



TABLE OF CONTENTS FOR MEETING OF THE BOARD

Board Meeting: 8/11-12/2004
U. T. M. D. Anderson Cancer Center

	Board Meeting
<u>WEDNESDAY, AUGUST 11</u>	
A. CALL TO ORDER IN OPEN SESSION	<i>9:30 a.m. Chairman Huffines</i>
B. U. T. System: Discussion and appropriate action regarding executive compensation philosophy	<i>9:30 a.m. Chancellor Yudof</i>
C. RECESS TO EXECUTIVE SESSION	<i>9:45 a.m.</i>
1. U. T. Board of Regents: Deliberations Regarding the Purchase, Exchange, Lease or Value of Real Property - <u>Texas Government Code</u> Section 551.072	
U. T. Pan American: Determination of necessity and authorization to acquire six tracts of mostly undeveloped land consisting of approximately 75 acres located immediately north and west of the campus in Edinburg, Hidalgo County, Texas, by purchase or condemnation, if necessary	<i>Mr. Wilson Dr. Nevárez</i>
2. U. T. Board of Regents: 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. Dallas: Consideration of personnel matters related to presidential search	
b. U. T. System: Consideration of personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of presidents, U. T. System officers and employees	
3. U. T. Board of Regents: Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers - <u>Texas Government Code</u> Section 551.071	
D. RECONVENE IN OPEN SESSION FOR ACTION ON EXECUTIVE SESSION ITEMS	<i>12:25 p.m.</i>

- | | |
|--|-----------------|
| E. RECESS FOR MEETINGS OF STANDING COMMITTEES | 12:30-5:00 p.m. |
| Health Affairs Committee | 12:30 p.m. |
| Academic Affairs Committee | 1:45 p.m. |
| Finance and Planning Committee | 2:45 p.m. |
| Facilities Planning and Construction Committee | 4:00 p.m. |

THURSDAY, AUGUST 12

- | | | |
|---|--|----------|
| F. RECONVENE MEETING OF THE BOARD IN OPEN SESSION | 8:00 a.m. | |
| G. APPROVAL OF MINUTES | | |
| H. CONSIDER AGENDA ITEMS | | |
| 1. U. T. M. D. Anderson Cancer Center: Update on activities of the institution by President Mendelsohn | 8:10 a.m.
Report
<i>Dr. Mendelsohn</i> | 1 |
| 2. U. T. System: Report on Selected Legislative Issues for the 79th Texas Legislative Session | 8:30 a.m.
Report
<i>Vice Chancellor Smith</i> | 2 |
| 3. U. T. System: Accountability Framework Update | 8:45 a.m.
Report
<i>Dr. Malandra</i> | 3 |
| 4. U. T. System: Approval of the operating budgets for the fiscal year ending August 31, 2005, and approval of Permanent University Fund Bond Proceeds allocation for Library, Equipment, Repair and Rehabilitation Projects | 8:50 a.m.
Action
<i>Chancellor Yudof</i> | 4 |
| 5. U. T. Board of Regents: Amendment of Bylaws for The University of Texas Investment Management Company (UTIMCO) | 9:20 a.m.
Action
<i>Chancellor Yudof</i> | 6 |
| 6. U. T. Board of Regents: Approval of the Investment Management Services Agreement with The University of Texas Investment Management Company (UTIMCO) | 9:25 a.m.
Action
<i>Chancellor Yudof</i> | 8 |

7.	U. T. Board of Regents: Amendment of Regents' <u>Rules and Regulations</u> related to The University of Texas Investment Management Company (UTIMCO) and investment issues	9:30 a.m. Action <i>Chancellor Yudof</i>	10
8.	U. T. System: Authorization of a Fee for Investment Oversight	9:35 a.m. Action <i>Chancellor Yudof</i>	14
9.	U. T. Board of Regents: Approval to Amend the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Short Intermediate Term Fund, Separately Invested Accounts, and Short Term Fund Investment Policy Statements	9:45 a.m. Action <i>Mr. Boldt</i>	15
L.	RECESS FOR MEETINGS OF STANDING COMMITTEES	9:50 a.m.	
M.	RECONVENE MEETING OF THE BOARD		
N.	OTHER MATTER		
	U. T. Board of Regents: Presentation of certificate of appreciation to President Nevárez	10:10 a.m. Action <i>Chairman Huffines</i>	109
Adjourn		10:15 a.m. <i>approximately</i>	

THURSDAY, AUGUST 12

- J. APPROVAL OF MINUTES
- K. CONSIDER AGENDA ITEMS
- 1. **U. T. M. D. Anderson Cancer Center: Update on activities of the institution by President Mendelsohn**

REPORT

President Mendelsohn will present an update on activities of U. T. M. D. Anderson Cancer Center. A PowerPoint presentation is attached on Pages 1.1 - 1.9.

The University of Texas M. D. Anderson Cancer Center

John Mendelsohn, M.D.
President



Vision

We shall be the premier cancer center in the world, based on the excellence of our people, our research-driven patient care and our science. We are Making Cancer History.®

Four Reasons for Top Quality

- We have an outstanding and caring staff of physicians, nurses and other professionals.
- Our patient care is research-driven, so we offer options others do not.
- Our clinics are multidisciplinary, so several minds come together to benefit each patient.
- Our patients are knowledgeable and trusting, and this is an incentive to be innovative and creative.

Patient Care Statistics

	<u>FY'03</u>	<u>5-Year % Growth</u>
Total Patients Served	65,778	37.8%
New Patients Served	24,715	39.7%
Admissions	19,430	22.0%

Education Profile – FY 2003

• Clinical Residents/Fellows	961
• Research Fellows	682
• Graduate Students (with UTHSC)*	450
• Visitors/Special Programs	295
• Nursing Students	310
• Student Programs	301
• School of Health Sciences*	136
• TOTAL TRAINEES	3135

*degree granting program

Research

	<u>2003</u> (Projected)	<u>5 year</u> <u>% increase</u>
Federal grant dollars*	\$164M	143%
# peer-reviewed grants*	510	67%
SPORES* (Specialized Programs of Research Excellence)	9	900%
Patients enrolled in therapeutic clinical trials	12,232	200%
Training grants	26	160%

*Most NCI grants (208), NCI grant dollars (\$98.4M) and SPORES of any academic institution

Strategic Vision

for Making Cancer History® 2005 – 2010

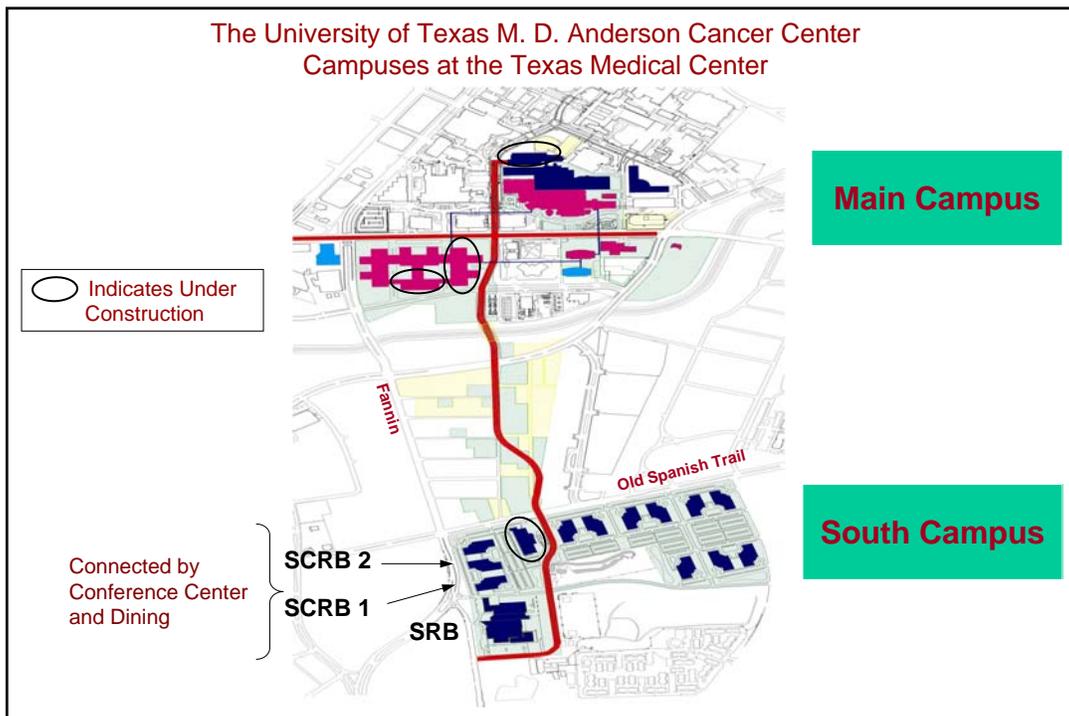


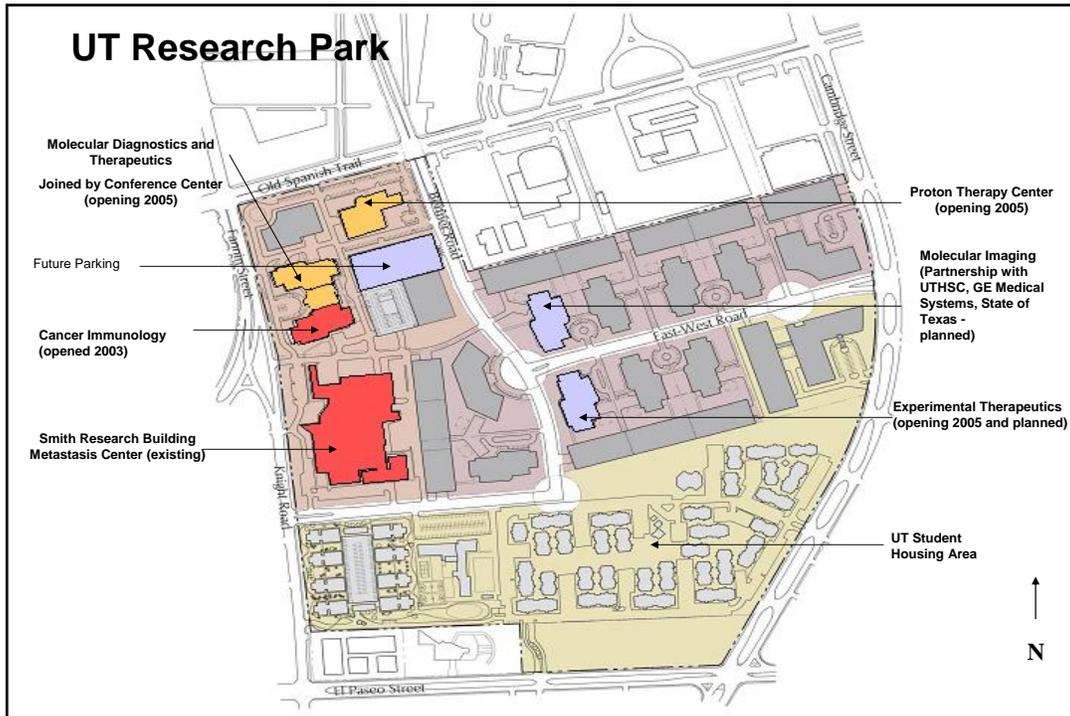
Goals for Future Advancement

- (1) Enhance the excellence, value, safety and efficiency of our patient care.
- (2) Enhance the quality of existing research programs and develop priority programs for the future.
- (3) Enhance the quality and outcomes of our undergraduate and graduate degree-granting programs, and our post-doctoral training programs.

Goals for Future Advancement, cont

- (4) Expand research addressing risk assessment, prevention and early detection of cancer and develop strategies to disseminate these findings.
- (5) Advance M. D. Anderson as an employer of choice.
- (6) Increase our mission-driven collaborations.
- (7) Safeguard and enhance our resources.





Smith Research Building



**South Campus
Bldg II 147,000sf**

**Immunology
Bldg Opened
Summer 2003.**

132,000 sf

The University of Texas M.D. Anderson Cancer Center
South Campus Research Buildings One and Two
and
Conference Center

George and Cynthia Mitchell BSRB

486,000 sf



Cancer Prevention Building

391,000 sf



Ambulatory Clinical Building

782,000 sf



THE UNIVERSITY OF TEXAS
MD ANDERSON
CANCER CENTER
Making Cancer History™

2. **U. T. System: Report on Selected Legislative Issues for the 79th Texas Legislative Session**

REPORT

The Honorable E. Ashley Smith, Vice Chancellor for Governmental Relations, will review various legislative issues of interest to the U. T. System, including regulatory issues. A report on Pages 2.1 - 2.11 addresses the various elements that enhance the performance of the U. T. mission to provide high quality educational opportunities. Vice Chancellor Smith's PowerPoint presentation is set forth on Pages 2.12 - 2.18.

**Report on Possible Legislative and Regulatory Issues
for the 79th Legislature
Office of Governmental Relations**

INTRODUCTION

At the May 2004 meeting of the Board of Regents, the Office of Governmental Relations presented an outline of the issues submitted by institutions within the System and by System Administration for possible consideration by the Legislature in the 79th Regular Session in 2005. Each of the issues has been analyzed in comparison to the mission statement of the System, the accountability framework established by the System, and the System's obligations to meet the goals of the Texas Higher Education Coordinating Board's report, *Closing the Gaps*. Further analysis has refined the themes into six that best describe the goals of System legislative issues for 2005:

- Closing the gaps
- Ensuring high quality education and academic success
- Providing excellence in health care
- Enhancing institutional competitiveness for educators and researchers
- Strengthening services to public education and communities
- Improving efficiency of operations and productive use of resources

From the numerous issues raised by System institutions and administrators, the Chancellor, in consultation with the executive vice chancellors and the Office of Governmental Relations, has identified issues for consideration as System priorities. Many of the priority issues involve the appropriation of state dollars through a formula, through a special item specific to an institution or class of institutions, or through the restoration of previous reductions or vetoed funds. It is therefore important and practical to recognize the context for legislative consideration of these issues: For FY 2004-05, general revenue appropriations statewide decreased 2.9% compared to FY 2002-03. For higher education the general revenue decrease was 2.5% compared to FY 2002-03.

In addition, the System and institutions recently received instructions from the Legislative Budget Board (LBB) that limits each Legislative Appropriations Request (LAR) for general revenue-related funds to 95% of the sums expended in FY 2004 and budgeted for FY 2005. The five percent reduction effectively compounds the previous reductions, and the effect is magnified by the growth in student enrollment, which was 12.6% from Fall 2000 to Fall 2002. How the legislature will treat these issues in the next General Appropriations Act is unpredictable.

EXECUTIVE SUMMARY

Although this report focuses on issues that System institutions believe need legislative consideration, the institutions are engaged in projects and planning that address these issues within current statutory authority and funding.

The highest priority issue is full formula funding that accounts for growth and inflation. Additional System priority issues are:

Closing the Gaps, including:

- ▶ *Supporting emerging institutions and doctoral programs*
- ▶ *Modifying the Higher Education Assistance Fund (HEAF) in regard to equipment and library resources*

Ensuring High Quality Education and Academic Success, including:

- ▶ *Addressing the impact of the Top 10% rule on admissions*
- ▶ *Maximizing the TEXAS Grant program*

Providing Excellence in Health Care, including:

- ▶ *Supporting Graduate Medical Education (GME)*
- ▶ *Providing for indigent care*
- ▶ *Using a formula that does not penalize established educational programs*
- ▶ *Providing for correctional managed care*
- ▶ *Developing the Regional Academic Health Center (RAHC)*
- ▶ *Addressing the conflict between nursing curriculum and licensing requirements*

Enhancing Institutional Competitiveness for Educators and Researchers, including:

- ▶ *Promoting increased research capacity*
- ▶ *Addressing the definition of “restricted research” in research reporting*

Strengthening Services to Public Education and Communities, including:

- ▶ *Continuing current collaborations*
- ▶ *Supporting new initiatives*

Improving Efficiency of Operations and Productive Use of Resources, including:

- ▶ *Establishing a statewide accountability System*
- ▶ *Preserving human resources*
- ▶ *Removing statutory restrictions on administrative flexibility*

Issues specific to an institution, such as legislative authority for a student fee, special item funding, or Tuition Revenue Bonds have been reviewed by System Administration. Whether or not to present those issues for consideration by the legislature is a matter to be determined by the individual institution. The System Administration will support institutions in addressing institution-specific issues that are consistent with the goals described earlier. System institutions are currently preparing Legislative Appropriations Requests and awaiting legislative instructions on Tuition Revenue Bonds.

WORK IN PROGRESS

As noted in the introduction, the issues described in this report are similar to those from the accountability study, which focused on the work of the System institutions. This report focuses on what the institutions need to perform that work, as well as what additional work the institutions want to do. Accordingly, System institutions address the issues described in this report in partnership with the legislature, which directs policy both through substantive legislation and through appropriations.

Projects planned or in progress that address some of these issues within current statutory authority and funding include:

- Creative use of available “excellence” funds and creative means of financing to encourage synergy between the System’s academic and health institutions in order to leverage the strengths of both
- Use of tuition flexibility to encourage timely graduation, such as flat-rate tuition
- Proactive production of an accountability study and plan
- Use of telemedicine and other innovative delivery techniques to provide cost-effective health care.

SYSTEM PRIORITY ISSUES

The highest priority issue is the funding of the formulas by which general revenue is appropriated to academic and health institutions. The core instructional mission of System institutions is dependent on the full funding of formulas that account for inflation and enrollment growth.

The following additional issues, arranged by theme, are those suggested by System Administration as priority issues. The listing is not intended as a rank order of priorities, but rather merely identifies each as a priority issue. Particularly to the extent that some of the issues will represent competing priorities for scarce public dollars, a rank ordering will naturally develop in the legislative process.

Closing the Gaps

The System is committed to meeting the goals established by the Texas Higher Education Coordinating Board entitled *Closing the Gaps: The Texas Higher Education Plan*. Meeting the goals of *Closing the Gaps* is dependent on the provision of funding that is adequate for the necessary growth in faculty, advisors, recruiters, and capital improvements. In addition, the following are specific priority issues that relate to the System’s efforts in this regard:

► *Supporting emerging institutions and doctoral programs.* Most of the state’s higher education resources are located in the central part of the state within a triangle running from Dallas/Fort Worth to San Antonio to Houston/Galveston. Five of the ten largest population centers lie outside this triangle, including El Paso and three areas in South Texas that are Metropolitan Statistical Areas for census purposes: Corpus Christi, Brownsville-Harlingen-San Benito and McAllen-Edinburg-Mission. The population

centers in South Texas are among the fastest growing areas in the state and the nation; they also have the majority minority population. Emerging institutions in the Midland-Odessa and Tyler-Longview-Marshall metropolitan areas also play a critical role in the economic and social growth of their regions as well as serving statewide student needs. Although strides have been made outside the central core for emerging institutions and doctoral institutions, more support must be provided, particularly if the state is to be successful at meeting the goals of *Closing the Gaps* in participation and in research.

In addition, the Washington Advisory Group report, while focused on expanding and enhancing the research capacity of emerging System institutions such as UT Brownsville and UT Pan American, also provides direction for improving the undergraduate curriculum and program effectiveness at those institutions.

► *Modifying the Higher Education Assistance Fund (HEAF) in regard to equipment and library resources.* The University of Texas-Pan American and The University of Texas at Brownsville, the only System institutions that benefit from the constitutional Higher Education Assistance Fund (the common name for the constitutional appropriation of funds under Article VII, Section 17, Texas Constitution) instead of the Permanent University Fund, are among the few institutions best poised to contribute most significantly towards meeting the state's *Closing the Gaps* goals in regard to minority participation in higher education. Enrollment at each institution comes predominately from minority students. UT Pan American ranks second in the nation in the number of bachelor degrees awarded to Hispanics.

The HEAF funds, which may be used only for limited capital purposes (including capital equipment and library), are allocated by legislative formula for 10-year periods, but the formula may be adjusted every five years. In the current allocation period (FYs 2001 – 2005), UT Pan American and UT Brownsville suffered reductions of \$12,659,645 and \$2,554,395 respectively, despite their critical role in closing the gaps.

The reductions were the result of an allocation formula that does not adequately address the need for capital equipment, particularly the technology needed to provide students access to modern microscopes, computer Systems, and libraries that will best prepare them for entry into the employment marketplace. The 79th Legislature has the necessary constitutional authority and the once-every-five-years opportunity to modify the allocation formula for the next five-year allocation period.

Ensuring Quality Education and Academic Success

Institutions of The University of Texas System, which already account for more than one-third of the total number of enrolled students in Texas public universities, must grow infrastructure and services in order for students to have access to high-quality programs and to succeed in those programs. Increased funding through appropriate formulas would permit the adding of faculty and the reduction of student-teacher ratios, which facilitates higher quality education.

Increased funding would permit enhancement of the advising function, produce greater graduation rates and more timely graduations, and ultimately reduce costs. In addition, the following are specific priority issues related to the System's efforts in this regard:

► *Addressing the impact of the Top 10% rule on admissions.* State law (Sec. 51.803, Texas Education Code) currently requires the automatic admission of freshman applicants who graduate in the top 10% of their graduating class. There is evidence that if the top 10% provisions are not modified, the percentage of automatically admitted students in UT Austin's freshman class will continue to increase.

Over reliance on a single factor, such as high school class ranking, has a dramatic effect on certain highly specialized areas of study like music, art, drama and architecture, which require talent or portfolio reviews for admissions decisions. Those talents are not addressed by traditional admissions measures like class rank or test scores. As the percentage of automatically admitted students increases, the ability of UT Austin to review these special talents becomes more limited and could be eliminated.

The System has embraced a holistic approach to admissions while at the same time supplementing the progress already made in increasing diversity. Under Regental policy, System institutions will be able to use race and ethnicity among the many factors considered in admissions.

Consideration of this issue is a specific charge of the Subcommittee on Higher Education of the Senate Education Committee. The committee conducted an extensive public hearing on this issue on June 24, 2004.

► *Maximizing the TEXAS Grant program.* The Toward EXcellence, Access and Success ("TEXAS") Grant Program was created in 1999 by the Texas Legislature. The program emphasis is on retention of students, and students who continue to meet academic and other eligibility criteria can continue to receive awards, which pay tuition and fees, for up to six years. The State of Texas has strongly encouraged high school students to take the "recommended" or "advanced" high school college-prep curriculum with the representation that a TEXAS Grant would be available to assist them financially for college. In addition, higher education institutions have heavily promoted this program to students and parents.

Although total appropriations for the TEXAS Grant Program, which is need-based, increased for FY04 and FY05, the amount appropriated is less than the amount necessary to make grants to all eligible students. As a result, the amount available for *initial awards* to *new* students was dramatically reduced because coordinating board rules give priority to continuation awards (awards to students who have previously received an initial award).

The effect is easily seen at one System institution alone: UT Pan American is an institution at which 45% of students have an annual family income of less than \$20,000 and serves the fast-growing border region that is on the front line of Closing the Gaps. However, because priority must be given to continuation awards, UT Pan American was allocated only \$1,080,160 in FY2004 for initial TEXAS Grants to new students, compared to \$5,066,554 in FY2003. As a result, UT Pan American was able to award grants to only 353 out of approximately 2000 new eligible students.

*Prepared by Office of Governmental Relations
July 2004*

Providing Excellence in Health Care

The mission statement for The University of Texas System includes this mission: “To provide excellent, affordable, and compassionate patient care through hospitals and clinics that are of central importance to programs of teach, scholarship, research, and service with medicine and related health sciences.”

Success in meeting goals and expectations in this regard is directly related to funding levels; the primary solution to the challenges the System faces in providing health care involve increased funding above current levels. The following are specific priority issues that relate to the System’s efforts in this regard:

► *Supporting Graduate Medical Education (GME).* Health institution funding formulas have never addressed the costs of residency education (post-M.D. degree education). This lack of funding is a particular burden on System health institutions, which educate 66% of all medical residents in Texas. Furthermore, in addition to making other significant budget cuts, the 78th Texas Legislature eliminated Medicaid funding for GME and reduced GME funding allocated by the Texas Higher Education Coordinating Board.

Educating medical residents is the most cost-effective form of training doctors who will practice in Texas. Studies have shown that doctors are likely to practice in the state in which they perform medical residency. GME also plays a critical role in providing patient care, particularly indigent care.

The legislature must adequately fund GME to assure a major source of highly qualified well-trained physicians and to adequately provide for the health of Texans.

► *Providing for indigent care.* For FY 2003, System health institutions provided more than \$1 billion in uncompensated medical care. The cost of uncompensated care creates financial pressure on the institutions while the costs of providing health care are increasing due to nursing shortages, expanding demand for services, and increasing pharmaceutical and supply costs. The University of Texas Medical Branch at Galveston (UTMB), for example, has experienced severe reductions in state funding for the current biennium, with an additional \$10 million a year reduction to the Multi-categorical Teaching Hospital Fund (Indigent Care Fund). While serving the Houston/Galveston region with an uninsured rate twice the national average, these funding cuts have forced UTMB to reduce indigent care volumes. This reduction of direct patient care and the associated reduction in volumes have had an impact on the ability of the institution to achieve its teaching and research missions. As the cost of health care increases, so will the need for indigent care.

► *Using a formula that does not penalize established educational programs.* The underfunding of existing formulas for health institutions has shifted funds from health institutions that have had little or no growth in enrollment to institutions that have had larger enrollment growth. This has penalized mature programs even though their enrollments have not declined and have, in some instances, increased.

In order to compete for legislative funding under the current elements of the formula, existing health institutions with mature programs must admit additional students even as the programs receive diminished funding in support of their current student population. The health institutions must then sustain the incremental costs of enrollment growth through the biennium in hopes that incremental formula funding dollars will be allocated to them in the next biennium.

► *Providing for correctional managed care.* Health care for approximately 80% of those incarcerated in Texas prisons is provided by UTMB on behalf of the Texas Department of Criminal Justice. On a per inmate basis, UTMB will have absorbed revenue reductions for four consecutive years through Fiscal Year 2005, despite actuarial projections of 7.5% per year growth in expenses due to the aging offender population, the incidence of disease and other demographic factors, and medical inflation.

Despite this funding reduction, UTMB has been able to steadily reduce the cost of offender health care by implementing telemedicine, electronic medical records, pharmacy pricing discounts, medical management, and other cost reduction strategies. However, further revenue reductions cannot be sustained or offset by cost reduction efforts.

► *Developing the Regional Academic Health Center (RAHC).* The RAHC was established by the 75th Legislature to serve the counties of Cameron, Hidalgo, Starr and Willacy by providing medical education and research. The RAHC's Medical Education and Medical Research Divisions are under the oversight of the UTHSCSA. The medical education programs started in July 2002 with the opening of the Medical Education Division of the RAHC in Harlingen. The Medical Research Division facility in Edinburg is expected to open in FY2005.

Adequate funding is crucial for the maintenance and operation of RAHC medical education and medical research, for maintaining accreditation, and for providing medical education and student support programs comparable to those provided by the UTHSCSA.

► *Addressing the conflict between nursing curriculum and licensing requirements.* The Board of Nurse Examiners for the State of Texas (BNE) has implemented Advanced Practice Nursing rules that conflict with the authority of the Texas Higher Education Coordinating Board regarding curriculum required for Advanced Practice Nursing. While the Board does not have statutory authority to control curriculum at the graduate level, it does so indirectly through rulemaking and licensure requirements.

For example, the BNE has adopted a rule requiring that certain curricular content be separated out in a course and that it must be recorded as such on the transcript. As a result, a nurse who is nationally certified as a Family Nurse Practitioner, has 10 years' experience as such a practitioner, and has a doctoral degree in nursing will not be licensed by the BNE for that advanced practice because the student's out of state undergraduate transcript fails to separate the curricular content.

The current situation unnecessarily restricts the delivery of health care by highly trained, well-qualified nurse practitioners when the state is experiencing a severe nursing shortage.

Enhancing Institutional Competitiveness for Educators and Researchers

The highest quality education demands the best faculty. Attracting and retaining top-quality faculty is in part determined by salary, but also by institutional support for research. Increased formula funding support yields higher salaries, and increased special funding yields more attractive research opportunities. Both sources of funding work to enable institutions to compete for and retain the best people, in addition to creating circumstances in which faculty can do their job in the best possible way. The following are specific priority issues that relate to the System's efforts in this regard:

► *Promoting increased research capacity.* University research is both a critically necessary teaching model and an economic development engine for the State of Texas. University research, and the technology transfer that comes from university research, contribute more than a billion dollars a year to the Texas economy.

Only two Texas academic institutions, UT Austin and Texas A&M University, have achieved Tier 1 status in research. Texas urgently needs to create additional first-tier research universities in order to secure the state's future educational and economic health. This requires adequate funding to establish concentrations of research strength in terms of faculty excellence and student quality. That research strength is necessary for the additional institutions to compete with public universities in such states as California, Florida, New York and Maryland in recruiting talent and winning research competitions. Specifically, focused funding for start-up packages in selected fields and seeding research efforts as a bridge to federal funding would enhance the ability of System institutions to attract top-quality faculty.

Stable, continuing support for research enhancement is necessary for the state to Close the Gaps in research, and would enable the System to implement the recommendations of the Washington Advisory Group for the enhancement of research at System academic institutions other than UT Austin.

The statutory mechanism for research enhancement was enacted by the 78th Legislature, which created the Research Development Fund (RDF) to be used by institutions specifically to "promote increased research capacity." The RDF replaces the Texas Excellence Fund and the University Research Fund effective September 1, 2005 (after the 79th Legislature, Regular Session). The Governor vetoed the amounts appropriated for those funds by the 78th Legislature in 2003.

► *Addressing the definition of "restricted research" in research reporting.* The Research Development Fund is to be allocated on the basis of the amount of "restricted research" funds expended by the eligible institutions, as were the Texas Excellence Fund and the University Research Fund. The amount of "restricted research" is determined in accordance with standards prescribed by the Texas Higher Education Coordinating Board. The standards adopted by the coordinating board (with institutional input) employ a definition of "restricted research" that is different from—and more narrowly limited than—the Federal definition that is used by most institutions outside of Texas.

The result is an underreporting of research and research-related externally funded activities, which in turn affects Texas' ability to attract research talent and compete for the economic development that comes with additional sponsored research. The definition should be revisited if it continues to be employed in the statutory scheme for allocating funds for increasing research capacity.

Strengthening Services to Public Education and Communities.

Another component of the mission statement of The University of Texas System is to “render service to the public that produces economic, technical, social, cultural, and educational benefits through interactions with individuals and with local, Texas, national, and international organizations and communities.” The System universities accomplish that mission primarily through high-quality teacher preparation and professional development programs, through research-based instructional programs for elementary and secondary schools, and through collaborations with K-12 schools and community colleges. The following are specific priority issues that relate to the System's efforts in this regard:

► *Continuing current collaborations.* As part of their mission, the universities within the System provide many services to K-12 education and to communities through high-quality teacher preparation and professional development programs, through research-based instructional programs for elementary and secondary schools, and through collaborations with K-12 schools and community colleges. Many of these services are funded by external sources. However, specific institutions will be requesting appropriations as special item funding for these projects. For example, continued collaboration between UT Brownsville and Texas Southmost College, previously funded as a special item, provides important pre-collegiate, early intervention programs designed to increase the college admission rates of economically disadvantaged, first-generation college students.

► *Supporting new initiatives.* Although many current services are supported by external funding, some new initiatives suggested by System institutions require appropriated funds for implementation. For example, the proposed Center for Wireless Networking at UT Austin, an important research project, would also include K-12 outreach such as development of community college and high school curriculum.

Improving Efficiency of Operations and Productive Use of Resources

As stewards of public property and public tax dollars, the System has an obligation to continuously improve, operate efficiently, and use the available resources productively. In addition to capital and capital resources, human

resources must be preserved so that the System institutions may attract and retain qualified staff. The following are specific priority issues that relate to the System's efforts in this regard:

► *Establishing a statewide accountability system.* The UT System has committed to an annual report that will offer greater accountability to policy-makers and the public. The first such report has been received and approved by the Board of Regents and communicates performance in teaching, research, and patient care and outlines plans for continuous improvement. Subsequent to the System's initiation of the process that led to the report, Governor Perry in January 2004 issued an executive order requiring all public university systems to develop plans for accountability, with a December 17, 2004 approval deadline for both governing boards and the Texas Higher Education Coordinating Board.

There is significant legislative interest in this issue. In order for the data to be aligned and provide comparable information for the public and policy-makers, a single statewide system of accountability is necessary and likely would result in a streamlined and more efficient reporting of information.

► *Preserving human resources.* Attracting and retaining qualified faculty and staff is a necessity for all institutions of higher education, and is an element necessary for success in closing the gaps and in research enhancement. The System may have a better chance at doing so if changes are authorized in regard to insurance, leave, retirement, and other benefits. System Administration will be working with institutions within and outside the System to identify which specific actions are politically viable and would best serve the goal of attracting and retaining qualified faculty and staff.

► *Removing statutory restrictions on administrative flexibility.* Operating efficiently and getting the most out of available funds require repeated review and analysis of administrative regulations imposed on the operation of System institutions. There are many areas of regulatory relief that could be provided by law in order to save costs and improve efficiency and productivity. Staff has identified more than 30 items of possible regulatory relief and is working with other institutions to evaluate those and other possible similar issues.

INSTITUTION-SPECIFIC ISSUES

Most of the individual institutions within the System submitted for review and consideration issues that could result in legislation specific to the submitting institution, such as legislative authority for a student fee, for special item funding in the appropriations process, or for authority to issue Tuition Revenue Bonds for projects on the institutional campus. System Administration has reviewed those requests with representatives of the individual institutions. Whether or not to present those issues for consideration by the legislature is a matter to be determined by the individual institution in consultation with the Chancellor and executive vice chancellors. To the extent that addressing the issue is consistent with the goals described earlier, System Administration will support the institution's efforts.

*Prepared by Office of Governmental Relations
July 2004*

In regard to Tuition Revenue Bonds, the Chancellor and the Office of Facilities Planning and Construction have reviewed proposed TRB submissions and consulted with and made recommendations to the individual institutions. As of the date of writing of this report, the Legislative Budget Board has not yet issued instructions on the handling of TRB requests, but it is anticipated that the process will be similar to that for the 77th Legislature, in which the project proposals are submitted first to the Texas Higher Education Coordinating Board for review and analysis.



THE UNIVERSITY OF TEXAS SYSTEM

Possible Legislative Issues for the 79th Texas Legislature

August 11-12, 2004

Office of Governmental Relations



Development of Issues

1. **Process began in January 2004**
2. **Component institutions submitted over 100 issues**
3. **Themes are consistent with public expectations of higher education, with the accountability system adopted by the Board, with the System mission statement, and with the Coordinating Board publication, *Closing the Gaps***
4. **Full review and analysis by the Chancellor and Executive Vice Chancellors, as well as the Office of Governmental Relations and other appropriate staff**

2



Context: Competing for Fewer State Dollars

1. For FY 2004-05, general revenue appropriations statewide decreased 2.9% compared to 2002-03.
2. For higher education, the general revenue decrease was 2.5% compared to 2002-03.
3. Instructions from the Legislative Budget Board (LBB) limit each Legislative Appropriations Request (LAR) for general revenue-related funds to 95% of the sums expended in FY 2004 and budgeted for FY 2005.
4. The five percent reduction effectively compounds the previous reductions, and the affect is magnified by the growth in student enrollment, which was 12.6% from Fall 2000 to Fall 2002.

3



Organizing Themes for Analysis of Possible Legislative Issues

The themes that emerged from review and analysis of the issues are similar to those from the accountability study, which focused on the *work* of the institutions, while these themes focus on what the institutions *need* to perform that work, as well as what they *want* to do:

- Closing the gaps,
- Ensuring high quality education and academic success,
- Providing excellence in health care,
- Enhancing institutional competitiveness for educators and researchers,
- Strengthening services to public education and communities, and
- Improving efficiency of operations and productive use of resources.

4



Work in Progress

System initiatives within current statutory authority and funding include:

- Encouraging synergy between academic and health institutions
- Use of tuition flexibility to encourage timely graduation, e.g., flat rate tuition
- Proactive accountability study and plan
- Use of telemedicine and other innovations to provide cost-effective health care

5



System Priorities

The highest priority issue is formula funding.

The core instructional mission of System institutions is dependent on

- full funding of formulas; and
- formulas that account for inflation and enrollment growth.

6



System Priorities

Closing the Gaps

Success depends on funding for necessary growth in faculty, advisors, recruiters, and capital improvements. In addition, specific priority issues are:

- Supporting emerging institutions and doctoral programs
- Modifying the Higher Education Assistance Fund (HEAF) in regard to equipment and library resources

7



System Priorities (continued)

Ensuring High Quality Education and Academic Success

Increased funding permits reduction of student-teacher ratio, enhancement of advising function, greater graduation rates, more timely graduation, and reduction in costs. In addition, specific priority issues are:

- Addressing the impact of the Top 10% rule on admissions
- Maximizing the TEXAS Grant Program

8



System Priorities (continued)

Providing Excellence in Health Care

Success depends on adequate funding. Specific priority issues are:

- Supporting Graduate Medical Education (GME)
- Providing for indigent care
- Using a formula that does not penalize established educational programs
- Providing for correctional managed care
- Developing the Regional Academic Health Center (RAHC)
- Addressing the conflict between nursing curriculum and licensing requirements

9



System Priorities (continued)

Enhancing Institutional Competitiveness for Educators and Researchers

Highest quality education demands attracting and retaining the best faculty and programs. Specific priority issues are:

- Promoting increased research capacity (a teaching model that results in economic development), e.g.:
 - Funding for start-up packages and research seed dollars
 - Funding for faculty salaries and more attractive research opportunities
- Addressing the definition of “restricted research” in research reporting

10



System Priorities (continued)

Strengthening Services to Public Education and Communities

Mission is accomplished primarily through high-quality teacher preparation and research-based instructional programs for K-12. Priority issues are:

- Continuing current collaborations
- Supporting new initiatives

11



System Priorities (continued)

Improving Efficiency of Operations and Productive Use of Resources

As stewards of public property and funds, System has an obligation to continuously improve. Specific priority issues are:

- Establishing a statewide accountability system
- Preserving human resources
- Removing statutory restrictions on administrative flexibility

12



Institution-Specific Issues

1. **Most institutions submitted issues specific to the submitting institution, such as fee authority, special items, or Tuition Revenue Bonds.**
2. **Whether or not to present those issues for consideration by the legislature is to be determined by the institution in consultation with the Chancellor and the Executive Vice Chancellors.**
3. **To the extent that addressing the issue is consistent with the goals described earlier, System Administration will support the institution's efforts.**

13



Dates of Interest

- August to November 2004** – Interim committees continue to meet
- Tuesday, November 2, 2004** – General election
- Monday, November 8, 2004** – Pre-filing of legislation for the 79th Legislature begins
- Tuesday, January 11, 2005** – 79th Legislature convenes at noon
- Friday, March 11, 2005** – Deadline for filing bills and joint resolutions other than local bills, emergency appropriations, and bills that have been declared an emergency by the governor
- Monday, May 30, 2005** – Last day of 79th Regular Session

14



THE UNIVERSITY OF TEXAS SYSTEM

Thank You

3. U. T. System: Accountability Framework Update

Dr. Geri H. Malandra, Associate Vice Chancellor for Accountability, will provide an update on preparation of the next edition of the U. T. System Accountability report and development of the state-wide accountability system for higher education.

REPORT

During the months of May through July 2004, the U. T. System Accountability Working Group turned its attention to refining the performance measures for inclusion in the second edition of the U. T. System Board of Regents' Accountability and Performance Report. Over this period, the Council of Public University Presidents and Chancellors and the Texas Higher Education Coordinating Board developed a system for the state as a whole; a draft of the U. T. System Accountability and Performance Measures for 2004 -2005 is attached on Pages 3.1 – 3.11. The report will be submitted for acceptance later this year.

