



AGENDA
for
SPECIAL CALLED MEETING
U. T. BOARD OF REGENTS
July 16, 2004
Ninth Floor, Ashbel Smith Hall
201 West 7th Street
Austin, Texas

	Page
A. CALL TO ORDER IN OPEN SESSION	10:30 a.m. Chairman Huffines
B. CONSIDER AGENDA ITEMS	
1. U. T. Board of Regents: Approval of appointment of Chairman for Facilities Planning and Construction Committee (<u>Regents' Rules and Regulations</u> , Part One, Chapter I, Section 7)	10:30 a.m. 1 Action
2. U. T. Board of Regents: Approval of appointment of Regental Representative to the Texas Growth Fund (<u>Regents' Rules and Regulations</u> , Part One, Chapter I, Section 7)	10:33 a.m. 1 Action
3. U. T. Board of Regents: Proposed appointment of member of Board of Regents to Board of Directors of The University of Texas Investment Management Company (UTIMCO)	10:35 a.m. 2 Action
4. U. T. Board of Regents: Discussion and appropriate action regarding proposed recipient for Santa Rita Award	10:37 a.m. 2 Action
5. U. T. System: Approval to hire external auditor to provide financial audit services for the fiscal year ending August 31, 2005	10:42 a.m. 4 Action Regent Estrada Mr. Chaffin
6. U. T. System: Discussion of Library, Equipment, Repair, and Rehabilitation funding	10:50 a.m. 5 Discussion Mr. Wallace
7. U. T. System: Discussion of issues related to potential bid for management of Los Alamos National Laboratory	11:00 a.m. 8 Discussion Chancellor Yudof
Lunch	12:30–1:00 p.m. approximately
C. RECESS TO EXECUTIVE SESSION	1:00 p.m. approximately
1. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees – <u>Texas Government Code</u> Section 551.074	
a. U. T. Board of Regents: Discussion with Mellon Human Resources and Investor Solutions concerning compensation issues related to individual employees	Dr. Tom Flannery 9 Mr. Art Martinez
b. U. T. Dallas: Discussion of personnel matters relating to presidential search	Dr. Sullivan 9

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

Chancellor Yudof 9
Dr. Shine
Dr. Sullivan

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

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2. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers - Texas Government Code Section 551.071

3. Deliberations Regarding the Purchase, Exchange, Lease or Value of Real Property - Texas Government Code Section 551.072

D. RECONVENE IN OPEN SESSION TO CONSIDER ACTION ON EXECUTIVE SESSION ITEMS

Adjourn

4:30 p.m. approximately

A. CALL TO ORDER IN OPEN SESSION

B. CONSIDER AGENDA ITEMS

1. **U. T. Board of Regents: Approval of appointment of Chairman for Facilities Planning and Construction Committee (Regents' Rules and Regulations, Part One, Chapter I, Section 7)**

RECOMMENDATION

Chairman Huffines recommends that Regent John W. Barnhill, Jr., be appointed Chairman of the Facilities Planning and Construction Committee. The recommended appointment requires Board approval pursuant to the Regents' Rules and Regulations, Part One, Chapter I, Section 7.

The former Chairman of the Facilities Planning and Construction Committee, Mr. James Richard Huffines, was elected Chairman of the Board of Regents on June 2, 2004.

2. **U. T. Board of Regents: Approval of appointment of Regental Representative to the Texas Growth Fund (Regents' Rules and Regulations, Part One, Chapter I, Section 7)**

RECOMMENDATION

Chairman Huffines recommends that Regent Robert A. Estrada be appointed as Regental representative to the Board of Trustees of the Texas Growth Fund effective immediately.

Regent Estrada will replace Regent Barnhill as the U. T. Board of Regents' representative on the Texas Growth Fund Board of Trustees.

BACKGROUND INFORMATION

The Texas Growth Fund II, as authorized by the Texas Constitution, expires on September 1, 2008.

