Paper Notes under the Commercial Paper Resolution, or lawfully available funds of the Board as determined by the U. T. System Representative, as applicable. Notwithstanding anything to the contrary in this Resolution or in the Twentieth Supplemental Resolution, a refunding of Tendered Bonds may be accomplished as determined by the U. T. System Representative through the issuance of the Bonds as exchange refunding bonds to be exchanged for Tendered Bonds pursuant to Subchapter D of Chapter 1207, *Texas Government Code*.

SECTION 3. Disclosure Statement. The U. T. System Representative is authorized to provide for and oversee the preparation of a disclosure statement and any related materials in connection with the tender program contemplated by this Resolution, and to approve such disclosure statement and related materials, deem them final and provide them to holders of Potential Tendered Bonds anticipated to be participants in the tender program contemplated by this Resolution.

SECTION 4. Expiration of Tender Program. No tender transaction pursuant to the tender program described in this Resolution shall be conducted after August 31, 2009.

SECTION 5. Additional Authorization. (a) The U. T. System Representative and all officers or officials of the Board are severally authorized to execute and deliver such other agreements and documents as are contemplated by this Resolution or are otherwise necessary in connection with accomplishing a tender of Potential Tendered Bonds related to the tender program described in this Resolution, as any such officer or official shall deem appropriate, including without limitation, officer's

certificates, legal opinions, disclosure documents, tender agency agreements, tender notices and any other related documents or instruments.

(b) All officers or officials of the Board and its agents and counsel are authorized to take all such further actions, to execute and deliver such further instruments and documents in the name and on behalf of the Board and to pay all such expenses, as in his or her judgment, shall be necessary or advisable in order fully to carry out the purposes of this Resolution.

8. **U. T. System Board of Regents: Adoption of a Resolution authorizing the issuance, sale, and delivery of Permanent University Fund Bonds, and authorization to complete all related transactions**

RECOMMENDATION

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

- a. adopt a Resolution, substantially in the form previously approved by the U. T. System Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Permanent University Fund (PUF) Bonds in one or more installments in an aggregate principal amount not to exceed \$500 million to be used to refund certain outstanding PUF Bonds, to refund PUF Commercial Paper Notes, to provide new money to fund construction and acquisition costs, and to pay the costs of issuance; and
- b. authorize appropriate officers and employees of U. T. System as set forth in the Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such bonds.

BACKGROUND INFORMATION

On August 14, 2008, the Board of Regents adopted a resolution authorizing the issuance of PUF Bonds during Fiscal Year 2009 in an amount not to exceed \$450 million. The majority of this authority was utilized with the issuance of \$400.9 million PUF Bonds, Series 2008A that were issued on October 30, 2008. The Series 2008A bonds were issued for the purpose of refunding all of the Board's outstanding PUF Flexible Rate Notes, Series A.

Adoption of the Resolution would authorize issuance of additional PUF Bonds in an amount not to exceed \$500 million to be used to allow the advance or current refunding of a portion of certain outstanding PUF Bonds provided that an advance refunding exceeds a minimum 3% present value debt service savings threshold. An advance refunding involves issuing bonds to refund outstanding bonds more than 90 days in advance of the call date whereas a current refunding involves issuing bonds to refund outstanding bonds within 90 days of the call date. Refunding bonds are issued at lower interest rates thereby producing debt service savings. Adoption of this Resolution will provide the flexibility to select the particular bonds to be refunded depending on market conditions at the time of pricing, including bonds refunded through the use of a tender program or direct repurchase.

As provided in the Resolution, the potential bonds to be refunded include the outstanding PUF Bonds, Series 2002A, Series 2004A&B, Series 2005A&B, and Series 2006A-C. The Resolution also authorizes the issuance of bonds to provide new money to fund the capital costs of eligible projects.

Proceeds from the PUF Bonds related to refunding outstanding debt may be used to purchase U.S. government or other eligible securities to be placed in one or more escrow accounts. Proceeds from the escrowed securities will be used to redeem the refunded bonds and the refunded Commercial Paper Notes.

The proposed Resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

Note: The proposed Resolution is available online at <http://www.utsystem.edu/bor/AgendaBook/Nov08/11-12&13-08Meetingpage.htm>.

9. **U. T. System: Shared Services Initiative Report including Regional Data Centers, North Texas Student Information System, Time and Effort Reporting, and Supply Chain Alliance**

REPORT

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will report on the status of the Shared Services Initiative; including

- Regional Data Centers;
- North Texas Shared Information System;
- Time and Effort Reporting; and
- Supply Chain Alliance.

10. **U. T. System: Discussion with representative chief business officers regarding the challenges of institutional budget and finance**

PURPOSE

Executive Vice Chancellor Kelley; Ms. Cynthia Villa, Vice President for Business Affairs at U. T. El Paso; and Mr. Gregg Lassen, Vice President for Business Affairs at U. T. Tyler, will lead a discussion on ways these U. T. System institutions are maximizing the benefit of the financial resources and areas where the institutions can improve and become more efficient.

Supplemental Materials:

- **U. T. El Paso PowerPoint Presentation on Pages 101 - 109 of Volume 2.**
- **U. T. Tyler PowerPoint Presentation on Pages 110 - 114 of Volume 2.**

Pages 80 - 87 are intentionally left blank.