The University of Texas System
Accountability and Performance Report
2004-05

Presentation Outline

1. Background

- Background: development and reception for first (2003-04) edition
- Policy context: development of a state-wide accountability system
- Timelines: U. T. System; State System
- Operating principles: consistency, minimize reporting burden, alignment, analysis

2. Refinements for 2004-05 Edition of the U. T. System Report

- Performance measures: academic institutions, health-related institutions, U. T. System aggregate measures
- Institutional profiles
- Performance benchmarks
- Use of report

The University of Texas System
Preliminary Accountability Timeline
2004-05

May – mid-June 2004	Survey presidents and accountability working group on usefulness of measures and potential targets Working groups and consultation on data enhancements: Health-related institutions Student experience data Economic impact Faculty and staff data Organizational efficiency and productivity
Mid- to late-June 2004	Analyze survey and discussion results; consider changes in framework
July 29, 2004 July - September 2004	Accountability Working Group meets to recommend changes Confirm state-required measures in Coordinating Board system
Early August 2004	Send requests for data updates to institutions Brief Regents on adjustments in framework
Early September 2004	Data update responses due
October 2004 October 27-28	Data analysis and report drafting Accountability Symposium
November 18, 2004 By November 30, 2004	Accountability Working Group meets Final data analysis, drafting, distribution of draft to institutions for review
December 15, 2004	Draft report to Board for first reading
Dec. 17, 2004	Submission of state-wide report (see next page)
January 10, 2005	U. T. System report distributed to Board for second review
February 2005	Presentation of 2005 report to Board

**Performance and Accountability
State-Wide System Timetable**
Texas Higher Education Coordinating Board
As of July 30, 2004

- July
 - Distribute draft performance and accountability system to institutions and Joint Committee
 - Identify representatives to determine measures for health-related institutions
- August
 - Aug. 4 and Aug. 19: Meeting for discussion and questions regarding the accountability measures
 - 23rd: Deadline to send comments to U. T. System
 - 26th: Deadline for systems to submit comments on accountability measures/groupings to Coordinating Board
 - August 17: Meeting of health-related institution representatives to discuss measures list
- September
 - University peer groups set group targets
 - Sept. 7 Group A
 - Sept. 8 Group B
 - Sept. 9 Group C
 - Sept. 10 Group D
 - Sept. 10 Group E
 - CB staff reviews comments and suggestions and makes appropriate modifications to university and health-related measures, groupings
 - Board chairs (CB and regents) meet to review accountability system
 - CB staff prepares final proposal for a performance and accountability system
 - Institutions provide data for previously unreported measures
- October
 - 28th: Final proposal for performance and accountability system is presented to the Coordinating Board (CB) for adoption
 - CB Chairman and CB Chair of the Planning Committee are authorized to make modifications as appropriate following Regents and Joint Committee review
- November/December
 - Institutions review measures and add comments, descriptions, and other desired text
- December
 - Final modifications made as appropriate
 - 17th: Performance and accountability system complete for public universities, health-related institutions, TSTC and Lamar State Colleges
- January
 - Institutional groups meet to review measures prior to the beginning of the Legislative session
 - Formalize out-of-state peer identification process, obtain comparable data
- Spring 2005
 - Institutional groups meet to review measures following the Legislative session

The University of Texas System
Accountability and Performance Report 2004-05
Performance Measures – U. T. Academic Institutions

U. T. System Measures – Academic Institutions Proposed for 2004-05	Proposed in THECB system
<i>(Suggested additions in italics)</i>	
I. Student Access and Success	
1. Number and percent increase of first-time, full-time degree-seeking undergraduates, disaggregated by ethnicity and gender	
2. Ethnic composition of first-time, full-time undergraduates compared with composition of high school graduates in state	x
3. Average ACT/SAT scores of first-time, full-time, degree-seeking undergraduates	
4. Number and percent of first-time, full-time, degree-seeking undergraduate from top 10% of their high school class, by ethnicity	x
5. Number of undergraduate students enrolled on 12th class day, by ethnicity, gender, and age	x
6. Number of first-time, part-time undergrads; % first-time, part-time degree-seeking undergrads; % part-time undergrads	x
7. Total financial aid disaggregated by source	x
8. Total financial aid and net tuition and fees	
9. Percent TEXAS grant funds allocated	
10. Number of full-time undergraduate students receiving financial aid and amount awarded	
11. Tuition, required fees, and scholarship aid	
12. First-year persistence rate for first-time, full-time degree-seeking undergraduates enrolled at this University, by ethnicity, gender	x
13. Four-, five-, and six-year graduation rates from this University of first-time, full-time freshmen	x
14. Six-year persistence rates of students enrolled at this University, by ethnicity and gender	
15. Four-year graduation rate from this University of transfer/community college students	x
16. Six-year composite graduation and persistence rates from this or another Texas public university, by ethnicity and gender	x
17. Number of baccalaureate degrees awarded, by ethnicity and gender	x
18. Certification exam pass rates of teacher education baccalaureate graduates, by ethnicity and gender	x
19. Licensure exam pass rates of nursing graduates	x
20. Licensure exam pass rates of engineering graduates	x
21. Certification exam pass rates of accounting graduates	x
22. Student outcomes: satisfaction with advising	
23. Student outcomes: evaluation of overall educational experience	
24. Student outcomes: likelihood of attending same institution again	
25. <i>Expand student learning outcomes (academic undergraduate)</i>	
Measures for future development:	
Tuition trends	x
Net cost of attendance	
Impact of federal tax credits and deductions	
Refine enrollment, persistence and graduation rates to include first-generation freshmen; and develop composite rates	
Number of community college transfer students enrolled on the 12th day of class	x

U. T. System Measures – Academic Institutions Proposed for 2004-05	Proposed in THECB system
<i>(Suggested additions in italics)</i>	
Student outcomes: satisfaction with teaching	
Postgraduation experience	x
Graduate and Professional Students	
26. Average GRE scores of entering students	
27. <i>Entrance examination data for additional graduate/professional fields, e.g., law, business</i>	
28. Number of graduate and professional students enrolled on the 12th class day, by ethnicity and gender	x
29. Number of degrees awarded by level (masters, professional, doctoral), disaggregated by gender and ethnicity	x
30. Graduate/professional student certification/licensure exam pass rates for law	x
31. Graduate/professional student certification/licensure exam pass rates for pharmacy	x
32. Graduate and professional degrees in high priority fields	x
33. Graduate education degrees conferred	
34. Number of graduate and professional programs, by level	
Measures for future development:	
Graduate/professional student satisfaction	
Postgraduation experience of graduate/professional students	x
II. Teaching, Research, and Health Care Excellence	
35. Dollar amount of sponsored (externally funded) research expenditures, by funding source (federal, state, private, local)	x
36. <i>Dollar amount of all sponsored expenditures, by source and type (research, training, public service, other).</i>	
37. State appropriations for research as a percent of sponsored (external) research funds expended	
38. Number and percent of FTE tenure/tenure-track faculty holding extramural grants	x
39. Ratio of sponsored research expenditures to FTE tenure/tenure-track faculty	x
40. Total number of endowed professorships and chairs, number filled, and percent of total tenure/tenure-track faculty	x
41. Faculty awards (<i>limit to major awards, and top awards in key fields</i>)	x
42. Institution and program rankings	x
43. Number of new invention disclosures	
44. Number of patents issued	
45. Number of licenses and options executed	
46. Revenue from intellectual property	
47. Number of new public start-up companies	
48. Number of faculty and staff, by ethnicity and gender	x
49. FTE student/FTE faculty ratio	x
50. Percent lower division semester credit hours taught by tenure/tenure-track faculty	x
51. Percent lower division semester credit hours taught by professional faculty	
52. Number of postdoctoral fellows	
53. Examples of <i>high-priority</i> externally funded research collaborations	
54. Examples of <i>high-priority</i> educational collaborations	
55. Faculty salaries and trends (national comparisons)	x
Measures for future development:	

U. T. System Measures – Academic Institutions Proposed for 2004-05	Proposed in THECB system
<i>(Suggested additions in italics)</i>	
Measures of teaching excellence (student evaluations, awards, other)	
Technology transfer data and analysis	
Information technology resources to support teaching and research	
III. Service to and Collaborations with Communities	
56. Contributions to K-12 education, and <i>high-priority</i> collaborations with schools and community colleges	
57. Examples of economic impact (periodic studies), <i>including economic impact of capital expenditures</i>	
58. Examples of <i>high-priority</i> collaborations with business, industry, health, public, and community organizations	
59. Historically Underutilized Business trends	
60. Sources of donor support (alumni, individuals, foundations, corporations, other)	
<i>61. Continuing and distance education trends</i>	
Measures for future development:	
Expand measures of impact on K-16 education	
Expand on economic impact of specific initiatives and investments	
IV. Organizational Efficiency and Productivity	
62. Key operating revenue sources, disaggregated by source (i.e., state appropriations, tuition, etc.)	x
63. Key operating expenses, disaggregated by purpose	
64. Adjusted total revenue (tuition, fees, state appropriations) per FTE student and per FTE faculty	x
65. Appropriated funds per FTE student and per FTE faculty	x
66. Total dollar amount of endowment, and ratio per FTE student and per FTE faculty	x
67. Amount expended for administrative costs as a percent of expenditures	x
68. Assignable space per FTE student	x
69. Space utilization rate of classrooms <i>and labs</i>	x
<i>70. Ratio of research expenditures to research E&G sq. ft.</i>	
71. Construction projects—total projected cost, number of projects, number of square feet to be added	
72. Facility condition index	
<i>73. Energy use ratios</i>	
Measures for future development:	
Refine faculty and staff human resources data	

U. T. System Measures – Academic Institutions Used in 2003-04; Proposed for Deletion in 2004-05	Proposed in THECB system
Post-tenure review trends	

Proposed for Academic Institutions in THECB System 7/5/04 draft Not in U. T. System	
Enrollment: FTE # and %, undergraduate, graduate, and professional students, by gender, ethnicity, and age	
% first-time entering applicants accepted, and % of those accepted who enroll	
% of enrollment that are transfers from Texas two-year colleges with at least 30 SCH	
Semester credit hours: Total number of graduate and undergraduate semester credit hours	
Graduate and professional FTSE as a % of total FTSE	
Financial aid: % of students receiving Pell grants	
Developmental education: % of FTFT, degree-seeking undergraduates receiving developmental education who have graduated or are still enrolled in higher education after six academic years (by total and race/ethnicity)	
Developmental education: % of FTFT, degree-seeking undergraduates requiring developmental education	
% baccalaureate graduates completing at least 30 SCH at a Texas two-year college	
# of students taking certification exam for teacher education	
Graduate rates for masters, doctoral, and professional programs	
% of baccalaureate graduates either employed or enrolled in a Texas graduate or professional school within one year after graduation	
% baccalaureate graduates enrolled in a Texas graduate or professional school within one year of graduation	
% baccalaureate graduates employed in Texas one year after graduation	
Class size: % classes with less than 20 students	
Class size: % classes with more than 50 students	
Endowed chairs: average dollars per endowed chair	
Appropriations: appropriated funds per FTE student and per FTE faculty	
Amount of sponsored (external) research funds as a percent of formula-derived general appropriations revenue	
E&G expenditures per FTE student	
Facilities: space utilization rate of labs	
Average cost of tuition and fees for 30 resident undergraduate semester credits	
Expenditures: E&G expenditures per FTE student	

Performance Measures – U. T. Health-Related Institutions

U. T. System Measures – Health-Related Institutions Proposed for 2004-05	Proposed in THECB system
<i>(Suggested additions in italics)</i>	
I. Student Access and Success	
1. Number of undergrad, grad, and professional students enrolled by school on the 12th class day, <i>by ethnicity, gender, and level</i>	x
2. Licensure/certification rate of allied health students	x
3. National board exam first-time pass rate for dental students	x
4. National board exam first-time pass rate for medical students	x
5. National licensure exam pass rates of graduate level nursing students (R.N., and advanced practice nursing)	x
6. Number of degrees awarded, <i>by school, level, ethnicity, and gender</i>	x
7. Graduation rates of medical, dental, nursing, allied health, public health, informatics, <i>and graduate students</i>	x
8. <i>Medical student satisfaction (AAMC survey data)</i>	
Measures for future development:	
<i>Postgraduation experience</i>	x
II. Teaching, Research, and Health Care Excellence	
9. Dollar amount of sponsored (externally funded) research expenditures, disaggregated by funding source	x
10. <i>Dollar amount of all sponsored expenditures, by source and type (research, training, public service, other).</i>	
11. Amount of sponsored (external) research funds as a percent of formula-derived general appropriations revenue	x
12. Number and percent of FTE tenure/tenure-track & FTE nontenure-track research faculty holding extramural grants	x
13. Ratio of externally funded research expenses to FTE faculty	x
14. Total number of endowed professorships and chairs, number filled, and percent of total tenure/tenure-track faculty	x
15. Faculty awards <i>(limit to major awards, and top awards in key fields)</i>	x
16. Institution and program rankings	x
17. Number of new invention disclosures	
18. Number of patents issued	x
19. Number of licenses and options executed	
20. Revenue from intellectual property	
21. Number of new public start-up companies	
22. Number of faculty and staff, <i>by ethnicity, and gender</i>	x
23. FTE student/FTE faculty ratio	x
24. Number of Accreditation Council for Graduate Medical Education-accredited resident programs	
25. Number of residents in ACGME-accredited programs	
26. State-owned and affiliated hospital admissions by U. T. institution faculty	
27. State-owned and affiliated hospital days by U. T. institution faculty	
28. Clinic visits in state-owned and affiliated facilities treated by U. T. institution faculty	

U. T. System Measures – Health-Related Institutions Proposed for 2004-05 <i>(Suggested additions in italics)</i>	Proposed in THECB system
29. Total charges for unsponsored charity care by faculty in state-owned and affiliated facilities	
30. Patient satisfaction ratings	
31. Examples of <i>high-priority</i> externally funded research collaborations	x
32. Examples of <i>high-priority</i> educational collaborations	x
Measures for future development:	
Measures of teaching excellence (student evaluations, awards, other)	
Technology transfer data and analysis	
Information technology resources to support teaching and research	
Faculty salary trends	x
III. Service to and Collaborations with Communities	
33. Examples of <i>high-priority</i> collaborations with schools	
34. Examples of economic impact (periodic studies), <i>including economic impact of capital expenditures</i>	
35. Examples of <i>high-priority</i> collaborations with business, health, industry, public, and community organizations	
36. Historically Underutilized Business trends	
37. Sources of donor support (alumni, individuals, foundations, corporations, other)	x
38. <i>Continuing and distance education trends</i>	
Measures for future development:	
Expand measures of impact on K-16 education	
Expand on economic impact of specific initiatives and investments	
Continuing and distance education trends	
IV. Organizational Efficiency and Productivity	
39. Key operating revenue sources, disaggregated by source (i.e. state appropriations, tuition, etc.)	x
40. Key operating expenses disaggregated by purpose	x
41. Ratio of admissions, charity care, hospital days, and clinic visits to General Revenue for state-owned hospital/clinic operations	
42. Total dollar amount of endowment, and ratio per FTE student and per FTE faculty	x
43. Amount expended for administrative costs as a percent of expenditures	
44. Clinical billings and collections per FTE clinical faculty	
45. Ratio of research expenditures to research E&G sq. ft.	
46. Facility condition index	
47. Construction projects—total projected cost, number of projects, # sq. ft. to be added	
48. <i>Energy use ratios</i>	
Measures for future development:	
Refine faculty and staff human resources data	

U. T. System Measures – Health-Related Institutions Used in 2003-04; Proposed for Deletion in 2004-05	Proposed in THECB system
Post-tenure review trends	
Educational programs for non-UT Physicians and medical personnel	
Net operating margin of faculty practice plans	
Expenditures on and number of participants in staff and faculty professional development	

Proposed for Health-Related Institutions in THECB System 7/5/04 draft Not in U. T. System	
Endowed chairs: average dollars per endowed chair	
Employment: % baccalaureate graduates enrolled in a Texas graduate or professional school within one year of graduation	
% baccalaureate graduates enrolled in a Texas graduate or professional school within one year of graduation	
Appropriations: appropriated funds per FTE student and per FTE faculty	
Facilities: space utilization rate of classrooms and labs	
Hospital/clinical operating expenses	
Expenditures: E&G expenditures per FTE student	

Performance Measures – U. T. System Aggregate Institutions

U. T. System Measures – System Aggregate Measures Proposed for 2004-05	Proposed in THECB system
U. T. System – Aggregate Measures	
1. Total enrollments, percent increase over previous year	
2. Comparison of total U. T. System enrollment increases with increases for all senior institutions in Texas	
3. Number of total graduates as a percent of total graduates in state	
4. Percent of U. T. Hispanic graduates as % of all Hispanic graduates in state	
5. Percent of U. T. Black graduates as % of all Black graduates in state	
6. Hispanic serving institutions in System	
7. Total sponsored expenses	
8. Total technology development (inventions, patents, license agreements, public start-ups, intellectual property income)	
9. Total operating revenue by fund sources	
10. Total operating expenditures by purpose	
11. Total expenses for U. T. System Administration	
12. Number and demographics of System employees (compare with State demographics)	
13. U. T. System bond rating	
14. Total patient care revenue	
Measures for future development:	
Citizen awareness and satisfaction of U. T. as a System (survey)	
U. T System institutions' satisfaction with System services	
Strategic communications impact	

U. T. System Measures – Institutional Profiles Proposed for 2004-05 <i>(Suggested additions in italics)</i>	Proposed in THECB system
National rankings (institutions and programs)	X
Peer comparisons (national peer groups specific to each institution)	X
<i>Centers of excellence (specific to each institution)</i>	
<i>Faculty awards – subfields, regional</i>	

4. **U. T. System: Approval of the operating budgets for the fiscal year ending August 31, 2005, and approval of Permanent University Fund Bond Proceeds allocation for Library, Equipment, Repair and Rehabilitation Projects**

RECOMMENDATION

The Chancellor, with the concurrence of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and the presidents of the U. T. System component institutions, recommends that the nonpersonnel aspects of the U. T. System Operating Budgets for the fiscal year ending August 31, 2005, including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans, be approved.

It is further recommended that the Chancellor be authorized to make editorial corrections therein and that subsequent adjustments be reported to the U. T. Board of Regents through the docket.

It is requested that Permanent University Fund Bond Proceeds in the amount of \$100,000,000 be appropriated to fund Library, Equipment, Repair and Rehabilitation (LERR) Projects for Fiscal Year 2005. Of the \$100,000,000 of PUF Bond proceeds, it is requested that \$40,000,000 be appropriated directly to U. T. System component institutions. This would authorize the purchase of approved equipment items and library materials and to contract for repair and rehabilitation projects following standard purchasing and contracting procedures within approved dollar limits. Substitute equipment purchases are to receive prior approval by the Chancellor, 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 is 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 and to enhance the U. T. System Digital Library. Through a competitive proposal process determined by U. T. System Administration, \$26,550,000 will be used at the six medical institutions for recruiting top researchers, \$32,450,000 will be distributed to the seven academic institutions, and \$1,000,000 for the U. T. System Digital Library.

It is further recommended that 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

See Executive Session item related to the personnel aspects of the Operating Budgets (Item 2b on Table of Contents Page i for Meeting of the Board).

The appropriation of Permanent University Fund Bond Proceeds will be presented in the Fiscal Year 2005 LERR Budget. As discussed at the July 16, 2004 Board of Regents' meeting, an allocation of \$100,000,000 is being requested for LERR Projects for Fiscal Year 2005. U. T. Dallas will be appropriated \$10,000,000 of these funds 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.

As required by the Available University Fund (AUF) Spending Policy, a forecast of revenues and expenses of the AUF for seven years, including the above allocation has been prepared and is provided on Page 30.3. The additional appropriation of Permanent University Fund Bond Proceeds for this allocation is within the policy as shown in the forecast.

5. **U. T. Board of Regents: Amendment of Bylaws for The University of Texas Investment Management Company (UTIMCO)**

RECOMMENDATION

The Chancellor recommends that the U. T. Board of Regents approve the amendments to the UTIMCO Bylaws to be recommended for adoption by the Board of Directors of The University of Texas Investment Management Company (UTIMCO) as attached in congressional style on Pages 7.1 - 7.11.

BACKGROUND INFORMATION

Section 66.08 of the Texas Education Code requires that the U. T. Board of Regents approve Bylaws of the corporation and any amendments thereto. Amendments to the Bylaws are proposed in response to recommendations from the UTIMCO Working Group to the Board on April 29, 2004, in a report entitled "Report of the UTIMCO Working Group to the Board of Regents of the University of Texas System Regarding Certain Investment Management and Oversight Issues".

On April 29, 2004, the Board of Regents authorized Chancellor Yudof to recommend to the Board an effective oversight system for the proper management of UTIMCO. The amendments to the Bylaws proposed by Chancellor Yudof have been reviewed by U. T. System staff and are consistent with effective oversight. The proposed revisions also include minor suggested corrections and updated language.

Proposed amendments are as follows:

- Amend Article III, Sections 2 and 3 concerning the Board of Directors to be consistent with the authorizing legislation.
- Delete reference in Article III, Section 5A, UTIMCO Nominating Committee, submitting the name of a nominee to fill a UTIMCO director's vacancy to the U. T. Board of Regents (general language on nominations is added to Article IV, Section 3).
- Amend Article III, Section 7 to reference a joint annual meeting with the U. T. Board of Regents.
- Amend Article III, Section 8 to add a requirement that the UTIMCO President consult with the UTIMCO Chairman and Vice Chairmen on the proposed agenda for regular UTIMCO Board meetings.
- Amend Article IV, Section 1 to require the UTIMCO Board to fully review, discuss, and approve performance compensation.

- Amend Article V, Section 9 to require posting of significant documents, policies, and meeting minutes on the UTIMCO website and to require that all open meetings are recorded.
- Amend Article VIII to require that the UTIMCO Board schedule timely consideration of requests by the U. T. Board of Regents to alter, amend, or repeal Bylaws.

The UTIMCO Bylaws were initially approved by the Board of Regents on February 8, 1996, and amendments were approved in May 1997, November 1999, February 2000, November 2001, and August 2003.

See related revisions to the UTIMCO Investment Management Services Agreement (Pages 8 - 9.17) and to the Regents' Rules and Regulations (Pages 10 - 13).

BYLAWS
OF
THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

ARTICLE I
STRUCTURE AND PURPOSES

Section 1. Structure. The University of Texas Investment Management Company (the “Corporation”) is a nonprofit corporation organized under the laws of the State of Texas, including the Texas Non-Profit Corporation Act, Tex. Rev. Civ. Stat. Ann. Art. 1396-1.01 (the “Act”). The Articles of Incorporation of the Corporation (as amended from time to time, the “Articles of Incorporation”) were filed in the office of the Secretary of the State of Texas on November 15, 1995.

Section 2. Member. The Corporation shall have no members.

Section 3. Purposes. The Corporation is organized and will be operated exclusively for charitable and educational purposes. In accomplishment of such purposes, the Corporation will be administered solely for the purpose of aiding, assisting, supporting and acting on behalf of The University of Texas System (the “System”), an agency of the State of Texas, in the performance of its essential governmental function of providing higher education in accordance with the laws of the State of Texas authorizing and governing the System and the creation of the Corporation. The Corporation shall have, without limitation, the following purposes:

- (a) To invest funds under the control and management of the Board of Regents of the System (the “Board of Regents”), including the permanent university fund, as designated by the Board of Regents in accordance with the laws of the State of Texas; and
- (b) To perform such other activities or functions that the Board of Directors of the Corporation determines are necessary or appropriate for the accomplishment of the purposes of the Corporation, provided, however, that the Corporation may not engage in any business other than investing funds designated by the Board of Regents pursuant to a contract with the System for the investment of such funds.

Section 4. Approval by System. Notwithstanding the powers delegated to the Board of Directors of the Corporation, the Corporation may not contract with the Board of Regents to invest funds under the control and management of the Board of Regents, including the permanent university fund, unless and until the Board of Regents has approved (i) the Articles of Incorporation and Bylaws of the Corporation; (ii) the investment policies of the Corporation; (iii) the audit and ethics committee of the Corporation; and (iv) the code of ethics of the Corporation. Furthermore, the Board of Regents must approve (i) any amendments to the Articles of Incorporation and Bylaws of the Corporation; (ii) any changes to the investment policies of the Corporation; (iii) any changes in the audit and ethics committee of the

Corporation; and (iv) any changes in the code of ethics of the Corporation. The Corporation shall file reports with the Board of Regents quarterly, and at such other times as requested by the Board of Regents, concerning such matters as required by the Board of Regents.

Section 5. Prohibited Transactions. In addition to the prohibitions of the laws of the State of Texas, the Corporation may not enter into an agreement or transaction with a former director, officer, or employee of the Corporation, or a business entity in which a former director, officer, or employee of the Corporation has an interest, on or before the first anniversary of the date the person ceased to be a director, officer, or employee of the Corporation. For purposes of this section (i) a former director, officer, or employee of the Corporation has an interest in a business entity if such person owns (a) five percent or more of the voting stock or shares of the business entity or (b) five percent or more of the fair market value of the business entity, and (ii) a former director of the Corporation has an interest in a business entity if money received by such person from the business entity exceeds five percent of the person's gross income for the preceding calendar year. A two-thirds majority of the Board of Directors of the Corporation shall be required to forward to the Board of Regents a change to this Section.

Section 6. Revolving Door. A former officer or employee of the Corporation may not make any communication to or appearance before a director, officer, or employee of the Corporation before the first anniversary of the date an individual ceased to be an officer or employee of the Corporation if the communication or appearance is made (a) with the intent to influence, and (b) on behalf of any person in connection with any matter on which the person seeks action by the Corporation. If a director of the Corporation knowingly communicates with a former officer or employee of the Corporation, whose communication or appearance is made with the intent to influence, and on behalf of any person in connection with any matter on which the person seeks action by the Corporation, such director shall be subject to removal from serving as a director of the Corporation. If an officer or employee of the Corporation knowingly communicates with a former officer or employee of the Corporation whose communication or appearance is made with the intent to influence, and on behalf of any person in connection with any matter on which the person seeks action by the Corporation, such officer or employee shall be subject to disciplinary action. A two-thirds majority of the Board of Directors of the Corporation shall be required to forward to the Board of Regents a change to this Section.

ARTICLE II OFFICES

Section 1. Principal Place of Business. The principal place of business of the Corporation shall be located at 221 West 6th Street, Suite 1700, Austin, Texas 78701. The Corporation may have such other offices, either within or without the State of Texas, as the Board of Directors may determine or as the affairs of the Corporation may require from time to time.

Section 2. Registered Office and Registered Agent. The Corporation shall have and continuously maintain in the State of Texas a registered office and a registered agent whose office is the Corporation's registered office, as required by the Act. The registered office may, but need not, be identical with the principal office of the Corporation in the State of Texas, and the address of the registered office may be changed from time to time by the Board of Directors in accordance with applicable law.

ARTICLE III BOARD OF DIRECTORS

Section 1. Powers. The property, business, and affairs of the Corporation shall be managed and controlled by the Board of Directors, and subject to the restrictions imposed by law, the Articles of Incorporation, and these Bylaws, the Board of Directors shall exercise all of the powers of the Corporation.

Section 2. Number. The Board of Directors shall consist ~~initially of the four (4) Directors named in the Articles of Incorporation of the Corporation initially filed with the Secretary of State of Texas. The number of Directors will automatically increase to nine (9) following appointment by the Board of Regents of nine (9) Directors consistent with Texas Education Code Section 66.08 to replace the four (4) Directors named in the Articles of Incorporation, provided that the Board of Regents may include any of the four (4) named Directors among the nine (9) appointed Directors. Thereafter, the number of Directors shall be determined by the Board of Regents in compliance with applicable law.~~

Section 3. Appointment and Term. ~~Except for those Directors named in the Articles of Incorporation,~~ Directors shall be appointed by the Board of Regents, pursuant to a process determined by the Board of Regents, except that the Chancellor of the System shall serve as a Director so long as he or she remains Chancellor of the System. ~~Until otherwise changed by the Board of Regents in~~ In compliance with applicable law, the members of the Board of Directors shall include (i) the Chancellor of the System, (ii) at least three (3) persons then serving as members of the Board of Regents ("Regental Directors"), and (iii) one or more persons selected by the Board of Regents from a list of candidates with substantial background and expertise in investments that is submitted by the Board of Regents of The Texas A&M University System (together with the Chancellor of the System and the Regental Directors, the "Affiliated Directors"). The three (3) Regental Directors shall serve for two-year terms that expire on the first day of April of each odd-numbered year. The remaining Directors (other than the Chancellor of the System and the Regental Directors) shall serve three-year staggered terms that expire on the first day of April of the appropriate year. No such Director (other than the Affiliated Directors) shall serve more than three (3) full three-year terms. Notwithstanding the foregoing, the Board of Regents may, from time to time, alter the terms of the Directors. Each person serving as a Director shall serve until the expiration of such Director's term, or until such Director's successor has been chosen and qualified, or until such Director's earlier death, resignation, or removal as provided in these Bylaws.

Section 4. Removal and Resignation. Any Director may be removed from office at any time, with or without cause, by the Board of Regents. Any Director or officer may resign at any time. Such resignation shall be made in writing and shall take effect at the time specified therein, or, if no time be specified, at the time of its receipt by the President or Secretary. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

Section 5. Vacancies. Any vacancy occurring in the office of a Director, whether by death, resignation, removal, increase in the number of Directors, or otherwise, shall be filled by the Board of Regents.

~~Section 5A. Nominations; Nominating Committee. Upon the occurrence of a vacancy in the office of Director (other than in the office of an Affiliated Director), the Board of Directors shall submit to the Board of Regents the name of a nominee to fill such vacancy. The nominee so submitted shall be selected by the Board of Directors from a list of names compiled by the Chairman of the Board. Prior to selection of the nominee, a nominating committee shall screen the individuals on the list and recommend to the Board a nominee to fill such vacancy. The Chairman of the Board shall appoint three members of the Board to serve as the nominating committee and shall designate the chairman of the committee.~~

Section 6. Meetings of Directors. The Directors may hold meetings; ~~maintain an office;~~ and keep the Corporation's books and records at such place or places within ~~or without~~ the State of Texas as the Board of Directors may from time to time determine; ~~provided, however, that in the absence of any such determination, such place shall be the Corporation's principal office in the State of Texas.~~

Section 7. Annual Meetings. The annual meeting of the Board of Directors ("Annual Meeting") shall be held at such time and place as shall be designated from time to time by resolution of the Board of Directors, or, if not so designated, on the third Thursday of the month of April of each year at the Corporation's principal office for the purpose of (i) electing officers for the ensuing year, and (ii) transacting such other business as may be properly brought before such Annual Meeting. Notice of Annual Meetings shall be required.

A joint annual meeting with the U. T. Board of Regents ("Joint Meeting") shall be held prior to August 1 of each year to discuss investment policies including asset allocation, investment performance, determination of risk, performance of the Corporation, organizational issues, proposed budget, and related issues. Notice of Joint Meetings shall be required.

Section 8. Regular Meetings. Regular meetings of the Board of Directors ("Regular Meetings") shall be held at such times and places as shall be designated from time to time by resolution of the Board of Directors. Notice of Regular Meetings shall be required. The UTIMCO President shall consult with the Chairman and the Vice Chairmen of the UTIMCO Board, including the Chancellor as Vice Chairman for Policy, on the draft agenda for meetings of the UTIMCO Board at least two (2) weeks prior to each regular UTIMCO Board meeting.

Section 9. Special Meetings. Special meetings of the Board of Directors (“Special Meetings”) shall be held at such times and places as shall be designated from time to time by the Chairman or, on the written request of any Director, by the Secretary or on the written request of the Board of Regents. Notice of Special Meetings shall be required.

Section 10. Notice of Meetings. The Secretary shall give notice of the time and place of each Annual, Joint, Regular and Special Meeting to each Director in person, or by mail, electronic mail, telegraph, or telephone, at least five (5) days before and not sooner than fifty (50) days before such meeting; provided, however, that in the case of a Special Meeting called because of an emergency or urgent necessity, ~~such~~ notice will ~~only need~~ be provided as required by the Texas Open Meetings Act at least two (2) hours before the meeting is convened.

Section 11. Quorum. A majority of the then acting Directors shall constitute a quorum for the consideration of any matters pertaining to the Corporation’s purposes. If at any meeting of the Board of Directors there is less than a quorum present, the Chairman ~~a majority of those present~~ may adjourn the meeting from time to time. The act of a majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless the act of a greater number is required by law, the Articles of Incorporation, or these Bylaws.

Section 12. Voting. Directors must vote in person and proxy voting is prohibited.

Section 13. Conduct of Business. At meetings of the Board of Directors, matters pertaining to the Corporation’s purposes shall be considered.

At all meetings of the Board of Directors, the Chairman of the Board shall preside, and in the absence of the Chairman of the Board, the Vice Chairman of the Board or the Vice Chairman for Policy shall preside. In the absence of the Chairman of the Board and the Vice Chairmen ~~Chairman~~ of the Board, a chairman shall be chosen by the Board of Directors from among the Directors present.

The Secretary of the Corporation shall act as secretary of all meetings of the Board of Directors, but in the absence of the Secretary, the Chairman may appoint any person to act as secretary of the meeting.

The chairman of any meeting of the Board of Directors shall determine the order of business and the procedure at the meeting, including, without limitation, conduct of the discussion and the order of business pursuant to a duly posted agenda.

Section 14. Compensation of Directors; Expenses. Persons serving as Directors shall not receive any salary or compensation for their services as Directors. A Director shall be entitled to reimbursement for reasonable expenses incurred by the Director ~~him~~ in carrying out ~~his~~ duties as a Director.

ARTICLE IV COMMITTEES

Section 1. Board Committees. The Board of Directors may from time to time designate members of the Board of Directors to constitute committees that shall have and may exercise such powers as a majority of the Board of Directors may determine in the resolution that creates the committee; provided, however, that the Board of Regents must approve the audit and ethics committee of the Corporation as required by applicable law and further provided that the full UTIMCO Board shall fully review, discuss, and approve performance compensation for UTIMCO officers and employees following careful consideration and due diligence. The Board of Directors may appoint individuals who are not members of the Board of Directors to any committee; provided, however, that a majority of the committee members shall be members of the Board of Directors if such committee exercises the authority of the Board of Directors in the management of the Corporation.

Other committees, not having and exercising the authority of the Board of Directors in the management of the Corporation, may be designated and members appointed by a resolution adopted by the Board of Directors. Membership of such committees may, but need not, be limited to Directors.

Any Director appointed to a committee designated by the Board of Directors shall cease to be a member of such committee when he or she is no longer serving as Director.

Section 2. Procedures; Meetings; Quorum. Any committee created by the Board of Directors or these Bylaws, unless otherwise expressly provided herein, shall (i) have a chairman designated by the Board of Directors, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of such committee or resolution of the Board of Directors, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board of Directors at its next succeeding meeting. At every meeting of any such committee, the presence of a majority of all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the committee's rules or procedures or these Bylaws or by the Board of Directors.

The Board of Directors may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of such committee. ~~In the absence or disqualification of a member of a committee, the member or members present at any meeting of such committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at that meeting in the place of the absent or disqualified member.~~

Section 3. Nominating Committee. The Chairman may appoint a Nominating Committee to make recommendations to him or her on positions as requested.

ARTICLE V OFFICERS

Section 1. Number, Titles, and Term of Office. The officers of the Corporation shall consist of a Chairman of the Board, a Vice Chairman for Policy, a Vice Chairman of the Board, a President, a Secretary, a Treasurer, and such other officers and assistant officers as the Board of Directors may from time to time elect or appoint. Such other officers and assistant officers shall have such authority and responsibility as may be assigned to them by the Board of Directors. Any two (2) or more offices may be held by the same individual, except the offices of President and Secretary and the offices of Chairman and Vice Chairman. Except for those officers elected at the organizational meeting (the “Organization Meeting”), the term of office for each officer shall be until the next succeeding Annual Meeting at which officers are elected. The term of office for those officers elected at the Organization Meeting shall be that period of time beginning on the date of the Organization Meeting and ending on the date of the first Annual Meeting. In any event, a duly-elected officer shall serve in the office to which he or she is elected until his or her successor has been duly elected and qualified.

Section 2. Removal. Any officer or agent or member of a committee elected or appointed by the Board of Directors may be removed by the Board of Directors, but such removal shall be without prejudice to the contract rights, if any, of the individual so removed. Election or appointment of an officer or agent or member of a committee shall not of itself create contract rights.

Section 3. Vacancies. Any vacancy occurring in any office of the Corporation may be filled by the Board of Directors.

Section 4. Powers and Duties of the Chairman of the Board. The Chairman of the Board shall preside at all meetings of the Board of Directors and shall have such other powers and duties as may be assigned to such officer in these Bylaws or from time to time by the Board of Directors. The Chairman of the Board shall be appointed by the Board of Directors. No Director shall serve more than three (3) full one-year terms as Chairman.

Section 5. Powers and Duties of the Vice Chairman of the Board. The Vice Chairman of the Board shall have such powers and duties as may be assigned to such officer in these Bylaws or from time to time by the Board of Directors and shall exercise the powers of the Chairman during that officer’s absence or inability to act. Any action taken by the Vice Chairman in the performance of the duties of the Chairman shall be conclusive evidence of the absence or inability to act of the Chairman at the time such action was taken. The Vice Chairman of the Board shall be appointed by the Board of Directors. No Director shall serve more than three (3) full one-year terms as Vice Chairman.

Section 6. Powers and Duties of the Vice Chairman for Policy. The Chancellor of the System shall serve as Vice Chairman for Policy and shall coordinate those responsibilities, including the appropriate resolution of policy issues, assigned to UTIMCO and

System by the Rules and Regulations of the Board of Regents and the Investment Management Services Agreement ~~in order~~ to facilitate UTIMCO's performance of its core investment duties.

Section 7. Powers and Duties of the President. The President shall be the Chief Executive Officer of the Corporation. Subject to the control of the Board of Directors, the President shall have general executive charge, management, and control of the properties, business, and operations of the Corporation with all such powers as may be reasonably incident to such responsibilities; shall have the authority to agree upon and execute all leases, contracts, evidences of indebtedness, and other obligations in the name of the Corporation subject to the approval of the Board of Directors and the Executive Committee, if any; and shall have such other powers and duties as may be designated in these Bylaws and as may be assigned to such officer from time to time by the Board of Directors pursuant to a duly approved Delegation of Authority Policy.

Section 8. Powers and Duties of the Treasurer. The Treasurer shall have custody of all of the Corporation's funds and securities that come into such officer's hands. When necessary or proper, the Treasurer may endorse or cause to be endorsed, in the name and on behalf of the Corporation, checks, notes, and other obligations for collection and shall deposit or cause to be deposited the same to the credit of the Corporation in such bank or banks or depositories and in such manner as shall be designated and prescribed by the Board of Directors; may sign or cause to be signed all receipts and vouchers for payments made to the Corporation either alone or jointly with such other officer as may be designated by the Board of Directors; whenever required by the Board of Directors, shall render or cause to be rendered a statement of the cash account; shall enter or cause to be entered regularly in the Corporation's books to be kept by such officer for that purpose full and accurate accounts of all moneys received and paid out on account of the Corporation; shall perform all acts incident to the position of Treasurer subject to the control of the Board of Directors; and shall, if required by the Board of Directors, give such bond for the faithful discharge of such officer's duties in such form as the Board of Directors may require.

Section 9. Powers and Duties of the Secretary. The Secretary shall keep the minutes of all meetings of the Board of Directors in books provided for that purpose; shall attend to the giving and serving of all notices; in furtherance of the Corporation's purposes and subject to the limitations contained in the Articles of Incorporation, may sign with the President in the name and on behalf of the Corporation and/or attest the signatures thereto, all contracts, conveyances, franchises, bonds, deeds, assignments, mortgages, notes, and other instruments of the Corporation; shall have charge of the Corporation's books, records, documents, and instruments, except the books of account and financial records and securities of which the Treasurer shall have custody and charge, and such other books and papers as the Board of Directors may direct, all of which shall be open at reasonable times to the inspection of any Director upon application at the Corporation's office during business hours; and shall in general perform all duties incident to the office of Secretary subject to the control of the Board of Directors. The Secretary shall assure that current copies of the Corporation's Articles of Incorporation and Bylaws, Corporation Policies, Investment Policies approved by the U. T. Board of Regents, Committee Charters, and Minutes of all meetings of the Corporation and Committees are posted on the Corporation's website. The Secretary will assure that all open meetings of the Corporation are recorded and that recordings are available upon request.

ARTICLE VI
MISCELLANEOUS PROVISIONS

Section 1. Fiscal Year. The Corporation's fiscal year shall be as determined from time to time by the Board of Directors.

Section 2. Seal. The Corporation's seal, if any, shall be such as may be approved from time to time by the Board of Directors.

Section 3. Notice and Waiver of Notice. Whenever any notice is required to be given by mail under the provisions of these Bylaws, such notice shall be deemed to be delivered when deposited in the United States mail in a sealed postpaid wrapper addressed to the person or Board of Regents entitled thereto at such person's post office address, as such appears in the records of the Corporation, and such notice shall be deemed to have been given on the date of such mailing. A waiver of notice in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to notice.

Section 4. ~~Resignations. Any Director or officer may resign at any time. Such resignation shall be made in writing and shall take effect at the time specified therein, or, if no time be specified, at the time of its receipt by the President or Secretary. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.~~

Section 5. Open Meetings. The Board of Directors shall conduct open meetings in accordance with Section 66.08(h), Texas Education Code. The ~~Secretary~~ President is required to provide public notice of such meetings in accordance with applicable law therewith.

ARTICLE VII
INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 1. Right to Indemnification. Subject to any limitations and conditions in these Bylaws, including, without limitation, this Article VII, each person who was or is made a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative (a "Proceeding"), or any appeal of such a Proceeding or any inquiry or investigation that could lead to a Proceeding, by reason of the fact that he or a person of whom he is the legal representative, is or was a Director or officer of the Corporation, or while a Director or officer of the Corporation is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent, or similar functionary of another foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise, shall be indemnified by the Corporation to the fullest extent authorized by the Act, as the same exists or may hereafter be amended (but, in the case of

any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against judgments, penalties (including excise and similar taxes), fines, settlements and reasonable expenses (including, without limitation, attorneys' fees) actually incurred by such person in connection with a Proceeding, but if the Proceeding was brought by or in behalf of the Corporation, the indemnification is limited to reasonable expenses actually incurred or suffered by such person in connection therewith, and indemnification under these Bylaws shall continue as to a person who has ceased to serve in the capacity which initially entitled such person to indemnity hereunder. In no case, however, shall the Corporation indemnify any person, or the legal representatives of any person, with respect to any matters as to which such person shall be finally adjudged in any such Proceeding to be liable on the basis that personal benefit resulted from an action taken in such person's official capacity, or in which such person is found liable to the Corporation. Any person entitled to indemnification pursuant to this Article VII is sometimes referred to herein as an "Indemnified Person."

Section 2. Advance Payment. An Indemnified Person's right to indemnification conferred in this Article VII shall include the right to be paid or reimbursed by the Corporation the reasonable expenses incurred by an Indemnified Person who was, is or is threatened to be made a named defendant or respondent in a Proceeding in advance of the final disposition of the Proceeding; provided, however, that the payment of such expenses incurred by an Indemnified Person in advance of the final disposition of a Proceeding shall be made only upon delivery to the Corporation of a written affirmation by such Indemnified Person of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification under this Article VII and a written undertaking by or on behalf of such Indemnified Person to repay all amounts so advanced if it shall ultimately be determined that such Indemnified Person is not entitled to be indemnified under this Article VII or otherwise.

Section 3. Appearance as a Witness. Notwithstanding any other provision of this Article VII, the Corporation may pay or reimburse expenses incurred by an Indemnified Person in connection with his or her appearance as a witness or other participation in a Proceeding at a time when the Indemnified Person ~~he~~ is not a named defendant or respondent in the Proceeding.

Section 4. Nonexclusivity of Rights. The right to indemnification and the advancement and payment of expenses conferred in this Article VII shall not be exclusive of any other right which an Indemnified Person may have or hereafter acquire under any law (common or statutory), the Articles of Incorporation, the Bylaws, agreement, vote of disinterested Director or otherwise.

Section 5. Insurance. The Corporation may purchase and maintain insurance, at its expense, to protect itself or any Indemnified Person, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under this Article VII ~~VIII~~.

Section 6. Savings Clause. If this Article VII or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify and hold harmless each Indemnified Person as to costs, charges and

expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative to the full extent permitted by any applicable portion of this Article VII that shall not have been invalidated and to the fullest extent permitted by applicable law.

ARTICLE VIII AMENDMENTS

Section 1. Amendment. These Bylaws may be altered, amended, or repealed by the Board of Directors with the approval of the Board of Regents. A request by the Board of Regents to consider an alteration, amendment, or repeal of these Bylaws will be considered at the next regular meeting of the Corporation or at a special meeting called for that purpose.

6. **U. T. Board of Regents: Approval of the Investment Management Services Agreement with The University of Texas Investment Management Company (UTIMCO)**

RECOMMENDATION

The Chancellor recommends that the U. T. Board of Regents approve the Investment Management Services Agreement effective August 12, 2004, as set forth in congressional style on Pages 9.1 - 9.17, which amends and restates the Amended and Restated Investment Management Services Agreement, effective November 16, 2000, as amended by a first amendment effective March 1, 2001, and a second amendment effective August 7, 2003.

BACKGROUND INFORMATION

The amendments add and revise certain sections in the Second Amended and Restated Investment Management Services Agreement to address recommendations from the UTIMCO Working Group to the Board on April 29, 2004, in a report entitled "Report of the UTIMCO Working Group to the Board of Regents of the University of Texas System Regarding Certain Investment Management and Oversight Issues". Former Board Chairman Miller appointed a UTIMCO Working Group as announced on February 3, 2004, to review issues including Board oversight, contractual relationship, and the structure of UTIMCO.

On April 29, 2004, the Board of Regents authorized Chancellor Yudof to recommend to the Board an effective oversight system for the proper management of UTIMCO. The proposed revisions to the Agreement have been reviewed by U. T. System staff and are consistent with effective oversight.

Substantive amendments to the Agreement are as follows:

- Amend Section 2 to require the UTIMCO President to consult on the agenda (consistent with proposed amendment to UTIMCO Bylaws at Article III, Section 7).
- Amend Section 3(a) to require annual UTIMCO review of investment policies by June 1 of each year.
- Amend Section 4 to require UTIMCO to provide training and education to the UTIMCO Board of Directors.
- Amend Section 7 to require UTIMCO budget submission within the timeframe set for U. T. budget submissions and to allow the U. T. Board of Regents greater flexibility to modify a proposed budget item.

- Add a Section 7(e) covering definition of cash reserves and requiring a \$4 million distribution of surplus cash reserves within 90 days of the end of Fiscal Year 2004.
- Add new language to Section 21 (currently covered only in the Regents' Rules) concerning claims by and against the managed funds.
- Add new language on improved communications to Section 22.
- Add new language (currently covered only in the Regents' Rules) concerning authority to purchase, exchange, and sell securities (Section 23) and authority to assign and transfer securities (Section 24).

See related revisions to the UTIMCO Bylaws (Pages 6 - 7.11) and to the Regents' Rules and Regulations (Pages 10 - 13).

~~SECOND AMENDED AND RESTATED INVESTMENT MANAGEMENT SERVICES AGREEMENT~~

This ~~Second Amended and Restated~~ Investment Management Services Agreement (this “Agreement”) by and between the Board of Regents (the “U. T. Board”) of The University of Texas System (the “U. T. System”) and The University of Texas Investment Management Company (“UTIMCO”), a Texas nonprofit corporation, is effective August ~~12, 2004~~ 7, 2003 (the “Effective Date”), and supersedes all earlier agreements ~~amends and restates that certain Amended and Restated Investment Management Agreement~~ by and between the U. T. Board and UTIMCO, effective November 16, 2000, ~~as amended by the first amendment effective March 1, 2001, which amended and restated that certain Investment Management Services Agreement by and between the U. T. Board and UTIMCO, effective March 1, 1996, as amended by the first amendment effective June 2, 1997, the second amendment effective November 12, 1998, and the third amendment effective September 1, 1999.~~

RECITALS

WHEREAS, the U. T. Board, pursuant to the Constitution and statutes of the State of Texas, is responsible for the investment of the Permanent University Fund, the local and institutional funds of the U. T. System and the funds of various trusts and foundations for which it serves as trustee, all of which funds are under the control and management of the U. T. Board; ~~and~~

WHEREAS, Section 66.08, Texas Education Code, as amended, authorizes the U. T. Board, subject to certain conditions, to enter into a contract with a nonprofit corporation for the corporation to invest funds under the control and management of the U. T. Board, as designated by the U. T. Board; ~~and~~

WHEREAS, UTIMCO has been organized under the laws of the State of Texas, including the Texas Non-Profit Nonprofit Corporation Act, Tex. Rev. Civ. Stat. Ann. art. 1396-1.01 et seq. Article 1396-1.01 et seq., Vernon’s Texas Civil Statutes, for the express purpose of investing funds under the control and management of the U. T. Board, as designated by the U. T. Board, in accordance with the laws of the State of Texas; ~~and~~

WHEREAS, the U. T. Board desires to continue an ~~enter into this~~ Agreement with UTIMCO ~~in order to provide~~ for UTIMCO to invest certain designated funds under the control and management of the U. T. Board; ~~and~~

WHEREAS, UTIMCO desires to enter into this Agreement with the U. T. Board and to invest certain designated funds under the control and management of the U. T. Board; ~~and~~

WHEREAS, all conditions precedent to the execution and delivery of this Agreement have been fully satisfied and fulfilled, including, without limitations, the conditions established by Section 66.08, Texas Education Code, as amended.;

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

AGREEMENT

Section 1. Definitions.