The Regents' Rules and Regulations, Part One, Chapter I, Section 7 state that pursuant to Section 70(m), Article XVI of the Texas Constitution, the Texas Growth Fund II shall be managed by a Board of Trustees that "includes one member from and elected by" the U. T. Board of Regents.

3. **U. T. Board of Regents: Proposed appointment of member of Board of Regents to Board of Directors of The University of Texas Investment Management Company (UTIMCO)**

RECOMMENDATION

Chairman Huffines recommends that Mr. John W. Barnhill, Jr., be appointed to the UTIMCO Board of Directors for a term ending April 1, 2005, or until his successor is chosen and qualifies, or until his earlier resignation or removal.

BACKGROUND INFORMATION

Section 66.08 of the Texas Education Code requires that the U. T. Board of Regents appoint all members of the Board of Directors of UTIMCO.

Pursuant to Regents' Rules and Regulations, Part One, Chapter I, Section 7, Subsection 7.3 at least three members of the U. T. Board of Regents and the Chancellor shall be appointed to the UTIMCO Board of Directors by the Chairman of the U. T. Board of Regents, by and with the consent of the U. T. Board of Regents.

The position to be filled was previously held by Chairman Huffines who served as a Regental representative on the UTIMCO Board of Directors from May 8, 2003, until his notice of resignation on June 7, 2004.

Mr. Barnhill is a member of the U. T. Board of Regents and is current chairman of the Bank of Brenham. He retired as executive vice president of Blue Bell Creameries in Brenham and is a life member of the U. T. Austin Development Board and the Longhorn Foundation Advisory Council.

4. **U. T. Board of Regents: Discussion and appropriate action regarding proposed recipient for Santa Rita Award**

RECOMMENDATION

Chairman Huffines will make a recommendation for award of the Santa Rita Award, the highest honor bestowed by the Board of Regents.

BACKGROUND INFORMATION

The criteria for selection, as detailed in the Regents' Rules and Regulations, which follow, include such factors as:

- a demonstrated concern for the principles of higher education;
- a deep commitment to the furtherance of the purposes and objectives of The University of Texas System;
- a record of commitment to securing appropriate financial support for the System from both the public and private sectors; and
- a demonstrated record of participation in the affairs of the System, which serves as a high example of selfless and public-spirited service.

Regents' Rules and Regulations, Part One, Chapter I

Sec. 11. Guidelines for the Santa Rita Award

I. Standards

A System-wide award that may be made annually to an individual who has made valuable contributions over an extended period to The University of Texas System in its developmental efforts. An individual is defined as a person, as opposed to a corporation, charitable trust, foundation, and like entities. The recipient may be judged on the basis of a broad list of criteria, primary among which will be a demonstrated concern for the principles of higher education generally, as well as deep commitment to the furtherance of the purposes and objectives of The University of Texas System specifically.

Participation by the recipient in the affairs of the System shall be of such character and purpose to serve as a high example of selfless and public-spirited service. Of particular interest will be the effect that such individual activity may have engendered similar motivation from other public and private areas toward the University System.

II. General Conditions

- A. The award, to be known as the "Santa Rita Award," will consist of a medallion to be presented no more frequently than annually.
- B. The award shall be made on behalf of the Board of Regents of The University of Texas System.

- C. An individual may receive the award only once.
- D. Posthumous awards may be given.
- E. No member of the Board of Regents shall be eligible to receive the Santa Rita Award until the termination of the member's service.

III. Nominations for Awards

- A. Nominations for the award shall be forwarded to the Chairman of the Board of Regents or the Counsel and Secretary to the Board (Office of the Board of Regents, The University of Texas System, 201 West Seventh Street, Suite 820, Austin, Texas 78701-2981).
- B. The nominator shall provide such supporting information and documentation as may be requested by the Chairman or the Counsel and Secretary to the Board.

IV. Selection of Awardees

Awards shall be made, upon recommendation of the Chairman of the Board following consultation with others including the Chancellor and other appropriate U. T. System officials, by a majority vote of members present at a Board of Regents' meeting at which a quorum is present.