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

Available University Fund or **AUF** shall mean the fund that consists of the 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 PUF Lands, all as provided by Article VII, Section 18 of the Texas Constitution.

Affiliate shall mean an entity directly or indirectly controlling, controlled by, or under common control with UTIMCO, including an entity with whom UTIMCO has an express or implied agreement regarding the direct or indirect purchase of investments by each from the other.

Cash Reserves shall mean cash on hand plus investments less accounts payable.

Claims shall mean all claims, lawsuits, causes of action and other legal actions and proceedings of whatever nature brought against (whether by way of direct action, counter claim, cross action, or impleader) any Indemnified Party and all requests or demands for indemnification made by any third party upon any Indemnified Party, even if groundless, false or fraudulent, so long as the claim, lawsuit, cause of action, other legal action or proceeding, request or demand is alleged or determined, directly or indirectly, to arise out of, result from, relate to or be based upon, in whole or in part, the duties, activities, acts or omissions of any person arising under this Agreement.

Custodian or **Custodians** shall mean a commercial bank, trust company or other entity selected by UTIMCO to hold and safekeep physical securities representing investment assets of any Account and to perform the other functions listed in Section 5 hereof. ~~The primary Custodian as of the effective date of this Agreement is Mellon Trust of Everett, Massachusetts. Substitute or additional Custodians may be appointed by UTIMCO from time to time.~~

General Endowment Fund or **GEF** shall mean the pooled fund for the collective investment of long-term funds under the control and management of the U. T. Board. The PUF, PHF, LTF or other long-term funds may invest in the GEF as authorized by the U. T. Board in each fund's investment policy statement.

Indemnified Parties shall mean UTIMCO and any of its officers, directors, employees and agents.

Investment Policies shall mean the written investment policies determined and approved by the U. T. Board relating to the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Separately Invested Funds, Short Intermediate Term Fund and the Short Term Fund. Amendments may be presented by UTIMCO to the U. T. Board for review and approval.

Long Term Fund or **LTF** shall mean the long-term pooled investment fund previously established by the U. T. Board for the collective investment of all endowment and other long-term funds of component institutions of the U. T. System.

Losses shall mean losses, costs, damages, expenses, judgments and liabilities of whatever nature (including, but not limited to, attorneys', accountants' and other professionals' fees, litigation and court costs and expenses, amounts paid in settlement, amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other person under any arrangement providing for indemnification of that person) directly or indirectly resulting from, arising out of or relating to one or more Claims.

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

Permanent University Fund or **PUF** shall mean the constitutional fund known by that name and established pursuant to Article VII, Section 11 of the Texas Constitution.

Permanent University Fund Lands or **PUF Lands** shall mean approximately 2.1 million acres of land located in 19 24 Texas counties, primarily in West Texas, and constituting a part of the Permanent University Fund.

Separately Invested Funds or **SIFs** shall mean U. T. System Funds or U. T. Board Trust accounts which, by election of the U. T. Board or by requirement of the trust indenture or donative instrument, are invested separately and apart from other U. T. System Funds and the PUF.

Short Intermediate Term Fund or **SITF** shall mean the short intermediate term pooled investment fund previously established by the U. T. Board for the collective investment of funds (other than endowment and other long-term funds, including the Permanent University Fund) of the component institutions of the U. T. System.

Short Term Fund or **STF** shall mean the money market mutual fund or funds approved by UTIMCO from time to time as an investment for U. T. System Funds.

U. T. Board Accounts shall mean the investment assets of the General Endowment Fund and U. T. System Funds.

U. T. Board Trust Accounts shall mean the assets of charitable remainder trusts, foundations and other separately invested funds for which the U. T. Board serves as trustee on behalf of itself and other co-beneficiaries.

U. T. System Funds shall mean all funds under the control and management of the U. T. Board, other than the Permanent University Fund, the Permanent Health Fund and the U. T. Board Trust Accounts.

Section 2. Delegation of Investment Authority; Retention of Policy Setting Authority.

The U. T. Board hereby appoints UTIMCO as its investment manager with complete authority to act for the Board in the investment of the Accounts, subject, however, to such limitations and restrictions as are set forth in the Investment Policies. UTIMCO shall furnish the U. T. Board with continuous investment management services and shall invest and reinvest the assets of the Accounts in such ways and at such times as are consistent with the Investment Policies and Section 4 hereof. UTIMCO shall be responsible for overall management of the U. T. Board's investment affairs as covered by this Agreement and shall manage each Account as a discretionary account.

The U. T. Board, as ultimate fiduciary for the Accounts, retains policy setting authority. Unless otherwise provided in writing by the U. T. Board, UTIMCO ~~shall be authorized to~~ look to the Chancellor to provide primary oversight and management concerning matters other than the core investment duties delegated above, including relations with the media, legal issues (such as public disclosure of information), intergovernmental relations, and policy issues other than those associated with investment allocation and/or return. The Board of UTIMCO and the President of UTIMCO shall be responsible for implementing the investment policy of the U. T. Board and performing those core investment duties delegated above. It shall be the responsibility of the President of UTIMCO to inform the Chancellor of unresolved policy issues not governed by the Investment Policies immediately so that appropriate oversight and management can be provided by the Chancellor. UTIMCO hereby agrees to abide by such oversight and management decisions made by the Chancellor.

The UTIMCO President shall consult with the Chairman and the Vice Chairmen of the UTIMCO Board, including the Chancellor as Vice Chairman for Policy, on the draft agenda for meetings of the UTIMCO Board at least two (2) weeks prior to each regular UTIMCO Board meeting.

Section 3. Description of Investment Management Services.

During the term of this Agreement, UTIMCO shall provide the following services in conjunction with the investment of the Accounts:

- a) **Investment Policies:**
UTIMCO shall review current investment policies for each Account, including policies concerning Asset Allocation, Liquidity, and Derivatives, at least annually by June 1 of each year. Such review shall include distribution (spending) guidelines, long-term investment return expectations and expected risk levels, asset allocation targets and ranges for each eligible asset class, expected returns for each asset class and fund, and designated performance benchmarks for each asset class. After UTIMCO completes its assessment, it shall forward any recommended changes to U. T. System staff for review prior to being submitted to the U. T. Board for discussion during an annual Joint Meeting between the U. T. Board and the UTIMCO Board of Directors approval.
- b) **Investment Management:**
UTIMCO shall oversee the investment management process. Such oversight shall include the development of an investment outlook based on global economic and capital market forecasts, the rebalancing of allocations to each asset class within ranges in response to changes in the investment outlook, and the selection of a combination of portfolio managers to construct portfolios designed to generate the expected returns of each asset class.
- c) **Investment Performance:**
UTIMCO shall monitor and report on investment performance for the PUF, PHF and U. T. Board accounts. Such responsibilities shall include the calculation and evaluation of performance of asset classes and individual portfolios, against established benchmarks over various periods of time, the periodic review of performance benchmarks, the reporting of investment performance of Separately Invested Assets and U. T. Board Trust Accounts as requested by the U. T. Board, and the reporting to regulatory agencies and others regarding investments under management to the extent required by applicable law.
- d) **Operations:**
UTIMCO shall execute such operational responsibilities as the purchase and sale of investments, the settlement of all trades (to the extent such trades are not settled by the Custodian or brokers), the accounting for all transactions at the portfolio level in accordance with generally accepted accounting principles, the preparation and delivery of periodic financial reports on all funds, and the maintenance of complete books and records (internally or through contract with the designated Custodian for the assets under management) reflecting transactions and balances of the Accounts.

e) **Maintenance of and Access to Books and Records:**

UTIMCO shall maintain the books and records for each Account on the basis of a fiscal year ending August 31st (or such other fiscal year as the U. T. Board may establish from time to time), and shall keep full separate records of all transactions with respect to each Account.

The books and records of the Accounts and any and all records concerning UTIMCO and UTIMCO's operations shall be available during normal business hours for inspection by an authorized representative of U. T. System. UTIMCO shall provide full audit access ~~to auditors representing the U. T. Board or the State Auditor, including access~~ to any and all information concerning the operations of UTIMCO, including information necessary to review UTIMCO expenditures for compliance and reasonableness with the approved budget, to auditors representing the U. T. Board or the State Auditor.

f) **Reporting:**

In connection with the annual audited financial statements of UTIMCO, effective with the August 31, 2004 financial statements, the chief executive officer and the chief financial officer of UTIMCO shall provide certifications similar to those required by Section 302 of the Sarbanes-Oxley Act of 2002, Corporate Responsibility for Financial Reports. UTIMCO will follow ~~begin following~~ the U. T. System compliance guidelines as outlined in the Action Plan to Enhance Institutional Compliance, as may be amended, including providing the U. T. Board or its designee with quarterly compliance reports.

g) **Disclosure of Information:**

The U. T. Board is committed to a policy of full and fair disclosure to the public. As part of that commitment with respect to private investments in the Accounts, the following information shall be disclosed to the public with respect to such private investments ("private investment information"): the name and purpose of each private investment entity; the names of the individual principals managing such private investment; the amount invested by UTIMCO in such private investments; the investment returns for such private investment, including internal rates of return; and remaining value information. UTIMCO shall make no private investment with an entity unless the U. T. Board and UTIMCO has clear and unequivocal authority to disclose to the public the private investment information, described immediately above, relating to such investment.

Before UTIMCO declines to disclose any information it has collected, assembled or maintained in its role as investment manager for the U. T. Board that is requested under the Texas Public Information Act, the President of UTIMCO shall consult with the U. T. System Vice Chancellor and General Counsel. UTIMCO shall disclose the information unless the Vice Chancellor and General Counsel, after consultation with the Chancellor, approves a Public Information Act request to the Attorney General of Texas.

h) **Other Services:**

UTIMCO shall perform other investment management services including but not limited to ~~to include~~ 1) attending meetings of the U. T. Board and making such reports as the U. T. Board may request from time to time, 2) attending an annual Joint Meeting between the UTIMCO Board of Directors and the U. T. System Board of Regents as referenced in Article III Section 7 of the UTIMCO Bylaws, 3) rendering services to managers ~~promoters~~ of private equity investments in which UTIMCO has decided to invest, 4) attending meetings of governing bodies of companies in which UTIMCO's managed Accounts have invested, 5) voting of securities (or proxies with respect thereto) held as investments of the Accounts according to written policies of the U. T. Board; 6) providing U. T. System component institutions with annual endowment reports reflecting, among other things, changes in the investment value of such component's endowment and distributions made to such component to support the activities for which the endowment was established; 7) providing charitable trust administration services such as portfolio management, annual tax return preparation, annual trust reporting to donors and remittance of quarterly distributions; providing annual reporting of investment transactions and balances and distributing funds to authorized beneficiaries on foundation accounts; 8) effecting distributions directly or through the Custodian to U. T. System component institutions or other named beneficiaries from the Accounts; 9) supporting and maintaining on-line account information system for endowment accounts; and 10) any other services necessary to provide investment management of the Accounts.

Section 4. Investment Manager as Fiduciary; Training and Education.

UTIMCO acknowledges that it will be acting as a fiduciary with respect to managing the investments of the Accounts subject to the Investment Policies and applicable law. The U. T. Board recognizes that all individual investment transactions involve a variety of significant potential risks, including, without limitation, market risk, liquidity risk, credit risk, cash flow risk, operational risk and counterparty risk, although taken as a whole these transactions are also expected to manage risk. The U. T. Board agrees that (i) UTIMCO will not be liable for any losses incurred in the Accounts as a result of investments made pursuant to the Investment Policies, and (ii) UTIMCO will not be liable for actions of co-fiduciaries. The U. T. Board also acknowledges that UTIMCO shall not be liable for, and, to the fullest extent authorized by the Constitution and laws of the State of Texas, agrees to hold UTIMCO harmless from the consequences of any action taken or omitted to be taken by the U. T. System or any of its employees or agents prior to March 1, 1996.

UTIMCO agrees to provide training and education to members of the UTIMCO Board of Directors to assure that all duties required of directors under the Texas Non-Profit Corporation Act and that matters related to legal and fiduciary responsibilities of the Directors, including current regulations for determining reasonable compensation, are outlined and discussed fully.

Section 5. Custody of Assets.

UTIMCO shall use custodians for safekeeping, settlement of security purchases, sales, collection of income and other duties as more fully described in the existing custody agreement between UTIMCO and the Custodian, which agreement, together with the U. T. Board's rights, duties and obligations thereunder, has been assigned to UTIMCO. In addition, UTIMCO may from time to time use a brokerage firm to settle security sales on behalf of the U. T. Board and may invest in a regulated mutual fund, externally managed commingled funds, or other investments in which assets are held outside of the bank custody relationship. Any physical certificates not held in safekeeping with a Custodian shall be held in safekeeping at a local bank as designated by UTIMCO.

Section 6. Use of Unaffiliated Investment Managers.

UTIMCO shall be entitled to use unaffiliated investment advisors to invest all or part of the Accounts and to perform other duties ~~as more fully described in existing investment advisory agreements between UTIMCO and such investment advisors, which agreements, together with the U. T. Board's rights, duties and obligations thereunder, have been assigned to UTIMCO.~~

Section 7. Investment Management Fees; Direct Expenses.

For services performed hereunder, UTIMCO shall be compensated in the amounts and in the manner set forth below:

a) Annual Budget and Management Fee:

UTIMCO shall submit to the U. T. Board its proposed annual budget for the following fiscal year (an "Annual Budget") within the time frame specified by the U. T. Board for other annual budget submissions. The Annual Budget shall include all estimated expenses associated with the management of the Accounts. The Annual Budget shall also include an annual UTIMCO management fee (an "Annual UTIMCO Management Fee") which shall include all operating expenses associated with the general management of the Accounts, including, without limitation, reasonable salaries, benefits and performance compensation of portfolio management and support personnel, expenses for consulting services, office space lease expenses, office furniture and equipment expenses, professional, legal, payroll, and other general services expenses, travel, insurance, capital expenditures, and other miscellaneous expenses incurred by UTIMCO in connection with the performance of its obligations hereunder.

At the same time that UTIMCO submits its Annual Budget, it shall also submit to the U. T. Board an allocation formula for charging the Annual Budget to the Accounts. Items proposed in the Annual Budget and the allocation formula may shall be approved, or disapproved, or approved with modification by the U. T. Board. Any such Budget item or formula allocation that is disapproved or approved with modification may shall be promptly reviewed and revised by UTIMCO and resubmitted to the U. T. Board for additional consideration approval.

On or before the first day of each fiscal quarter, UTIMCO shall be entitled to charge each Account with its allocable share (determined in accordance with the allocation formula then in effect) of one-fourth of the amount of the Annual UTIMCO Management Fee to pay UTIMCO's operating expenses for the succeeding fiscal quarter. UTIMCO ~~may shall be entitled~~, with the approval of the U. T. Board, to revise the Annual UTIMCO Management Fee and allocation formula at any time during a fiscal year. Any statements for partial quarters at the beginning or end of this Agreement shall be prorated to reflect the actual time services were rendered during such partial quarters.

UTIMCO is hereby authorized to pay from each Account direct expenses incurred for portfolio management, custodian, auditing, and other services which are performed by external vendors specifically for each Account.

b) **Directors Fees:**

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Account assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and considered a part of UTIMCO's fee income and reflected in the Budget. Furthermore, UTIMCO Board approval of UTIMCO management's services as directors of investee companies shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's services as directors of investee companies.

c) **Fees for Services Rendered:**

Members of UTIMCO management may perform services for which UTIMCO receives a fee ("Service Fees") from investment promoters or investee companies in consideration of the UTIMCO staff's private investment activities and/or investment origination activities. Such Service Fees shall be considered additional fee income to UTIMCO. UTIMCO may also receive commitment fees, standby fees and other similar fees ("Capital Fees") accruing or inuring to the capital invested on behalf of the Accounts managed by UTIMCO. Such Capital Fees shall be credited to the Accounts from which such investments are funded.

d) **Miscellaneous Fees:**

UTIMCO management may perform specialized services for accounts that are separately invested for which UTIMCO receives a fee from the account. These fees primarily relate to maintenance of computer programs for the separately invested accounts. Such Miscellaneous Fees shall be considered additional fee income to UTIMCO and reflected in the Budget.

e) **Cash Reserves:**

Surplus Cash Reserves are defined as Cash Reserves on the last day of the fiscal year in excess of ¼ of the upcoming fiscal year's projected operating budget. Within 90 days after the end of Fiscal Year 2004, UTIMCO will distribute \$4 million of the Surplus Cash Reserves back to the Accounts, which generated

the surplus in the same proportion that the Accounts contributed to the Cash Reserves. In future fiscal years, the U. T. Board may direct UTIMCO to make additional distributions to the Accounts from Surplus Cash Reserves.

Section 8. Brokerage Commissions.

The U. T. Board acknowledges and agrees that the investment management fees provided for in Section 7 6 are in addition to any compensation that may be due to a broker or dealer in effecting and executing transactions on behalf of UTIMCO. UTIMCO is hereby authorized and empowered, with full discretion, to issue instructions in accordance with the Investment Policies to such unaffiliated brokerage firms as may be selected by UTIMCO for the execution of orders for the purchase, sale, exchange and general investment of the Accounts; provided that UTIMCO shall not select a brokerage firm that is an Affiliate of UTIMCO. All orders for Account transactions shall be placed in such markets and through such brokers as UTIMCO determines will offer the most favorable price, execution and commission cost of each order. The U. T. Board acknowledges and agrees that UTIMCO, from time to time and in accordance with applicable law, may pay commissions to brokers that are higher than those that might be obtainable elsewhere in order to obtain from such brokers research and other services expected to enhance the long-term value of the Accounts.

Section 9. Valuation of Account Assets.

The valuation of the account shall be determined in accordance with the Investment Policies approved by the U. T. Board for the account.

Section 10. Representations and Warranties of Parties.

U. T. Board.

- A. The U. T. Board (a) is duly established and validly existing under the laws of the State of Texas and is an agency of the State of Texas, (b) has all power and authority and all material government licenses, authorizations, consents and approvals required to carry on its business as now conducted, and (c) has full power and authority to execute, deliver and perform this Agreement.
- B. The execution, delivery and performance by the U. T. Board of this Agreement have been duly authorized by all necessary action and do not contravene, or result in the violation of or constitute a default under, any provision of applicable law or regulation, or any order, rule or regulation of any court, governmental agency or instrumentality or any agreement, resolution or instrument to which the U. T. Board is a party or by which it or any of its property is bound.
- C. No authorization, consent, approval, permit, license, or exemption of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality that has not been obtained or issued is or will be necessary for the valid execution, delivery or performance by the U. T. Board of this Agreement.

- D. This Agreement constitutes a valid and binding agreement of the U. T. Board.
- E. There is no action, suit or proceeding pending or, to the knowledge of the U. T. Board, threatened against or affecting the U. T. Board or the U. T. System, or relating to this Agreement, in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of the U. T. Board to enter into, and perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.
- F. The U. T. Board has approved:
 - (1) the Articles of Incorporation and Bylaws of UTIMCO;
 - (2) the Investment Policies;
 - (3) the Audit and Ethics committee of UTIMCO; and
 - (4) the Code of Ethics of UTIMCO.
- G. The U. T. Board has been provided with the opportunity to ask questions of, and it has received answers thereto satisfactory to it from, UTIMCO and its representatives regarding this Agreement and has obtained all additional information requested by it of UTIMCO and its representatives prior to entering into this Agreement.

UTIMCO.

- A. UTIMCO (a) is duly organized and validly existing as a Texas nonprofit corporation under the laws of the State of Texas, particularly the Texas Nonprofit Corporation Act, Tex. Rev. Civ. Stat. Ann. art. 1396-1.01 et seq. ~~Article 1396-1.01 et seq., Vernon's Texas Civil Statutes~~, (b) has all corporate power and authority and all material government licenses, authorizations, consents and approvals required to carry on its business as now conducted, and (c) has full power and authority to execute, deliver and perform this Agreement.
- B. The execution, delivery and performance by UTIMCO of this Agreement have been duly authorized by all necessary action by UTIMCO and do not contravene, or result in the violation of or constitute a default under, any provision of applicable law or regulation, or any order, rule or regulation of any court, governmental agency or instrumentality or any agreement, resolution or instrument to which UTIMCO is a party or by which it or any of its property is bound.
- C. No authorization, consent, approval, permit, license, or exemption of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality that has not been obtained or issued is or will be necessary for the valid execution, delivery or performance by UTIMCO of this Agreement.

- D. This Agreement constitutes a valid and binding agreement of UTIMCO.
- E. There is no action, suit or proceeding pending or, to the knowledge of UTIMCO, threatened against or affecting UTIMCO, or relating to this Agreement in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of UTIMCO to enter into, and to perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.

Section 11. Compliance with Bylaws, Policies, Regulations and Financial Disclosure Requirements ~~UTIMCO's Code of Ethics.~~

In the performance of this Agreement ~~Consistent with the requirements of Section 66.08, Texas Education Code~~, UTIMCO's Directors, Officers, and Employees shall abide by the following policies:

- a) UTIMCO's Code of Ethics as approved by the U. T. Board
- b) UTIMCO Bylaws as approved by the U. T. Board
- c) All UTIMCO policies
- d) Applicable portions of Regents' Rules and Regulations.

Financial advisors and service providers as defined in Texas Government Code Section 2263.002 shall comply with the disclosure requirements contained in Texas Government Code Section 2263.005.

Section 12. UTIMCO's Open Meeting Policy.

Except as otherwise provided in Section 66.08, Texas Education Code, UTIMCO shall comply with all applicable provisions of the Texas Open Meetings Act, Chapter 551 of the Texas Government Code.

Section 13. Prohibition Against Service to Other Clients.

In accordance with Section 66.08, Texas Education Code, UTIMCO shall not engage in any business other than managing the Accounts under this Agreement.

Section 14. Investment Company Act and State Securities Act.

The parties to this agreement acknowledge that UTIMCO shall not be required to register as an "investment company" under Section 80a-8 of Title 15 of the United States Code Section 80a-8 (the Investment Company Act of 1940), as amended, and Tex. Rev. Civ. Stat. Ann. art. 581-1 et seq. (The Securities Act).

Section 15. Termination.

The U. T. Board may terminate this Agreement at any time by written notice to UTIMCO, effective immediately upon receipt of such notice by UTIMCO, subject to reasonable allowance for settlement of pending trades. UTIMCO may terminate this Agreement upon ninety (90) days' written notice to the U. T. Board. There shall be no penalty for termination; however, UTIMCO shall be entitled to all management fees, compensation, and benefits earned prior to termination.

Section 16. Amendments.

No amendment hereto shall be effective unless executed in the same manner as this Agreement.

Section 17. Notices.

All notices or communications hereunder shall be in writing and shall not be effective until hand delivered and receipted to the other party, or sent by overnight delivery, or sent by United States Certified or Registered Mail, postage prepaid, to the addressed party. The following are the designated addresses for such notices or communications and may only be changed by communication in the manner required by this paragraph:

To U. T. Board:

Board of Regents of The University of Texas System
Attn: Counsel and Secretary
201 West Seventh Street, Suite 820
Austin, Texas 78701
Tel. (512) 499-4402
Fax. (512) 499-4425

To UTIMCO:

The University of Texas Investment Management Company
Attn: President and CEO
221 West Sixth St., Suite 1700
Austin, Texas 78701
Tel. (512) 225-1600
Fax. (512) 225-1660

Section 18. Non-Assignability.

No Assignment of this Agreement by UTIMCO shall be made without having obtained the prior written consent of the U. T. Board nor is the Agreement assignable by the U. T. Board.

Section 19. No Waiver of Breach.

A waiver of a breach of any provision of this Agreement shall not constitute a waiver of any subsequent breach of that provision or a breach of any provision hereof. Failure of either party to enforce at any time or from time to time any provision of this Agreement shall not be construed as a waiver thereof.

Section 20. Indemnification.

a) **Agreements to Indemnify:**

To the fullest extent authorized by the Constitution and laws of the State of Texas, the U. T. Board shall indemnify and hold harmless each of the Indemnified Parties against any and all Losses, including Losses resulting from the negligence of the Indemnified Party claiming indemnification; provided, however, the U. T. Board shall not be obligated to indemnify an Indemnified Party against Losses to the extent such Losses are caused by (i) an act or omission that involves intentional misconduct or a knowing violation of law by the Indemnified Party claiming indemnification, (ii) a transaction from which the Indemnified Party claiming indemnification received an improper benefit, (iii) an act or omission for which the liability of the Indemnified Party claiming indemnification is expressly provided by an applicable statute, or (iv) an act or omission constituting gross negligence by the Indemnified Party claiming indemnification; provided further that indemnification payments by the U. T. Board shall be paid from the same sources as the Annual Fee pursuant to Section 7.

b) **Reimbursement:**

Each Indemnified Party shall reimburse the U. T. Board for payments made by the U. T. Board pursuant to this Section to the extent of any proceeds, net of all expenses of collection, actually received by it from any insurance with respect to any Loss. At the request and expense of the U. T. Board, each Indemnified Party shall have the duty to claim any such insurance proceeds and such Indemnified Party shall assign its rights to such proceeds, to the extent of such required reimbursement, to the U. T. Board.

c) **Notice:**

In case any Claim shall be brought or, to the knowledge of any Indemnified Party, threatened against any Indemnified Party in respect of which indemnity may be sought against the U. T. Board, such Indemnified Party shall promptly notify the U. T. Board in writing; provided, however, that any failure so to notify shall not relieve the U. T. Board of its obligations under this Section.

d) **Defense:**

The U. T. Board shall have the right to assume the investigation and defense of all Claims, including the employment of counsel and the payment of all expenses. Each Indemnified Party shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of such counsel shall be paid by such Indemnified Party unless (i) the employment of

such counsel has been specifically authorized by the U. T. Board, in writing, (ii) the U. T. Board has failed to assume the defense and to employ counsel, or (iii) the named parties to any such action (including any impleaded parties) include both an Indemnified Party and the U. T. Board, and such Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the U. T. Board (in which case, if such Indemnified Party notifies the U. T. Board in writing that it elects to employ separate counsel at the U. T. Board's expense, the U. T. Board shall not have the right to assume the defense of the action on behalf of such Indemnified Party; provided, however, that the U. T. Board shall not, in connection with any one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegation or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys for the Indemnified Parties, which firm shall be designated in writing by such Indemnified Parties).

e) **Cooperation; Settlement:**

Each Indemnified Party shall use reasonable efforts to cooperate with the U. T. Board in the defense of any action or Claim. The U. T. Board shall not be liable for any settlement of any action or Claim without its consent but, if any such action or Claim is settled with the consent of the U. T. Board or there be final judgment for the plaintiff in any such action or with respect to any such Claim, the U. T. Board shall indemnify and hold harmless the Indemnified Parties from and against any Loss by reason of such settlement or judgment as provided in Subsection (a) of this Section.

f) **Survival; Right to Enforce:**

The provisions of this Section shall survive the termination of this Agreement, and the obligations of the U. T. Board hereunder shall apply to Losses or Claims whether asserted prior to or after the termination of this Agreement. In the event of failure by the U. T. Board to observe the covenants, conditions and agreements contained in this Section, any Indemnified Party may take any action at law or in equity to collect amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the U. T. Board under this Section.

Section 21. Claims By and Against Managed Funds.

UTIMCO is authorized and empowered to seek, demand, collect, recover, and receive any and all sums of money, debts, dues, rights, property, effects, or demands due, payable, or belonging, or that may become due, payable, or belonging to the PUF or the U. T. Board from any person or persons as a result of any investment transaction and to execute any and all necessary or proper receipts, releases, and discharges therefor and any other instruments as may be necessary or appropriate from time to time relating to the handling, management, control, and disposition of any investment.

The authority granted in this Section does not include the authority to institute litigation on behalf of the U. T. Board or to settle contested claims or litigation that may result in UTIMCO receiving less than full value for the claim or the payment of damages or

awards. The settlement of any contested claim or litigation for less than full value requires the prior approval of the U. T. System Vice Chancellor and General Counsel and appropriate System officials, as set out in the Regents' Rules and Regulations.

Section 22. Communications.

UTIMCO and U. T. System will assure that communications are clear and timely. UTIMCO will provide notice of actions taken in meetings of the UTIMCO Board and committees to members of the U. T. Board through the Office of the Board of Regents. U. T. will provide notice of actions taken by the U. T. Board related to UTIMCO issues to members of the UTIMCO Board of Directors through the President and CEO of UTIMCO.

Section 23. Authority to Purchase, Exchange, and Sell Securities.

UTIMCO may purchase, exchange, and sell, for and on behalf of the Permanent University Fund or the U. T. Board, any and all securities of any description whatever and from any source, including gifts and bequests, registered in the name of the PUF or the U. T. Board, or in any other form of registration of such securities held for the account of the PUF or the U. T. Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said U. T. Board. In addition, external investment managers appointed by UTIMCO may purchase, sell, or exchange securities, pursuant to written agreement with UTIMCO.

Section 24. Authority to Assign and Transfer Securities.

UTIMCO may assign and transfer any and all securities of any description whatever and from any source, including gifts and bequests, and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any securities registered in the name of the PUF or the U. T. Board, or in any other form of registration of such securities held for the account of the PUF or the U. T. Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said U. T. Board. In addition, custodian banks appointed by UTIMCO may assign and transfer securities and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any security owned by the U. T. Board.

Section 25. Governing Law.

This Agreement and all matters arising under it shall be governed by the Constitution and laws of the State of Texas. Venue for any action brought by any party hereto concerning the subject matter of this Investment Management Services Agreement shall be in Travis County, Texas.

**BOARD OF REGENTS OF THE
UNIVERSITY OF TEXAS SYSTEM**

Date: _____

By _____
James R. Huffines
Chairman

**THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY**

Date: _____

By _____
Woody L. Hunt
Chairman

7. **U. T. Board of Regents: Amendment of Regents' Rules and Regulations related to The University of Texas Investment Management Company (UTIMCO) and investment issues**

RECOMMENDATION

The Chancellor recommends that the Regents' Rules and Regulations, Part One, Chapter I, Section 7 and Chapter II, Sections 3 and 12, and Part Two, Chapter IX, Section 3 be amended as set forth below in congressional style:

- a. Amend Part One, Chapter 1, Section 7, Subsection 7.3, related to committees and other appointments, as follows:

Sec. 7. Committees and Other Appointments

...

- 7.3 The University of Texas Investment Management Company (UTIMCO) Pursuant to Texas Education Code Section 66.08, the U. T. Board of Regents shall appoint the nine directors of The University of Texas Investment Management Company (UTIMCO). Periodically, the U. T. Board of Regents will review the performance of the UTIMCO Board of Directors. 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. At least one director will be selected from a list of candidates with substantial background and expertise in investments, as submitted to the U. T. Board of Regents by the Board of Regents of The Texas A&M University System. The selection process for external members of the UTIMCO Board of Directors is as follows:
- 7.31 The Chairman of the U. T. Board of Regents and the Chairman of UTIMCO send a joint letter to leaders in the public and private sector soliciting nominations.
- 7.32 Nominations are to be provided to the Chairman of the U. T. Board of Regents.
- 7.33 The Chairman of the U. T. Board of Regents appoints a selection advisory committee to review nominations.
- 7.34 After review, the selection advisory committee makes recommendations to the Chairman of the U. T. Board of Regents.

- 7.35 At the direction of the Chairman of the U. T. Board of Regents, the Office of the Board of Regents asks individuals to complete a background questionnaire. The Office of the Board of Regents apprises those individuals of the UTIMCO Code of Ethics and disqualifications from service.
- 7.36 Using information from the questionnaires, the Office of the Board of Regents:
 - 7.361 confirms the educational degrees and professional certifications;
 - 7.362 assures that professional licensure and certifications are in good standing;
 - 7.363 reviews business relationships, if any, with members of the Board of Regents or the UTIMCO Board or with U. T. System or UTIMCO; and
 - 7.364 initiates review by the U. T. System Director of Police of the Texas conviction database and contacts local law enforcement.
- 7.37 The Chairman of the U. T. Board of Regents and the Chairman of UTIMCO conduct personal interviews, as needed, to assure that external UTIMCO directors possess varied investment backgrounds and risk management expertise.
- 7.38 The Chairman of the U. T. Board of Regents submits a recommended appointment for approval by the U. T. Board of Regents.

- b. Amend Part One, Chapter II, Sections 3 and 12, related to the duties and responsibilities of the Chancellor and Vice Chancellor and General Counsel, respectively, as follows:

Sec. 3. Chancellor

...

3.2 Primary Duties and Responsibilities of the Chancellor

The Chancellor, by delegation from the Board, is authorized to exercise the powers and authorities of the Board in the governance of the System. The Chancellor will normally act through the officers of the System regarding the matters delegated to them by these Rules. The Chancellor, however, shall not be precluded from any direct participation and communication with System Administration officers or staff, institutional officers or staff, faculty members, and groups. The major duties of the Chancellor include:

...

3.2(12) Serving on the Board of Directors of The University of Texas Investment Management Company (UTIMCO). Generally overseeing the operations of UTIMCO, with support from System staff and external consultants as appropriate, and coordinating interaction between the System and UTIMCO. Ensuring that UTIMCO implements the core investment functions delegated to it in conformance with the Articles of Incorporation and Bylaws of UTIMCO, these Rules and Regulations, the Investment Management Services Agreement, and the Investment Policy Statements adopted by the Board. Directing UTIMCO in areas other than core investment functions, such as relations with the media, intergovernmental relations, decisions regarding institution of claims and waiver of claims, and public disclosure issues.

Sec. 12. Vice Chancellor and General Counsel

...

12.2 Duties and Responsibilities

The primary responsibilities of the Vice Chancellor and General Counsel include:

...

~~12.2(18) Overseeing legal services provided to UTIMCO by outside legal counsel, consistent with the requirements of the Texas Disciplinary Rules of Professional Conduct, and P~~providing counsel, advice, and legal interpretations to the Board, the Chancellor, and other System officials concerning UTIMCO-related issues.

12.2(19) Performing such other duties as may be assigned by the Chancellor.

c. Amend Part Two, Chapter IX, Section 3, related to the policy for investment and management of the Permanent University Fund, as follows:

Sec. 3. Policy for Investment and Management of the PUF

...

3.2 Reports Regarding Asset Management

3.21 The investment performance of the PUF, as measured by an unaffiliated organization, shall be reported to the Board quarterly at least annually.

...

- 3.3 Authorization to Protect PUF Interests
Subject to the provisions of Subsection 2.5 of this Chapter,
UTIMCO is authorized to take any and all steps as may be
considered necessary or advisable to protect the interest of
the PUF in event of default or any other significant changes
occurring with respect to any investment.

.....

BACKGROUND INFORMATION

The amendments to the Regents' Rules and Regulations are proposed in response to direction from the Board on April 29, 2004, following consideration of a report entitled "Report of the UTIMCO Working Group to the Board of Regents of the University of Texas System Regarding Certain Investment Management and Oversight Issues". The proposed amendments have been reviewed by U. T. System staff, including the Vice Chancellor and General Counsel, and are consistent with effective oversight of investment management.

Substantive changes proposed to Part One are as follows:

- Amend Section 7, Chapter I, to provide for periodic review of the performance of UTIMCO directors and specify the selection process for external members of the UTIMCO Board.
- Amend Section 3, Chapter II to reference assistance by U. T. System staff and external consultants in the Chancellor's oversight of UTIMCO and to include decisions related to the institution and waiver of claims within the specific areas of policy direction.
- Amend Section 12, Chapter II to delete overly broad language on the role of the Vice Chancellor and General Counsel concerning legal counsel provided to UTIMCO.

See related revisions to the UTIMCO Bylaws (Pages 6 - 7.11) and to the UTIMCO Investment Management Services Agreement (Pages 8 - 9.17).

8. U. T. System: Authorization of a Fee for Investment Oversight

RECOMMENDATION

The Chancellor recommends that the U. T. Board of Regents authorize The University of Texas Investment Management Company (UTIMCO) to assess an investment oversight fee on behalf of U. T. System Administration up to 0.005% of the net asset value of the Long Term Fund (LTF), the Permanent University Fund (PUF), the Permanent Health Fund (PHF), and the Short and Intermediate Term Fund (SITF), using the same allocation formula approved for assessment of the UTIMCO management fee for the support of enhanced investment oversight efforts.

BACKGROUND INFORMATION

The authorization to charge an investment oversight fee is consistent with a recommendation from the UTIMCO Working Group to the Board of Regents. On April 29, 2004, the Board authorized Chancellor Yudof to recommend an effective oversight system for the proper management of UTIMCO. The proposed fee has been reviewed by U. T. System staff.

Approval of this recommendation would authorize a portion of the PUF, the LTF, the PHF and the SITF to be used for enhanced investment oversight activities to ensure institutional compliance with the Investment Management Services Agreement made between the Board of Regents and UTIMCO. An institution may exempt specific endowments from the assessment if the terms of an endowment prohibit the assessment.

For Fiscal Year 2005, the budgeted oversight expenses to be recovered through the investment oversight fee total \$509,500. This includes \$280,500 for the retention of Ennis Knupp + Associates as the Board's investment consultant, \$154,000 for a Director of Investment Oversight (including benefits and overhead costs), and \$75,000 for outside legal counsel.

It is anticipated that the first assessment level distribution to U. T. System Administration will be made in September 2004 based on the prior 12-quarter's average of the market value of the Funds on August 31, 2004. Thereafter, it is anticipated that assessment level distributions will be made annually based on the prior 12-quarter's average of the market value of the Funds on August 31 of each fiscal year.

This recommendation is consistent with previous actions of the Board, including those taken in December 1988, August 1995, August 1997, and November 2001, and is authorized by Article VII, Section 18 of the Texas Constitution and Texas Education Code Sections 63.002 and 65.37.

9. **U. T. Board of Regents: Approval to Amend the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Short Intermediate Term Fund, Separately Invested Accounts, and Short Term Fund Investment Policy Statements**

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. Board of Regents approve proposed amendments to the following Investment Policy Statements as set forth in congressional style on the referenced pages:

- a. Permanent University Fund (PUF) (See Pages 20.1 - 20.15)
- b. General Endowment Fund (GEF) (See Pages 20.16 - 20.28)
- c. Permanent Health Fund (PHF) (See Pages 20.29 - 20.38)
- d. Long Term Fund (LTF) (See Pages 20.39 - 20.48)
- e. Short Intermediate Term Fund (SITF) (See Pages 20.49 - 20.59)
- f. Separately Invested Accounts (SIF) (See Pages 20.60 - 20.69)
- g. Short Term Fund (STF) (See Pages 20.70 - 20.78)

BACKGROUND INFORMATION

Section 3(a) of the Investment Management Services Agreement dated March 1, 1996, second amended and restated effective August 7, 2003, between the Board of Regents of The University of Texas System and UTIMCO provides that UTIMCO shall review the investment policies of the assets under its management and recommend any changes of such policies for approval by the U. T. Board of Regents. The UTIMCO Working Group also recommended that U. T. System staff and its consultants should be involved in UTIMCO issues, including a key role regarding creation of investment policies. Vinson & Elkins, UTIMCO's attorneys, also reviewed the Investment Policy Statements. The amended Investment Policy Statements were approved by the UTIMCO Board on July 15, 2004. Sections of the PUF and GEF Investment Policy Statements and the SITF Investment Policy Statements were previously approved by the UTIMCO Board on May 6, 2004 and were approved, with modifications, by the Finance and Planning Committee on May 12, 2004.

The proposed amendments are summarized below:

- PUF, GEF, PHF, LTF, SITF, SIF, and STF: Clarify that ultimate fiduciary responsibility of the funds rests with the Board of Regents. Texas Education Code Section 66.08, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents. Pursuant to an Investment Management Services Agreement between the Board of Regents and UTIMCO, the funds shall be managed by UTIMCO.
- GEF, PHF, LTF, SITF, SIF, and STF: Clarify that the Board of Regents has elected the PUF prudent investor standard to govern its management of the funds. In addition, the prudent investor standard is described.
- PUF, GEF, PHF, LTF, and SITF: Clarify that UTIMCO shall recommend specific asset allocation targets, ranges, and performance benchmarks. All changes to the policy statements or exhibits to the policy statements, including changes to asset allocation targets, ranges, and performance benchmarks, are subject to approval by the Board of Regents.
- PUF and GEF: Clarify that the primary investment objective of the PUF and GEF is to preserve the purchasing power of assets and fund distributions by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate of such fund, plus the annual expected expense.
- PUF, GEF, PHF and LTF: Restate the funds' secondary fund objective which should be consistent between the funds. The objective is to generate a fund return in excess of the Policy Portfolio benchmark and the median return of the universe of the college and university endowments with assets greater than \$1 billion as reported by Cambridge Associates.
- PUF, GEF, and SITF: Add language that UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable in the event actual portfolio positions in asset categories move outside the ranges.
- PUF and GEF: Remove language related to members of UTIMCO management serving as directors of companies in which UTIMCO has directly invested assets. This language is provided for in the Investment Management Services Agreement and the UTIMCO Code of Ethics.

- PHF and LTF: Establish that Exhibit B (current GEF allocation) to the LTF and PHF Investment Policy Statements is subject to changes by the Board of Regents and upon any change to the GEF asset allocation, Exhibit B shall be revised accordingly.
- PHF and LTF: Remove certain specific language in the General section and Cash and Cash Equivalents section and instead refer to the GEF Investment Policy Statement.
- SITF: Move the Asset Allocation Policy section to form the Asset Allocation and Policy section.
- SITF: Changes to the investment objectives were modified and approved by the Finance and Planning Committee at its May 12, 2004 meeting. In addition, a change is being proposed to use the Merrill Lynch 1-3 Year Treasury Index instead of the policy portfolio benchmark. This benchmark change is also reflected in Exhibit A of the SITF Investment Policy Statement.
- STF: Remove naming a specific universe in the investment objectives. The current universe referenced in the policy, The Donoghue's, is no longer available.
- STF: Clarify that all investments are stated at amortized cost, which in most cases approximates the market value of securities. In addition, although the objective of the fund is to maintain a stable \$1 value, the \$1 net asset value is not guaranteed.

In addition, amendments are being proposed to the PUF and GEF Asset Allocation and Policy section of the Investment Policy Statements and Exhibits A and B. These amendments have been proposed to correct technical corrections to benchmark categories and definitions. These proposed changes were approved by the UTIMCO Board on May 6, 2004 and the Finance and Planning Committee at its May 12, 2004 meeting. The Investment Policy Statements for the PUF and the GEF provide that UTIMCO "shall...recommend specific asset allocation targets, ranges, and performance benchmarks consistent with PUF (and GEF) objectives...". The Board of Regents adopted amendments to the Investment Policy Statements for the PUF and GEF at its December 19, 2003 meeting which established new asset allocation targets for several asset categories. However, there were also changes made to performance benchmarks and asset category definitions in the revised Investment Policy Statements which the UTIMCO Board believes would have negative unintended consequences. In exercising its delegated responsibility to recommend benchmarks, UTIMCO recommends the technical corrections to the PUF and GEF Investment Policy Statements set forth in this Agenda Item. There are no changes to any asset allocation targets previously

approved by the Board of Regents recommended in this Agenda Item. There are no changes to the expected return or expected risk measures. The only recommended changes are technical corrections to benchmark categories and definitions.

The recommended changes to the PUF and GEF Investment Policy Statements segregate two individual asset categories which were grouped under broader asset classes, and provide asset definitions and benchmarks for the revised asset categories. The proposed definitional changes are reflected in Exhibit A of both the PUF and GEF Investment Policy Statements. The current policy targets, ranges, and performance objectives are set out on Page 20.14 (PUF) and Page 20.27 (GEF). Proposed changes are set on Page 20.15 (PUF) and Page 20.28 (GEF). In addition, a change is proposed in the benchmarks for Private Equity and Venture Capital asset categories as reported in Exhibit A.

During the construction of the new policy portfolio, it became apparent that two unintended consequences resulted from the movement of Real Estate Investment Trusts (REITS) and Treasury Inflation Protected Securities (TIPS) from the inflation hedge asset category to the U.S. Equities and Fixed Income categories, respectively. The benchmarks of the U.S. Equities and Fixed Income classes were not adjusted correspondingly to account for the asset allocation percentage weights of the asset categories added.

1. Under the asset classification scheme of the new Investment Policy Statement, the actual U.S. Equities portfolio for the PUF and GEF would consist of approximately 21.6% of REITS (REITS' value of \$859.2 versus total U.S. Equities with REITS of \$3,974.1 as of March 31, 2004) while the Benchmark for the asset class, the Russell 3000 Index, has a weight of approximately 2% in REITS. This difference in weights between the actual portfolios and the policy portfolios creates a substantial risk concentration requiring transactions totaling more than \$1.5 billion to correct. In addition to the expenses associated with the transactions which would total several million dollars, there would be three additional negative effects.
 - a. REITS have been an important part of the endowment funds' portfolios for more than 10 years. They are the endowments' only investment in real estate and substantially reducing this position would lower the diversification and increase the risk of the overall portfolios with no expected increase in returns.
 - b. Because the proceeds of the sale of the existing REITS portfolio would be transferred from internal management to external active management, the total UTIMCO and fund budgets would immediately increase by about 8.7% (approximately \$2.7 million per year), reflecting the difference in costs between internal and

external active management. In addition, total internally managed assets would be reduced by about one-third with no decrease in costs.

- c. An important source of value added over the past two years, REITS, managed internally by Mr. Greg Cox, Portfolio Manager - Equity Investments, would be reduced to about one-tenth of its previous weight, thus limiting UTIMCO's ability to add value in the future.
2. The second issue relates to TIPS. The intention was to introduce TIPS as part of the portfolio allocation, and a 5% allocation was originally approved by the UTIMCO Board. However, moving TIPS to the Fixed Income category would make it unlikely that the intended 33.3% allocation to TIPS (5% for TIPS out of 15% total for fixed income) would occur since the Lehman Brothers Bond Index does not contain any TIPS in its construction. TIPS would be more appropriately measured against the Lehman Brothers U.S. TIPS Index. Therefore, implementing the 5% allocation to TIPS intended by the Asset Allocation Policy would create a substantial risk concentration position relative to the Lehman Brothers Aggregate Bond benchmark, making it less likely that TIPS would actually be purchased under the risk budgeting procedure used by UTIMCO. This would be an unintended negative result because TIPS have unique and attractive strategic characteristics that would improve diversification and lower the overall risk of the portfolio. The Investment Policy should encourage, not discourage, a TIPS position. The changes recommended in this Agenda Item would encourage TIPS positions.

Clarification on the use of the Venture Economics Benchmark for the Private Capital asset category is also proposed. During the recently completed Asset Allocation Review process, a new benchmark based on Venture Economics data was approved. The UTIMCO Board approved the use of Venture Economics' Vintage Year Venture Capital Index for the benchmark of Venture Capital and the use of Venture Economics' Vintage year Private Equity Index for Private Equity. At the time of the approval, the UTIMCO Board noted that staff would have to determine the most appropriate way to incorporate the Venture Economics benchmark into the endowment policy portfolio benchmark. The incorporation of Private Capital returns into the overall policy portfolio presents technical challenges due to differences in the methodology used to calculate return.

The best solution to the technical challenges is to use the Venture Economics' Periodic Internal Rate of Return Index for the entire Private Capital asset category rather than separate indices for venture capital and private equity. Although still not a perfect solution to the benchmarking problems of private equity, the Venture Economics Index does have an important characteristic necessary in any good benchmark: high correlation with the actual portfolio segment for which it has been selected as the benchmark.

The table below indicates the correlation of actual private equity returns in the endowment funds with the Venture Economics Index over individual one, three, and five-year periods over the past 10 years:

Correlation Coefficients	UTIMCO and Venture Economics
1 Year	0.9229
3 Years	0.8931
5 Years	0.9520

Correlation coefficients are statistical measures of how closely two variables change as measured at different points in time. A correlation coefficient of 1.0 indicates the two variables are moving in exact lockstep; a correlation coefficient of 0.0 indicates the two variables are moving completely independently. The high correlation measures above for the historical returns of the private capital portfolios and the Venture Economics benchmark indicate that the Venture Economics benchmark should be an effective benchmark for the endowments' private capital investments.

THE UNIVERSITY OF TEXAS SYSTEM PERMANENT UNIVERSITY FUND INVESTMENT POLICY STATEMENT

Purpose

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

PUF Organization

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

The 2.1 million acres comprising the PUF Lands produce two streams of income: a) mineral income, primarily in the form of oil and gas royalties and b) surface income, primarily ~~from in the form of~~ surface leases and easements. Under the Texas Constitution, mineral income, as a non-renewable source of income, remains a non-distributable part of PUF corpus, and is invested pursuant to this Policy Statement ~~in securities~~. Surface income, as a renewable source of income, is distributed to the Available University Fund (the "AUF"), as received. ~~The Constitution prohibits the distribution and expenditure of mineral income contributed to the PUF.~~ The Constitution also requires that all surface income and investment distributions paid to the AUF be expended for certain authorized purposes.

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

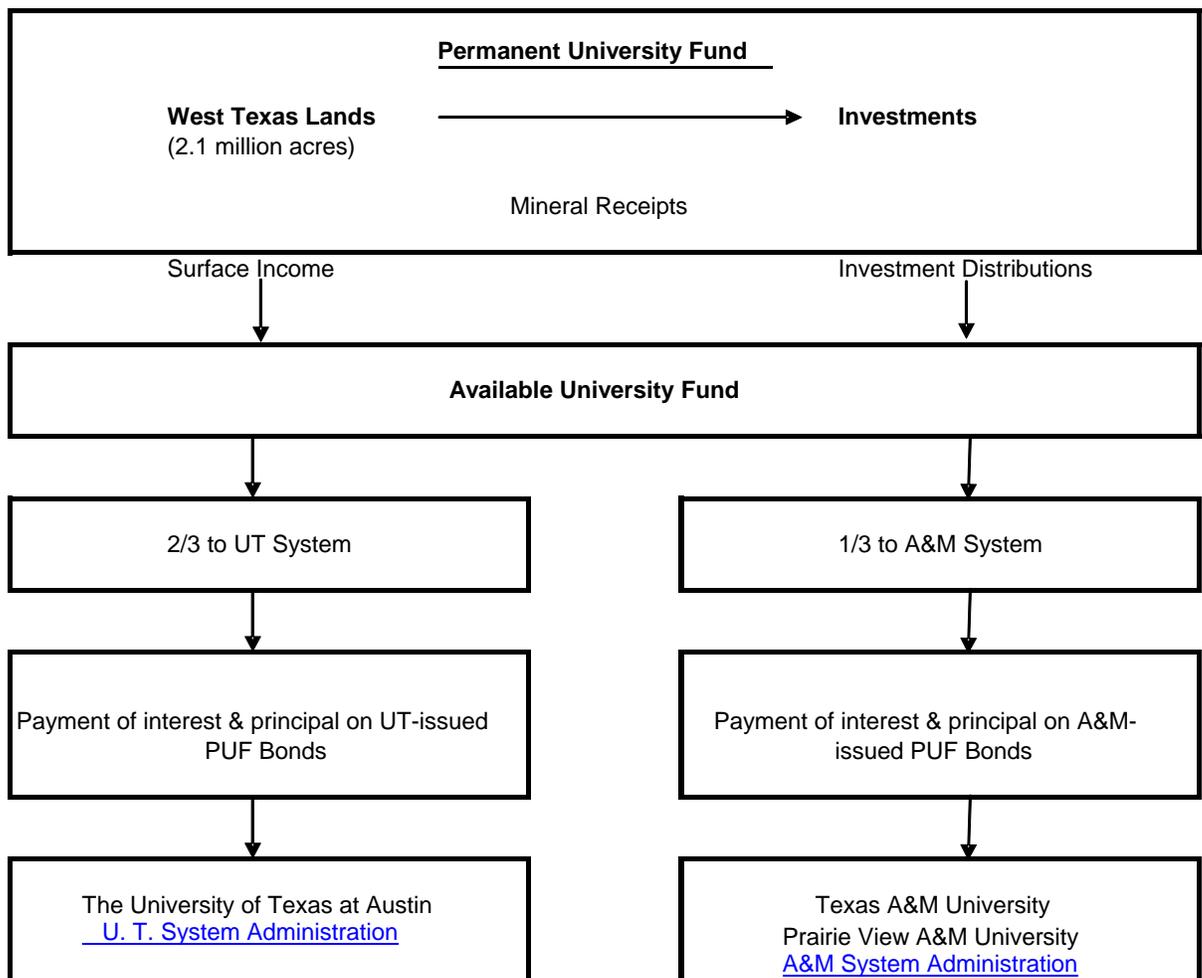
First, following a 2/3rds and 1/3rd allocation of AUF receipts to the U. T. System and ~~the Texas A&M University System~~, respectively, expenditures for debt service on PUF bonds. Article VII of the Texas Constitution authorizes the Board of Regents and the Texas A&M University System Board of Regents (the "TAMUS Board") to issue bonds payable from their respective interests in AUF receipts to finance permanent improvements and to refinance outstanding PUF obligations. The Constitution limits the amount of bonds and notes secured by each System's interest in divisible PUF income to 20% and 10% of the book value of PUF investment securities, respectively. Bond resolutions adopted by both Boards also prohibit the

issuance of additional PUF parity obligations unless the projected interest of the related System in AUF receipts during the preceding fiscal year for each System covers projected debt service on all PUF Bonds of that System by at least 1.5 times.

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

The payment of surface income and investment distributions from the PUF to the AUF and the associated expenditures is depicted below in Exhibit 1:

Exhibit 1



PUF Management

Article VII, Section 11b of the Texas Constitution assigns fiduciary responsibility for managing and investing the PUF to the Board of Regents. Article VII, Section 11b authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the PUF in any kind of investments and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may 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, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment.

Ultimate fiduciary responsibility for the PUF rests with the Board of Regents. Section 66.08 of the Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the Board of Regents in investment of the PUF.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), ~~t~~The PUF shall be managed ~~by~~ through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the PUF, b) recommend ~~determine~~ specific asset allocation targets, ranges and performance benchmarks consistent with PUF objectives, and c) monitor PUF performance against PUF objectives. UTIMCO shall invest the PUF's assets in conformity with this Policy Statement investment policy. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges, and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority approved by the UTIMCO Board. ~~These guidelines are intended to ensure that the appropriate managers are retained to pursue a defined investment strategy within the PUF's portfolio structure and to define the general conditions under which a portfolio manager may be placed on a watch list or terminated. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.~~

PUF Administration

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

PUF Investment Objectives

The PUF and the General Endowment Fund (the “GEF”) are pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of fund PUF assets and annual distributions by earning an average annual real return of ~~5.1%~~ over rolling ten-year periods or longer at least equal to the target distribution rate of such fund plus the annual expected expense. ~~The current~~ This 5.1% target was derived by adding the PUF’s current target distribution rate of 4.75% plus an annual expected expense of .35%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. The PUF’s success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objective is to generate a fund return in excess of the Policy Portfolio benchmark and the median return of the universe of the college and university endowments with assets greater than \$1 billion as reported by Cambridge Associates over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect PUF’s asset allocation policy targets.

Asset Allocation and Policy

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. Specific asset allocation positions may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook. In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A, UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable.

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

- A. U.S. Equities – U.S. equities represent ownership in U.S. companies that are traded in public markets; ~~Equities include stocks that are further identified by size of the company and are classified as large capitalization, medium~~

~~capitalization, and small capitalization. U.S. equities may further be delineated by style (growth or value). Warrants, rights, options, futures and hedge funds are also included if the underlying assets are equities. In addition, Derivative Applications approved by the UTIMCO Board that serve as a U.S. equity substitute will be classified as U.S. equities. Equities provide both current income and growth of income.~~

Traditional U.S. Equities – Traditional U.S. equities include common stocks and derivatives based on common stocks, including warrants, rights, options, exchange traded funds, and futures. In addition, derivative applications approved by the UTIMCO Board that serve as a U.S. equity substitute will be classified as traditional U.S. equity. Traditional U.S. equities provide both current income and capital gains.

REITS – REITS are real estate investment trusts and are classified as U.S. equities for purposes of this Policy Statement. REITS own, and in most cases operate, income producing real estate.

B. Global ex U.S. Equities – Global ex U.S. equities represent ownership in global companies that are traded in public markets. The global ex U.S. markets include established and emerging markets. ~~Equities include stocks that are further identified by size of the company and are classified as large capitalization, medium capitalization, and small capitalization. Global ex U.S. equities may further be delineated by style (growth or value) or region (Latin America, Asia etc.) or state of economic development (Emerging Markets). Derivatives including w~~Warrants, rights, options, exchange traded funds, and futures ~~and hedge funds~~ are also included if the underlying assets are Global ex U.S. equities. In addition, ~~d~~Derivative ~~a~~Applications approved by the UTIMCO Board that serve as a Global ex U.S. equity substitute will be classified as Global ex U.S. equities. Global ex U.S. eEquities provide both current income and capital gains ~~growth of income~~.

C. Hedge Funds – Hedge funds are broadly defined to include nontraditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable.

Equity Hedge Funds – Equity hedge fund investments include U.S. and international long/short equity strategies. These strategies attempt to exploit profits from stock selection skills by taking long and short positions in various equity securities. These strategies may also include fund of hedge fund investments. Equity hedge fund investments are made through private placement agreements.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage and event driven strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a

variety of different tactics primarily within equity, fixed income and convertible securities markets. Event driven strategies attempt to exploit discreet events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include fund of hedge fund investments. Absolute return hedge fund investments are made through private placement agreements.

- D. Private Capital - Private Capital investments include the illiquid debt and equity securities of private or publicly-traded companies. Private Capital investments consist of two sub-asset class categories: Venture Capital and Private Equity.

Venture Capital – Venture capital investments consist of investments in companies, both U.S. and non-U.S. that are in the early stages of development. Venture Capital investments are held either through limited partnerships or as direct ownership interests.

Private Equity – Private Equity investments consist of investments in the equity securities of private businesses, both U.S. and non-U.S., that are considered to be in the post-start-up phase and that are profitable and generating income. Private Equity investments are held either through limited partnerships or as direct ownership interests. The classification of Private Equity category also includes mezzanine and opportunistic investments. Mezzanine investments consist of investments in funds that make subordinated debt or minority equity investments in private companies. Opportunistic investments are limited to illiquid assets and may include distressed debt or secondary private equity partnerships. Mezzanine and opportunistic investments are held through limited partnerships or as direct ownership interests.

- E. Commodities – Commodities include nNatural resource investments which including oil and gas interests, commodities, and other hard assets. These investments may be held through partnerships, derivative investments or direct investments.

- F. Fixed Income – Fixed income investments include debt (whether U.S. or foreign) issued by Governments the U.S. Treasury, various government enterprises and agencies, and domestic and foreign corporations.

Traditional Fixed Income - The principal securities include bonds, notes, bills and mortgage and asset-backed securities. Fixed income investments also include hedge funds if the underlying assets are fixed income investments, and treasury inflation protected securities (TIPS) which are marketable securities with a return linked to the inflation rate. In addition, Derivative aApplications approved by the UTIMCO Board that serve as a fixed income substitute will be classified as traditional fixed income.

TIPS - TIPS are treasury inflation protected securities which are marketable securities with a return linked to the inflation rate. In constructing diversified TIPS portfolios, securities classified as traditional fixed income can be utilized by outside investment managers.

- G. Cash and Cash & Equivalents – Cash and cash & equivalents consist of money markets funds, deposit of the Texas State Treasury, cash in foreign currencies, and other overnight funds that have not been allocated to a specific asset class.

Performance Measurement

The investment performance of the PUF will be measured by the PUF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the PUF, as indicated in Exhibit A.

Investment Guidelines

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

Investment guidelines include the following:

General

- Investment guidelines for index, and other commingled funds, and limited partnerships managed externally shall be governed by the terms and conditions of the respective investment management contracts or partnership agreements.
- All investments will be U.S. dollar denominated assets unless held by an internal or external portfolio manager with the authority ~~discretion~~ to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by UTIMCO's ~~the~~ chief investment officer prior to investment of PUF assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the PUF's tax-exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

- The PUF's investments in warrants shall not exceed more than 5% of the PUF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The PUF may utilize dDerivative sSecurities to: a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a dDerivative sSecurity is priced more attractively than the underlying security; e) index or to hedge risks associated with PUF investments; or f) adjust the market exposure of the asset allocation, including long and short strategies and other strategies provided that the PUF's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board. The Derivative Investment Policy shall serve the purpose of defining the permitted applications under which derivative securities can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. Derivative applications implemented in compliance with the Derivative Investment Policy shall be deemed to be specifically authorized by the UTIMCO Board for purposes of this Policy Statement. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Internal short-term pooled investment funds managed by UTIMCO.
- Unaffiliated liquid investment funds as approved by UTIMCO's the chief investment officer.
- Deposits of the Texas State Treasury.
- The PUF's custodian late deposit interest bearing liquid investment fund.
- Commercial paper ~~must be~~ rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit ~~must be~~ with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Bankers' aAcceptances ~~must be~~ guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.

- Repurchase ~~a~~Agreements and ~~r~~Reverse ~~r~~Repurchase ~~a~~Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.
 - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
 - Eligible ~~c~~Collateral ~~s~~Securities for ~~r~~Repurchase ~~a~~Agreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
 - The maturity for a ~~r~~Repurchase ~~a~~Agreement may be from one day to two weeks.
 - The value of all collateral shall be maintained at 102% of the notional value of the ~~r~~Repurchase ~~a~~Agreement, valued daily.
 - All collateral shall be delivered to the PUF custodian bank. Tri-party collateral arrangements are not permitted.
- The aggregate amount of ~~r~~Repurchase ~~a~~Agreements with maturities greater than seven calendar days may not exceed 10% of the PUF's fixed income assets.
- Overnight ~~r~~Repurchase ~~a~~Agreements may not exceed 25% of the PUF's fixed income assets.
- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as ~~r~~Reverse ~~r~~Repurchase ~~a~~Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Domestic Fixed Income

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

- Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government

and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific subsectors ~~subindices~~ 1) Government securities: Treasury and Agency; 2) Corporate securities: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; 4) Asset-backed securities; 5) Taxable Municipal securities; and 6) Commercial Mortgage-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.

- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- or better by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition. This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.
- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

Non-U.S. Fixed Income

- Not more than 50% of the PUF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds. ~~Not more than 15% of the PUF's fixed income portfolio may be invested in bonds denominated in any one currency.~~
- Non-dollar denominated bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio unless an investment manager has been authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.
- .
- Not more than 15% of the PUF's fixed income portfolio may be invested in eEmerging mMarket debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

The PUF shall:

- A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market
- B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by UTIMCO's the chief investment officer.

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

PUF Distributions

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

- A. provide a predictable, stable stream of distributions over time;
- B. ensure that the inflation adjusted value of distributions is maintained over the long term; and
- C. ensure that the inflation adjusted value of PUF assets after distributions is maintained over rolling 10-year periods ~~the long term.~~

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

The Texas Constitution states that "The amount of any distributions to the available university fund shall be determined by the board of regents of The University of Texas System in a manner intended to provide the available university fund with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of permanent university fund investments and annual distributions to the available university fund. The amount distributed to the available university fund in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on bonds and notes issued under this

section. If the purchasing power of permanent university fund investments for any rolling 10-year period is not preserved, the board may not increase annual distributions to the available university fund until the purchasing power of the permanent university fund investments is restored, except as necessary to pay the principal and interest due and owing on bonds and notes issued under this section. An annual distribution made by the board to the available university fund during any fiscal year may not exceed an amount equal to seven percent of the average net fair market value of permanent university fund investment assets as determined by the board, except as necessary to pay any principal and interest due and owing on bonds issued under this section. The expenses of managing permanent university fund land and investments shall be paid by the permanent university fund.”

Annually, the Board of Regents will approve a distribution amount to the AUF.

In conjunction with the annual U. T. System budget process, UTIMCO shall recommend to the Board of Regents in May of each year an amount to be distributed to the AUF during the next fiscal year. UTIMCO's recommendation on the annual distribution shall be an amount equal to 4.75% of the trailing twelve quarter average of the net asset value of the PUF for the quarter ending February of each year.

Following approval of the distribution amount, distributions from the PUF to the AUF may be quarterly or annually at the discretion of UTIMCO Management.

PUF Accounting

The fiscal year of the PUF shall begin on September 1st and end on August 31st. Market value of the PUF shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, industry guidelines, or ~~and~~ state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's ~~the~~ chief investment officer and reported to the UTIMCO Board of Directors. The PUF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all PUF net assets. Valuation of PUF assets shall be based on the books and records of the custodian for the valuation date. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

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

Securities Lending

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

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be August 12, 2004, except for Exhibit A which was effective January 1, 2004 ~~December 19, 2003~~.

CURRENT

EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities	25.0	15 to 45	Russell 3000 Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Traditional Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	Venture Economics Vintage Year Venture Capital Index
Private Equity	9.0	5 to 15	Venture Economics Vintage Year Private Equity Index
Total Private Capital	15.0	5 to 15	
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income	15.0	10 to 30	Lehman Brothers Aggregate Bond Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

PROPOSED

EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities:	25.0	15 to 45	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index
Traditional US Equities	20.0	15 to 45	Russell 3000 Index
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	
Private Equity	9.0	5 to 15	
Total Private Capital	15.0	5 to 15	Venture Economics' Periodic IRR Index
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income:	15.0	10 to 30	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Tips Index
Traditional Fixed Income	10.0	10 to 30	Lehman Brothers Aggregate Bond Index
TIPS	5.0	0 to 10	Lehman Brothers US Tips Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

**THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND
INVESTMENT POLICY STATEMENT**

Purpose

The General Endowment Fund (the "GEF"), established by the Board of Regents of The University of Texas System (the "Board of Regents") March 1, 2001, is a pooled fund for the collective investment of certain long-term funds under the control and management of the Board of Regents. The GEF provides for greater diversification of investments than would be possible if each account were managed separately.

GEF Organization

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

GEF Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may 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, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031 (c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the GEF.

Ultimate fiduciary responsibility for the GEF rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), ~~t~~The GEF shall be managed by ~~governed through~~ The University

of Texas Investment Management Company ("UTIMCO"), a nonprofit Corporation organized for the express purpose of investing funds under the control and management of the Board of Regents. ~~UTIMCO which shall a) recommend investment policy for the GEF, b) recommend determine specific asset allocation targets, ranges, and performance benchmarks consistent with GEF objectives, and c) monitor GEF performance against GEF objectives. UTIMCO shall invest the GEF assets in conformity with this Policy Statement investment policy. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.~~

~~UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority approved by the UTIMCO Board. These guidelines are intended to ensure that the appropriate managers are retained to pursue a defined investment strategy within the GEF's portfolio structure and to define the general conditions under which a portfolio manager may be placed on a watch list or terminated. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.~~

GEF Administration

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

Funds Eligible to Purchase GEF Units

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

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

Currently, the Long Term Fund (the "LTF") and the Permanent Health Fund (the "PHF") purchase units in the GEF.

GEF Investment Objectives

The GEF and the PUF are pooled for efficient investment purposes. The primary investment objective for each fund shall be to preserve the purchasing power of fund GEF assets by earning an average annual real return ~~of 5.4%~~ over rolling ten-year

periods or longer at least equal to the target distribution rate of such fund (in case of the GEF, the target distribution rate of the LTF and the PHF) plus the annual expected expense. ~~The current~~ This 5.1% target was derived by adding the PUF's current target distribution rate of 4.75% plus an annual expected expense of .35%. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds. The GEF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objectives ~~is~~ are to generate a fund return in excess of the Policy Portfolio benchmark and the ~~average~~ average median return of the universe of the college and university endowments with assets greater than \$1 billion as reported ~~annually~~ by Cambridge Associates and NACUBO over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect GEF's asset allocation policy targets.

Asset Allocation and Policy

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. Specific asset allocation positions may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook. In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A, UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable.

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

- A. U.S. Equities - U.S. equities represent ownership in U.S. companies that are traded in public markets: ~~Equities include stocks that are further identified by size of the company and are classified as large capitalization, medium capitalization, and small capitalization. U.S. equities may further be delineated by style (growth or value). Warrants, rights, options, futures and hedge funds are also included if the underlying assets are equities. In addition, Derivative Applications approved by the UTIMCO Board that serve as a U.S. equity substitute will be classified as U.S. equities. Equities provide both current income and growth of income.~~

Traditional U.S. Equities – Traditional U.S. equities include common stocks and derivatives based on common stocks, including warrants, rights, options, exchange traded funds, and futures. In addition, derivative applications approved by the UTIMCO Board that serve as a U.S. equity

substitute will be classified as traditional U.S. equity. Traditional U.S. equities provide both current income and capital gains.

REITS – REITS are real estate investment trusts and are classified as U.S. equities for purposes of this Policy Statement. REITS own, and in most cases operate, income producing real estate.

- B. Global ex U.S. Equities – Global ex U.S. equities represent ownership in global companies that are traded in public markets. The global ex U.S. markets include established and emerging markets. ~~Equities include stocks that are further identified by size of the company and are classified as large capitalization, medium capitalization, and small capitalization. Global ex U.S. equities may further be delineated by style (growth or value) or region (Latin America, Asia etc.) or state of economic development (Emerging Markets).~~ Derivatives including warrants, rights, options, exchange traded funds, and futures and hedge funds are also included if the underlying assets are Global ex U.S. equities. In addition, Derivative Applications approved by the UTIMCO Board that serve as a Global ex U.S. equity substitute will be classified as Global ex U.S. equities. Global ex U.S. Equities provide both current income and capital gains ~~growth of income~~.

- C. Hedge Funds – Hedge funds are broadly defined to include nontraditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable.

Equity Hedge Funds – Equity hedge fund investments include U.S. and international long/short equity strategies. These strategies attempt to exploit profits from stock selection skills by taking long and short positions in various equity securities. These strategies may also include fund of hedge fund investments. Equity hedge fund investments are made through private placement agreements.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage and event driven strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event driven strategies attempt to exploit discreet events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include fund of hedge fund investments. Absolute return hedge fund investments are made through private placement agreements.

- D. Private Capital - Private Capital investments include the illiquid debt and equity securities of private or publicly-traded companies. Private Capital investments consist of two sub-asset class categories: Venture Capital and Private Equity.

Venture Capital – Venture Capital investments consist of investments in companies, both U.S. and non-U.S., that are in the early stages of development. Venture capital investments are held either through limited partnerships or as direct ownership interests.

Private Equity – Private Equity investments consist of investments in the equity securities of private businesses, both U.S. and non-U.S., that are considered to be in the post-start-up phase and that are profitable and generating income. Private Equity investments are held either through limited partnerships or as direct ownership interests. The classification of Private Equity category also includes mezzanine and opportunistic investments. Mezzanine investments consist of investments in funds that make subordinated debt or minority equity investments in private companies. Opportunistic investments are limited to illiquid assets and may include distressed debt or secondary private equity partnerships. Mezzanine and opportunistic investments are held through limited partnerships or as direct ownership interests.

E. Commodities – Commodities include nNatural resource investments which including oil and gas interests, commodities, and other hard assets. These investments may be held through partnerships, derivative investments, or direct investments.

F. Fixed Income – Fixed income investments include debt (whether U.S. or foreign) issued by Governments the U.S. Treasury, various government enterprises, and agencies and domestic and foreign corporations.

Traditional Fixed Income - The principal securities include bonds, notes, bills and mortgage and asset-backed securities. Fixed income investments also include hedge funds if the underlying assets are fixed income investments, and treasury inflation protected securities (TIPS) which are marketable securities with a return linked to the inflation rate. In addition, Derivative aApplications approved by the UTIMCO Board that serve as a fixed income substitute will be classified as traditional fixed income.

TIPS - TIPS are treasury inflation protected securities which are marketable securities with a return linked to the inflation rate. In constructing diversified TIPS portfolios, securities classified as traditional fixed income can be utilized by outside investment managers.

G. Cash and Cash Equivalents – Cash and & cash equivalents consist of money markets funds, cash in foreign currencies, and other overnight funds that have not been allocated to a specific asset class.

Performance Measurement

The investment performance of the GEF will be measured by the GEF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the GEF, as indicated in Exhibit A.

Investment Guidelines

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

Investment guidelines include the following:

General

- Investment guidelines for ~~index, and other commingled funds, and limited partnerships~~ managed externally shall be governed by the terms and conditions of the respective investment management contracts or partnership agreements.
- All investments will be U.S. dollar denominated assets unless held by an internal or external portfolio manager with the authority ~~discretion~~ to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by UTIMCO's ~~the~~ chief investment officer prior to investment of GEF assets in such liquid investment fund.
- No securities may be purchased or held which jeopardize the GEF's tax exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The GEF's investments in warrants shall not exceed more than 5% of the GEF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The GEF may utilize dDerivative sSecurities to: a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a dDerivative sSecurity is priced more attractively than the underlying security; e) index or to hedge risks

associated with GEF investments; or f) adjust the market exposure of the asset allocation, including long and short strategies and other strategies provided that the GEF's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board. The Derivative Investment Policy shall serve the purpose of defining the permitted applications under which derivative securities can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. Derivative applications implemented in compliance with the Derivative Investment Policy shall be deemed to be specifically authorized by the UTIMCO Board for purposes of this Policy Statement. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Internal short-term pooled investment funds managed by UTIMCO.
- Unaffiliated liquid investment funds as approved by UTIMCO's the chief investment officer.
- The GEF's custodian late deposit interest bearing liquid investment fund.
- Commercial paper ~~must be~~ rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit ~~must be~~ with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Bankers' aAcceptances ~~must be~~ guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- Repurchase aAgreements and rReverse rRepurchase aAgreements ~~must be~~ transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.
 - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.

- Eligible cCollateral sSecurities for rRepurchase aAgreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
 - The maturity for a rRepurchase aAgreement may be from one day to two weeks.
 - The value of all collateral shall be maintained at 102% of the notional value of the rRepurchase aAgreement, valued daily.
 - All collateral shall be delivered to the GEF custodian bank. Tri-party collateral arrangements are not permitted.
- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the GEF's fixed income assets.
 - Overnight rRepurchase aAgreements may not exceed 25% of the GEF's fixed income assets.
 - Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as rReverse rRepurchase aAgreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Domestic Fixed Income

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

Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific subsectors subindices

- 1) Government securities: Treasury and Agency;
- 2) Corporate securities: Industrial, Finance, Utility, and Yankee;
- 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA;
- 4) Asset-backed securities;
- 5) Taxable Municipal securities; and
- 6) Commercial Mortgage-backed securities.

In addition to the permissible securities listed above, the following securities shall be permissible:

- a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities;
- b) medium term notes issued by investment grade corporations;
- c) zero coupon

bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.

U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- or better, by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition. This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

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

Non-U.S. Fixed Income

- Not more than 50% of the GEF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds. ~~Not more than 15% of the GEF's fixed income portfolio may be invested in bonds denominated in any one currency.~~
- Non-dollar denominated bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio unless an investment manager has been authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.
- Not more than 15% of the GEF's fixed income portfolio may be invested in ~~e~~Emerging ~~m~~Market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

The GEF shall:

- A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market
- B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by UTIMCO's ~~the~~ chief investment officer.

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

GEF Accounting

The fiscal year of the GEF shall begin on September 1st and end on August 31st. Market value of the GEF shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, or industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's the chief investment officer and reported to the UTIMCO Board of Directors. The GEF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all GEF net assets and the net asset value per unit of the GEF. Valuation of GEF assets shall be based on the books and records of the custodian for the valuation date. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

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

Purchase of GEF Units

Purchase of GEF units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the GEF or contribution of assets approved by UTIMCO's the chief investment officer, at the net asset value per unit of the GEF as of the most recent quarterly valuation date. Each fund whose monies are invested in the GEF shall own an undivided interest in the GEF in the proportion that the number of units invested therein bears to the total number of all units comprising the GEF.

Redemption of GEF Units

Redemption of GEF units shall be paid in cash as soon as practicable after the quarterly valuation date of the GEF. Withdrawals from the GEF shall be at the market value price per unit determined for the period of the withdrawal.

Securities Lending

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

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be August 12, 2004, except for Exhibit A which was effective January 1, 2004 December 19, 2003.

CURRENT

EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities	25.0	15 to 45	Russell 3000 Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Traditional Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	Venture Economics Vintage Year Venture Capital Index
Private Equity	9.0	5 to 15	Venture Economics Vintage Year Private Equity Index
Total Private Capital	15.0	5 to 15	
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income	15.0	10 to 30	Lehman Brothers Aggregate Bond Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

PROPOSED

EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities:	25.0	15 to 45	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index
Traditional US Equities	20.0	15 to 45	Russell 3000 Index
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	
Private Equity	9.0	5 to 15	
Total Private Capital	15.0	5 to 15	Venture Economics' Periodic IRR Index
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income:	15.0	10 to 30	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Tips Index
Traditional Fixed Income	10.0	10 to 30	Lehman Brothers Aggregate Bond Index
TIPS	5.0	0 to 10	Lehman Brothers US Tips Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

**THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT HEALTH FUND
INVESTMENT POLICY STATEMENT**

Purpose

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

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

- B. Eight of the thirteen separate Permanent Funds for Health Related Institutions (the "PFHRIs"), the distributions from which are to fund research and other programs at health-related institutions of higher education that benefit public health. The PFHRIs invested in the PHF are:

- U. T. Health Science Center - San Antonio
- U. T. M. D. Anderson Cancer Center
- U. T. Southwestern Medical Center - Dallas
- U. T. Medical Branch - Galveston
- U. T. Health Science Center - Houston
- U. T. Health Center - Tyler
- U. T. El Paso
- Regional Academic Health Center

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

PHF Organization

The PHF ~~functions like is organized~~ as a mutual fund in which each eligible fund account purchases and redeems PHF units as provided herein.

PHF Management

Chapter 63 of the Texas Education Code designates: a) the Board of Regents as the administrator for the PHFHE and b) the governing board of an institution for which a PFHRI fund is established as the administrator for its own PFHRI, or if the governing board so elects, the Comptroller of Public Accounts (State Comptroller). It permits the State Comptroller, in turn, to contract with the governing board of any institution that is eligible to receive a grant under Chapter 63. Pursuant to the foregoing and an Investment Management Services Agreement between the Board of Regents and the State Comptroller, the Board of Regents is the administrator responsible for managing the PHF. Chapter 63 further states that the Board of Regents may manage and invest the PHF in the same manner as the Board of Regents manages and invests other permanent endowments. It also requires that the administrator invest the funds in a manner that preserves the purchasing power of the funds' assets and distributions. It further requires that the administrator make distributions in a manner consistent with the administrator's policies and procedures for making distributions to the beneficiaries of its own endowments in the case of the PHFHE or the funds themselves in the case of the PFHRI funds.

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may 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, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Chapter 63 of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the PHF.

Ultimate fiduciary responsibility for the PHF rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

~~Section 163 of the Texas Property Code provides the guidelines for the management, investment and expenditure of endowment funds. It also authorizes the Board of Regents to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the Board of Regents in the investment of the PHF. Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the PHF shall be managed by governed through The University of Texas Investment Management Company (UTIMCO) which shall: a) recommend investment policy for the PHF; b) recommend determine~~

specific asset allocation targets, ranges, and performance benchmarks consistent with PHF objectives; and c) monitor PHF performance against PHF objectives. UTIMCO shall invest the PHF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents investment policy.

PHF Administration

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

Funds Eligible to Purchase PHF Units

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

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

PHF Investment Objectives

The primary investment objective shall be to preserve the purchasing power of PHF assets and annual distributions by earning an average annual real return ~~of 5.1%~~ over rolling ten-year periods or longer at least equal to the target distribution rate, plus the annual expected expense. ~~This 5.1% target was derived by adding the current target distribution rate of 4.75% plus an annual expected expense of .35%.~~ The current target rate is 5.1%. The target is subject to adjustment from time to time consistent with the primary investment objective of the PHF. The PHF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objectives ~~are~~ is to generate a fund return in excess of the Policy Portfolio benchmark and the average median return of the universe of the college and university endowments with assets greater than \$1 billion as reported ~~annually~~ by Cambridge Associates and NACUBO over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect PHF's asset allocation policy targets.

Asset Allocation and Policy

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A and Exhibit B, is the responsibility of UTIMCO. PHF assets shall be allocated among the following investments:

- A. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.
- B. U. T. System General Endowment Fund (GEF) - (See Exhibit B for the current GEF allocation, which is subject to changes by the Board of Regents. Upon any change to the GEF asset allocation, Exhibit B shall be revised accordingly.)

Performance Measurement

The investment performance of the PHF will be measured by the PHF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board. Such measurement will occur at least quarterly annually.

Investment Guidelines

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

Investment guidelines include the following:

General

- Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement.
- ~~All investments will be reported in U. S. dollars.~~
- ~~Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of PHF assets in such liquid investment fund.~~
- No securities may be purchased or held which jeopardize the PHF's tax exempt status.
- ~~No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.~~

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

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Eligible investments within the “Cash and Cash Equivalents” category of the GEF Investment Policy Statement.

~~Internal short-term pooled investment funds managed by UTIMCO.~~

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

- ~~The PHF’s custodian late deposit interest bearing liquid investment fund.~~

PHF Distributions

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

- A. provide a predictable, stable stream of distributions over time;
- B. ensure that the inflation adjusted value of distributions is maintained over the long term; and
- C. ensure that the inflation adjusted value of PHF assets after distributions is maintained over the long term.

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

UTIMCO shall be responsible for calculating ~~establishing~~ the PHF’s distribution percentage and determining the equivalent per unit rate for any given year. Unless otherwise recommended ~~established~~ by UTIMCO and approved by the Board of Regents, PHF fund distributions shall be based on the following criteria:

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

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

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

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

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

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

PHF Accounting

The fiscal year of the PHF shall begin on September 1st and end on August 31st. Market value of the PHF shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, ~~or~~ industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's ~~the~~ chief investment officer and reported to the UTIMCO Board of ~~Directors~~. The PHF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all PHF net assets and the net asset value per unit of the PHF. Such valuation of PHF assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of PHF assets shall be based on the books and records of the custodian for the valuation date.

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

Purchase of PHF Units

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

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

Redemption of PHF Units

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

Investor Responsibility

The UTIMCO Board shall discharge its fiduciary duties with respect to the PHF solely in the interest of PHF unitholders and shall not invest the PHF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

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

Effective Date

| The effective date of this policy shall be August 12, 2004 ~~December 19, 2003~~.

EXHIBIT A

PHF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

	Neutral Allocation	Range	Benchmark Return
GEF Commingled Fund	100.0%	95%-100%	Endowment Policy Portfolio
Cash	0.0%	0%-5%	90 day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

The endowment policy portfolio is the sum of the neutrally weighted benchmark returns for the GEF.

CURRENT

EXHIBIT B

GEF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities	25.0	15 to 45	Russell 3000 Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Traditional Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	Venture Economics Vintage Year Venture Capital Index
Private Equity	9.0	5 to 15	Venture Economics Vintage Year Private Equity Index
Total Private Capital	15.0	5 to 15	
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income	15.0	10 to 30	Lehman Brothers Aggregate Bond Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

PROPOSED

EXHIBIT B

GEF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities:	25.0	15 to 45	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index
Traditional US Equities	20.0	15 to 45	Russell 3000 Index
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	
Private Equity	9.0	5 to 15	
Total Private Capital	15.0	5 to 15	Venture Economics' Periodic IRR Index
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income:	15.0	10 to 30	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Tips Index
Traditional Fixed Income	10.0	10 to 30	Lehman Brothers Aggregate Bond Index
TIPS	5.0	0 to 10	Lehman Brothers US Tips Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

THE UNIVERSITY OF TEXAS SYSTEM LONG TERM FUND INVESTMENT POLICY STATEMENT

Purpose

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

LTF Organization

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

LTF Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may 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, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the LTF.

Ultimate fiduciary responsibility for the LTF rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

~~Section 163 of the Texas Property Code authorizes the Board of Regents to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the Board of Regents in the investment of the LTF. Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), t~~The LTF shall be managed by ~~governed through~~ The University of Texas Investment Management Company ("UTIMCO"), which shall a) recommend investment policy for the LTF, b) recommend ~~determine~~ specific asset allocation targets, ranges, and performance benchmarks consistent with LTF objectives, and c) monitor LTF performance against LTF objectives. UTIMCO shall invest the LTF assets in conformity with this Policy Statement investment policy. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

LTF Administration

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

Funds Eligible to Purchase LTF Units

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

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

LTF Investment Objectives

The primary investment objective shall be to preserve the purchasing power of LTF assets by earning an average annual real return ~~of 5.1%~~ over rolling ten-year periods or longer at least equal to the target distribution rate, plus the annual expected expense. ~~This 5.1% target was derived by adding the current target distribution rate of 4.75% plus an annual expected expense of .35%. The current target rate is 5.1%. The target is subject to adjustment from time to time consistent with the primary investment objective of the LTF.~~ The LTF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objectives ~~are~~ is to generate a fund return in excess of the Policy Portfolio benchmark and the average median return of the universe of the college and university endowments with assets greater than \$1 billion as reported ~~annually~~ by Cambridge Associates ~~and NACUBO~~ over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect LTF's asset allocation policy targets.

Asset Allocation and Policy

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A and Exhibit B, is the responsibility of UTIMCO. LTF assets shall be allocated among the following investments.

- A. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.
- B. U. T. System General Endowment Fund (GEF) - (See Exhibit B for the current GEF allocation, which is subject to changes by the Board of Regents. Upon any change to the GEF asset allocation, Exhibit B shall be revised accordingly.)

Performance Measurement

The investment performance of the LTF will be measured by the LTF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board. Such measurement will occur at least quarterly annually.

Investment Guidelines

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

Investment guidelines include the following:

General

- Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement.
- ~~All investments will be reported in U. S. dollars.~~

- ~~• Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of LTF assets in such liquid investment fund.~~
- No securities may be purchased or held which jeopardize the LTF's tax exempt status.
- ~~• No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.~~
- ~~• No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.~~

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Eligible investments within the "Cash and Cash Equivalents" category of the GEF Investment Policy Statement.
~~Include internal short term pooled investment funds managed by UTIMCO.~~
- ~~• Unaffiliated liquid investment funds as approved by the chief investment officer.~~
- ~~• The LTF's custodian late deposit interest bearing liquid investment fund.~~

LTF Distributions

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

- provide a predictable, stable stream of distributions over time;
- ensure that the inflation adjusted value of distributions is maintained over the long term; and
- ensure that the inflation adjusted value of LTF assets after distributions is maintained over the long term.

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

Generally, pursuant to the Uniform Management of Institutional Funds Act, Chapter 163, Texas Property Code, as amended, ("Act"), the Board of Regents a governing board may distribute, for the uses and purposes for which the LTF fund is

established, the net appreciation, realized and unrealized, in the fair market value of the assets of the LTF an endowment fund over the historic dollar value of the fund to the extent prudent under the standard provided by the Act. ~~In addition, income may be distributed for the purposes associated with the endowments/foundations.~~

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

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

- A. Increase the prior year's per unit distribution amount (cents per unit) by the average inflation rate (C.P.I.) for the previous twelve quarters. This will be the per unit distribution amount for the next fiscal year. This amount may be rounded to the nearest \$.0005 per unit.
- B. If the inflationary increase in Step A- results in a distribution rate below 3.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit), ~~the UTIMCO Board, at its sole discretion,~~ may recommend ~~grant~~ an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 5.5%.
- C. If the distribution rate exceeds 5.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit), ~~the UTIMCO Board at its sole discretion,~~ may recommend a reduction in ~~reduce~~ the per unit distribution amount.

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

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

LTF Accounting

The fiscal year of the LTF shall begin on September 1st and end on August 31st. Market value of the LTF shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, ~~or~~ industry guidelines, or state statutes, whichever is

applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's ~~the~~ chief investment officer and reported to the UTIMCO Board. The LTF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all LTF net assets and the net asset value per unit of the LTF. Such valuation of LTF assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of LTF assets shall be based on the books and records of the custodian for the valuation date.

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

Purchase of LTF Units

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

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

Redemption of LTF Units

Redemption of LTF units shall be paid in cash as soon as practicable after the quarterly valuation date of the LTF. If the withdrawal is greater than \$10 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than \$10 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the LTF's net asset value, the Board of Regents may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the best interests of all LTF unitholders. Withdrawals from the LTF shall be at the market value price per unit determined for the period of the withdrawal except as follows: withdrawals to correct administrative errors shall be calculated at the per unit value at the time the error occurred. To be considered an administrative error, the contribution shall have been invested in the LTF for a period less than or equal to one year determined from the date of the contribution to the

LTF. Transfer of units between endowment unitholders shall not be considered redemption of units subject to this provision.

Investor Responsibility

The UTIMCO Board shall discharge its fiduciary duties with respect to the LTF solely in the interest of LTF unitholders and shall not invest the LTF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

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

Effective Date

| The effective date of this policy shall be August 12, 2004 ~~December 19, 2003~~.