5. **U. T. System: Approval to hire external auditor to provide financial audit services for the fiscal year ending August 31, 2005**

RECOMMENDATION

The Board of Regents will discuss the proposals submitted from one or more external audit firms. A recommendation will be made regarding a firm to provide independent financial auditing services for the audit of the U. T. System financial statements for the fiscal year ending August 31, 2005. During the Board meeting, Regent Estrada, Chairman of the Audit, Compliance, and Management Review Committee, will make a recommendation concerning the firm.

Approval is requested from the Board for the audit option determined to be most beneficial to U. T. System.

In addition, if a firm is selected, approval is requested from the Board for U. T. staff to negotiate and enter into an auditing services contract with the selected firm. The first-year contract will terminate on April 1, 2006. The contract will give U. T. System an option to renew for two additional one-year terms.

BACKGROUND INFORMATION

In November 2003, the U. T. Board of Regents approved an initiative to implement the "spirit" of the Sarbanes-Oxley Act as a good faith effort toward manifesting financial accountability and compliance in the public sector. As a result, in June 2004, the Board of Regents sought proposals for a comprehensive annual financial statement audit by an independent certified public accounting firm to obtain assurance that U. T. System has a sound financial base and adequate resources to support the mission of the organization and the scope of its programs and services.

A Request for Qualifications was distributed by U. T. System on June 3, 2004. A pre-proposal conference was held on June 9, with the following five firms participating: Deloitte & Touche; Ernst & Young; KPMG; McConnell Jones Lanier & Murphy; and PricewaterhouseCoopers. Written proposals from interested firms were due to U. T. System on June 30. Oral presentations and firm interviews will be held on July 13 to allow the members of the Audit, Compliance, and Management Review Committee attending an opportunity to further evaluate the firms.

6. U. T. System: Discussion of Library, Equipment, Repair, and Rehabilitation funding

RECOMMENDATION

Assistant Vice Chancellor Wallace will discuss Library, Equipment, Repair, and Rehabilitation (LERR) funding proposed for inclusion in the Fiscal Year 2005 budget submission for approval at the August Board meeting as follows :

- a. \$100,000,000 of Permanent University Fund (PUF) Bond Proceeds to fund Library, Equipment, Repair, and Rehabilitation (LERR) projects; and
- b. expenditure of Available University Fund (AUF) balances in an amount not to exceed \$60,000,000 for the purpose of defeasing certain Board of Regents of The University of Texas System PUF Bonds, Series 1996, Series 1997, Series 2002A, Series 2002B, Series 2004A and Series 2004B, to either maturity or an optional redemption date.

Of the \$100,000,000 of PUF Bond Proceeds, it will be requested that \$40,000,000 be appropriated to fund LERR projects for Fiscal Year 2005. U. T. System component institutions would be authorized to purchase approved equipment items and library materials and to contract for repair and rehabilitation projects following standard purchasing and contracting procedures within approved dollar limits, with the requirement that substitute equipment purchases are to receive prior approval by the Chancellor, the appropriate Executive Vice Chancellor and, where required, the U. T. Board of Regents. Transfers by U. T. System Administration of allocated funds to institutional control or to vendors will coincide with vendor payment requirements. Final approval of specific repair and rehabilitation projects will be in accordance with procedures for construction projects established by the U. T. Board of Regents.

It will be requested that the remaining \$60,000,000 of PUF Bond Proceeds be appropriated to provide an additional one-time funding to build and enhance research infrastructure to attract and retain the best qualified faculty. If approved, funds would be allocated as follows:

- a. \$1,000,000 to be used for additional funding for the U. T. System Digital Library. A full range of medical and scholarly journals is available through the digital library to all faculty at each of the 15 component institutions. These funds would be used to upgrade current servers and other hardware used to maintain the digital library. Current servers would then be recycled to assist librarians at small campuses.
- b. \$26,550,000 to be used at the six medical institutions for recruiting top researchers. This funding would be available only for laboratory renovations and purchase of equipment. Competitive proposals for these funds would be submitted from the component institutions and distribution would be decided by a committee chaired by the Executive Vice Chancellor for Health Affairs.
- c. \$32,450,000 to be distributed to the seven academic institutions excluding U. T. Pan American and U. T. Brownsville in two packages as follows:

Untenured faculty recruitment -- \$14,600,000 would be available as a grant to the seven academic institutions in proportion to planned hiring. The grant would improve the start-up packages for assistant professors and upgrade the quality of tenure-track faculty through laboratory renovations and equipment purchases.