EXHIBIT A

LTF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

	Neutral Allocation	Range	Benchmark Return
GEF Commingled Fund	100.0%	95%-100%	Endowment Policy Portfolio
Cash	0.0%	0%-5%	90 day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

The endowment policy portfolio is the sum of the neutrally weighted benchmark returns for the GEF.

CURRENT

EXHIBIT B

GEF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities	25.0	15 to 45	Russell 3000 Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Traditional Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	Venture Economics Vintage Year Venture Capital Index
Private Equity	9.0	5 to 15	Venture Economics Vintage Year Private Equity Index
Total Private Capital	15.0	5 to 15	
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income	15.0	10 to 30	Lehman Brothers Aggregate Bond Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

PROPOSED

EXHIBIT B

GEF ASSET ALLOCATION

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Asset Category	Percent of Portfolio (%)		Benchmarks
	Policy Targets	Policy Ranges	
US Equities:	25.0	15 to 45	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index
Traditional US Equities	20.0	15 to 45	Russell 3000 Index
REITS	5.0	0 to 10	Dow Jones Wilshire Real Estate Securities Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total Equity	42.0	20 to 60	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	25.0	15 to 25	
Venture Capital	6.0	0 to 10	
Private Equity	9.0	5 to 15	
Total Private Capital	15.0	5 to 15	Venture Economics' Periodic IRR Index
Commodities	3.0	0 to 5	GSCI minus 1%
Fixed Income:	15.0	10 to 30	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Tips Index
Traditional Fixed Income	10.0	10 to 30	Lehman Brothers Aggregate Bond Index
TIPS	5.0	0 to 10	Lehman Brothers US Tips Index
Cash	0.0	0 to 5	90 Day T-Bills

Expected Annual Return (%)	8.36
Downside Deviation (%)	4.22
Standard Deviation (%)	10.30

THE UNIVERSITY OF TEXAS SYSTEM SHORT INTERMEDIATE TERM FUND INVESTMENT POLICY STATEMENT

Purpose

The Short Intermediate Term Fund (the "SITF"), was established by the Board of Regents of The University of Texas System (the "Board of Regents") as a pooled fund for the collective investment of operating funds and other short and intermediate term funds held by U. T. System component institutions and System Administration with an investment horizon greater than one year.

SITF Organization

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

SITF Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may 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, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031 (c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the SITF.

Ultimate fiduciary responsibility for the SITF rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

~~Section 163 of the Texas Property Code authorizes the Board of Regents to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the Board of Regents in the investment of the SITF.~~

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), ~~t~~The SITF shall be managed by ~~governed through~~ The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the SITF, b) recommend ~~determine~~ specific asset allocation targets, ranges and performance benchmarks consistent with SITF objectives, and c) monitor SITF performance against SITF objectives. UTIMCO shall invest the SITF assets in conformity with this Policy Statement investment policy. All changes to this Policy Statement or the exhibit to this Policy Statement, including changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority approved by the UTIMCO Board. ~~Unaffiliated investment managers may be hired by UTIMCO to improve the SITF's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.~~

SITF Administration

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

Funds Eligible to Purchase SITF Units

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

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

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

- A. the purchase of SITF units by foundation funds is approved by UTIMCO's ~~the~~ chief investment officer;

- B. all members of the foundation's governing board are also members of the Board of Regents;
- C. the foundation has the same fiscal year as the SITF;
- D. a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the SITF; and
- E. no officer of such foundation, other than members of the Board of Regents, the Chancellor, UTIMCO's the chief investment officer or his or her delegate shall have any control over the management of the SITF other than to request purchase and redemption of SITF units.

SITF Investment Objectives

The primary investment objective shall be to provide both income through investment in high grade fixed income and floating rate obligations and capital appreciation when consistent with income generation, reasonable preservation of capital and maintenance of adequate SITF liquidity. In seeking to achieve its objectives, the SITF shall attempt to minimize the probability of a negative total return over a one-year period. Within the exposure limits contained herein, investments shall be diversified among authorized asset classes and issuers (excluding the U.S. U.S. Government) in order to minimize portfolio risk for a given level of expected return. This objective will be achieved by adding value through active management including duration and yield curve management, sector rotation, security selection, and cost efficient trading.

Achievement of this objective shall be defined by a fund return over a market cycle in excess of the U. T. System Short Term Fund ("STF") and the Merrill Lynch 1-3 Year Treasury Index. The SITF will attempt to achieve a return in excess of the STF primarily through a longer average maturity/duration and through UTIMCO active portfolio management efforts. Policy Portfolio benchmark and the average return of the median manager of the MorningStar universe of government bond funds restricted to an average maturity of less than or equal to three years. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect SITF asset allocation policy targets.

It is important to note that the SITF return will be more volatile than the STF fund returns, and under very unusual capital market conditions, the total return of the SITF could be negative over a 12-month period.

Asset Allocation and Policy

Asset allocation is the primary determinant of investment performance and, subject to the asset allocation ranges specified in Exhibit A, herein is the responsibility of

UTIMCO. Specific asset allocation targets may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook. In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A, UTIMCO staff will rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable.

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

1. Cash and Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good ~~the best combination of income and~~ liquidity under both deflation and inflation conditions.
2. Fixed Income Investments - offer predictable income streams without the remarketing risk often associated with cash and cash equivalents.
3. Floating Rate Securities - offer protection from unanticipated inflationary pressures and rises in interest rates.

Asset Allocation Policy

~~The asset allocation policy and ranges herein seek to protect the SITF against illiquidity in both normal and extraordinary markets.~~

~~The Board of Regents delegates authority to UTIMCO to establish specific asset allocation targets and ranges within the broad policy guidelines described above. UTIMCO may establish specific asset allocation targets and ranges for or within the asset classes listed above as well as the specific performance objectives for each asset class. Specific asset allocation policies shall be decided by UTIMCO and reported to the Board of Regents.~~

Performance Measurement

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

Investment Guidelines

~~The SITF must be invested at all times in strict compliance with applicable law. The primary and constant standard for making investment decisions is the investment~~

standard set forth in the Uniform Management of Institutional Funds Act (§163.007, Texas Property Code).

Investment guidelines include the following:

General

- All investments will be U.S. U.S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by UTIMCO's ~~the~~ chief investment officer prior to investment of SITF assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the SITF's tax-exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The SITF may utilize dDerivative sSecurities with the approval of the UTIMCO Board to: a) to simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) to facilitate trading; c) to reduce transaction costs; d) to seek higher investment returns when a dDerivative sSecurity is priced more attractively than the underlying security; e) to index or to hedge risks associated with SITF investments; or f) to adjust the market exposure of the asset allocation, including long and short strategies; provided that; i) no leverage is employed in the implementation of such dDerivative purchases or sales; ii) no more than 5% of SITF assets are required as an initial margin deposit for such contracts; iii) the SITF's investments in warrants shall not exceed more than 5% of the SITF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- Such dDerivative sSecurities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.

UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the SITF and

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

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

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

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

- The duration of any eligible investment shall not exceed 10 years.

Risk Management

- Credit risk shall be controlled by UTIMCO who is responsible for the development and maintenance of credit quality standards for the SITF.
- Interest rate risk shall be controlled by limiting the option-adjusted duration of the portfolio between one-half year and four years unless approved in advance by the UTIMCO Board.
- Not more than 5% of the total value of the securities in the SITF shall be placed with any one issuer (i.e., Commercial Paper, Certificates of Deposit, or Bankers Acceptances) other than the U.S. Treasury, U.S. Agency, or Government Sponsored entities.

- Counterparty exposure in the area of rRepurchase aAgreements and rReverse rRepurchase aAgreements shall be not more than 5% of the total value of the securities in the SITF shall be placed with any one counterparty.

Eligible Investments

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Unaffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation.
- Internal short term pooled investment fund managed by UTIMCO.
- Commercial paper, negotiable certificates of deposit, and Bankers' Acceptances ~~must be~~ rated at least A-1 by Standard & Poor's Corporation and P-1 by Moody's Investors Service, Inc.
- Floating rate securities, if they meet the single security duration criteria and are based on a spread over or under a well known index such as LIBOR or a Constant Maturity Treasury index. No internally leveraged floating rate securities are permitted (i.e., a coupon equivalent to a formula that creates a multiplier of an index value). The following types of floating rate securities are not eligible for investment; inverse floaters, non-money market based floaters, interest only or principal only floaters, non-dollar based floaters, and range note floaters.
- Repurchase aAgreements and rReverse rRepurchase aAgreements ~~must be~~ transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. U.S. Treasury securities and rated A-1 or P-1 or the equivalent.
 - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
 - Eligible cCollateral sSecurities for rRepurchase aAgreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
 - The maturity for a rRepurchase aAgreement may be from one day to two weeks.
 - The value of all collateral shall be maintained at 102% of the notional value of the rRepurchase aAgreement, valued daily.

- All collateral shall be delivered to the SITF custodian bank. Tri-party collateral arrangements are not permitted.
- Reverse ~~r~~Repurchase ~~a~~Agreements shall be used to fund the liquidity facility for The University of Texas System revenue financing notes.
- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the SITF's total assets.
- Overnight repurchase agreements may not exceed 25% of the SITF's total assets.

Fixed Income

Holdings of eligible fixed income securities shall be limited to the following:

- Securities issued by or fully guaranteed by the U.S. U.S. Treasury, U.S. U.S. Government-Sponsored Enterprises, or U.S. U.S. Government Agencies. The latter two categories include U.S. U.S. Government Agency Mortgage Backed Securities ("MBS").

Holdings of eligible fixed income derivative securities shall be limited by the following guidelines:

With prior written approval of the UTIMCO Board, the Portfolio Manager may enter into derivatives transactions utilizing exchange traded fixed income futures contracts or options on fixed income futures contracts; provided that such derivatives transactions are designed to control duration or manage risk.

Such derivatives transactions shall be established on a case_by_case basis. These contracts shall include but shall not be limited to Ten-Year Treasury Futures, Eurodollar Futures, or Treasury Bill Futures, provided that the futures exchanges are rated AAA or the equivalent as determined by UTIMCO.

Such derivatives shall be priced daily.

Market risk shall be measured in dollar duration equivalent values or in the case of options in delta or percentage of equivalent futures contracts.

For the purpose of this policy Collateralized Mortgage Obligations ("CMOs") are considered to be MBS, not derivatives.

SITF Distributions

Distributions of income from the SITF to the unitholders shall be made as soon as practicable on or after the last day of each month.

SITF Accounting

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

Valuation of Assets

UTIMCO shall determine the fair market value of all SITF net assets and the net asset value per unit of the SITF no less than once a week and on the last business day of each month. Such valuation of SITF assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of SITF assets shall be based on the books and records of the custodian for the valuation date.

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

Purchase of SITF Units

Purchase of SITF units may be made no more often less than once a week and on the last business day of each month upon payment of cash to the SITF or contribution of assets approved by UTIMCO's the chief investment officer, at the net asset value per unit of the SITF as of the most recent weekly or end of month valuation date.

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

Redemption of SITF Units

Redemption of SITF units shall be paid in cash as soon as practicable after the most recent weekly or end of month valuation date of the SITF.

Securities Lending

The SITF may not participate in a securities lending contract with a bank or nonbank security lending agent.

Investor Responsibility

The UTIMCO Board shall discharge its fiduciary duties with respect to the SITF solely in the interest of SITF unitholders and shall not invest the SITF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

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

Effective Date

| The effective date of this policy shall be August 12, 2004 ~~7, 2003~~.

EXHIBIT A

**SHORT INTERMEDIATE TERM FUND
SPECIFIC ASSET ALLOCATION TARGETS, AND RANGES, AND
PERFORMANCE OBJECTIVES**

	Performance		
	<u>Target</u>	<u>Range</u>	<u>Objective</u>
U.S. Treasuries	60%	0%-100%	(1)
U.S. Government Agencies	40%	0%-80%	(2)
Mortgage Backed Securities	0%	0%-60%	
STIF	0%	0%-40%	
Corporate Cash Equivalents	0%	0%-40%	
Repurchase Agreements	<u>0%</u>	0%-33%	
TOTAL ASSETS	100%		

~~(1) .1 x M.L. 91-day U.S. Treasury Bill Index + .1 x M.L. 6 mo. U.S. Treasury Bill Index + .3x M.L. 1-3 yr. U.S. Treasury Index + .1 x M.L. 3-5 yr. U.S. Treasury Index~~

~~(2) .3 x M.L. 1-3 yr. U.S. Federal Agencies Index + .1 x M.L. 3-5 yr. U.S. Federal Agencies Index~~

~~Achievement of these performance objectives is most appropriately evaluated over a full market cycle of roughly five years.~~

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

Purpose

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

Investment Management

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may 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, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the Accounts.

Ultimate fiduciary responsibility for the Accounts rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents. The applicable trust/endowment document will apply to the management to each trust or endowment.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Company ("UTIMCO"), the Ultimate fiduciary responsibility for the assets of the Accounts rests with the Board of Regents. Section 163 of the Property Code authorizes the Board of Regents to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the Board of Regents in the investment of the institutional assets for the Account (endowment and operating accounts). The

~~applicable trust instrument will apply to the management of trust investments. The assets for the Account shall be managed by governed through The University of Texas Investment Management Company ("UTIMCO,"~~ which shall: a) recommend investment policy for the Accounts, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with the Account objectives, and if appropriate c) monitor the Account's performance against Account objectives. UTIMCO shall invest the Account's assets in conformity with this Policy Statement investment policy.

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

Account Administration

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

Investment Objectives

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

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

Operating Accounts - These are separate operating accounts of U. T. System ~~the c~~Component institutions which invest in an Equity Index Fund and U.S. ~~U.S.~~ Debt

Index Fund as approved by UTIMCO's ~~the~~ Chief Investment Officer. The amount of component operating funds invested in the index funds is governed by the U. T. System Financial Policy.

Asset Allocation

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

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

- A. Cash and Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.
- B. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of income for the Account. Such bonds should be high quality, with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction. This classification shall include fixed income mutual funds.
- C. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation for the Account. Historically, returns for equities have been higher than for bonds over all extended periods. Therefore, equities represent the best chance of preserving the purchasing power of the Account. This classification shall include equity mutual funds.
- D. Variable Annuities - These are insurance contracts purchased on the life or lives of the income beneficiaries and for which the funds underlying the contract are invested in various mutual funds which offer diversification of the Account's assets. These contracts offer some downside market risk protection in case of the income beneficiary's death in the early years of the contract. These investment assets are only appropriate for the charitable remainder trusts.

Asset Allocation Policy

The asset allocation policy and ranges for each Account trust or endowment herein is dependent on the terms and conditions of the applicable trust/endowment or trust document. With respect to the operating accounts, the U. T. System financial policies shall govern. If possible, the Account's assets shall be diversified among

different types of assets whose returns are not closely correlated in order to enhance the return/risk profile of the Account.

The Board of Regents delegates authority to UTIMCO to establish specific asset allocation targets and ranges for each trust or endowment Account. UTIMCO may establish specific asset allocation targets and ranges for or within the asset classes listed above as well as the specific performance benchmarks for each asset class.

Performance Measurement

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

Investment Guidelines

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

Investment guidelines include the following:

General

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.
- All investments will be U.S. ~~U. S.~~ dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment Account must be reviewed and approved by UTIMCO's ~~the~~ chief investment officer prior to investment of Account's assets in such liquid investment Account.
- No securities may be purchased or held which would jeopardize, if applicable, the Account's tax-exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The Account may utilize d~~Derivative~~ s~~Securities~~ with the approval of the UTIMCO Board to a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment

returns when a dDerivative sSecurity is priced more attractively than the underlying security; e) index or to hedge risks associated with Account investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that: i) no leverage is employed in the implementation of such dDerivative purchases or sales; ii) no more than 5% of the Accounts assets are required as an initial margin deposit for such contracts; iii) the Account's investments in warrants shall not exceed more than 5% of the Account's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.

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

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

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

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

The Account may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in

exchange rates among foreign currencies and between foreign currencies and the U.S. U. S. dollar.

Risk Management

- Credit risk shall be controlled by UTIMCO who is responsible for the development and maintenance of credit quality standards for the Account.
- Counterparty exposure in the area of rRepurchase aAgreements and rReverse rRepurchase aAgreements – Not more than 5% of the total value of the securities in the Account shall be placed with any one counterparty.
- Diversification of credit risk shall be determined on an account basis.

Eligible Investments

Cash and cash equivalents

Holdings of cash and cash equivalents may include the following:

- Unaffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation.
- Approved Tax Exempt unaffiliated liquid investment fund.
- Internal short term pooled investment fund managed by UTIMCO.
- Commercial paper, negotiable certificates of deposit, and Bankers' Acceptances must be rated at least A-1 by Standard & Poor's Corporation and P-1 by Moody's Investors Service, Inc.
- Floating rate securities, if they are based on a spread over or under a well known index such as LIBOR or a Constant Maturity Treasury index. No internally leveraged floating rate securities are permitted (i.e., a coupon equivalent to a formula that creates a multiplier of an index value). The following types of floating rate securities are not eligible for investment; inverse floaters, non-money market based floaters, interest only or principal only floaters, non-dollar based floaters, and range note floaters.
- Repurchase aAgreements and rReverse rRepurchase aAgreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. U. S. Treasury securities and rated A-1 or P-1 or the equivalent.

- Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
- Eligible Collateral Securities for rRepurchase aAgreements are limited to U.S. U-S. Treasury securities and U.S. U-S. Government Agency securities with a maturity of not more than 10 years.
- The maturity for a rRepurchase aAgreement may be from one day to two weeks.
- The value of all collateral shall be maintained at 102% of the notional value of the rRepurchase aAgreement, valued daily.
- All collateral shall be delivered to the Account's custodian bank. Tri-party collateral arrangements are not permitted.
- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the Account's total assets.
- Overnight repurchase agreements may not exceed 10% of the Account's total assets.
- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as rReverse rRepurchase aAgreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed income securities

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

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

securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.

- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition.
- Not more than 35% of the Account's fixed income portfolio may be invested in non-U.S. ~~U.S.~~ dollar bonds. Not more than 15% of the Account's fixed income portfolio may be invested in bonds denominated in any one currency.
- Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio.
- Not more than 7.5% of the Account's fixed income portfolio may be invested in Emerging Market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.
- Permissible securities for investment include Fixed Income Mutual Funds and Debt Index Funds as approved by UTIMCO's ~~the~~ Chief Investment Officer.
- Permissible securities for investment include Fixed Income Variable Annuity Contracts as approved by UTIMCO's ~~the~~ Chief Investment Officer.

Equities

The Account may purchase equity securities as long as it:

- A. holds no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market.
- B. holds no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by UTIMCO's ~~the~~ Chief Investment Officer.

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

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

Distributions

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

Accounting

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

Valuation of Assets

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

Securities Lending

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be August 12, 2004 ~~7, 2003~~.

THE UNIVERSITY OF TEXAS SYSTEM SHORT TERM FUND INVESTMENT POLICY STATEMENT

Purpose

The Short Term Fund (the "STF") was established by the Board of Regents of The University of Texas System (the "Board of Regents") as a pooled fund for the collective investment of operating funds and other short and intermediate term funds held by U. T. System component institutions and System Administration with an investment horizon less than one year.

STF Organization

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

STF Management

Article VII Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may 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, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the Board of Regents has elected the PUF prudent investor standard to govern its management of the STF.

Ultimate fiduciary responsibility for the STF rests with the Board of Regents. Section 66.08, Texas Education Code, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Section 163 of the Property Code authorizes the Board of Regents to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the Board of Regents in the investment of the STF. Pursuant to an Investment Management Services Agreement between the Board of Regents and

The University of Texas Investment Management Company ("UTIMCO"), ~~t~~The STF shall be ~~managed by governed through The University of Texas Investment Management Company ("UTIMCO")~~ which shall: a) recommend investment policy for the STF, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with STF objectives, and c) monitor STF performance against STF objectives. UTIMCO shall invest the STF assets in conformity with this Policy Statement ~~investment policy~~.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Investment Approval Authority approved by the UTIMCO Board. ~~Unaffiliated investment managers may be hired by UTIMCO to improve the STF's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.~~

STF Administration

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

Funds Eligible to Purchase STF Units

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

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

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

- A. the purchase of STF units by foundation funds is approved by UTIMCO's ~~the~~ chief investment officer;
- B. all members of the foundation's governing board are also members of the Board of Regents;
- C. the foundation has the same fiscal year as the STF;

- D. a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the STF; and
- E. no officer of such foundation, other than members of the Board of Regents, the Chancellor, UTIMCO's ~~the~~ chief investment officer or his or her delegate shall have any control over the management of the STF other than to request purchase and redemption of STF units.

STF Investment Objectives

The primary investment objective shall be to maximize current income consistent with the absolute preservation of capital and maintenance of adequate STF liquidity. The STF shall seek to maintain a net asset value of \$1.00.

Achievement of this objective shall be defined as a fund return in excess of the average gross return of the median manager of an approved ~~the Donoghue's~~ universe of institutional only money market funds.

Asset Allocation

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

STF assets shall be allocated to ~~among~~ the following broad asset class:

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

Performance Measurement

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

Investment Guidelines

The STF must be invested at all times in strict compliance with applicable law. ~~The primary and constant standard for making investment decisions is the investment standard set forth in the Uniform Management of Institutional Funds Act (§163.007, Texas Property Code).~~

Investment guidelines include the following:

General

- All investments will be U.S. ~~U. S.~~ dollar denominated assets.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of STF assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the STF's tax-exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The STF may utilize ~~d~~Derivative ~~s~~Securities with the approval of the UTIMCO Board to: a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a ~~d~~Derivative ~~s~~Security is priced more attractively than the underlying security; e) to index or to hedge risks associated with STF investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that; i) no leverage is employed in the implementation of such ~~d~~Derivative purchases or sales; ii) no more than 5% of STF assets are required as an initial margin deposit for such contacts; and iii) the STF's investments in warrants shall not exceed more than 5% of the STF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- Such ~~d~~Derivative ~~s~~Securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.

- ~~UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the STF and the prices of dDerivative sSecurity investments by investing in only those contracts whose behavior is expected to resemble that of the STF's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a dDerivative sSecurity contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. Derivative sSecurities purchased or sold over the counter may not represent more than 15% of the net assets of the STF.~~
- In the event that there are no dDerivative sSecurities traded on a particular market index, the STF may utilize a composite of other dDerivative sSecurity contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected dDerivative sSecurities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.
- UTIMCO shall minimize the risk that a party will default on its payment obligation under a dDerivative sSecurity agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the STF will not be able to meet its obligation to the counterparty by investing the STF in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.

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

Eligible Investments

The weighted average maturity of the portfolio shall not be more than 60 days. Individual securities shall have a remaining maturity not longer than 397 days. The maturity of a portfolio security shall be deemed to be the period remaining (calculated from the trade date or such other date on which the STF's interest in the security is subject to market action) until the date noted on the face of the security as the date on which the principal amount must be paid, or in the case of a security called for redemption, the date on which the redemption payment must be made, except that: a) a variable rate security, the principal amount of which is scheduled on the face of the security to be paid in 397 days or less, shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate; b) a variable rate security that is subject to a demand feature shall be deemed to have a maturity equal to the longer of the period remaining until the next

readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand; c) a floating rate security that is subject to a demand feature shall be deemed to have a maturity equal to the period remaining until the principal amount can be recovered through demand; d) a repurchase agreement shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur, or, where no date is specified, but the agreement is subject to a demand, the notice period applicable to a demand for the repurchase of the securities. A demand feature shall mean a put that entitles the holder to receive the principal amount of the underlying security or securities and that may be exercised either at any time on no more than 30 days notice or at specified intervals not exceeding 397 days and upon no more than 30 days notice.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Unaffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation.
- Commercial paper, negotiable certificates of deposit, and Bankers' Acceptances must be rated at least A-1 by Standard & Poor's Corporation and P-1 by Moody's Investors Service, Inc.
- Floating rate securities, if they meet the single security duration criteria and are based on a spread over or under a well known index such as LIBOR or a Constant Maturity Treasury index. No internally leveraged floating rate securities are permitted (i.e., a coupon equivalent to a formula that creates a multiplier of an index value). The following types of floating rate securities are not eligible for investment; inverse floaters, non-money market based floaters, interest only or principal only floaters, non-dollar based floaters, and range note floaters.
- Repurchase ~~a~~Agreements and ~~r~~Reverse ~~r~~Repurchase ~~a~~Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. ~~U. S.~~ Treasury securities and rated A-1 or P-1 or the equivalent.
 - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master ~~r~~Repurchase ~~a~~Agreement with UTIMCO.
 - Eligible Collateral Securities for ~~r~~Repurchase ~~a~~Agreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
 - The maturity for a ~~r~~Repurchase ~~a~~Agreement may be from one day to two weeks.

- The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.
- All collateral shall be delivered to the STF custodian bank. Tri-party collateral arrangements are not permitted.
- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the STF's total assets.
- Overnight repurchase agreements may not exceed 50% of the STF's total assets.

Fixed Income

Holdings of eligible fixed income derivative securities shall be limited by the following guidelines:

- With prior written approval of the UTIMCO Board, the Portfolio Manager may enter into derivatives transactions utilizing exchange traded fixed income futures contracts or options on fixed income futures contracts, provided that such derivatives transactions are designed to control duration or manage risk.
- Such derivatives transactions shall be established on a case-by-case basis. These contracts shall include but shall not be limited to Fed Fund Futures, Eurodollar Futures, or Treasury Bill Futures, provided that the futures exchanges are rated AAA or the equivalent as determined by UTIMCO.
- Such derivatives shall be priced daily.
- Market risk shall be measured in dollar duration equivalent values or, in the case of options, in delta or percentage of equivalent futures contracts.
- For the purpose of this policy Collateralized Mortgage Obligations ("CMOs") are considered to be Mortgage Backed Securities ("MBS"), not derivatives.

STF Distributions

Distributions of income from the STF to the unitholders shall be made as soon as practicable on or after the last day of each month.

STF Accounting

The fiscal year of the STF shall begin on September 1st and end on August 31st. Market value of the STF shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, ~~or~~ industry guidelines, or state statutes, whichever is

applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's the chief investment officer and reported to the UTIMCO Board.

Valuation of Assets

~~All investments are stated at amortized cost, which in most cases approximates the market value of securities. The objective of the fund is to maintain a stable \$1.00 net asset value; however, the \$1.00 net asset value is not guaranteed or insured by UTIMCO. As of the close of business on each business day, UTIMCO shall determine the fair market value of all STF net assets. Such valuation of STF assets shall be based on the bank trust custody agreement in effect at the date of valuation.~~

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

Purchase of STF Units

Purchase of STF units may be made on each business day upon payment of cash to the STF or contribution of assets approved by UTIMCO's the chief investment officer, at \$1.00 per unit of the STF as of the most recent valuation date.

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

Redemption of STF Units

Redemption of units may be made on each business day at \$1.00 per unit.

Securities Lending

The STF may not participate in a securities lending contract with a bank or nonbank security lending agent.

Investor Responsibility

The UTIMCO Board shall discharge its fiduciary duties with respect to the STF solely in the interest of STF unitholders and shall not invest the STF so as to achieve temporal benefits for any purpose, including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

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

Effective Date

| The effective date of this policy shall be August 12, 2004 ~~7, 2003~~.

L. RECESS FOR MEETINGS OF THE STANDING COMMITTEES AND
COMMITTEE REPORTS TO THE BOARD

The Standing Committees of the Board of Regents of The University of Texas System will meet as set forth below to consider recommendations on those matters on the agenda for each Committee listed in the Agenda Book. At the conclusion of each Standing Committee meeting, the report of that Committee will be formally presented to the Board for consideration and action.

Executive Committee: Chairman Huffines
No items

Audit, Compliance, and Management Review Committee: Chairman Estrada
No items

Finance and Planning Committee: Chairman Hunt
Agenda Book Page 26

Academic Affairs Committee: Chairman Krier
Agenda Book Page 40

Health Affairs Committee: Chairman Clements
Agenda Book Page 49

Facilities Planning and Construction Committee: Chairman Barnhill
Agenda Book Page 83



**TABLE OF CONTENTS
FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW
COMMITTEE**

Committee Meeting: 8/12/2004

Open Session: *Frank E. Anderson Conference Hall, Rose Zone,
11th Floor*

Executive Session: *Wiess Conference Room, Rose Zone,
11th Floor*

Board Meeting: 8/12/2004

U. T. M. D. Anderson Cancer Center

*Robert A. Estrada, Chairman
Rita C. Clements
Judith L. Craven, M.D.
Woody L. Hunt
Cyndi Taylor Krier*

	Committee Meeting	Board Meeting	Page
A. CONVENE			
1. U. T. System: Report on the status of the Sarbanes-Oxley Initiative, including the hiring of the Independent Audit Firm for the 2005 U. T. System Financial Statements Audit and the Governor's Fraud Initiative	8:30 a.m. <i>Chairman Estrada</i> 8:30 a.m. Action <i>Mr. Chaffin Mr. Wallace Deloitte representatives: Mr. George Scott Ms. Vicki Keiser Ms. Julia Petty</i>	Not on Agenda	22
2. U. T. System: Report on State Auditor's recommendations regarding protection of research data	8:45 a.m. Report <i>Mr. Chaffin Mr. Dan Updegrove Mr. Kirk Kirksey Mr. Jerry York</i>	Not on Agenda	23
3. U. T. System: Report on Internal Audit Activities including the status of significant audit recommendations, the status of the 2004 Audit Plan, the System-wide Internal Audit Strategic Action Plan, and the Fiscal Year 2005 Audit Plan process	8:55 a.m. Report <i>Mr. Chaffin Ms. Hagara</i>	Not on Agenda	24
4. U. T. System: Report on compliance high-risk area activity regarding U. T. System's response to time and effort compliance issues	9:00 a.m. Report <i>Dr. Shine</i>	Not on Agenda	25
5. U. T. System: Report on System-wide Compliance Program Activities including "hotline" reports and Compliance Program Peer Reviews	9:05 a.m. Report <i>Mr. Chaffin</i>	Not on Agenda	25

Committee Meeting

Board Meeting

Move to Wiess Conference Room

B. RECESS TO EXECUTIVE SESSION

9:10 a.m.

1. **U. T. Board of Regents: Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Texas Government Code Section 551.074**

Mr. Chaffin

Not on Agenda

2. **U. T. Board of Regents: Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers - Texas Government Code Section 551.071**

U. T. System: Evaluation and duties of System and institutional employees involved in audit and compliance functions

Mr. Godfrey

Not on Agenda

C. RECONVENE IN OPEN SESSION AND ADJOURN

9:20 a.m.

Return to Frank E. Anderson Conference Hall

1. **U. T. System: Report on the status of the Sarbanes-Oxley Initiative, including the hiring of the Independent Audit Firm for the 2005 U. T. System Financial Statements Audit and the Governor's Fraud Initiative**

REPORT

Mr. Charles Chaffin, Chief Audit Executive, and Mr. Randy Wallace, Assistant Vice Chancellor - Controller and Chief Budget Officer, will update the Audit, Compliance, and Management Review Committee on the status of the initiative and the Action Plan to Implement the "Spirit" of the Sarbanes-Oxley Act of 2002, including the hiring of Deloitte to provide independent financial auditing services for the audit of the U. T. System financial statements for the fiscal year ending August 31, 2005. In addition, Mr. Chaffin will brief the Committee on the Governor's initiative to identify and prevent fraud, waste, and abuse in state government, including higher education.

Deloitte representatives Mr. George A. Scott, Lead Client Services Partner; Ms. Vicki Keiser, Health Care Assurance Partner; and Ms. Julia Petty, Engagement Senior Manager, will then report on the firm's plans for conducting the 2005 audit, including methodology, staffing, training, and associated timelines.

BACKGROUND INFORMATION

In November 2003, the U. T. System 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 (RFQ) 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, Ernst & Young, KPMG, McConnell Jones Lanier & Murphy, and PricewaterhouseCoopers. Written proposals were received from Deloitte and KPMG on June 30. Oral presentations and firm interviews were held on July 13 to allow the Regents an opportunity to further evaluate the firms.

Details regarding the RFQ process and the evaluation of firms were presented at the Board of Regents' meeting held on July 16. Regent Estrada, on behalf of the Audit, Compliance, and Management Review Committee, recommended that Deloitte be selected to provide independent financial auditing services for the audit of the U. T. System financial statements for the fiscal year ending August 31, 2005. The Board approved the selection of Deloitte and granted approval for U. T. staff to negotiate and

enter into an auditing services contract with the selected firm. The contract will terminate on April 1, 2006. The contract will give U. T. System an option to renew for two additional one-year terms.

On July 12, 2004, Governor Rick Perry issued Executive Order RP36 calling for state agencies to develop and implement programs to detect and eliminate fraud in government programs. The Governor's Order directs state agencies to develop anti-fraud measures and report those efforts to his office by October 1, designate a staff member to implement fraud prevention and fraud elimination activities, and identify policy and organizational changes and provide legislative recommendations to improve fraud detection and prosecution efforts. The U. T. System is currently in the process of implementing the Order.

2. **U. T. System: Report on State Auditor's recommendations regarding protection of research data**

REPORT

The State Auditor's Office recently concluded an audit of the protection of research data at three U. T. institutions: U. T. Austin, U. T. Southwestern Medical Center - Dallas, and U. T. Health Science Center - San Antonio. The audit report was issued in June 2004 and includes several recommendations regarding the need for comprehensive information security programs for research data and improved network security. The report further states that, while issues were noted that increase the risk of loss of research data, no specific instances of research data loss or misuse were identified. The Executive Summary of the State Auditor's report, "An Audit Report on Protection of Research Data at Higher Education Institutions", is set forth on Pages 23.1 – 23.3.

Mr. Dan Updegrave, Vice President for Information Technology at U. T. Austin; Mr. Kirk Kirksey, Vice President for Information Resources at U. T. Southwestern Medical Center – Dallas; and Mr. Jerry York, Vice President and Chief Information Officer at U. T. Health Science Center - San Antonio will report on each institution's response to the State Auditor's report and actions being taken to resolve the issues noted.

Protection of Research Data at Higher Education Institutions

Overall Conclusion

Higher education institutions should do more to protect research data. Security of research data at the institutions we audited was inconsistent and sometimes inadequate. Although we identified instances in which research data was very well protected, we identified inconsistent security measures at each of the three institutions we audited that expose other research data to the risk of loss or misuse. This could significantly impede researchers' progress or, ultimately, result in the loss of research funding.

The institutions have ultimate responsibility for research data because they are the owners of this data and receive benefits from research such as patents, royalties, and associated funding for indirect costs. However, while institutions generally provide some degree of security to all users through perimeter firewalls or other types of network protection, they rely on decentralized departments and individual researchers to further protect research data.

Inadequate security can lead to the loss or misuse of research data, which could jeopardize institutions' reputations and their ability to achieve their missions. Although the following examples did not occur at institutions we audited, they demonstrate the importance of protecting research data:

- Not properly backing up research data has the potential to impede the progress of research. For example, Tropical Storm Allison caused the Baylor College of Medicine and the Medical School at The University of Texas Health Science Center at Houston to lose 10 years' worth of data on spinal cord injuries.
- Not securing workstations with antivirus software can leave workstations vulnerable to potential attacks, and inadequate security associated with a single workstation has the potential to have an impact on the institution's entire network. For example, in May 2004 the Sasser computer virus reportedly infected nearly one-third of the computers at The University of Texas M.D. Anderson Cancer Center and delayed some patient treatment. It is suspected that the virus entered the institution through a notebook computer.
- Because of their need for free exchange of information and open computing environments, higher education institutions in particular face a significant risk that intruders will be motivated to hack into their systems and use their extensive computing resources for unauthorized purposes. For example, hackers recently targeted and

Background Information

We audited the protection of research data at the following institutions:

- The University of Texas at Austin (UT Austin)
- The University of Texas Southwestern Medical Center at Dallas (UT Southwestern)
- The University of Texas Health Science Center at San Antonio (UT Health Science Center)

These three institutions received more than \$774 million in research funding and spent \$571 million on research in fiscal year 2003. Research expenditures for Texas's public higher education institutions totaled nearly \$2.2 billion during fiscal year 2003.

compromised TeraGrid, a network that institutions use to conduct and share research. Because of this attack, institutions that use TeraGrid took certain computers off line, which disrupted research for several days.

To minimize the risks associated with public disclosure, this report summarizes the issues we identified but does not reveal specific vulnerabilities. We provided the institutions we audited and The University of Texas System with confidential vulnerability assessments that included specific recommendations. We identified some practices being implemented at the institutions we audited that we feel are worth considering at other institutions. We have noted these as “best practices” in our report.

The institutions generally agreed with our recommendations. The institutions were already aware of the weaknesses we identified and had begun making progress and continue to make progress to address areas of concern. They have provided detailed plans for addressing their respective issues.

Key Points

Institutions should develop comprehensive information security programs for research data.

Not all of the institutions we audited have comprehensive security programs. Specifically, institutions do not always address the risk to research data in the information security policies, security risk assessments, and disaster recovery plans. Because researchers have limited guidance to follow when attempting to secure information resources, there are wide variations in security practices. In addition, none of the institutions we reviewed ensures that all users receive security awareness training to educate them on how to protect data.

Institutions should develop comprehensive protection at the user layer.

The research labs we reviewed receive varying levels of technical support. Individuals who manage information resources in these labs are researchers or instructors who may have varying levels of expertise in information security or for whom information security is not their primary responsibility. This has led to several weaknesses in data backups, antivirus software, security patches, user access, and passwords.

Institutions should develop comprehensive protection at the network and outer layers.

Each institution we audited must address specific weaknesses in its approach to network security and ensure that network equipment is properly protected. In addition, we identified unauthorized wireless access points at all of these institutions, which may expose the institutions' networks to the risk of intrusion.

Summary of Information Technology Review We focused on the security of research data on servers and workstations in individual research labs, as well as the management of central information resources that affect research. We conducted technical vulnerability scans, but we did not attempt to exploit the vulnerabilities we identified. We also conducted wireless leakage tests in selected areas. During our audit, we identified issues that increase the risk of loss of research data, but we did not identify any specific instances in which research data had been lost or misused. We did not review administrative systems or applications such as financial, accounting, or student information systems.

Summary of Objectives, Scope, and Methodology The objectives of the audit were to determine whether selected higher education institutions have (1) adequate controls for major research information systems to ensure that proprietary research information is sufficiently protected from loss or misuse, (2) access and security controls for the networks and information systems used for research, and (3) adequate physical security and disaster recovery plans to ensure that research information systems and data are not lost in the event of an emergency or disaster. The scope of the audit included reviewing selected research labs' workstations and servers that contain proprietary research data and the management of central information resources that affect research. The audit methodology consisted of interviewing staff, reviewing disaster recovery and information security plans and policies, inspecting major data centers and selected research labs, and conducting network and wireless scans to identify potential information system vulnerabilities. *iii*

3. **U. T. System: Report on Internal Audit Activities including the status of significant audit recommendations, the status of the 2004 Audit Plan, the System-wide Internal Audit Strategic Action Plan, and the Fiscal Year 2005 Audit Plan process**

REPORT

Mr. Charles Chaffin, Chief Audit Executive, will report on System-wide audit activity for the third quarter of 2004, including the status of significant audit recommendations and progress toward audit plan completion.

The third quarter activity report on the Status of Outstanding Significant Recommendations is located on Pages 24.1 – 24.4. Additionally, a list of other audit reports that have been issued by the System-wide audit program, the State Auditor's Office, and the Comptroller of Public Accounts follows on Page 24.5.

Significant audit findings/recommendations are submitted to and tracked by the System Audit Office. Quarterly, the chief business officers are asked for the status of implementation, and the internal audit directors verify implementation. A summary report is provided to the Audit, Compliance, and Management Review Committee of the U. T. Board of Regents. Additionally, the Committee members receive a detailed summary of new significant recommendations quarterly.

Mr. Chaffin will present a recently established protocol for notifying institutional management of any significant findings or other issues prior to reporting to this Committee. This process is intended to ensure that institutional management is aware of such issues and is allowed an adequate opportunity for discussion and comments. A description of the new protocol is set forth on Page 24.6.

Mr. Chaffin will also report on the System-wide Internal Audit Strategic Plan and Action Plan, as set forth on Pages 24.7 – 24.16. The plan is the result of collaboration among institutional audit directors and the System Audit Office and includes objectives, strategies, and performance measures to address six primary initiatives for the 2005 Fiscal Year.

Ms. Kimberly Hagara, Assistant Director for System-wide Compliance, will report on the 2005 Audit Plan development and approval process. A flowchart depicting the process is set forth on Page 24.17.

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

Report Date	Institution	Audit	2nd Quarter		3rd Quarter		Targeted Implementation Date	Overall Progress Towards Completion (See note)	Ranking Significance
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			Material to Component's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")
1	1998-07	UTHSC - Houston		1		1	8/31/2004	Satisfactory	C
2	2000-04	UTHSC - Houston		1		1	8/31/2004	Satisfactory	C
3	2001-04	UTPA		1		1	8/1/2004	Satisfactory	O
4	2001-08	UTMDACC - Houston		3		3	4/1/2005	Satisfactory	O
5	2001-10	UTHSC - San Antonio		1		1	9/1/2004	Satisfactory	C, O
6	2001-10	UTMDACC - Houston		1		1	6/30/2004	Satisfactory	O
7	2001-11	UTTY		2		2	9/1/2005	Unsatisfactory	O
8	2002-02	UTHSC - Houston		1		1	8/31/2004	Satisfactory	C
9	2002-04	UTB		1		1	8/31/2004	Satisfactory	O
10	2002-05	UTARL		2		1	8/31/2004	Satisfactory	O
11	2002-05	UTSYS ADM		1		1	11/1/2004	Satisfactory	O
12	2002-07	UTHSC - Houston		1		1	8/31/2004	Satisfactory	F, C
13	2002-08	UTHSC - San Antonio		2		2	6/30/2004	Satisfactory	C
14	2002-08	UTSYS ADM		1		1	8/31/2004	Satisfactory	O, C
15	2002-09	UTAUS		1		1	6/30/2004	Satisfactory	O, C
16	2002-10	UTAUS		1		1	6/30/2004	Satisfactory	O, C
17	2002-10	UTSYS ADM		1		1	1/1/2005	Satisfactory	O, F
18	2002-11	UTMDACC - Houston		1		1	6/1/2004	Satisfactory	O
19	2003-02	UTMDACC - Houston		1		0	9/1/2004	Completed	O
20	2003-02	UTSYS ADM		1		0	6/1/2004	Completed	O
21	2003-03	UTPA		5		5	12/31/2004	Satisfactory	O

24.1

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

Report Date	Institution	Audit	2nd Quarter		3rd Quarter		Targeted Implementation Date	Overall Progress Towards Completion (See note)	Ranking Significance
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			Material to Component's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")
22	2003-05	UTMB - Galveston		2		2	11/30/2004	Satisfactory	O
23	2003-06	UTARL		1		1	8/31/2004	Satisfactory	C,O
24	2003-06	UTAUS		1		1	8/31/2004	Satisfactory	O
25	2003-06	UTD		2		2	8/31/2004	Satisfactory	C,O
26	2003-07	UTMDACC - Houston		1		1	6/1/2004	Satisfactory	O
27	2003-08	UTPA		1		1	6/30/2004	Satisfactory	F, C
28	2003-08	UTMB - Galveston		1		1	6/30/2004	Satisfactory	O, F
29	2003-08	UTMB - Galveston		2		2	8/31/2004	Satisfactory	C, O
30	2003-09	UTSYS ADM		1		1	8/31/2004	Satisfactory	F
31	2003-09	UTB		3		2	7/31/2004	Satisfactory	O
32	2003-09	UTHSC - Houston		8		8	8/31/2004	Satisfactory	C, O
33	2003-09	UTHC - Tyler		2		1	8/31/2007	Satisfactory	O, F
34	2003-09	UTHC - Tyler		6		5	7/31/2004	Satisfactory	O
35	2003-10	UTD		1		0	9/1/2004	Completed	F, C, O
36	2003-10	UTMB - Galveston		1		0	3/1/2004	Completed	C, O
37	2003-11	UTAUS		1		1	8/31/2004	Satisfactory	F
38	2003-11	UTSA		1		1	9/30/2004	Satisfactory	O
39	2003-11	UTMB - Galveston		1		0	3/1/2004	Completed	C, O
40	2003-11	UTMDACC - Houston				2	7/31/2004	-	O
41	2003-12	UTARL		2		0	1/5/2004	Completed	C
42	2003-12	UTD		1		1	8/31/2004	Satisfactory	C, O

24.2

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

Report Date	Institution	Audit	2nd Quarter		3rd Quarter		Targeted Implementation Date	Overall Progress Towards Completion (See note)	Ranking Significance	
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			Material to Component's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")	
43	2003-12	UTPB		1		1	8/31/2004	Satisfactory	F	
44	2004-01	UTEP				2	10/1/2004	-	O	
45	2004-01	UTSA		3		2	8/1/2004	Satisfactory	C, O	
46	2004-01	UTMDACC - Houston		1		1	8/31/2005	Satisfactory	O	
47	2004-01	UTMDACC - Houston		1		1	12/1/2004	Satisfactory	O	
48	2004-02	UTAUS		3		3	8/31/2004	Satisfactory	C	
49	2004-02	UTMB - Galveston		4		3	8/31/2004	Satisfactory	F, O	
50	2004-02	UTHSC - San Antonio				3	8/31/2005	-	O	
51	2004-02	UTMDACC - Houston		2		1	9/1/2004	Satisfactory	F, C	
52	2004-02	UTHC - Tyler		2		2	8/31/2004	Satisfactory	F, O	
53	2004-03	UTAUS				2	8/31/2004	-	C, O	
54	2004-03	UTB		1		1	12/1/2004	Satisfactory	C, O	
55	2004-03	UTB		1		0	7/1/2004	Completed	O	
56	2004-03	UTD		1		1	12/31/2004	Satisfactory	C, O	
57	2004-03	UTPA				2	11/30/2004	-	C	
58	2004-03	UTSA				2	10/31/2004	-	F, O	
59	2004-04	UTARL				1	11/1/2004	-	O	
60	2004-04	UTPA				3	6/30/2004	-	O	
61	2004-04	UTHC - Tyler				2	8/31/2005	-	C, O	
62	2004-04	UTHC - Tyler				2	8/31/2004	-	F, O	
Totals				89	95					

24.3

THE UNIVERSITY OF TEXAS SYSTEM
Status of Outstanding Significant Recommendations

Report Date	Institution	Audit	2nd Quarter		3rd Quarter		Targeted Implementation Date	Overall Progress Towards Completion (See note)	Ranking Significance
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			Material to Component's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")

STATE AUDITOR'S OFFICE AUDITS

1	2002-05	UTMDACC - Houston	Statewide Single Audit report for Year Ended August 31, 2001		1		1	8/31/2004	Satisfactory	n/a
2	2002-09	UTB	A Financial Review		1		1	12/31/2004	Satisfactory	n/a
3	2002-11	UTMB - Galveston	Security Over Electronic Protected Health Information at Selected Texas Academic Medical Institutions		3		2	4/20/2005	Satisfactory	n/a
4	2002-11	UTHSC - Houston	Security Over Electronic Protected Health Information at Selected Texas Academic Medical Institutions		3		0	6/30/2003	Completed	n/a
5	2002-11	UTMDACC - Houston	Security Over Electronic Protected Health Information at Selected Texas Academic Medical Institutions		3		3	7/1/2005	Unsatisfactory	n/a
6	2003-02	UTAUS	Statewide Audit FYE 8/31/02		4		2	8/31/2005	Satisfactory	n/a
7	2003-04	UTEP	Statewide Audit FYE 8/31/02		1		0	4/30/2004	Completed	n/a
8	2003-04	UTSA	Statewide Audit FYE 8/31/02		1		0	4/30/2004	Completed	n/a
9	2004-02	UTSA	Financial Review		4		3	12/31/2004	Satisfactory	n/a
10	2004-03	UTAUS	Statewide Audit FYE 8/31/03				3	12/31/2004	-	n/a
11	2004-03	UT Southwestern	Statewide Audit FYE 8/31/03				1	5/31/2004	-	n/a
Totals					<u>21</u>		<u>16</u>			

24.4

n/a - State Auditor's Office recommendations are significant by definition.

Color Legend:

 Any audit with institutionally significant findings. Not necessarily a failure - just an area that needs high level attention.

 A red audit becomes a yellow when significant progress has been made.

 All issues have been appropriately resolved.

Note: **Completed** - The component Internal Audit Director deems the significant issues have been appropriately addressed and resolved.

Satisfactory - The component Internal Audit Director believes that the significant issues are in the process of being addressed in a timely and appropriate fashion.

Unsatisfactory - The component Internal Audit Director does not feel that the significant issues are being addressed in a timely and appropriate fashion.

*** OTHER U. T. SYSTEM AUDITS COMPLETED - 3/2004 through 5/2004**

Month Received by System	Institution	Audit
2004 - 03	UT Dallas	Lena Callier Trust for the Hard of Hearing & the Deaf
2004 - 04	UT Dallas	Department of Athletics
2004 - 04	UT Dallas	Office of the Dean of Natural Sciences
2004 - 04	UT Pan American	Office of Research and Sponsored Projects
2004 - 04	HC Tyler	Office of the Chief Medical Officer Dept Audit FY 2004
2004 - 05	UT Dallas	Department of Molecular and Cell Biology
2004 - 05	UT Dallas	Time and Effort Reporting
2004 - 05	UT Dallas	Salaries and Wages
2004 - 05	UT Dallas	Endowment Compliance
2004 - 05	UT El Paso	Equipment Depreciation
2004 - 05	UT Permian Basin	Office of Purchasing - Change in Management
2004 - 05	UT Permian Basin	Follow-Up Audit Fiscal Year 2004
2004 - 05	UT San Antonio	IT Technical Support - Data Backup & Recovery
2004 - 05	UT Southwestern	Documentation & Preliminary Assessment of Financial Internal Controls
2004 - 05	UT Southwestern	Office of Grants Management
2004 - 05	UT Southwestern	General Controls Review
2004 - 05	UT Southwestern	Radiology Information Systems & IDX Interfaces Review
2004 - 05	UT Southwestern	Wireless Network Access Controls
2004 - 05	HSC San Antonio	Laredo Campus Extension Audit
2004 - 05	HSC San Antonio	Institutional Follow-Up Audit
2004 - 05	HSC San Antonio	Capital Assets Audit
2004 - 05	MD Anderson	General Controls Review - Systems Development Methodology
2004 - 05	MD Anderson	Pathology and Laboratory Medicine Clinical Laboratory Improvement Amendments of 1988 (CLIA) Compliance
2004 - 05	MD Anderson	Consulting: Year-End Inventories
2004 - 05	MD Anderson	Dining Services Cash Handling Controls
2004 - 05	MD Anderson	Main Cashier Controls
2004 - 05	MD Anderson	State Auditor's Office Scan
2004 - 05	MD Anderson	Returned W-2's
2004 - 05	MD Anderson	Performance Measures
2004 - 05	MD Anderson	Physician Scheduling and Support
2004 - 05	MD Anderson	Compliance - HUB
2004 - 05	MD Anderson	Practice Plan
2004 - 05	MD Anderson	Accounts Receivable and Allowances
2004 - 05	MD Anderson	Procurement Services - Pre-bid Process
2004 - 05	UT System Admin	West Texas Operations - Forest Oil Corporation

*** STATE AUDITOR'S OFFICE AUDITS COMPLETED - 3/2004 through 5/2004**

Report Issuance Date	Institution	Audit
2004-03	UT Austin	Statewide Single Audit for the FYE 8/31/03
2004-03	UT Arlington	Statewide Single Audit for the FYE 8/31/03
2004-03	UT El Paso	Statewide Single Audit for the FYE 8/31/03
2004-03	UT HSC-Houston	Statewide Single Audit for the FYE 8/31/03
2004-03	UTMB-Galveston	Statewide Single Audit for the FYE 8/31/03
2004-03	UT Southwestern	Statewide Single Audit for the FYE 8/31/03
2004-03	UT System Admin	Statewide Single Audit for the FYE 8/31/03

AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW COMMITTEE

Significant Findings Tracking System

Process for Adding Significant Findings Not Reported by Individual Institutions and Other Uses of Color Coded Reporting

“Significant” audit findings are defined in Business Procedure Memorandum #18 as reportable audit findings or recommendations considered significant at the institutional level by the component internal audit committee or their designee. The UT System Audit Office is responsible for providing oversight of Internal Audit activities at component institutions and for ensuring a timely audit response to significant System-wide risks.

Significant Findings Not Reported by Individual Institutions

Periodically, significant findings are included in the tracking system based on identification and response to system-wide risks by the System Audit Office. These include audit findings that may not initially be considered significant by an individual institution, but may have system-wide significance based on events transpiring at other institutions within or outside of the UT System. Significant findings may also be added based on the results of special audits initiated by the Director of the System Audit Office in response to critical, high-visibility internal control events that present an immediate, system-wide risk concern (i.e. publicity related to the 2003 fraud scheme at the University of North Texas). Special system-wide audits of high-risk areas are designed to provide assurance to the UT Board of Regents and executive management that an appropriate system of internal controls is in place at each institution to minimize a significant recognized risk.

Other Uses of Color Coded Reporting

The color coded reporting format used in the Significant Findings Tracking System may also be used to report issues to the Audit, Compliance, and Management Review Committee (ACMRC), where a clearly defined color coded chart illustrates the component status on an issue.

Notification Process

Prior to including findings in the Significant Findings Tracking System that were not initially reported as significant by an individual institution, the System Audit Office will notify the institution President, Chief Business Officer, and Internal Audit Director of its intent to do so and allow a two-week period for discussion and comments.

Prior to using the color coded reporting format to report an issue to the ACMRC, the System Audit Office will notify all Presidents, Chief Business Officers, and Internal Audit Directors of its intent to do so and the color code for the component to allow a two-week period for discussion and comments.

The University of Texas System-Wide Internal Audit Strategic Plan for 2005

System-wide Internal Audit Mission Statement

The mission of the System-wide Internal Audit function is to assist the Board of Regents and executive management in accomplishing their goals by providing assurance and consulting activities to evaluate and improve the processes of risk management, control, and governance across the University of Texas System.

The University of Texas System-wide Internal Audit Strategic Plan is intended to articulate the broad framework, direction, and priorities of the System-wide audit function, and to support the mission of The University of Texas System, through the following strategic initiatives:

- I. Adequate and Sustained Resources
- II. Anticipation of and Response to Risk
- III. Effective Communication and Reporting
- IV. Collaboration and Partnerships
- V. Compliance with Standards and Requirements
- VI. Completion of Plan of Work

Strategic Initiatives:

I. Adequate and Sustained Resources

Objective: *To provide a professional, well-trained, and motivated team, at an appropriate level, for the benefit of The University of Texas System in the delivery of audit services.*

Strategies:

1. Expand collaboration in recruiting, selecting, and hiring highly qualified professionals; develop a System-wide Recruiting Program and Recruiter Training.
2. Establish processes to enhance career development and retain competent audit professionals; develop a System-wide Training Program.

Performance Measures:

1. Overall evaluation of "Exceeds Expectations" on an annual survey of executive officers and Board members.
2. Overall positive score on customer feedback surveys regarding quality of work performed for all engagements, based on average annual score at each component.
3. Overall positive score on annual system-wide survey of audit personnel regarding career development and job satisfaction.
4. Overall positive score on annual system-wide survey of UT component audit directors regarding value-added recruiting and training activities.

II. Anticipation of and Response to Risk

Objective: *To become and remain informed and aware of the risks in all environments that affect The University of Texas System and to develop a plan of work that addresses those risks.*

Strategies:

1. Risk Identification - Identify potential risks that may affect UT System's ability to successfully implement its strategy and achieve its objectives, including known risks that have changed in magnitude, impact, or both.
2. Risk Assessment - Consider how potential risks might affect the achievement of UT System objectives.
3. Risk Response - Identify and evaluate appropriate risk response options, communicate them to management, and incorporate appropriate response activities into the plan of work.

Performance Measures:

1. Effective identification, evaluation, and communication of at least three previously unknown or unrecognized system-wide risks annually.
2. Effective identification, evaluation, and communication of risk response options for newly identified risks, including options to address known risks that have changed in magnitude, impact or both.

III. Effective Communication and Reporting

Objective: *To provide a framework and process by which information can be exchanged and ideas expressed effectively amongst internal audit functions and between the system wide internal audit function and the ACMR.*

Strategies:

1. Quarterly Internal Audit Council Meetings.
2. Internal Audit directors communicate with liaisons on a bi-weekly basis via Liaison Reports.
3. Monthly teleconference calls between all internal audit functions.
4. Quarterly newsletter published.
5. Roundtable discussions amongst internal audit staff (seniors, etc.) to facilitate knowledge sharing on current events, audit approaches, and best practices.
6. Communication between System Wide Internal Audit function and ACMR.

Performance Measures:

1. Overall evaluation of "Exceeds Expectations" on an annual survey of executive officers and Board members regarding effectiveness of communication tools and processes.
2. Overall positive score on annual survey of system-wide internal audit personnel regarding effectiveness of communication tools and processes.

IV. Collaboration and Partnerships

Objective: *To foster an environment that facilitates open communication and develops relationships amongst the component internal audit functions to ensure accomplishment of the goals and objectives system wide.*

Strategies:

1. Identify, during the annual audit planning process, those areas where collaboration opportunities exist and incorporate them into the system-wide audit plan.
2. Collaborate on the development of the System-wide Annual Audit Plan.
3. Coordinate activities with external reviewers to maximize coverage of institutional risks and minimize duplication of efforts.

Performance Measures:

1. Participation in at least 2 system-wide collaborative projects annually by each component audit office.
2. Completion of at least 2 system-wide collaborative projects annually by the overall system-wide audit function.
3. Overall positive score on annual survey of system-wide internal audit personnel regarding value-added collaborative activities.

V. Compliance with Standards and Requirements

Objective: *To ensure University of Texas System internal auditing activities are conducted in accordance with relevant professional standards and other internal and external requirements.*

Strategies:

1. Maintain an internal audit charter that formally defines the internal audit activity's purpose, authority, and responsibilities
2. Maintain an active quality assurance program in every U. T. audit office to ensure appropriate operations.
3. Ensure compliance with governance and external documents, such as IIA Standards and Audit Committee charters.

Performance Measures:

1. Quality Assurance Reviews completed on 100% of engagements.
2. All internal audit departments conduct a self-review at least every 3 years.
3. All internal audit departments that undergo external peer reviews receive a "Conforms to IIA Standards" opinion from external quality assurance review team at least every 3 years.

VI. Completion of Plan of Work

Objective: *To accomplish activities outlined in the approved plan of work, developed through risk assessment to add value and improve operations.*

Strategies:

1. Perform risk-based assurance and consulting activities.
2. Report results of work to management in a timely manner.
3. Monitor accomplishment of plan of work.

Performance Measures:

1. At least 85% of the approved Plan of Work accomplished annually.
2. Reports or memorandums issued on average within 45 days of completion of work.

The University of Texas System-Wide Internal Audit 2005 Strategic Action Plan

Item #	Action Item / Goal	Item Due Date	Responsible Party
I. Adequate and Sustained Resources			
1.0	Expand collaboration in recruiting, selecting, and hiring highly qualified professionals; develop a System-wide Recruiting Plan Program and Recruiter Training		
1.1	Develop and adopt formal System-wide recruiting methodology (“white paper”) that includes “best practice” recruiting activities (training).	September 30, 2004	Kristi Fisher
1.2	Facilitate / coordinate training for UT audit directors on “Effective Recruiting”	October 31, 2004	Kristi Fisher
1.3	Survey the UT audit directors regarding skill sets needed to provide comprehensive audit coverage and those skills available in current staff. a. Inventory the skill sets present in the existing system-wide professional staff; b. Contrast to skills needed to appropriately carry out the system-wide audit function; c. Assess strengths and weaknesses and identify gaps.	October 15, 2004	Kristi Fisher
1.4	Establish core criteria or skill sets for all common positions and/or levels.	October 31, 2004	Kristi Fisher
1.5	Expand efforts and opportunities to identify candidates and fill positions: a. Document common methods for this activity – advertising (where and how), networking (contacts), etc. b. Develop and maintain a central contact list, including university placement and professional organization contacts. c. Track source(s) of applicants and source(s) of those hired. d. Participate in regional recruiting events such as job fairs and campus career days.	November 30, 2004	Kristi Fisher
1.6	Develop a centralized web-based database of potential applicants to be shared by all components.	November 30, 2004	Kristi Fisher
1.7	Consider and inventory external sources of personnel or resources, such as consulting firms and professional organizations.	October 31, 2004	Kristi Fisher
2.0	Establish processes to enhance career development and retain competent audit professionals; develop a System-wide Training Plan		
2.1	Develop a System-wide Training Plan / Program: a. Develop formal System-wide training methodology (“white paper”) and establish minimum guidelines for training for various staff levels and specialized audit functions. b. Adopt (or develop) a training curriculum that is specific to staff level or specialized audit function (1.iii) and based on identified skill set “gaps.”	(a) July 31, 2004 (b) Aug. 31, 2004	Bill Taylor and Brandon Duck
2.2	Conduct at least two System-wide training courses per year, such as CIA exam preparation and financial audit training.	August 31, 2005	Bill Taylor and Brandon Duck

24.10

The University of Texas System-Wide Internal Audit 2005 Strategic Action Plan

Item #	Action Item / Goal	Item Due Date	Responsible Party
2.3	Encourage attainment of related professional certifications: a. Identify all "related professional certifications." b. Designate system-wide "liaison" for each certification type to provide resources and communication.	August 31, 2004	Brandon Duck
2.4	Encourage participation in professional organizations: a. Identify and prioritize related professional organizations. b. Designate system-wide "liaison" for each organization to provide resources and communication.	August 31, 2004	Brandon Duck
2.5	Encourage the exploration and development of specializations: a. Implement process for identifying and maintaining a system-wide inventory of specializations needed to provide comprehensive audit coverage and system-wide "experts" in each area. b. Perform gap analysis between specializations needed and currently available. c. Ensure that specializations are included in staff development plans in each U. T. audit office.	August 31, 2004	Robin Timmins
II. Anticipation and Response to Risk			
1.0	Risk Identification - Identify potential risks that may affect UT System's ability to successfully implement its strategy and achieve its objectives, including known risks that have changed in magnitude, impact, or both.		
1.1	Establish methodology for identifying new potential risks related to UT System's major business processes to be adopted and implemented by the Internal Audit Council.	December 31, 2004	Bill Taylor
1.2	Develop comprehensive list of major UT System business processes.	November 30, 2004	Bill Taylor
1.3	Compile a comprehensive list of primary sources of risk information to be communicated to institutional Internal Audit Council members and other risk stakeholders within UT System.	December 31, 2004	Bill Taylor
1.4	Perform at least two system-wide surveys of key sources of risk information to identify new or emerging risks within major business processes.	August 31, 2005	Bill Taylor
1.5	Develop a process for quickly communicating newly identified risks to be adopted and implemented by the Internal Audit Council.	December 31, 2004	Bill Taylor
1.6	Develop a central web page containing information and URL links related to system-wide significant risks within each major business process.	August 31, 2005	Bill Taylor

24.11

The University of Texas System-Wide Internal Audit 2005 Strategic Action Plan

Item #	Action Item / Goal	Item Due Date	Responsible Party
2.0	Risk Assessment - Consider how potential risks might affect the achievement of UT System objectives.		
2.1	Establish methodology for periodically assessing the significance of new and existing risks, and develop a plan for quickly assessing newly identified risks with the potential for significant, short-term, or system-wide impact, to be adopted and implemented by the Internal Audit Council.	December 31, 2004	Bill Taylor
2.2	Survey the Internal Audit Council and key sources within each major business process area at least two times during the Fiscal year to assess the significance of both new and previously identified risks.	November 30, 2004 and May 31, 2005	Kristi Fisher
2.3	Include assessment and/or discussion of relevant new or existing system-wide risks in at least two of the Internal Audit Council meetings and two of the Internal Audit Committee meetings at each UT System component during Fiscal 2005.	August 31, 2005	Kristi Fisher
3.0	Risk Response - Identify and evaluate appropriate risk response options, communicate them to management, and incorporate appropriate response activities into the plan of work.		
3.1	Develop a process by which all UT System audit plans are formally evaluated relative to their coverage of system-wide risks at least two times each year.	December 31, 2004	Bill Taylor and Robin Timmins
3.2	Develop a process for documenting and monitoring each component's response strategy related to new and emerging risks, as well as for quickly formulating and implementing responses to significant newly identified risks, to be adopted by the Internal Audit Council.	December 31, 2004	Bill Taylor
3.3	Develop a roadmap for implementing Enterprise Risk Management within the UT System as proposed by the Internal Audit Council.	October 31, 2004	David Crawford
III. Effective Communication and Reporting			
1.0	Quarterly Internal Audit Council Meetings.	Quarterly	Kristi Fisher
1.1	Organize quarterly internal audit council meetings (face-to-face), ensuring that meetings are held quarterly and include an agenda prepared in advance including discussion on current topics/issues/training.	Quarterly	Kristi Fisher
2.0	Internal Audit Directors communicate with liaisons on a bi-weekly basis via Liaison Reports.		

24.12

The University of Texas System-Wide Internal Audit 2005 Strategic Action Plan

Item #	Action Item / Goal	Item Due Date	Responsible Party
2.1	Establish a workgroup to address enhancing the usefulness of communication medium: a. Information sharing between all components vs. just between System Administration and components. b. Change in format to include additional information: i. Current audits in progress ii. Current events (even if they don't directly affect UT System)	October 30, 2004	Bill Taylor
2.2	Document the role of the component liaison in white paper format to include: a. Internal Audit Committee responsibilities b. Liaison reporting c. Audit report review & summarization responsibilities d. Audit finding consultation responsibilities	October 30, 2004	Bill Taylor
3.0	Conduct monthly teleconference calls between all internal audit functions.	Monthly	Kristi Fisher
4.0	Quarterly newsletter published.	Quarterly	Robin Timmins
5.0	Organize and facilitate roundtable discussions amongst component internal audit staff (via videoconference or in conjunction with Audit Council meetings) to facilitate knowledge sharing on current events, audit approaches, and best practices.	December 31, 2004 & April 31, 2005	Eric Polonski
6.0	Ensure regular & timely system wide communication between System Wide Internal Audit function and ACMR.		
6.1	Ensure that, as appropriate, issues presented to the ACMR are system wide in nature (status of system wide audit plan, etc.)	Quarterly	Kristi Fisher
6.2	Ensure that presentations by component internal audit directors occur at each quarterly ACMR meeting.	Quarterly	Kristi Fisher
IV. Collaboration and Partnerships			
1.0	Identify, during the annual audit planning process, those areas where collaboration opportunities exist and incorporate them into the system-wide audit plan.		
1.1	Compile a list of areas or projects that are suitable for collaboration, prioritize them, and include in the system-wide audit plan as proposed by the Internal Audit Council.	August 31, 2004	Kimberly Hagara

24.13

The University of Texas System-Wide Internal Audit 2005 Strategic Action Plan

Item #	Action Item / Goal	Item Due Date	Responsible Party
1.2	Develop a "white paper" or guideline to establish the process for accomplishing a system wide audit/project to include: a. Consistent audit approach b. System Wide audit program developed c. System Wide reporting format	August 31, 2004	Kimberly Hagara
1.3	Organize a committee/task force to develop approach for system wide database to share information. Examples include: a. Audit Program Library b. Application Library (timekeeping system, etc.) c. ACL Routines d. Audit Manuals e. Best Practice Tools f. Training Materials	November 30, 2004	Kimberly Hagara
2.0	Collaborate on the development of the System-wide Annual Audit Plan.		
2.1	Adopt consistent audit universe approach and format for the audit plan (including consistent risk assessment methodology).	August 31, 2004	Kimberly Hagara
3.0	Coordinate activities with external reviewers, such as the State Auditor's Office and independent audit firms, to maximize coverage of institutional risks and minimize duplication of efforts.	August 31, 2004	Kimberly Hagara
V. Compliance with Standards and Requirements			
1.0	Maintain an internal audit charter that formally defines the internal audit activity's purpose, authority, and responsibilities.		
1.1	Ensure that each U.T. audit office obtains approval from its (institutional) Internal Audit Committee of a charter that is consistent with the IIA's <i>Standards for the Professional Practice of Internal Auditing</i> .	December 31, 2004	David Crawford
2.0	Maintain an active quality assurance program in every U.T. audit office to ensure appropriate operations.		
2.1	Ensure that each U.T. audit office maintains a current audit manual that provides guidance for the documentation of engagements and the review of working paper; work collaboratively to develop a Table of Contents for distribution.	December 31, 2004	Brandon Duck
2.2	Ensure that each U.T. audit office has a system for performing quality assurance reviews of all individual engagements; designate a QAR responsible party at each component.	December 31, 2004	Brandon Duck

24.14

The University of Texas System-Wide Internal Audit 2005 Strategic Action Plan

Item #	Action Item / Goal	Item Due Date	Responsible Party
2.3	Ensure that each U.T. audit office conducts a self-review and undergoes an external quality assurance review every 3 years to comply with the Governmental Auditing Standards (Texas Internal Auditing Act)	July 31, 2004	Brandon Duck
2.4	Facilitate participation in quality assurance reviews of other institutions: a. All audit managers participate in a QAR at least every two years b. Three U. T. auditors participate in non-UT QARs annually, one of which is a non-higher education QAR	(a) Aug. 31, 2006 (b) Aug. 31, 2005	Brandon Duck
2.5	Ensure that each U.T. audit office uses post audit surveys and questionnaires to obtain input from clients about their audit experiences and has developed a process for compiling and distributing information received during the customer survey process; develop a process for compiling system-wide survey results and addressing trends.	September 30, 2004	Brandon Duck
3.0	Ensure compliance with governance and external documents, such as IIA Standards and Audit Committee charters.		
3.1	Business Procedures Memorandum – 18-10-98 – Internal Audit Activities Ensure the BPM is current. Provide periodic training on BPM guidelines.	September 30, 2004	David Crawford
3.2	Business Procedures Memorandum - 50-01-02 - Statement of Operating Policy Pertaining to Dishonest or Fraudulent Activities Ensure the BPM is current. Provide periodic training on BPM guidelines.	September 30, 2004	David Crawford
3.3	Business Procedures Memorandum - 63-02-02 - Institutional Compliance Program Ensure the BPM is current. Provide periodic training on BPM guidelines.	September 30, 2004	David Crawford
3.4	Business Procedures Memorandum - 53-02-96 – Policy for the Use and Protection of Information Resources Ensure compliance with key sections during audit engagements. Provide internal training on BPM guidelines.	September 30, 2004	David Crawford
3.5	United States Sentencing Commission, Guidelines Manual, §8A1.2 (“Federal Sentencing Guidelines”) Ensure that goals, objectives, infrastructure, and activities of the Institutional Compliance Programs continue to address each of the requirements of the Sentencing Guidelines.	September 30, 2004	David Crawford

24.15

The University of Texas System-Wide Internal Audit 2005 Strategic Action Plan

Item #	Action Item / Goal	Item Due Date	Responsible Party
VI. Completion of Plan of Work			
1.0	Perform risk-based assurance and consulting activities.		
1.1	Develop an annual plan of work which indicates auditing and consulting activities to be performed.	August 31, 2004	Kimberly Hagara
2.0	Report results of work to management in a timely manner.		
2.1	Ensure the timely issuance of reports or memorandums at the completion of each engagement; include in quarterly report – days from completion of fieldwork to final report issuance date.	Quarterly	Kimberly Hagara
2.2	Provide information to the institutional audit committee on results of activities.	Quarterly	Kristi Fisher
2.3	Provide information to the ACMR committee on results of activities.	Quarterly	Kristi Fisher
3.0	Monitor accomplishment of plan of work.		
3.1	Develop a plan/schedule for accomplishment of the plan of work that ensures completion of the plan.	August 31, 2004	Robin Timmins
3.2	Perform a periodic assessment of completion of work status	Monthly	Robin Timmins
3.3	Provide information to the institutional audit committee on the status of completion of the plan of work	Quarterly	Kristi Fisher
3.4	Provide information to the ACMR committee on the status of the completion of the plan of work.	Quarterly	Kristi Fisher
3.5	Establish consistent follow-up guidance through the development of a “white paper”	August 31, 2004	Eric Polonski

24.16

**The University of Texas System
Fiscal Year 2005 Annual Audit Plan
Approval Process**



4. **U. T. System: Report on compliance high-risk area activity regarding U. T. System's response to time and effort compliance issues**

REPORT

The Office of the Inspector General of the Department of Health and Human Services regularly conducts compliance audits of higher education institutions, some of which have emphasized time and effort reporting on federal grants provided by the National Institutes of Health. In several recent cases involving non-U. T. institutions, universities have reached settlement agreements and repaid millions of dollars to the federal government.

Dr. Kenneth Shine, Executive Vice Chancellor for Health Affairs, will report on the U. T. System's activities in response to federal time and effort compliance issues.

5. **U. T. System: Report on System-wide Compliance Program Activities including "hotline" reports and Compliance Program Peer Reviews**

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, will update the Audit, Compliance, and Management Review Committee on the quarterly report of the System-wide Compliance Program, as follows on Pages 25.1 - 25.2. Activity reports are presented to the Audit, Compliance, and Management Review Committee of the Board of Regents on a quarterly basis.

Next, Mr. Chaffin will report on the overall number and types of compliance "hotline" calls that have been received System-wide during the 2004 Fiscal Year. A summary of calls received is set forth on Page 25.3.

Mr. Chaffin will then brief the Audit, Compliance, and Management Review Committee on the status of the Compliance Program Peer Review process. A schedule and status of component peer reviews is attached on Page 25.3.

**The University of Texas System
System-wide Compliance Program**

**System-wide Compliance Quarterly Report
3rd Quarter Fiscal Year 2004**

Organizational Matters

The Audit, Compliance, and Management Review Committee of the Board of Regents met on May 12, 2004. The purpose of the committee is to provide Board of Regent oversight of U. T. System's processes to manage business and financial risk and for compliance with significant applicable legal, ethical, and regulatory requirements. The topics discussed included program status, implementation status of the Spirit of Sarbanes-Oxley Action Plan, account reconciliation and segregation of duties compliance, compliance program peer reviews, non-retaliation policy, and the 3rd Effective Compliance Systems Conference.

The Internal Audit and Executive Compliance Committee met on February 19, 2003. The focus of this committee is to provide guidance and oversight to the System-wide Compliance Function. The topics discussed included the status of the program, U. T. System Whistleblower Policy, Compliance Program Peer Reviews, and the 3rd Effective Compliance Systems Conference.

The Compliance Officers met on March 9, 2004. The focus of this committee is to facilitate the communication and sharing of ideas, best practices, exposures, and other information related to institutional compliance programs among the institutional compliance officers. Topics discussed included accountability, the "Electronic Media Abuse" Task Force, U. T. System Non-Retaliation Policy, implementation of BPM 66 – Confidentiality of SSN's, and Compliance Program Peer Reviews and their impact.

Summary of Quarterly Activity

Compliance Program Peer Reviews – System-wide Compliance is facilitating Compliance Program Peer Reviews at the component institutions. Reviews have been completed at U. T. Dallas, U. T. El Paso, U. T. Pan American, U. T. Tyler, U. T. HSC-Houston, and U.T. HC Tyler. Additionally, a training review was conducted at U. T. HSC-San Antonio. The reviews are being conducting using the **Peer Review Guide** and **Peer Review Engagement Agreement** documents developed last summer by System-wide Compliance in collaboration with the Compliance Officers. System-wide Compliance has also provided a report template, checklists, and additional guidance to institutions and review teams during each review. Several of the completed reviews are in the reporting phase. Additional reviews are currently being scheduled. Initial reviews have identified many best practices and program issues including resource allocation, reporting structure, and the refreshing of general compliance training.

3rd Effective Compliance Systems Conference – The conference was held April 20-22, 2004, at the Omni Hotel in Austin with over 175 participants representing more than 60 institutions of higher education nationally. The keynote speaker was Laura P. Hartman,

Associate Vice President for Academic Affairs at DePaul University, on “Building an Ethical Corporate Culture.” Additional presenters included representatives of California Institute of Technology, Northwestern University, PricewaterhouseCoopers, The University of Minnesota, The University of Michigan, Stanford University, Vinson & Elkins, the National Institutes of Health, Deloitte & Touche and The University of Texas at Austin. The focus of the conference included compliance program fundamentals, research and high-risk area compliance, and enterprise risk management (ERM).

University Compliance Group (UCG) - System-wide Compliance is actively participating in monthly meetings (via conference call) of this group. System-wide Compliance hosted the first face-to-face meeting with this group in April in conjunction with the Compliance Conference. The UCG is comprised of compliance representatives from large research institutions, including Duke, Minnesota, UCLA, Michigan, Stanford, and Harvard. Discussion topics over the past months have included Export Controls, the Updated Federal Sentencing Guidelines, Effort Reporting, Conflict of Interest, and Research Compliance.

System-wide Compliance Hotline and Policy – A System-wide Compliance Hotline Policy has been approved and addresses the handling of calls received at the System-wide level. Additionally, a System-wide contract has been established with The Network to provide confidential reporting lines to all institutions. This was a coordinated effort with Dale Sump in System Administration Compliance and the Compliance Officers resulting in savings to the institutions for an external hotline. All institutions now have an external, third party, confidential reporting mechanism in place as a result of the system-wide contract.

U. T. System Non-Retaliation (“Whistleblower”) Policy – System-wide Compliance facilitated the development of a U. T. System Non-Retaliation Policy. The policy has been approved as a Business Procedure Memorandum and is currently being distributed.

National Presentations & Presence

The System-wide Compliance Officer made a presentation on the Institutional Compliance Program at the National Council of University Research Administrators on March 1, 2004.

The Assistant Director for System-wide Compliance presented as part of a panel that included the Massachusetts Institute of Technology and the University of Pennsylvania at the Council on Governmental Relations meeting on June 10, 2004.

The Manager for System-wide Compliance serves on the Steering Committee for the Open Compliance & Ethics Group, a national organization with a mission to help organizations align their governance, compliance, and risk management activities to business performance and promote equity.

Summary of Hotline Complaints		
Type	Number	% Of Total
Improper Use of University Property & Resources	31	10%
Human Resources	213	65%
Healthcare/Privacy	36	11%
Fiscal Reporting/Audit	4	1%
Miscellaneous	42	13%
TOTAL	326	100%

**U. T. System-wide Compliance Program
Peer Review Status and Schedule**

June 30, 2004

	On-Site Assessment Dates	Institution	Status
1	Dec. 8-9	UT Dallas	Completed
2	Feb. 9-11	UT Pan Am	Completed
3	Feb. 24-26	UTHSC San Antonio (*training review)	Completed*
4	Apr. 6-8	UTHSC Houston	Management Response
5	May 5-7	UT El Paso	Management Response
6	May 17-19	UT Tyler	Completed
7	May 24-26	UTHC Tyler	Management Response
8	Jun. 28-30	UT San Antonio	Report Drafted
9	Jul. 19-21	UT System Administration	Confirmed
10	August 2004	UT Arlington	Tentative
11	August 2004	UT MD Anderson (external review)	Tentative
12	August 2004	UT Brownsville	Tentative
13	September 2004	UTIMCO	Tentative
14	October 2004	UT Southwestern	Tentative
15	October 2004	UT Austin	Tentative
16	Spring 2005	UTMB Galveston	Tentative
17	February 2005	UT Permian Basin	Tentative



TABLE OF CONTENTS FOR FINANCE AND PLANNING COMMITTEE

Committee Meeting: 8/11/2004

Board Meeting: 8/12/2004
U. T. M. D. Anderson Cancer Center

Woody L. Hunt, *Chairman*
John W. Barnhill, Jr.
H. Scott Caven, Jr.
Cyndi Taylor Krier
Robert B. Rowling

	Committee Meeting	Board Meeting	Page
Convene	2:45 p.m. <i>Chairman Hunt</i>		
1. U. T. System: Approval of <u>Docket No. 118</u>	Not on Agenda	Action	26
2. U. T. System: Monthly Financial Report	2:45 p.m. Report <i>Mr. Wallace</i>	Not on Agenda	26
3. U. T. System: Approval to exceed the full-time equivalent limitation on employees paid from appropriated funds	2:55 p.m. Action <i>Mr. Wallace</i>	Action	27
4. U. T. Board of Regents: Report on Investments for quarter ended May 31, 2004, and Performance Report by Ennis Knupp + Associates	3:05 p.m. Report <i>Mr. Boldt</i> <i>Mr. Voss</i> <i>Mr. Sebastian</i>	Report	29
5. U. T. System: Permanent University Fund quarterly update	3:15 p.m. Report <i>Mr. Aldridge</i>	Not on Agenda	30
6. U. T. Board of Regents: Adoption of Fourteenth Supplemental Resolution; authorization to complete all related transactions; and resolution of parity debt	3:25 p.m. Action <i>Mr. Aldridge</i>	Action	31
7. U. T. System: Approval of aggregate amount of equipment financing for Fiscal Year 2005 and resolution of parity debt	3:35 p.m. Action <i>Mr. Aldridge</i>	Action	33
8. U. T. System: Approval of Optional Retirement Program employer contribution rates for Fiscal Year 2005	3:40 p.m. Action <i>Mr. Stewart</i>	Action	36
9. U. T. System: Authorization to establish a deferred compensation plan under <u>Internal Revenue Code</u> Section 457(b), to delegate authority to administer the plan, and to authorize conforming changes to Part Two, Chapter VI, Section 9 (Deferred Compensation Plan) of the Regents' <u>Rules and Regulations</u>	3:45 p.m. Action <i>Mr. Stewart</i>	Action	37
Adjourn	4:00 p.m.		

1. **U. T. System: Approval of Docket No. 118**

RECOMMENDATION

It is recommended that Docket No. 118, printed on green paper at the back of the Agenda Book beginning on Page Docket - 1, 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.

2. **U. T. System: Monthly Financial Report**

The Monthly Financial Report has been prepared since 1990 to track the financial results of the U. T. System institutions. The June Monthly Financial Report representing the operating results of the U. T. System institutions follows on Pages 26.1 - 26.25.

REPORT

The Monthly Financial Report compares the results of operations between the current year-to-date cumulative amounts and the prior year-to-date cumulative amounts. Explanations are provided for institutions having the largest variances in Adjusted Income (Loss) year-to-date as compared to the prior year both in terms of dollars and percentages.

Monthly Financial Report

System Office:

*The University of Texas System
Administration*

Academic Components:

*The University of Texas
at Arlington*

*The University of Texas
at Austin*

*The University of Texas
at Brownsville*

*The University of Texas
at Dallas*

*The University of Texas
at El Paso*

*The University of Texas --
Pan American*

*The University of Texas
of the Permian Basin*

*The University of Texas
at San Antonio*

*The University of Texas
at Tyler*

Health Components:

*The University of Texas
Southwestern Medical Center
at Dallas*

*The University of Texas Medical
Branch at Galveston*

*The University of Texas Health
Science Center at Houston*

*The University of Texas Health
Science Center at San Antonio*

*The University of Texas
M.D. Anderson Cancer Center*

*The University of Texas Health
Center at Tyler*

(Unaudited)

June 2004

THE UNIVERSITY OF TEXAS SYSTEM
MONTHLY FINANCIAL REPORT
(Unaudited)
FOR THE TEN MONTHS ENDING
JUNE 30, 2004

**The University of Texas System
Monthly Financial Report**

Foreword

The Monthly Financial Report (MFR) for 2004 compares the results of operations between the current year-to-date cumulative amounts and the prior year-to-date cumulative amounts. Explanations are provided for institutions having the largest variances in Adjusted Income (Loss) year-to-date as compared to the prior year, both in terms of dollars and percentages. In addition, although no significant variance may exist, institutions with losses may be discussed.

The data is reported in three sections: (1) Operating Revenues, (2) Operating Expenses and (3) Other Nonoperating Adjustments. Presentation of state appropriation revenues are required under GASB 35 to be reflected as nonoperating revenues, so all institutions will report an Operating Loss prior to this adjustment. The MFR provides an Adjusted Income (Loss), which takes into account the nonoperating adjustments associated with core operating activities. An Adjusted Margin (as a percentage of operating and nonoperating revenue adjustments) is calculated for each period and is intended to reflect relative operating contributions to financial health.

UNAUDITED
The University of Texas System
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2004

	June Year-to-Date FY 2004	June Year-to-Date FY 2003 (Restated)	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$736,007,726	\$648,442,984	\$87,564,742	13.5%
Sponsored Programs	1,585,734,323	1,491,377,179	94,357,144	6.3%
Net Sales and Services of Educational Activities	126,443,680	123,127,383	3,316,297	2.7%
Net Sales and Services of Hospitals	1,528,971,158	1,369,724,802	159,246,356	11.6%
Net Professional Fees	593,540,399	546,307,814	47,232,585	8.6%
Net Auxiliary Enterprises	219,444,542	203,556,563	15,887,979	7.8%
Other Operating Revenues	153,967,983	175,198,323	(21,230,340)	-12.1%
Total Operating Revenues	4,944,109,811	4,557,735,048	386,374,763	8.5%
Operating Expenses				
Salaries and Wages	3,220,363,959	3,049,105,957	171,258,002	5.6%
Payroll Related Costs	784,588,073	805,284,523	(20,696,450)	-2.6%
Professional Fees and Contracted Services	142,385,455	140,474,398	1,911,057	1.4%
Other Contracted Services	248,619,586	238,016,996	10,602,590	4.5%
Scholarships and Fellowships	362,816,521	322,115,666	40,700,855	12.6%
Travel	67,656,836	63,350,596	4,306,240	6.8%
Materials and Supplies	661,815,671	622,409,076	39,406,595	6.3%
Utilities	134,710,037	130,781,404	3,928,633	3.0%
Telecommunications	48,880,939	50,256,731	(1,375,792)	-2.7%
Repairs and Maintenance	93,269,174	84,509,715	8,759,459	10.4%
Rentals and Leases	64,231,686	59,174,499	5,057,187	8.5%
Printing and Reproduction	27,143,600	28,935,322	(1,791,722)	-6.2%
Bad Debt Expense	17,434	8,517	8,917	104.7%
Claims and Losses	4,861,878	1,377,345	3,484,533	253.0%
Federal Sponsored Programs Pass-Throughs	21,769,686	19,295,549	2,474,137	12.8%
Depreciation and Amortization	290,949,883	273,175,495	17,774,388	6.5%
Other Operating Expenses	350,972,367	342,096,223	8,876,144	2.6%
Total Operating Expenses	6,525,052,785	6,230,368,012	294,684,773	4.7%
Operating Loss	(1,580,942,974)	(1,672,632,964)	91,689,990	5.5%
Other Nonoperating Adjustments				
State Appropriations	1,339,141,493	1,355,634,659	(16,493,166)	-1.2%
Gift Contributions for Operations	156,997,125	161,436,375	(4,439,250)	-2.7%
Net Investment Income	271,587,215	312,710,626	(41,123,411)	-13.2%
Long Term Fund Distribution	135,087,213	45,057,868	90,029,345	199.8%
Interest Expense on Capital Asset Financings	(77,150,098)	(72,000,691)	(5,149,407)	-7.2%
Net Other Nonoperating Adjustments	1,825,662,948	1,802,838,837	22,824,111	1.3%
Adjusted Income (Loss)	244,719,974	130,205,873	114,514,101	87.9%
Adjusted Margin (as a percentage)	3.6%	2.0%		
Available University Fund Transfer	0	0	0	0.0%
Investment Gains (Losses)	1,497,703,520	610,681,818	887,021,702	145.3%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	\$1,742,423,494	\$740,887,691	\$1,001,535,803	135.2%
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	20.9%	10.5%		

The University of Texas System
Comparison of Year-to-Date FY 2004 Adjusted Income (Loss)
to Year-to-Date FY 2003 Adjusted Income (Loss)
For the Ten Months Ending June 30, 2004

	Year-to-Date FY2004 Adjusted Income (Loss)	Year-to-Date FY2003 Adjusted Income (Loss) (Restated)	Variance	Fluctuation Percentage	
U. T. System Administration	134,072,191	117,049,689	17,022,502	14.5%	(1)
U. T. Arlington	16,562,888	14,599,957	1,962,931	13.4%	
U. T. Austin	90,608,862	61,713,190	28,895,672	46.8%	(2)
U. T. Brownsville	4,705,820	2,811,827	1,893,993	67.4%	
U. T. Dallas	(1,471,951)	3,065,187	(4,537,138)	-148.0%	
U. T. El Paso	3,755,834	3,317,082	438,752	13.2%	
U. T. Pan American	5,798,805	1,166,807	4,631,998	397.0%	(4)
U. T. Permian Basin	(711,920)	(569,422)	(142,498)	-25.0%	
U. T. San Antonio	8,696,186	4,849,487	3,846,699	79.3%	(6)
U. T. Tyler	339,633	367,948	(28,315)	-7.7%	
U. T. Southwestern Medical Center - Dallas	18,181,275	3,515,764	14,665,511	417.1%	(7)
U. T. Medical Branch - Galveston	(15,498,032)	(25,766,242)	10,268,210	39.9%	(8)
U. T. Health Science Center - Houston	10,963,458	(11,529,467)	22,492,925	195.1%	(9)
U. T. Health Science Center - San Antonio	11,499,808	2,550,940	8,948,868	350.8%	(10)
U. T. M. D. Anderson Cancer Center	44,193,976	50,408,630	(6,214,654)	-12.3%	
U. T. Health Center - Tyler	4,156,474	(335,336)	4,491,810	1,339.5%	(11)
Elimination of AUF Transfer	(91,133,333)	(97,010,168)	5,876,835	6.1%	
Total Adjusted Income (Loss)	244,719,974	130,205,873	114,514,101	87.9%	
Investment Gains (Losses)	1,497,703,520	610,681,818	887,021,702	145.3%	(12)
Total Adjusted Income (Loss) with AUF Transfer and Investment Gains (Losses)	\$1,742,423,494	\$740,887,691	\$1,001,535,803	135.2%	

THE UNIVERSITY OF TEXAS SYSTEM
EXPLANATION OF VARIANCES ON THE MONTHLY FINANCIAL REPORT
For the Ten Months Ending June 30, 2004

Explanations are provided for institutions having the largest variances in adjusted income (loss) year-to-date as compared to the prior year, both in terms of dollars and percentages. Explanations are also provided for institutions with a current year-to-date adjusted loss.