Tenured faculty -- \$17,850,000 would be centrally administered by the U. T. System for start-up or retention packages for tenured faculty who are recommended from the academic institutions by a faculty group. The packages awarded would be competitive and would range from \$5,000 to \$50,000 awarded by the Office of Academic Affairs. Packages between \$50,000 and \$500,000 would be decided by a committee chaired by the Executive Vice Chancellor for Academic Affairs. Funds would be available for laboratory renovation and equipment purchase.

LERR appropriations not expended or obligated by contract or purchase order within six months after the close of Fiscal Year 2005 are to be available for future System-wide reallocation unless specific authorization to continue obligating the funds is given by the Executive Vice Chancellor for Business Affairs on recommendation of the president of the component institution and the appropriate Executive Vice Chancellor.

BACKGROUND INFORMATION

Historically, the annual funding of LERR is \$30,000,000 with an additional commitment of \$10,000,000 over three years for U. T. Dallas for equipping a Natural Science and Engineering Research Building and Technology Accelerator built in connection with an economic development effort with the State of Texas and Texas Instruments. U. T. Dallas will not participate in the allocation of remaining funds. The allocation of these LERR funds to the U. T. System component institutions was developed from prioritized lists of projects submitted by the component institutions and reviewed by U. T. System Administration staff.

The additional request for \$60,000,000 is a one-time commitment to establish laboratories and purchase equipment to attract and retain the best qualified faculty. Use of these funds must adhere to approved LERR budget rules. With the exception of U. T. Pan American and U. T. Brownsville, all component institutions are eligible to participate. Information regarding the progress of this unique initiative will be gathered to monitor the impact and provide background for institution compacts and for accountability and performance reports.

The AUF Spending Policy provides that the AUF balance not be less than \$30 million. Current projections reflect an AUF balance of approximately \$105 million on August 31, 2004. The proposed defeasance transaction would reduce the AUF balance to approximately \$45 million, or \$15 million above the minimum requirement, by cash defeasing certain high-coupon Permanent University Fund bonds.

The item to be proposed for approval in August 2004 would authorize appropriate U. T. System officials to select the particular bonds to retire based on market conditions at the time of the transaction and to retire the bonds in the most cost-effective manner, either to maturity or an optional redemption date.

7. **U. T. System: Discussion of issues related to potential bid for management of Los Alamos National Laboratory**

REPORT

Chancellor Yudof will lead a discussion of issues related to the status of a potential bid by the U. T. System for the management of Los Alamos National Laboratory.

C. RECESS TO EXECUTIVE SESSION

1. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Texas Government Code Section 551.074
 - a. **U. T. Board of Regents: Discussion with Mellon Human Resources and Investor Solutions concerning compensation issues related to individual employees**
 - b. **U. T. Dallas: Discussion of personnel matters relating to presidential search**
 - c. **U. T. System: Consideration of personnel matters relating to evaluation of presidents, U. T. System officers and employees**
 - d. **U. T. System: Consideration of personnel matters relating to appointment, employment, evaluation, assignment, and duties of officers or employees**
2. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers - Texas Government Code Section 551.071
3. Deliberations Regarding the Purchase, Exchange, Lease or Value of Real Property - Texas Government Code Section 551.072

D. RECONVENE IN OPEN SESSION TO CONSIDER ACTION ON EXECUTIVE SESSION ITEMS, IF NEEDED

E. ADJOURN