- (1) U. T. System Administration – The \$17 million (14.5%) increase in adjusted income over the same period last year was primarily due to mineral rights lease sale. Due to the elevated price of oil, the semi-annual lease sale netted a higher than normal sale bonus.
- (2) U. T. Austin – The \$28.9 million (46.8%) increase in adjusted income over the same period last year was primarily due to an increase of approximately \$29.5 million in fall and spring tuition rates and fees.
- (3) U. T. Dallas – The \$1.5 million year-to-date net loss was primarily due to decreased state appropriations and increased depreciation expense. Two new buildings were placed into service in 2003, the Callier Center North building and the School of Management building. U. T. Dallas is anticipating ending the year with a \$2 million negative margin, due to the increased depreciation expense and decreased state appropriations.
- (4) U. T. Pan-American - The \$4.6 million (397%) increase in adjusted income over the same period last year was primarily due to additional revenues resulting from a 9% increase in both headcount and semester credit hours for the fall and spring semesters, as well as an increase in statutory designated tuition rates.
- (5) U. T. Permian Basin – The \$712,000 year-to-date net loss was primarily due to the university's previously planned goal of reducing net asset reserves by making campus capacity improvements. These investments are necessary to accommodate future planned growth including increased financial aid and staff and faculty additions. These strategies will stimulate continued enrollment and growth. U. T. Permian Basin is projecting a negative margin of approximately \$850,000.
- (6) U. T. San Antonio - The \$3.8 million (79.3%) increase in adjusted income over the same period last year was primarily due to additional revenues resulting from a 12.7% increase in enrollment, as well as an increase in tuition and fees of 10.4%.
- (7) U. T. Southwestern Medical Center – Dallas – The \$14.7 million (417.1%) increase in adjusted income over the same period last year was primarily due to increased gift contributions of \$10.6 million from prior year levels and increased state appropriations of \$4.7 million. The largest gifts were for the Clinical Transformation Initiative program, the Continuing Education program, and the Alliance for Cellular Signaling program.
- (8) U. T. Medical Branch – Galveston – The \$10.3 million (39.9%) improvement in adjusted loss over the same period last year was primarily due to revenue enhancements and expense reductions implemented in 2004. Expenses have increased \$5.2 million; however, after adjusting for patient care volume increases (8%) and the impact of inflation, expenses have actually been reduced in 2004 through a combination of efficiency gains, reductions in discretionary spending, and process and other improvements. Revenue has increased \$16.1 million due to patient care volume increases, patient care revenue improvement initiatives, and growth in research and other revenues. Revenue has increased between years despite an \$11.5 million reduction in state appropriations and a \$7.5 million reduction in the Indigent Care Fund.

UTMB Galveston's management is projecting a negative margin of \$23.6 million for 2004. This projected loss includes \$47 million in noncash depreciation expense; therefore, cash flow from operations is projected to be a positive \$23.4 million. Additionally, the \$23.6 million loss does not include nonoperating revenue for capital gifts from the Sealy Smith Foundation of \$9 million. *UTMB Galveston* is the sole beneficiary of the Sealy Smith Foundation, and Foundation gifts are integral to *UTMB Galveston's* financial success. The positive results of *UTMB Galveston's* revenue improvement and cost reduction plans implemented to offset the financial challenges discussed above have not fully taken effect. *UTMB Galveston* will continue to have narrow margins as over 80% of clinical revenues are generated from government payors whose rate increases are not keeping pace with inflation. *UTMB Galveston* will continue to modify revenue enhancement and cost reduction plans as necessary to achieve financial goals for 2004.

- (9) U. T. Health Science Center – Houston – The \$22.5 million (195.1%) increase in adjusted income over the same period last year was primarily due to decreased expenses in other contracted services of \$9.2 million and salaries and benefits of \$8.4 million. These expenses decreased as a result of expense controls in place to limit spending as part of the cost-cutting plan. Additionally, there was an increase in net professional fees of \$8 million attributable to an increase in the fee schedule and improved collection efforts.
- (10) U. T. Health Science Center – San Antonio – The \$8.9 million (350.8%) increase in adjusted income over the same period last year was primarily due to a \$5.8 million increase in contractual revenues resulting from new contracts with the Veterans' Administration Hospital and a new contract and capitation revenues with the University Hospital System. Additionally, other operating revenues increased \$2.8 million due to increases in Continuing Education fees and grant related income.
- (11) U. T. Health Center – Tyler – The \$4.5 million (1,339.5%) increase in adjusted income over the same period last year was primarily due to increased state appropriations of \$4 million due to North East Texas Initiative (NETI) funding being available for current operations, rather than capital expenditures. NETI is the collaborative effort of 15 higher education institutions to bring distance learning instruction to 50 rural Northeast Texas counties. The NETI network was brought on-line in 2003. Additionally, gift contributions increased \$1.7 million primarily due to a large gift from the Emaline Chamblee estate.
- (12) Investment Gains (Losses) – The \$887 million (145.3%) improvement in investment gains over the same period last year was due to improved financial market conditions. The majority of the year-to-date gains relate to the Permanent University Fund (PUF) for \$967.5 million, the Long Term Fund (LTF) for \$406.6 million and the Permanent Health Fund (PHF) for \$101 million.

GLOSSARY OF TERMS

OPERATING REVENUES:

STUDENT TUITION AND FEES – All student tuition and fee revenues earned at the U.T. component institution for educational purposes.

SPONSORED PROGRAMS – Funding received from local, state and federal governments or private agencies, organizations or individuals. Includes amounts received for services performed on grants, contracts, and agreements from these entities for current operations. This also includes indirect cost recoveries and pass-through federal and state grants.

NET SALES AND SERVICES OF EDUCATIONAL ACTIVITIES – Revenues that are related to the conduct of instruction, research, and public service and revenues from activities that exist to provide an instructional and laboratory experience for students that create goods and services that may be sold.

NET SALES AND SERVICES OF HOSPITALS – Revenues (net of discounts, allowances, and bad debt expense) generated from U.T. health institution's daily patient care, special or other services, as well as revenues from health clinics that are part of a hospital.

NET PROFESSIONAL FEES – Revenues (net of discounts, allowances, and bad debt expense) derived from the fees charged by the professional staffs at U.T. health institutions as part of the Medical Practice Plans. These revenues are also identified as Practice Plan income. Examples of such fees include doctor's fees for clinic visits, medical and dental procedures, professional opinions, and anatomical procedures, such as analysis of specimens after a surgical procedure, etc.

NET AUXILIARY ENTERPRISES – Revenues derived from a service to students, faculty, or staff in which a fee is charged that is directly related to, although not necessarily equal to the cost of the service (e.g., bookstores, dormitories, dining halls, snack bars, inter-collegiate athletic programs, etc.).

OTHER OPERATING REVENUES – Other revenues generated from sales or services provided to meet current fiscal year operating expenses, which are not included in the preceding categories (e.g., certified non profit healthcare company revenues, donated drugs, interest on student loans, etc.)

TOTAL OPERATING REVENUES – U.T. component institutionally generated funding needed to meet current fiscal year operating expenses.

OPERATING EXPENSES:

SALARIES AND WAGES – Expenses for all salaries and wages of individuals employed by the institution including full-time, part-time, longevity, hourly, seasonal, etc.

PAYROLL RELATED COSTS – Expenses for all employee benefits paid by the institution or paid by the state on behalf of the institution.

PROFESSIONAL FEES AND CONTRACTED SERVICES – Payments for services rendered on a fee, contract, or other basis by a person, firm, corporation, or company recognized as possessing a high degree of learning and responsibility. Includes such items as services of a consultant, legal counsel, financial or audit fees, medical contracted services, guest lecturers (not employees) and expert witnesses.

OTHER CONTRACTED SERVICES – Payments for services rendered on a contractual basis by a person, firm, corporation or company that possess a lesser degree of learning and responsibility than that required for Professional Fees and Contracted Services. Includes such items as temporary employment expenses, fully insured medical plans expenses, janitorial services, dry cleaning services, etc.

SCHOLARSHIPS AND FELLOWSHIPS – Payments made for scholarship grants to students authorized by law.

TRAVEL – Payments for travel costs incurred during travel by employees, board or commission members and elected/appointed officials on state business.

MATERIALS AND SUPPLIES – Payments for consumable items. Includes, but is not limited to: computer consumables, office supplies, paper products, soap, lights, plants, fuels and lubricants, chemicals and gasses, medical supplies and copier supplies. Also includes postal services, and subscriptions and other publications not for permanent retention.

UTILITIES – Payments for the purchase of electricity, natural gas, water, thermal energy and waste disposal.

TELECOMMUNICATIONS - Electronically transmitted communications services (telephone, internet, computation center services, etc.).

REPAIRS AND MAINTENANCE – Payments for the maintenance and repair of equipment, furnishings, motor vehicles, buildings and other plant facilities. Includes, but is not limited to repair and maintenance to copy machines, furnishings, equipment – including medical and laboratory equipment, office equipment and aircraft.

RENTALS AND LEASES – Payments for rentals or leases of furnishings and equipment, vehicles, land and office buildings (all rental of space).

PRINTING AND REPRODUCTION – Printing and reproduction costs associated with the printing/copying of the institution's documents and publications.

BAD DEBT EXPENSE – Expenses incurred by the university related to nonrevenue receivables such as non-payment of student loans.

CLAIMS AND LOSSES – Payments for claims from self-insurance programs. Other claims for settlements and judgments are considered nonoperating expenses.

FEDERAL SPONSORED PROGRAMS PASS-THROUGHS – Pass-throughs to other Texas state agencies, including other universities, of federal grants and contracts.

STATE SPONSORED PROGRAMS PASS-THROUGHS – Pass-throughs to other Texas state agencies, including Texas universities.

DEPRECIATION AND AMORTIZATION – Estimated depreciation and amortization expense.

OTHER OPERATING EXPENSES – Other operating expenses not identified in other line items above (e.g., certified non profit healthcare company expenses, property taxes, insurance premiums, credit card fees, hazardous waste disposal expenses, meetings and conferences, etc.).

TOTAL OPERATING EXPENSES – Total operating expenses for U.T. System component institution.

OPERATING LOSS – Total operating revenues less total operating expenses before other nonoperating adjustments like state appropriations.

OTHER NONOPERATING ADJUSTMENTS:

STATE APPROPRIATIONS – Appropriations from the State General Revenue fund, which supplement the U.T. component institutional revenue in meeting operating expenses, such as faculty salaries, utilities, and institutional support. Also includes Higher Education Assistance Funds (HEAF), which is a source of state appropriated general revenue to U.T. Brownsville and U.T. Pan American. HEAF funds are appropriated for construction, library and equipment expenses for Texas public universities that do not benefit from the Permanent University Fund (PUF) bond proceeds.

GIFT CONTRIBUTIONS FOR OPERATIONS – Consist of public and private gifts used in current operations, excluding gifts for capital acquisition and endowment gifts.

NET INVESTMENT INCOME – Interest and dividend income, Permanent Health Fund distributions and patent and royalty income.

LONG TERM FUND DISTRIBUTION – At the institutional level, includes Long Term Fund fixed payouts approved by the Board of Regents. On the MFR, investment income for System Administration has been reduced for the amount of any transfers so as not to overstate investment income.

INTEREST EXPENSE ON CAPITAL ASSET FINANCINGS – Interest expenses associated with bond and note borrowings utilized to finance capital improvement projects by an institution. This consists of the interest portion of mandatory debt service transfers under the Revenue Financing System, Tuition Revenue bond and Permanent University Fund (PUF) bond programs. PUF interest expense is reported on System Administration as the debt legally belongs to the Board of Regents.

NET OTHER NONOPERATING ADJUSTMENTS – Sum of the other nonoperating adjustments.

ADJUSTED INCOME (LOSS) – Total operating revenues less total operating expenses plus net other nonoperating adjustments.

ADJUSTED MARGIN (as a percentage) – Percentage of Adjusted Income (Loss) divided by Total Operating Revenues plus Net Nonoperating Adjustments less Interest Expense on Capital Asset Financings.

AVAILABLE UNIVERSITY FUND TRANSFER – Includes Available University Fund (AUF) transfer to System Administration for Educational and General operations and to U.T. Austin for Excellence Funding. These transfers are funded by investment earnings from the Permanent University Fund (PUF), which are required by law to be reported in the PUF at System Administration. On the MFR, investment income for System Administration has been reduced for the amount of the System Administration transfer so as not to overstate investment income for System Administration. The AUF transfers are eliminated at the consolidated level to avoid overstating System-wide revenues, as the amounts will be reflected as transfers at year-end.

INVESTMENT GAINS (LOSSES) – Realized and unrealized gains and losses on investments.

TOTAL ADJUSTED INCOME (LOSS) WITH AUF TRANSFER AND INVESTMENT GAINS (LOSSES) – Total Adjusted Income including the AUF Transfer and Investment Gains (Losses).

UNAUDITED
The University of Texas System Administration
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2004

	June Year-to-Date <u>FY 2004</u>	June Year-to-Date <u>FY 2003</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Sponsored Programs	\$7,054,632	\$1,812,000	\$5,242,632	289.3%
Net Sales and Services of Educational Activities	8,894,321	13,347,543	(4,453,222)	-33.4%
Other Operating Revenues	22,267,467	51,773,191	(29,505,724)	-57.0%
Total Operating Revenues	<u>38,216,420</u>	<u>66,932,734</u>	<u>(28,716,314)</u>	<u>-42.9%</u>
Operating Expenses				
Salaries and Wages	18,219,692	17,492,651	727,041	4.2%
Employee Benefits and Related Costs	3,711,319	3,649,046	62,273	1.7%
Professional Fees and Contracted Services	4,742,407	4,449,367	293,040	6.6%
Other Contracted Services	7,610,110	4,255,440	3,354,670	78.8%
Scholarships and Fellowships	63,000	0	63,000	100.0%
Travel	737,966	571,897	166,069	29.0%
Materials and Supplies	2,891,243	2,627,453	263,790	10.0%
Utilities	22,507	21,193	1,314	6.2%
Telecommunications	1,868,637	1,374,546	494,091	35.9%
Repairs and Maintenance	653,190	481,930	171,260	35.5%
Rentals and Leases	360,014	426,390	(66,376)	-15.6%
Printing and Reproduction	132,423	143,791	(11,368)	-7.9%
Claims and Losses	4,861,878	1,377,345	3,484,533	253.0%
Depreciation and Amortization	1,250,291	1,322,830	(72,539)	-5.5%
Other Operating Expenses	5,592,551	9,795,914	(4,203,363)	-42.9%
Total Operating Expenses	<u>52,717,228</u>	<u>47,989,793</u>	<u>4,727,435</u>	<u>9.9%</u>
Operating Loss	<u>(14,500,808)</u>	<u>18,942,941</u>	<u>(33,443,749)</u>	<u>-176.5%</u>
Other Nonoperating Adjustments				
State Appropriations	832,488	763,643	68,845	9.0%
Gift Contributions for Operations	466,065	1,027,777	(561,712)	-54.7%
Net Investment Income	141,262,457	169,462,697	(28,200,240)	-16.6%
Long Term Fund Distribution	7,280,758	(69,047,723)	76,328,481	110.5%
Interest Expense on Capital Asset Financings	(24,532,701)	(26,008,004)	1,475,303	5.7%
Net Other Nonoperating Adjustments	<u>125,309,067</u>	<u>76,198,390</u>	<u>49,110,677</u>	<u>64.5%</u>
Adjusted Income (Loss)	110,808,259	95,141,331	15,666,928	16.5%
Adjusted Margin (as a percentage)	58.9%	56.3%		
Available University Fund Transfer	23,263,932	21,908,358	1,355,574	6.2%
Adjusted Income (Loss) with AUF Transfer	134,072,191	117,049,689	17,022,502	14.5%
Adjusted Margin % with AUF Transfer	63.4%	61.3%		
Investment Gains (Losses)	1,479,791,327	605,155,102	874,636,225	144.5%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	\$1,613,863,518	\$722,204,791	\$891,658,727	123.5%
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	96.8%	93.3%		

UNAUDITED
The University of Texas at Arlington
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2004

	June Year-to-Date <u>FY 2004</u>	June Year-to-Date <u>FY 2003</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$94,720,293	\$82,693,064	\$12,027,229	14.5%
Sponsored Programs	34,687,023	32,970,453	1,716,570	5.2%
Net Sales and Services of Educational Activities	4,622,583	4,677,506	(54,923)	-1.2%
Net Auxiliary Enterprises	15,993,597	14,150,252	1,843,345	13.0%
Other Operating Revenues	3,560,937	3,886,929	(325,992)	-8.4%
Total Operating Revenues	<u>153,584,433</u>	<u>138,378,204</u>	<u>15,206,229</u>	<u>11.0%</u>
Operating Expenses				
Salaries and Wages	110,766,957	107,845,167	2,921,790	2.7%
Employee Benefits and Related Costs	24,541,640	27,542,949	(3,001,309)	-10.9%
Professional Fees and Contracted Services	1,865,999	1,736,720	129,279	7.4%
Other Contracted Services	4,361,678	4,190,232	171,446	4.1%
Scholarships and Fellowships	30,513,299	27,680,204	2,833,095	10.2%
Travel	2,660,857	2,553,915	106,942	4.2%
Materials and Supplies	13,518,167	11,525,780	1,992,387	17.3%
Utilities	5,508,115	5,243,884	264,231	5.0%
Telecommunications	1,923,023	1,718,849	204,174	11.9%
Repairs and Maintenance	5,618,762	5,454,408	164,354	3.0%
Rentals and Leases	1,529,605	1,438,659	90,946	6.3%
Printing and Reproduction	1,886,534	1,970,408	(83,874)	-4.3%
Depreciation and Amortization	8,424,764	7,181,298	1,243,466	17.3%
Other Operating Expenses	4,552,580	4,072,904	479,676	11.8%
Total Operating Expenses	<u>217,688,444</u>	<u>210,211,437</u>	<u>7,477,007</u>	<u>3.6%</u>
Operating Loss	<u>(64,104,011)</u>	<u>(71,833,233)</u>	<u>7,729,222</u>	<u>10.8%</u>
Other Nonoperating Adjustments				
State Appropriations	80,602,412	85,846,457	(5,244,045)	-6.1%
Gift Contributions for Operations	1,552,860	1,072,988	479,872	44.7%
Net Investment Income	1,133,364	1,271,326	(137,962)	-10.9%
Long Term Fund Distribution	1,530,373	1,302,927	227,446	17.5%
Interest Expense on Capital Asset Financings	(4,152,110)	(3,060,508)	(1,091,602)	-35.7%
Net Other Nonoperating Adjustments	<u>80,666,899</u>	<u>86,433,190</u>	<u>(5,766,291)</u>	<u>-6.7%</u>
Adjusted Income (Loss)	16,562,888	14,599,957	1,962,931	13.4%
Adjusted Margin (as a percentage)	6.9%	6.4%		
Investment Gains (Losses)	(88,295)	(146,533)	58,238	39.7%
Adj. Inc. (Loss) with Investment Gains (Losses)	\$16,474,593	\$14,453,424	\$2,021,169	14.0%
Adj. Margin % with Investment Gains (Losses)	6.9%	6.3%		

UNAUDITED
The University of Texas at Austin
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2004

	June Year-to-Date <u>FY 2004</u>	June Year-to-Date <u>FY 2003</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$320,087,753	\$290,551,109	\$29,536,644	10.2%
Sponsored Programs	307,007,659	299,235,619	7,772,040	2.6%
Net Sales and Services of Educational Activities	65,772,368	61,744,052	4,028,316	6.5%
Net Auxiliary Enterprises	128,772,753	116,377,228	12,395,525	10.7%
Other Operating Revenues	3,912,700	3,658,950	253,750	6.9%
Total Operating Revenues	<u>825,553,233</u>	<u>771,566,958</u>	<u>53,986,275</u>	<u>7.0%</u>
Operating Expenses				
Salaries and Wages	608,261,577	602,176,211	6,085,366	1.0%
Employee Benefits and Related Costs	138,384,466	147,044,493	(8,660,027)	-5.9%
Professional Fees and Contracted Services	24,007,868	22,507,544	1,500,324	6.7%
Other Contracted Services	37,262,262	33,106,431	4,155,831	12.6%
Scholarships and Fellowships	115,498,985	103,385,478	12,113,507	11.7%
Travel	21,915,939	20,077,133	1,838,806	9.2%
Materials and Supplies	70,891,328	73,110,325	(2,218,997)	-3.0%
Utilities	37,618,890	35,478,662	2,140,228	6.0%
Telecommunications	10,511,594	10,858,083	(346,489)	-3.2%
Repairs and Maintenance	16,972,155	19,699,517	(2,727,362)	-13.8%
Rentals and Leases	10,592,457	9,932,378	660,079	6.6%
Printing and Reproduction	7,472,312	8,533,566	(1,061,254)	-12.4%
Federal Sponsored Programs Pass-Thrus	1,613,596	1,921,266	(307,670)	-16.0%
Depreciation and Amortization	66,202,909	66,639,611	(436,702)	-0.7%
Other Operating Expenses	38,964,385	37,633,334	1,331,051	3.5%
Total Operating Expenses	<u>1,206,170,723</u>	<u>1,192,104,032</u>	<u>14,066,691</u>	<u>1.2%</u>
Operating Loss	<u>(380,617,490)</u>	<u>(420,537,074)</u>	<u>39,919,584</u>	<u>9.5%</u>
Other Nonoperating Adjustments				
State Appropriations	259,199,732	254,660,230	4,539,502	1.8%
Gift Contributions for Operations	53,135,598	64,375,606	(11,240,008)	-17.5%
Net Investment Income	11,216,853	17,946,614	(6,729,761)	-37.5%
Long Term Fund Distribution	70,100,704	60,456,282	9,644,422	16.0%
Interest Expense on Capital Asset Financings	(13,559,868)	(12,198,636)	(1,361,232)	-11.2%
Net Other Nonoperating Adjustments	<u>380,093,019</u>	<u>385,240,096</u>	<u>(5,147,077)</u>	<u>-1.3%</u>
Adjusted Income (Loss)	(524,471)	(35,296,978)	34,772,507	98.5%
Adjusted Margin (as a percentage)	-0.0%	-3.0%		
Available University Fund Transfer	91,133,333	97,010,168	(5,876,835)	-6.1%
Adjusted Income (Loss) with AUF Transfer	90,608,862	61,713,190	\$28,895,672	46.8%
Adjusted Margin % with AUF Transfer	6.9%	4.9%		
Investment Gains (Losses)	(224,297)	10,263,352	(10,487,649)	-102.2%
Adj. Inc. (Loss) with AUF Transfer & Invest. Gains (Losses)	\$90,384,565	\$71,976,542	\$18,408,023	25.6%
Adj. Margin % with AUF Transfer & Invest. Gains (Losses)	7.4%	6.1%		

UNAUDITED
The University of Texas at Brownsville
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2004

	June Year-to-Date <u>FY 2004</u>	June Year-to-Date <u>FY 2003</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$7,188,682	\$7,079,020	\$109,662	1.5%
Sponsored Programs	76,103,510	67,066,655	9,036,855	13.5%
Net Sales and Services of Educational Activities	1,684,451	4,363,060	(2,678,609)	-61.4%
Net Auxiliary Enterprises	662,257	363,337	298,920	82.3%
Other Operating Revenues	8,616	10,526	(1,910)	-18.1%
Total Operating Revenues	<u>85,647,516</u>	<u>78,882,598</u>	<u>6,764,918</u>	<u>8.6%</u>
Operating Expenses				
Salaries and Wages	34,665,109	34,096,855	568,254	1.7%
Employee Benefits and Related Costs	6,717,876	6,898,887	(181,011)	-2.6%
Professional Fees and Contracted Services	1,369,830	1,636,953	(267,123)	-16.3%
Scholarships and Fellowships	39,667,031	34,733,170	4,933,861	14.2%
Travel	565,853	576,728	(10,875)	-1.9%
Materials and Supplies	2,528,494	2,621,556	(93,062)	-3.5%
Utilities	1,820,552	1,634,040	186,512	11.4%
Telecommunications	882,554	830,233	52,321	6.3%
Repairs and Maintenance	503,902	529,543	(25,641)	-4.8%
Rentals and Leases	1,620,601	2,012,741	(392,140)	-19.5%
Printing and Reproduction	308,754	316,451	(7,697)	-2.4%
Depreciation and Amortization	2,403,921	2,534,770	(130,849)	-5.2%
Other Operating Expenses	6,213,860	6,149,499	64,361	1.0%
Total Operating Expenses	<u>99,268,337</u>	<u>94,590,960</u>	<u>4,677,377</u>	<u>4.9%</u>
Operating Loss	<u>(13,620,821)</u>	<u>(15,708,362)</u>	<u>2,087,541</u>	<u>13.3%</u>
Other Nonoperating Adjustments				
State Appropriations	18,515,105	18,963,867	(448,762)	-2.4%
Gift Contributions for Operations	285,214	147,626	137,588	93.2%
Net Investment Income	259,644	280,842	(21,198)	-7.5%
Long Term Fund Distribution	182,661	138,420	44,241	32.0%
Interest Expense on Capital Asset Financings	(915,983)	(1,010,566)	94,583	9.4%
Net Other Nonoperating Adjustments	<u>18,326,641</u>	<u>18,520,189</u>	<u>(193,548)</u>	<u>-1.0%</u>
Adjusted Income (Loss)	4,705,820	2,811,827	1,893,993	67.4%
Adjusted Margin (as a percentage)	4.5%	2.9%		
Investment Gains (Losses)	106,008	(11,282)	117,290	1,039.6%
Adj. Inc. (Loss) with Investment Gains (Losses)	\$4,811,828	\$2,800,545	\$2,011,283	71.8%
Adj. Margin % with Investment Gains (Losses)	4.6%	2.8%		

UNAUDITED
The University of Texas at Dallas
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2004

	June Year-to-Date <u>FY 2004</u>	June Year-to-Date <u>FY 2003</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$70,612,915	\$61,115,655	\$9,497,260	15.5%
Sponsored Programs	24,596,520	23,202,019	1,394,501	6.0%
Net Sales and Services of Educational Activities	3,882,481	3,732,447	150,034	4.0%
Net Auxiliary Enterprises	4,154,491	3,750,037	404,454	10.8%
Other Operating Revenues	3,085,107	2,290,191	794,916	34.7%
Total Operating Revenues	<u>106,331,514</u>	<u>94,090,349</u>	<u>12,241,165</u>	<u>13.0%</u>
Operating Expenses				
Salaries and Wages	84,870,517	80,858,466	4,012,051	5.0%
Employee Benefits and Related Costs	16,642,038	19,064,028	(2,421,990)	-12.7%
Professional Fees and Contracted Services	1,768,381	1,532,750	235,631	15.4%
Other Contracted Services	4,221,365	4,025,347	196,018	4.9%
Scholarships and Fellowships	27,356,616	20,996,043	6,360,573	30.3%
Travel	2,215,068	1,714,521	500,547	29.2%
Materials and Supplies	9,373,897	9,109,786	264,111	2.9%
Utilities	4,810,879	4,477,193	333,686	7.5%
Telecommunications	1,149,393	1,116,253	33,140	3.0%
Repairs and Maintenance	2,834,964	2,236,793	598,171	26.7%
Rentals and Leases	538,871	865,824	(326,953)	-37.8%
Printing and Reproduction	806,677	714,357	92,320	12.9%
Federal Sponsored Programs Pass-Thrus	183,789	323,626	(139,837)	-43.2%
Depreciation and Amortization	9,359,729	7,915,110	1,444,619	18.3%
Other Operating Expenses	4,091,316	3,922,614	168,702	4.3%
Total Operating Expenses	<u>170,223,500</u>	<u>158,872,711</u>	<u>11,350,789</u>	<u>7.1%</u>
Operating Loss	<u>(63,891,986)</u>	<u>(64,782,362)</u>	<u>890,376</u>	<u>1.4%</u>
Other Nonoperating Adjustments				
State Appropriations	54,214,659	58,868,502	(4,653,843)	-7.9%
Gift Contributions for Operations	3,939,689	4,242,173	(302,484)	-7.1%
Net Investment Income	1,499,799	1,923,499	(423,700)	-22.0%
Long Term Fund Distribution	5,347,678	5,061,782	285,896	5.6%
Interest Expense on Capital Asset Financings	(2,581,790)	(2,248,407)	(333,383)	-14.8%
Net Other Nonoperating Adjustments	<u>62,420,035</u>	<u>67,847,549</u>	<u>(5,427,514)</u>	<u>-8.0%</u>
Adjusted Income (Loss)	(1,471,951)	3,065,187	(4,537,138)	-148.0%
Adjusted Margin (as a percentage)	-0.9%	1.9%		
Investment Gains (Losses)	(378,422)	(488,751)	110,329	22.6%
Adj. Inc. (Loss) with Investment Gains (Losses)	(\$1,850,373)	\$2,576,436	(\$4,426,809)	-171.8%
Adj. Margin % with Investment Gains (Losses)	-1.1%	1.6%		

UNAUDITED
The University of Texas at El Paso
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2004

	June Year-to-Date <u>FY 2004</u>	June Year-to-Date <u>FY 2003</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$51,152,930	\$45,636,364	\$5,516,566	12.1%
Sponsored Programs	62,546,046	59,965,489	2,580,557	4.3%
Net Sales and Services of Educational Activities	3,028,265	3,043,346	(15,081)	-0.5%
Net Auxiliary Enterprises	16,020,305	18,231,819	(2,211,514)	-12.1%
Other Operating Revenues	105,434	88,786	16,648	18.8%
Total Operating Revenues	<u>132,852,980</u>	<u>126,965,804</u>	<u>5,887,176</u>	<u>4.6%</u>
Operating Expenses				
Salaries and Wages	85,482,363	87,610,321	(2,127,958)	-2.4%
Employee Benefits and Related Costs	19,068,099	22,568,654	(3,500,555)	-15.5%
Professional Fees and Contracted Services	3,687,807	6,208,685	(2,520,878)	-40.6%
Other Contracted Services	9,025,288	7,698,482	1,326,806	17.2%
Scholarships and Fellowships	40,368,549	37,312,327	3,056,222	8.2%
Travel	3,784,612	3,536,523	248,089	7.0%
Materials and Supplies	12,820,067	12,948,952	(128,885)	-1.0%
Utilities	4,486,025	4,491,180	(5,155)	-0.1%
Telecommunications	739,054	868,476	(129,422)	-14.9%
Repairs and Maintenance	2,226,154	2,364,959	(138,805)	-5.9%
Rentals and Leases	1,031,708	1,011,791	19,917	2.0%
Printing and Reproduction	615,244	638,381	(23,137)	-3.6%
Federal Sponsored Programs Pass-Thrus	364,151	577,504	(213,353)	-36.9%
Depreciation and Amortization	7,739,168	6,917,511	821,657	11.9%
Other Operating Expenses	4,178,838	2,790,252	1,388,586	49.8%
Total Operating Expenses	<u>195,617,127</u>	<u>197,543,998</u>	<u>(1,926,871)</u>	<u>-1.0%</u>
Operating Loss	<u>(62,764,147)</u>	<u>(70,578,194)</u>	<u>7,814,047</u>	<u>11.1%</u>
Other Nonoperating Adjustments				
State Appropriations	60,202,455	66,786,892	(6,584,437)	-9.9%
Gift Contributions for Operations	4,218,350	4,510,449	(292,099)	-6.5%
Net Investment Income	1,917,333	2,029,319	(111,986)	-5.5%
Long Term Fund Distribution	3,352,627	3,201,266	151,361	4.7%
Interest Expense on Capital Asset Financings	(3,170,784)	(2,632,650)	(538,134)	-20.4%
Net Other Nonoperating Adjustments	<u>66,519,981</u>	<u>73,895,276</u>	<u>(7,375,295)</u>	<u>-10.0%</u>
Adjusted Income (Loss)	3,755,834	3,317,082	438,752	13.2%
Adjusted Margin (as a percentage)	1.9%	1.6%		
Investment Gains (Losses)	(117,997)	(124,303)	6,306	5.1%
Adj. Inc. (Loss) with Investment Gains (Losses)	\$3,637,837	\$3,192,779	\$445,058	13.9%
Adj. Margin % with Investment Gains (Losses)	1.8%	1.6%		

UNAUDITED
The University of Texas-Pan American
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2004

	June Year-to-Date FY 2004	June Year-to-Date FY 2003	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$40,516,345	\$34,829,220	\$5,687,125	16.3%
Sponsored Programs	51,549,328	49,979,451	1,569,877	3.1%
Net Sales and Services of Educational Activities	4,460,140	4,925,937	(465,797)	-9.5%
Net Auxiliary Enterprises	6,262,160	5,434,380	827,780	15.2%
Other Operating Revenues	1,294,778	767,048	527,730	68.8%
Total Operating Revenues	104,082,751	95,936,036	8,146,715	8.5%
Operating Expenses				
Salaries and Wages	60,453,031	57,101,155	3,351,876	5.9%
Employee Benefits and Related Costs	13,875,964	14,280,762	(404,798)	-2.8%
Professional Fees and Contracted Services	523,147	562,740	(39,593)	-7.0%
Other Contracted Services	3,853,825	3,672,009	181,816	5.0%
Scholarships and Fellowships	42,254,772	40,963,522	1,291,250	3.2%
Travel	2,191,466	2,106,285	85,181	4.0%
Materials and Supplies	8,857,615	8,323,255	534,360	6.4%
Utilities	3,931,249	3,349,288	581,961	17.4%
Telecommunications	675,936	851,346	(175,410)	-20.6%
Repairs and Maintenance	983,733	1,128,649	(144,916)	-12.8%
Rentals and Leases	390,415	336,737	53,678	15.9%
Printing and Reproduction	636,324	624,750	11,574	1.9%
Depreciation and Amortization	5,562,233	6,156,125	(593,892)	-9.6%
Other Operating Expenses	2,674,583	3,364,331	(689,748)	-20.5%
Total Operating Expenses	146,924,439	142,834,800	4,089,639	2.9%
Operating Loss	(42,841,688)	(46,898,764)	4,057,076	8.7%
Other Nonoperating Adjustments				
State Appropriations	47,872,367	47,324,288	548,079	1.2%
Gift Contributions for Operations	1,195,950	766,298	429,652	56.1%
Net Investment Income	1,208,794	1,534,838	(326,044)	-21.2%
Long Term Fund Distribution	796,362	738,989	57,373	7.8%
Interest Expense on Capital Asset Financings	(2,432,980)	(2,298,842)	(134,138)	-5.8%
Net Other Nonoperating Adjustments	48,640,493	48,065,571	574,922	1.2%
Adjusted Income (Loss)	5,798,805	1,166,807	4,631,998	397.0%
Adjusted Margin (as a percentage)	3.7%	0.8%		
Investment Gains (Losses)	57,982	(313,994)	371,976	118.5%
Adj. Inc. (Loss) with Investment Gains (Losses)	\$5,856,787	\$852,813	\$5,003,974	586.8%
Adj. Margin % with Investment Gains (Losses)	3.8%	0.6%		

UNAUDITED
The University of Texas of the Permian Basin
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2004

	June Year-to-Date FY 2004	June Year-to-Date FY 2003	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$8,165,060	\$7,272,140	\$892,920	12.3%
Sponsored Programs	4,261,589	3,836,965	424,624	11.1%
Net Sales and Services of Educational Activities	183,208	185,802	(2,594)	-1.4%
Net Auxiliary Enterprises	750,948	507,729	243,219	47.9%
Other Operating Revenues	187,917	96,988	90,929	93.8%
Total Operating Revenues	13,548,722	11,899,624	1,649,098	13.9%
Operating Expenses				
Salaries and Wages	11,260,526	10,428,229	832,297	8.0%
Employee Benefits and Related Costs	2,420,036	2,510,469	(90,433)	-3.6%
Professional Fees and Contracted Services	718,414	792,265	(73,851)	-9.3%
Other Contracted Services	804,584	694,761	109,823	15.8%
Scholarships and Fellowships	5,799,050	4,733,231	1,065,819	22.5%
Travel	616,006	376,644	239,362	63.6%
Materials and Supplies	1,844,880	1,732,847	112,033	6.5%
Utilities	1,324,794	1,274,941	49,853	3.9%
Telecommunications	373,435	288,091	85,344	29.6%
Repairs and Maintenance	270,805	342,816	(72,011)	-21.0%
Rentals and Leases	273,196	151,285	121,911	80.6%
Printing and Reproduction	279,637	181,073	98,564	54.4%
Depreciation and Amortization	1,822,050	1,730,330	91,720	5.3%
Other Operating Expenses	696,996	464,933	232,063	49.9%
Total Operating Expenses	28,504,409	25,701,915	2,802,494	10.9%
Operating Loss	(14,955,687)	(13,802,291)	(1,153,396)	-8.4%
Other Nonoperating Adjustments				
State Appropriations	13,713,110	12,813,440	899,670	7.0%
Gift Contributions for Operations	964,996	519,415	445,581	85.8%
Net Investment Income	65,801	107,300	(41,499)	-38.7%
Long Term Fund Distribution	467,850	446,435	21,415	4.8%
Interest Expense on Capital Asset Financings	(967,990)	(653,721)	(314,269)	-48.1%
Net Other Nonoperating Adjustments	14,243,767	13,232,869	1,010,898	7.6%
Adjusted Income (Loss)	(711,920)	(569,422)	(142,498)	-25.0%
Adjusted Margin (as a percentage)	-2.5%	-2.2%		
Investment Gains (Losses)	50,722	18,215	32,507	178.5%
Adj. Inc. (Loss) with Investment Gains (Losses)	(\$661,198)	(\$551,207)	(\$109,991)	-20.0%
Adj. Margin % with Investment Gains (Losses)	-2.3%	-2.1%		

UNAUDITED
The University of Texas at San Antonio
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2004

	<u>June</u> <u>Year-to-Date</u> <u>FY 2004</u>	<u>June</u> <u>Year-to-Date</u> <u>FY 2003</u>	<u>Variance</u>	<u>Fluctuation</u> <u>Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$84,795,741	\$67,000,000	\$17,795,741	26.6%
Sponsored Programs	49,547,165	45,141,078	4,406,087	9.8%
Net Sales and Services of Educational Activities	4,694,254	3,849,213	845,041	22.0%
Net Auxiliary Enterprises	4,091,482	3,700,854	390,628	10.6%
Other Operating Revenues	752,173	444,152	308,021	69.4%
Total Operating Revenues	<u>143,880,815</u>	<u>120,135,297</u>	<u>23,745,518</u>	<u>19.8%</u>
Operating Expenses				
Salaries and Wages	95,389,520	86,445,535	8,943,985	10.3%
Employee Benefits and Related Costs	21,476,634	21,315,851	160,783	0.8%
Professional Fees and Contracted Services	2,081,807	2,148,412	(66,605)	-3.1%
Other Contracted Services	1,836,764	2,238,744	(401,980)	-18.0%
Scholarships and Fellowships	41,113,969	33,495,158	7,618,811	22.7%
Travel	2,700,395	2,645,923	54,472	2.1%
Materials and Supplies	10,658,393	10,646,217	12,176	0.1%
Utilities	4,766,667	4,083,333	683,334	16.7%
Telecommunications	1,581,250	1,725,234	(143,984)	-8.3%
Repairs and Maintenance	3,520,494	3,571,057	(50,563)	-1.4%
Rentals and Leases	1,869,336	1,185,634	683,702	57.7%
Printing and Reproduction	1,099,409	1,149,978	(50,569)	-4.4%
Federal Sponsored Programs Pass-Thrus	2,896,624	2,985,649	(89,025)	-3.0%
Depreciation and Amortization	9,492,302	8,731,727	760,575	8.7%
Other Operating Expenses	3,282,881	3,222,869	60,012	1.9%
Total Operating Expenses	<u>203,766,445</u>	<u>185,591,321</u>	<u>18,175,124</u>	<u>9.8%</u>
Operating Loss	<u>(59,885,630)</u>	<u>(65,456,024)</u>	<u>5,570,394</u>	<u>8.5%</u>
Other Nonoperating Adjustments				
State Appropriations	68,508,378	68,716,650	(208,272)	-0.3%
Gift Contributions for Operations	1,870,383	2,561,130	(690,747)	-27.0%
Net Investment Income	1,376,344	1,832,518	(456,174)	-24.9%
Long Term Fund Distribution	1,129,771	1,020,358	109,413	10.7%
Interest Expense on Capital Asset Financings	(4,303,060)	(3,825,145)	(477,915)	-12.5%
Net Other Nonoperating Adjustments	<u>68,581,816</u>	<u>70,305,511</u>	<u>(1,723,695)</u>	<u>-2.5%</u>
Adjusted Income (Loss)	8,696,186	4,849,487	3,846,699	79.3%
Adjusted Margin (as a percentage)	4.0%	2.5%		
Investment Gains (Losses)	(217,517)	(442,636)	225,119	50.9%
Adj. Inc. (Loss) with Investment Gains (Losses)	\$8,478,669	\$4,406,851	\$4,071,818	92.4%
Adj. Margin % with Investment Gains (Losses)	3.9%	2.3%		

UNAUDITED
The University of Texas at Tyler
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2004

	June Year-to-Date FY 2004	June Year-to-Date FY 2003	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$12,601,931	\$9,677,276	\$2,924,655	30.2%
Sponsored Programs	6,399,932	4,839,300	1,560,632	32.2%
Net Sales and Services of Educational Activities	339,693	259,029	80,664	31.1%
Net Auxiliary Enterprises	952,763	801,035	151,728	18.9%
Other Operating Revenues	416,318	504,423	(88,105)	-17.5%
Total Operating Revenues	20,710,637	16,081,063	4,629,574	28.8%
Operating Expenses				
Salaries and Wages	18,797,198	18,443,362	353,836	1.9%
Employee Benefits and Related Costs	4,423,536	4,612,739	(189,203)	-4.1%
Professional Fees and Contracted Services	929,636	758,607	171,029	22.5%
Other Contracted Services	1,815,369	1,496,302	319,067	21.3%
Scholarships and Fellowships	7,358,813	6,224,342	1,134,471	18.2%
Travel	697,243	479,859	217,384	45.3%
Materials and Supplies	3,277,012	1,772,664	1,504,348	84.9%
Utilities	779,476	760,034	19,442	2.6%
Telecommunications	318,972	298,251	20,721	6.9%
Repairs and Maintenance	1,245,683	578,116	667,567	115.5%
Rentals and Leases	103,730	100,423	3,307	3.3%
Printing and Reproduction	429,403	468,957	(39,554)	-8.4%
Bad Debt Expense	9	2,717	(2,708)	-99.7%
Depreciation and Amortization	3,250,000	2,275,000	975,000	42.9%
Other Operating Expenses	729,385	700,450	28,935	4.1%
Total Operating Expenses	44,155,465	38,971,823	5,183,642	13.3%
Operating Loss	(23,444,828)	(22,890,760)	(554,068)	-2.4%
Other Nonoperating Adjustments				
State Appropriations	21,718,839	21,237,491	481,348	2.3%
Gift Contributions for Operations	850,740	603,119	247,621	41.1%
Net Investment Income	307,057	276,479	30,578	11.1%
Long Term Fund Distribution	1,765,176	1,706,850	58,326	3.4%
Interest Expense on Capital Asset Financings	(857,351)	(565,231)	(292,120)	-51.7%
Net Other Nonoperating Adjustments	23,784,461	23,258,708	525,753	2.3%
Adjusted Income (Loss)	339,633	367,948	(28,315)	-7.7%
Adjusted Margin (as a percentage)	0.7%	0.9%		
Investment Gains (Losses)	(1,982)	(4,096)	2,114	51.6%
Adj. Inc. (Loss) with Investment Gains (Losses)	\$337,651	\$363,852	(\$26,201)	-7.2%
Adj. Margin % with Investment Gains (Losses)	0.7%	0.9%		

UNAUDITED
The University of Texas Southwestern Medical Center at Dallas
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2004

	June Year-to-Date <u>FY 2004</u>	June Year-to-Date <u>FY 2003</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$12,414,359	\$11,049,429	\$1,364,930	12.4%
Sponsored Programs	307,211,952	277,056,435	30,155,517	10.9%
Net Sales and Services of Educational Activities	17,282,214	10,590,159	6,692,055	63.2%
Net Professional Fees	170,238,616	156,537,507	13,701,109	8.8%
Net Auxiliary Enterprises	9,890,938	9,467,314	423,624	4.5%
Other Operating Revenues	8,718,283	8,768,641	(50,358)	-0.6%
Total Operating Revenues	<u>525,756,362</u>	<u>473,469,485</u>	<u>52,286,877</u>	<u>11.0%</u>
Operating Expenses				
Salaries and Wages	343,941,479	321,965,319	21,976,160	6.8%
Employee Benefits and Related Costs	96,128,964	92,661,409	3,467,555	3.7%
Professional Fees and Contracted Services	11,662,402	10,208,873	1,453,529	14.2%
Other Contracted Services	48,887,598	39,070,376	9,817,222	25.1%
Scholarships and Fellowships	5,043,036	4,844,386	198,650	4.1%
Travel	6,268,167	6,003,244	264,923	4.4%
Materials and Supplies	71,804,175	68,133,068	3,671,107	5.4%
Utilities	15,445,483	16,178,005	(732,522)	-4.5%
Telecommunications	5,273,778	4,707,777	566,001	12.0%
Repairs and Maintenance	6,637,455	5,313,529	1,323,926	24.9%
Rentals and Leases	5,000,927	4,534,376	466,551	10.3%
Printing and Reproduction	1,998,500	1,914,162	84,338	4.4%
Federal Sponsored Programs Pass-Thrus	1,397,343	309,893	1,087,450	350.9%
Depreciation and Amortization	27,736,523	24,409,997	3,326,526	13.6%
Other Operating Expenses	22,956,244	20,862,668	2,093,576	10.0%
Total Operating Expenses	<u>670,182,074</u>	<u>621,117,082</u>	<u>49,064,992</u>	<u>7.9%</u>
Operating Loss	<u>(144,425,712)</u>	<u>(147,647,597)</u>	<u>3,221,885</u>	<u>2.2%</u>
Other Nonoperating Adjustments				
State Appropriations	96,808,298	92,064,767	4,743,531	5.2%
Gift Contributions for Operations	28,336,741	17,728,971	10,607,770	59.8%
Net Investment Income	24,884,585	30,029,522	(5,144,937)	-17.1%
Long Term Fund Distribution	19,071,566	18,140,567	930,999	5.1%
Interest Expense on Capital Asset Financings	(6,494,203)	(6,800,466)	306,263	4.5%
Net Other Nonoperating Adjustments	<u>162,606,987</u>	<u>151,163,361</u>	<u>11,443,626</u>	<u>7.6%</u>
Adjusted Income (Loss)	18,181,275	3,515,764	14,665,511	417.1%
Adjusted Margin (as a percentage)	2.6%	0.6%		
Investment Gains (Losses)	6,228,843	734,040	5,494,803	748.6%
Adj. Inc. (Loss) with Investment Gains (Losses)	\$24,410,118	\$4,249,804	\$20,160,314	474.4%
Adj. Margin % with Investment Gains (Losses)	3.5%	0.7%		

UNAUDITED
The University of Texas Medical Branch at Galveston
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2004

	<u>June</u> <u>Year-to-Date</u> <u>FY 2004</u>	<u>June</u> <u>Year-to-Date</u> <u>FY 2003</u>	<u>Variance</u>	<u>Fluctuation</u> <u>Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$9,487,852	\$7,900,223	\$1,587,629	20.1%
Sponsored Programs	146,517,948	150,693,338	(4,175,390)	-2.8%
Net Sales and Services of Hospitals	556,316,369	531,829,079	24,487,290	4.6%
Net Professional Fees	81,656,079	79,029,965	2,626,114	3.3%
Net Auxiliary Enterprises	6,149,008	5,998,391	150,617	2.5%
Other Operating Revenues	20,613,539	17,629,764	2,983,775	16.9%
Total Operating Revenues	820,740,795	793,080,760	27,660,035	3.5%
Operating Expenses				
Salaries and Wages	553,351,728	540,120,397	13,231,331	2.4%
Employee Benefits and Related Costs	136,750,637	141,382,160	(4,631,523)	-3.3%
Professional Fees and Contracted Services	13,063,749	11,538,429	1,525,320	13.2%
Other Contracted Services	50,467,171	57,161,477	(6,694,306)	-11.7%
Scholarships and Fellowships	3,528,390	2,946,779	581,611	19.7%
Travel	4,517,731	5,215,398	(697,667)	-13.4%
Materials and Supplies	126,897,054	124,918,170	1,978,884	1.6%
Utilities	17,674,143	18,494,856	(820,713)	-4.4%
Telecommunications	8,130,180	8,303,439	(173,259)	-2.1%
Repairs and Maintenance	21,341,664	22,305,750	(964,086)	-4.3%
Rentals and Leases	8,696,984	8,683,779	13,205	0.2%
Printing and Reproduction	1,757,496	1,738,992	18,504	1.1%
Federal Sponsored Programs Pass-Thrus	1,850,134	1,144,333	705,801	61.7%
Depreciation and Amortization	39,273,297	40,453,515	(1,180,218)	-2.9%
Other Operating Expenses	98,314,780	96,004,934	2,309,846	2.4%
Total Operating Expenses	1,085,615,138	1,080,412,408	5,202,730	0.5%
Operating Loss	(264,874,343)	(287,331,648)	22,457,305	7.8%
Other Nonoperating Adjustments				
State Appropriations	228,373,902	239,857,768	(11,483,866)	-4.8%
Gift Contributions for Operations	3,848,948	2,939,483	909,465	30.9%
Net Investment Income	9,738,593	11,752,875	(2,014,282)	-17.1%
Long Term Fund Distribution	9,601,140	8,577,911	1,023,229	11.9%
Interest Expense on Capital Asset Financings	(2,186,272)	(1,562,631)	(623,641)	-39.9%
Net Other Nonoperating Adjustments	249,376,311	261,565,406	(12,189,095)	-4.7%
Adjusted Income (Loss)	(15,498,032)	(25,766,242)	10,268,210	39.9%
Adjusted Margin (as a percentage)	-1.4%	-2.4%		
Investment Gains (Losses)	(329,036)	(817,861)	488,825	59.8%
Adj. Inc. (Loss) with Investment Gains (Losses)	(\$15,827,068)	(\$26,584,103)	\$10,757,035	40.5%
Adj. Margin % with Investment Gains (Losses)	-1.5%	-2.5%		

UNAUDITED
The University of Texas Health Science Center at Houston
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2004

	<u>June</u> <u>Year-to-Date</u> <u>FY 2004</u>	<u>June</u> <u>Year-to-Date</u> <u>FY 2003</u>	<u>Variance</u>	<u>Fluctuation</u> <u>Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$11,712,244	\$12,108,359	(\$396,115)	-3.3%
Sponsored Programs	193,297,945	187,101,031	6,196,914	3.3%
Net Sales and Services of Educational Activities	7,476,357	7,580,615	(104,258)	-1.4%
Net Sales and Services of Hospitals	25,488,406	27,768,335	(2,279,929)	-8.2%
Net Professional Fees	85,153,862	77,132,837	8,021,025	10.4%
Net Auxiliary Enterprises	10,189,670	10,405,391	(215,721)	-2.1%
Other Operating Revenues	27,421,727	28,007,123	(585,396)	-2.1%
Total Operating Revenues	<u>360,740,211</u>	<u>350,103,691</u>	<u>10,636,520</u>	<u>3.0%</u>
Operating Expenses				
Salaries and Wages	253,241,047	257,264,720	(4,023,673)	-1.6%
Employee Benefits and Related Costs	54,722,306	59,128,459	(4,406,153)	-7.5%
Professional Fees and Contracted Services	43,652,720	44,637,535	(984,815)	-2.2%
Other Contracted Services	16,551,770	25,801,487	(9,249,717)	-35.8%
Scholarships and Fellowships	1,668,312	2,443,882	(775,570)	-31.7%
Travel	3,877,415	3,599,684	277,731	7.7%
Materials and Supplies	20,808,694	22,114,559	(1,305,865)	-5.9%
Utilities	5,986,563	5,612,559	374,004	6.7%
Telecommunications	2,459,452	2,631,221	(171,769)	-6.5%
Repairs and Maintenance	2,577,341	3,327,712	(750,371)	-22.5%
Rentals and Leases	8,751,123	6,708,191	2,042,932	30.5%
Printing and Reproduction	3,533,249	4,285,502	(752,253)	-17.6%
Bad Debt Expense	17,425	5,800	11,625	200.4%
Federal Sponsored Programs Pass-Thrus	10,657,574	9,221,336	1,436,238	15.6%
Depreciation and Amortization	12,421,678	14,774,567	(2,352,889)	-15.9%
Other Operating Expenses	38,531,136	36,001,753	2,529,383	7.0%
Total Operating Expenses	<u>479,457,805</u>	<u>497,558,967</u>	<u>(18,101,162)</u>	<u>-3.6%</u>
Operating Loss	<u>(118,717,594)</u>	<u>(147,455,276)</u>	<u>28,737,682</u>	<u>19.5%</u>
Other Nonoperating Adjustments				
State Appropriations	114,794,617	120,886,435	(6,091,818)	-5.0%
Gift Contributions for Operations	5,846,119	5,028,346	817,773	16.3%
Net Investment Income	9,170,583	10,770,616	(1,600,033)	-14.9%
Long Term Fund Distribution	2,875,098	2,641,057	234,041	8.9%
Interest Expense on Capital Asset Financings	(3,005,365)	(3,400,645)	395,280	11.6%
Net Other Nonoperating Adjustments	<u>129,681,052</u>	<u>135,925,809</u>	<u>(6,244,757)</u>	<u>-4.6%</u>
Adjusted Income (Loss)	10,963,458	(11,529,467)	22,492,925	195.1%
Adjusted Margin (as a percentage)	2.2%	-2.4%		
Investment Gains (Losses)	(627,662)	1,211,817	(1,839,479)	-151.8%
Adj. Inc. (Loss) with Investment Gains (Losses)	\$10,335,796	(\$10,317,650)	\$20,653,446	200.2%
Adj. Margin % with Investment Gains (Losses)	2.1%	-2.1%		

UNAUDITED
The University of Texas Health Science Center at San Antonio
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2004

	June Year-to-Date FY 2004	June Year-to-Date FY 2003	Variance	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	\$12,358,333	\$11,376,667	\$981,666	8.6%
Sponsored Programs	149,203,538	141,819,297	7,384,241	5.2%
Net Sales and Services of Educational Activities	2,198,336	2,165,884	32,452	1.5%
Net Professional Fees	66,624,793	65,345,448	1,279,345	2.0%
Net Auxiliary Enterprises	1,745,770	1,482,964	262,806	17.7%
Other Operating Revenues	42,617,510	39,817,330	2,800,180	7.0%
Total Operating Revenues	274,748,280	262,007,590	12,740,690	4.9%
Operating Expenses				
Salaries and Wages	198,100,055	190,864,915	7,235,140	3.8%
Employee Benefits and Related Costs	50,600,417	50,767,976	(167,559)	-0.3%
Professional Fees and Contracted Services	10,625,310	11,429,132	(803,822)	-7.0%
Other Contracted Services	11,709,960	11,182,390	527,570	4.7%
Scholarships and Fellowships	2,582,699	2,357,144	225,555	9.6%
Travel	3,405,244	3,527,266	(122,022)	-3.5%
Materials and Supplies	19,649,100	19,283,012	366,088	1.9%
Utilities	5,150,441	5,578,035	(427,594)	-7.7%
Telecommunications	7,213,260	7,604,696	(391,436)	-5.1%
Repairs and Maintenance	1,058,343	834,299	224,044	26.9%
Rentals and Leases	1,725,142	1,514,504	210,638	13.9%
Printing and Reproduction	1,403,248	1,501,070	(97,822)	-6.5%
Federal Sponsored Programs Pass-Thrus	636,439	825,416	(188,977)	-22.9%
Depreciation and Amortization	15,833,333	15,363,355	469,978	3.1%
Other Operating Expenses	81,306,152	82,654,706	(1,348,554)	-1.6%
Total Operating Expenses	410,999,143	405,287,916	5,711,227	1.4%
Operating Loss	(136,250,863)	(143,280,326)	7,029,463	4.9%
Other Nonoperating Adjustments				
State Appropriations	118,586,389	117,609,269	977,120	0.8%
Gift Contributions for Operations	12,086,745	11,043,396	1,043,349	9.4%
Net Investment Income	16,007,658	16,121,524	(113,866)	-0.7%
Long Term Fund Distribution	2,834,083	2,604,444	229,639	8.8%
Interest Expense on Capital Asset Financings	(1,764,204)	(1,547,367)	(216,837)	-14.0%
Net Other Nonoperating Adjustments	147,750,671	145,831,266	1,919,405	1.3%
Adjusted Income (Loss)	11,499,808	2,550,940	8,948,868	350.8%
Adjusted Margin (as a percentage)	2.7%	0.6%		
Investment Gains (Losses)	32,504	(1,021,916)	1,054,420	103.2%
Adj. Inc. (Loss) with Investment Gains (Losses)	\$11,532,312	\$1,529,024	\$10,003,288	654.2%
Adj. Margin % with Investment Gains (Losses)	2.7%	0.4%		

UNAUDITED
The University of Texas M. D. Anderson Cancer Center
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2004

	<u>June</u> <u>Year-to-Date</u> <u>FY 2004</u>	<u>June</u> <u>Year-to-Date</u> <u>FY 2003</u>	<u>Variance</u>	<u>Fluctuation</u> <u>Percentage</u>
Operating Revenues				
Student Tuition and Fees	\$193,288	\$154,458	\$38,830	25.1%
Sponsored Programs	159,153,353	139,955,516	19,197,837	13.7%
Net Sales and Services of Educational Activities	1,087,141	1,690,572	(603,431)	-35.7%
Net Sales and Services of Hospitals	901,469,680	764,056,380	137,413,300	18.0%
Net Professional Fees	177,816,672	158,125,576	19,691,096	12.5%
Net Auxiliary Enterprises	13,027,592	12,241,889	785,703	6.4%
Other Operating Revenues	15,228,302	14,912,115	316,187	2.1%
Total Operating Revenues	<u>1,267,976,028</u>	<u>1,091,136,506</u>	<u>176,839,522</u>	<u>16.2%</u>
Operating Expenses				
Salaries and Wages	693,853,912	587,476,550	106,377,362	18.1%
Employee Benefits and Related Costs	182,050,985	178,220,098	3,830,887	2.1%
Professional Fees and Contracted Services	15,586,795	15,618,543	(31,748)	-0.2%
Other Contracted Services	45,579,378	40,119,878	5,459,500	13.6%
Travel	11,000,459	9,882,244	1,118,215	11.3%
Materials and Supplies	272,205,772	240,005,436	32,200,336	13.4%
Utilities	23,715,932	22,566,138	1,149,794	5.1%
Telecommunications	5,312,627	6,495,860	(1,183,233)	-18.2%
Repairs and Maintenance	25,333,698	14,855,777	10,477,921	70.5%
Rentals and Leases	20,298,403	18,662,745	1,635,658	8.8%
Printing and Reproduction	4,032,738	3,963,100	69,638	1.8%
Federal Sponsored Programs Pass-Thrus	1,564,314	1,702,502	(138,188)	-8.1%
Depreciation and Amortization	75,179,832	62,404,156	12,775,676	20.5%
Other Operating Expenses	36,818,660	32,234,561	4,584,099	14.2%
Total Operating Expenses	<u>1,412,533,505</u>	<u>1,234,207,588</u>	<u>178,325,917</u>	<u>14.4%</u>
Operating Loss	<u>(144,557,477)</u>	<u>(143,071,082)</u>	<u>(1,486,395)</u>	<u>-1.0%</u>
Other Nonoperating Adjustments				
State Appropriations	124,017,105	122,046,319	1,970,786	1.6%
Gift Contributions for Operations	36,521,168	44,722,132	(8,200,964)	-18.3%
Net Investment Income	25,922,230	22,979,902	2,942,328	12.8%
Long Term Fund Distribution	8,516,387	7,848,637	667,750	8.5%
Interest Expense on Capital Asset Financings	(6,225,437)	(4,117,278)	(2,108,159)	-51.2%
Net Other Nonoperating Adjustments	<u>188,751,453</u>	<u>193,479,712</u>	<u>(4,728,259)</u>	<u>-2.4%</u>
Adjusted Income (Loss)	44,193,976	50,408,630	(6,214,654)	-12.3%
Adjusted Margin (as a percentage)	3.0%	3.9%		
Investment Gains (Losses)	13,466,561	(3,263,795)	16,730,356	512.6%
Adj. Inc. (Loss) with Investment Gains (Losses)	\$57,660,537	\$47,144,835	\$10,515,702	22.3%
Adj. Margin % with Investment Gains (Losses)	3.9%	3.7%		

UNAUDITED
The University of Texas Health Center at Tyler
Comparison of Operating Results and Margin
For the Ten Months Ending June 30, 2004

	June Year-to-Date <u>FY 2004</u>	June Year-to-Date <u>FY 2003</u>	<u>Variance</u>	<u>Fluctuation Percentage</u>
Operating Revenues				
Sponsored Programs	\$6,596,183	\$6,702,533	(106,350)	-1.6%
Net Sales and Services of Educational Activities	837,868	972,218	(134,350)	-13.8%
Net Sales and Services of Hospitals	45,696,703	46,071,008	(374,305)	-0.8%
Net Professional Fees	12,050,377	10,136,481	1,913,896	18.9%
Net Auxiliary Enterprises	780,808	643,943	136,865	21.3%
Other Operating Revenues	3,777,175	2,542,166	1,235,009	48.6%
Total Operating Revenues	<u>69,739,114</u>	<u>67,068,349</u>	<u>2,670,765</u>	<u>4.0%</u>
Operating Expenses				
Salaries and Wages	49,709,248	48,916,104	793,144	1.6%
Employee Benefits and Related Costs	13,073,156	13,636,543	(563,387)	-4.1%
Professional Fees and Contracted Services	6,099,183	4,707,843	1,391,340	29.6%
Other Contracted Services	4,632,464	3,303,640	1,328,824	40.2%
Travel	502,415	483,332	19,083	3.9%
Materials and Supplies	13,789,780	13,535,996	253,784	1.9%
Utilities	1,668,321	1,538,063	130,258	8.5%
Telecommunications	467,794	584,376	(116,582)	-19.9%
Repairs and Maintenance	1,490,831	1,484,860	5,971	0.4%
Rentals and Leases	1,449,174	1,609,042	(159,868)	-9.9%
Printing and Reproduction	751,652	790,784	(39,132)	-4.9%
Federal Sponsored Programs Pass-Thrus	529,112	194,584	334,528	171.9%
Depreciation and Amortization	4,997,853	4,365,593	632,260	14.5%
Other Operating Expenses	2,068,020	2,220,501	(152,481)	-6.9%
Total Operating Expenses	<u>101,229,003</u>	<u>97,371,261</u>	<u>3,857,742</u>	<u>4.0%</u>
Operating Loss	<u>(31,489,889)</u>	<u>(30,302,912)</u>	<u>(1,186,977)</u>	<u>-3.9%</u>
Other Nonoperating Adjustments				
State Appropriations	31,181,637	27,188,641	3,992,996	14.7%
Gift Contributions for Operations	1,877,559	147,466	1,730,093	1,173.2%
Net Investment Income	2,352,188	2,482,397	(130,209)	-5.2%
Long Term Fund Distribution	234,979	219,666	15,313	7.0%
Interest Expense on Capital Asset Financings	0	(70,594)	70,594	100.0%
Net Other Nonoperating Adjustments	<u>35,646,363</u>	<u>29,967,576</u>	<u>5,678,787</u>	<u>18.9%</u>
Adjusted Income (Loss)	4,156,474	(335,336)	4,491,810	1,339.5%
Adjusted Margin (as a percentage)	3.9%	-0.3%		
Investment Gains (Losses)	(45,219)	(65,541)	20,322	31.0%
Adj. Inc. (Loss) with Investment Gains (Losses)	\$4,111,255	(\$400,877)	\$4,512,132	1125.6%
Adj. Margin % with Investment Gains (Losses)	3.9%	-0.4%		

3. **U. T. System: Approval to exceed the full-time equivalent limitation on employees paid from appropriated funds**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and the presidents of the affected U. T. System component institutions that the U. T. Board of Regents approve allowing those institutions, as set forth in the table on Page 28, to exceed the number of full-time equivalent (FTE) employees for Fiscal Year 2005 that are authorized in Article III of the General Appropriations Act. Also, as required by Article IX, Section 6.14 of the General Appropriations Act, it is recommended that the U. T. Board of Regents submit a request to the Governor's Office and the Legislative Budget Board to grant approval for these institutions to exceed the authorized number of FTE employees paid from appropriated funds.

BACKGROUND INFORMATION

The General Appropriations Act places a limit on the number of FTE employees paid from appropriated funds that an institution may employ without written approval of the Governor and the Legislative Budget Board. In order to exceed the FTE limitation, a request must be submitted by the governing board and must include the date on which the board approved the request, a statement justifying the need to exceed the limitation, the source of funds to be used to pay the salaries, and an explanation as to why the functions of the proposed additional FTEs cannot be performed within current staffing levels.

U. T. Southwestern Medical Center - Dallas plans to request approval from the Board to acquire St. Paul and Zale Lipshy University Hospitals (see Item 5 on Page 73). The FTE increase is for the employees necessary to operate these hospitals should the hospitals be acquired. Should the Board not approve this acquisition, U. T. Southwestern Medical Center - Dallas will be under the FTE limitations and will not be requesting to exceed the FTE limitation. U. T. System Administration will be under the FTE limitation and is not requesting to exceed the FTE limitation.

**The University of Texas System
REQUESTS TO EXCEED
FULL-TIME EQUIVALENT LIMITATION
Fiscal Year 2005**

Component	Requested FTE Increase*	Major Reasons for Request
U. T. Arlington	116.3	To provide faculty and staff needed to achieve goals outlined in the Texas Higher Education Coordinating Board's Closing the Gaps program
U. T. Brownsville	530.5	The FTE cap in the Appropriations Act does not include staff associated with Texas Southmost College. This request is a technical adjustment to the Appropriations Act.
U. T. Dallas	30.0	To provide faculty associated with increasing student enrollment
U. T. El Paso	180.1	To meet demand of enrollment growth
U. T. Pan American	38.2	To meet demand of enrollment growth and the expansion of academic programs
U. T. Permian Basin	22.0	To meet enrollment goals, growth, and ensure quality instruction for students
U. T. San Antonio	178.0	To meet demand of enrollment growth and continue efforts to increase total semester credit hours taught by tenured faculty
U. T. Southwestern Medical Center - Dallas	2,200.0	This represents the employees necessary to operate St. Paul and Zale Lipshy University Hospitals if approved for acquisition by the Board of Regents.
U. T. M. D. Anderson Cancer Center	882.0	To continue to provide the standard of care and services to an increasing number of patients and improve the capacity to deliver cancer care. To provide support for patient care, instruction, and research.

*Educational and General Funds are the source of funding for these increases. U. T. M. D. Anderson Cancer Center and U. T. Southwestern Medical Center - Dallas will also use Patient Income as a source of funds.

4. U. T. Board of Regents: Report on Investments for quarter ended May 31, 2004, and Performance Report by Ennis Knupp + Associates

REPORTS

Pages 29.1 - 29.7 contain the Summary Reports on Investments for the three months ended May 31, 2004.

Item I on Pages 29.1 - 29.2 reports summary activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the three months was negative 1.39%. The PUF's net investment return for the 12 months ended May 31, 2004, was 20.03%. The PUF's net asset value decreased by \$220.9 million since the beginning of the quarter to \$7,998.0 million. This change in net asset value includes an increase due to contributions from PUF land receipts, a decrease in net investment return, and a decrease for the payment of one-half of the PUF's annual distribution in the amount of \$174,016,788.

Item II on Pages 29.3 - 29.5 reports summary activity for the General Endowment Fund (GEF), the Permanent Health Fund (PHF), and the Long Term Fund (LTF). The GEF's net investment return for the three months was negative 1.37%. The GEF's net investment return for the 12 months ended May 31, 2004, was 20.24%. The GEF's net asset value decreased \$75.9 million since the beginning of the quarter to \$4,168.6 million.

Item III on Page 29.6 reports summary activity for the Short Intermediate Term Fund (SITF). Total net investment return on the SITF was negative .77% for the three months. The SITF's net asset value increased by \$83.0 million since the beginning of the quarter to \$1,189.2 million. This net increase in net asset value includes contributions from the SITF less distributions.

Item IV on Page 29.7 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 component operating funds held in the Dreyfus money market fund, increased by \$201.2 million to \$2,476.2 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$56.0 million versus \$286.7 million at the beginning of the period; equities: \$308.8 million versus \$210.5 million at the beginning of the period; and other investments: \$2.2 million versus \$6.2 million at the beginning of the period.

An Executive Summary of the Performance Report on investments for the quarter ended May 31, 2004, as prepared by Ennis Knupp + Associates is attached on Pages 29.8 - 29.14.

I. PERMANENT UNIVERSITY FUND (1)a.) Summary Investment Report at May 31, 2004 (2)

(\$ millions)

	FY02-03	FY03-04			
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	Year-to-Date
Beginning Net Assets	6,738.3	7,244.8	7,655.1	8,218.9	7,244.8
PUF Lands Receipts (3)	102.1	27.8	23.7	67.3	118.8
Investment Return	787.6	475.9	634.3	(107.7)	1,002.5
Expenses	(20.2)	(6.4)	(7.2)	(6.5)	(20.1)
Distributions to AUF	(363.0)	(87.0)	(87.0)	(174.0)	(348.0)
Ending Net Assets	<u>7,244.8</u>	<u>7,655.1</u>	<u>8,218.9</u>	<u>7,998.0</u>	<u>7,998.0</u>
AUF Distribution:					
From PUF Investments	338.4	87.0	87.0	174.0	348.0
From Surface Income	8.1	0.8	2.3	1.2	4.3
Total	<u>346.5</u>	<u>87.8</u>	<u>89.3</u>	<u>175.2</u>	<u>352.3</u>
Total Net Investment Return	12.02%	6.60%	8.34%	-1.39%	13.88%

(1) Report prepared in accordance with Texas Education Code Sec. 51.0032.

(2) General - The Investment Summary Report excludes PUF Lands mineral and surface interests with estimated August 31, 2003 values of \$822.4 million and \$163.9 million, respectively

(3) PUF Land Receipts - As of May 31, 2004: 1,120,340 acres under lease; 516,076 producing acres; 3,123 active leases; and 2,068 producing leases

I. PERMANENT UNIVERSITY FUND (continued)

b.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio and Net Investment Return for the three months ended May 31, 2004

	Asset Allocation	Endowment Neutral Policy Portfolio	Actual Net Investment Return	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash and Cash Equivalents	2.4%	0.0%	0.25%	0.25%	90 Day T-Bills Average Yield
U.S. Equities	32.9%	25.0%	-1.84%	-1.64%	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Real Estate Securities Index
Global Equities	19.3%	17.0%	-4.93%	-2.20%	Morgan Stanley Capital International - All Country World Free ex U.S
Equity Hedge Funds	8.1%	10.0%	-0.60%	1.26%	90 Day T-Bills Average Yield plus 4%
Absolute Return Hedge Funds	12.3%	15.0%	0.89%	1.01%	90 Day T-Bills Average Yield plus 3%
Commodities	3.3%	3.0%	5.55%	9.41%	Goldman Sachs Commodity Index minus 100 basis points
Fixed Income	11.1%	15.0%	-1.56%	-2.03%	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Index Treasury Inflation Protected Securities
Total Marketable Securities	89.4%	85.0%	-1.85%	-0.62%	
Private Capital	10.6%	15.0%	2.54%	8.30%	Venture Economics' Periodic IRR Index
Total	100.0%	100.0%	-1.39%	0.69%	

(1) The benchmark return for the endowment neutral policy portfolio is calculated by summing the neutrally weighted index return (% weight for the asset class multiplied by the benchmark return for the asset class) for the various asset classes in the endowment portfolio for the period reported.

II. GENERAL ENDOWMENT FUND (1) (2)a.) Summary Investment Report at May 31, 2004

(\$ millions)

	FY02-03		FY03-04							
	Full Year		1st Qtr	2nd Qtr	3rd Qtr	Year-to-Date				
Beginning Net Assets	3,293.2		3,584.8	3,952.6	4,244.5	3,584.8				
Net Contributions	(79.0)		209.5	135.8	106.9	452.2				
Investment Return	423.5		257.5	327.1	(57.5)	527.1				
Expenses	(5.8)		(2.6)	(2.6)	(2.1)	(7.3)				
Allocations (3)	(47.1)		(96.6)	(168.4)	(123.2)	(388.2)				
Ending Net Assets	3,584.8		3,952.6	4,244.5	4,168.6	4,168.6				
Net Asset Value per Unii	102.539		109.488	118.428	116.778	116.778				
Units and Percentage Ownership (End of Period):										
PHF	7,263,383	20.8%	7,174,022	19.9%	7,091,271	19.8%	7,007,471	19.6%	7,007,471	19.6%
LTF	27,696,705	79.2%	28,926,791	80.1%	28,749,330	80.2%	28,688,862	80.4%	28,688,862	80.4%
Total	34,960,088	100.0%	36,100,813	100.0%	35,840,601	100.0%	35,696,333	100.0%	35,696,333	100.0%
Total Net Investment Return	12.81%		6.83%	8.22%	-1.37%	14.02%				

(1) Report prepared in accordance with Texas Education Code Sec. 51.0032.

(2) On March 1, 2001, the Permanent Health Fund (PHF) and Long Term Fund (LTF) purchased units in the newly created General Endowment Fund (GEF). The initial number of units was based on the PHF's and LTF's contribution of its net values as of February 28, 2001

(3) The GEF allocates its net investment income and realized gain (loss) to its unit holders based on the ownership of GEF units at month end. The allocated amounts are reinvested as GEF contributions. The allocation is proportional to the percentage of ownership by the unit holders, and therefore no additional units are purchased.

II. GENERAL ENDOWMENT FUND (continued)

b.) Unit Holders' Summary Investment Report at May 31, 2004 (1)

(\$ millions)

	FY02-03	FY03-04			Year-to-Date
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	
<u>PERMANENT HEALTH FUND</u>					
Beginning Net Assets	698.2	745.0	785.6	840.0	745.0
Investment Return	86.0	50.4	64.2	(11.7)	102.9
Expenses	(0.7)	(0.2)	(0.1)	(0.2)	(0.5)
Distributions (Payout)	(38.5)	(9.6)	(9.7)	(9.6)	(28.9)
Ending Net Assets	745.0	785.6	840.0	818.5	818.5
Net Asset Value per Unit (2)	0.908489	0.958104	1.024378	0.998166	0.998166
No. of Units (End of Period)	820,000,000	820,000,000	820,000,000	820,000,000	820,000,000
Distribution Rate per Uni	0.04700	0.01175	0.01175	0.01175	0.035250
Total Net Investment Return	12.67%	6.76%	8.15%	-1.41%	13.82%
<u>LONG TERM FUND</u>					
Beginning Net Assets	2,595.1	2,839.8	3,167.0	3,404.6	2,839.8
Net Contributions	59.6	165.1	17.2	33.8	216.1
Investment Return	332.1	204.4	260.5	(47.8)	417.1
Expenses	(3.1)	(3.3)	(0.9)	(1.0)	(5.2)
Distributions (Payout)	(143.9)	(39.0)	(39.2)	(39.5)	(117.7)
Ending Net Assets	2,839.8	3,167.0	3,404.6	3,350.1	3,350.1
Net Asset Value per Unit (2)	5.114	5.388	5.761	5.613	5.613
No. of Units (End of Period)	555,329,487	587,747,101	591,003,265	596,861,244	596,861,244
Distribution Rate per Uni	0.25800	0.066125	0.066125	0.066125	0.198375
Total Net Investment Return	12.78%	6.76%	8.14%	-1.41%	13.82%

(1) The Permanent Health Fund (PHF) and Long Term Fund (LTF) are internal mutual funds for the pooled investment endowment funds. The PHF is comprised of endowments for health-related institutions of higher education and the LTF comprised of privately raised endowments and other long-term funds of U.T. System component

(2) The asset allocation of the PHF and LTF is representative of the asset allocation for the GE
A nominal amount of cash is held in PHF and LTF to pay expenses incurred separately by these funds

II. GENERAL ENDOWMENT FUND (continued)

c.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio and Net Investment Return for the three months ended May 31, 2004

	Asset Allocation	Endowment Neutral Policy Portfolio	Actual Net Investment Return	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash and Cash Equivalents	2.5%	0.0%	0.25%	0.25%	90 Day T-Bills Average Yield
U.S. Equities	31.6%	25.0%	-1.95%	-1.64%	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Real Estate Securities Index
Global Equities	19.7%	17.0%	-4.99%	-2.20%	Morgan Stanley Capital International - All Country World Free ex U.S
Equity Hedge Funds	8.3%	10.0%	-0.53%	1.26%	90 Day T-Bills Average Yield plus 4%
Absolute Return Hedge Funds	12.8%	15.0%	0.91%	1.01%	90 Day T-Bills Average Yield plus 3%
Commodities	3.4%	3.0%	5.65%	9.41%	Goldman Sachs Commodity Index minus 100 basis points
Fixed Income	11.4%	15.0%	-1.43%	-2.03%	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Index Treasury Inflation Protected Securities
Total Marketable Securities	89.7%	85.0%	-1.87%	-0.62%	
Private Capital	10.3%	15.0%	3.16%	8.30%	Venture Economics' Periodic IRR Index
Total	100.0%	100.0%	-1.37%	0.69%	

(1) The benchmark return for the endowment neutral policy portfolio is calculated by summing the neutrally weighted index return (% weight for the asset class multiplied by the benchmark return for the asset class) for the various asset classes in the endowment portfolio for the period reported

III. SHORT INTERMEDIATE TERM FUND (1)Summary Investment Report at May 31, 2004

(\$ millions)

	FY02-03	FY03-04			
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	Year-to-Date
Beginning Net Assets	1,435.9	1,435.3	1,366.5	1,106.2	1,435.3
Net Contributions (Withdrawals)	26.6	(73.4)	(267.4)	98.4	(242.4)
Investment Return	25.8	12.9	14.6	(8.5)	19.0
Expenses	(0.7)	(0.2)	(0.1)	(0.2)	(0.5)
Distributions of Income	(52.3)	(8.1)	(7.4)	(6.7)	(22.2)
Ending Net Assets	1,435.3	1,366.5	1,106.2	1,189.2	1,189.2
Net Asset Value per Unit	9.917	9.947	10.000	9.863	9.863
No. of Units (End of Period)	144,736,640	137,378,810	110,618,420	120,565,911	120,565,911
Total Net Investment Return	1.64%	0.88%	1.20%	-0.77%	1.30%

(1) Report prepared in accordance with Texas Education Code Sec. 51.0032.

IV. SEPARATELY INVESTED ASSETS

Summary Investment Report at May 31, 2004

(\$ thousands)

ASSET TYPES	FUND TYPE													
	CURRENT PURPOSE DESIGNATED		RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		OPERATING FUNDS		TOTAL	
	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
Cash & Equivalents:														
Beginning value 02/29/04	2,950	2,950	1,703	1,703	38,342	38,342	482	482	99	99	2,231,342	2,231,342	2,274,918	2,274,918
Increase/(Decrease)	89	89	676	676	38,263	38,263	195	195	(97)	(97)	162,123	162,123	201,249	201,249
Ending value 05/31/04	3,039	3,039	2,379	2,379	76,605	76,605	677	677	2	2	2,393,465	2,393,465	2,476,167	2,476,167
Debt Securities:														
Beginning value 02/29/04	-	-	263	205	38,098	40,103	14,614	15,368	-	-	230,100	231,047	283,075	286,723
Increase/(Decrease)	-	-	-	(8)	1,446	215	573	142	-	-	(230,100)	(231,047)	(228,081)	(230,698)
Ending value 05/31/04	-	-	263	197	39,544	40,318	15,187	15,510	-	-	-	-	54,994	56,025
Equity Securities:														
Beginning value 02/29/04	40	11,849	1,920	1,323	38,849	43,400	22,007	22,878	-	-	157,962	131,053	220,778	210,503
Increase/(Decrease)	-	(1,719)	3,994	4,005	10	(1,298)	(1,120)	(1,751)	-	-	100,076	99,097	102,960	98,334
Ending value 05/31/04	40	10,130	5,914	5,328	38,859	42,102	20,887	21,127	-	-	258,038	230,150	323,738	308,837
Other:														
Beginning value 02/29/04	6,100	6,100	(1)	(1)	2	2	174	63	-	-	-	-	6,275	6,164
Increase/(Decrease)	(6,100)	(6,100)	2,110	2,110	3	3	11	-	-	-	-	-	(3,976)	(3,987)
Ending value 05/31/04	-	-	2,109	2,109	5	5	185	63	-	-	-	-	2,299	2,177

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

U.T. System Board of Regents
Report on Investments

Fiscal Quarter Ending
May 31, 2004

As of May 31, 2004

CHANGE IN MARKET VALUE

(\$ in millions)

	PUF	GEF	Total Endowments (PUF + GEF)	Operating Funds	Total
Beginning Market Value (2/29/04)	\$8,219	\$4,245	\$12,464	\$3,700	\$16,164
Changes due to Transfers:					
Contributions	-114	-16	-130	+123	-7
Distributions & Withdrawals	+67	+35	+102	+382	+484
Changes from Investment Activities:					
Income	-181	-51	-232	-259	-491
Appreciation/Depreciation	-107	-60	-167	-10	-177
Ending Market Value (5/31/04)	+58	+33	+91	+10	+101
	-165	-93	-258	-20	-278
Change in Market Value	\$7,998	\$4,169	\$12,167	\$3,813	\$15,980
	-\$221	-\$76	-\$297	\$113	-\$184

- As illustrated above, the PUF (-\$221 million) and GEF (-\$76 million) both saw declines in market value during the fiscal third quarter, while the Operating Funds experienced a \$113 million increase.

RETURN SUMMARY

ENDING 5/31/04¹

	Quarter Ending 5/31/2004	1 Year Ending 5/31/2004	3 Years Ending 5/31/2004	5 Years Ending 5/31/2004
Permanent University Fund	-1.4%	20.0%	4.7%	4.9%
Endowment Performance Benchmark ²	0.7	19.2	4.8	4.8
Long Term Fund	-1.4	20.0	5.1	6.3
Endowment Performance Benchmark ²	0.7	19.2	4.8	4.8
Permanent Health Fund	-1.4	20.0	5.0	--
Endowment Performance Benchmark ²	0.7	19.2	4.8	--
Short Term Fund	0.2	1.0	1.8	3.4
ML 90-day T-Bill	0.3	1.1	1.8	3.4
Short Intermediate Term Fund	-0.8	1.0	2.8	4.4
Composite Index	-0.9	0.4	4.1	5.2
BGI U.S. Debt Index Fund	-2.3	-0.4	6.4	6.8
LB Aggregate Bond Index	-2.3	-0.4	6.3	6.8
BGI Equity Index Fund	-1.7	18.3	-2.1	-1.5
S&P 500 Index	-1.7	18.3	-2.1	-1.5

- The Permanent University Fund, Long Term Fund, and Permanent Health Fund all underperformed the Endowment Performance Benchmark during the fiscal quarter. Longer term performance was generally more positive.

¹ Rates of return greater than one year are annualized. All UTIMCO performance data is net of management fees.

² Reflects the U.T. System Board of Regents approved asset allocation policy targets and benchmarks beginning January 1, 2004. Performance prior to January 1, 2004, represents historical endowment policy portfolio data provided by UTIMCO.

As of May 31, 2004

PUF POLICY COMPLIANCE
ASSET ALLOCATION AS OF 5/31/04
(\$ in millions)

	Total	Percent Of Total	Policy	Policy Ranges	In Compliance?
U.S. Equity	\$2,634	32.9%	25%	15-45%	Yes
Non-U.S. Developed Equity	\$1,214	15.2%	10%	5-15%	No
Emerging Markets Equity	328	4.1	7%	0-10	Yes
Global ex-U.S. Equity	\$1,542	19.3%	17%	5-25%	Yes
Total Traditional Equity	\$4,176	52.2%	42%	20-60%	Yes
Equity Hedge Funds	\$644	8.1%	10%	5-15%	Yes
Absolute Return Hedge Funds	982	12.3	15%	10-20	Yes
Total Hedge Funds	\$1,626	20.3%	25%	5-25%	Yes
Private Equity	\$730	9.1%	9%	0-10%	Yes
Venture Capital	119	1.5	6%	5-15	No
Total Private Capital	\$849	10.6%	15%	5-15%	Yes
Commodities	\$264	3.3%	3%	0-5%	Yes
Fixed Income	889	11.1	15%	10-30	Yes
Cash	183	2.3	--	0-5	Yes
Total Permanent University Fund	\$7,998	100.0%	100%		
Liquidity Requirement					Yes

- The allocation to Absolute Return Hedge Funds was increased by 2.7% during the quarter and brought into compliance with the policy guidelines. The allocation to venture capital remained below the allowable minimum, and the allocation to non-U.S. developed equity exceeded the allowable maximum.

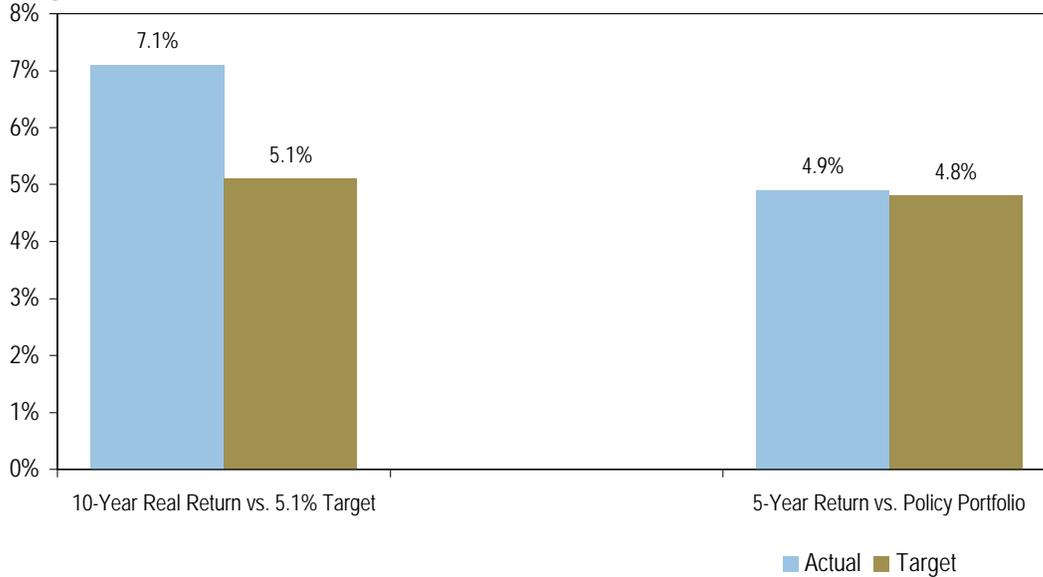
GEF POLICY COMPLIANCE
ASSET ALLOCATION AS OF 5/31/04
(\$ in millions)

	Total	Percent Of Total	Policy	Policy Ranges	In Compliance?
U.S. Equity	\$1,318	31.6%	25%	15-45%	Yes
Non-U.S. Developed Equity	\$632	15.2%	10%	5-15%	No
Emerging Markets Equity	191	4.6	7%	0-10	Yes
Global ex-U.S. Equity	\$823	19.7%	17%	5-25%	Yes
Total Traditional Equity	\$2,141	51.4%	42%	20-60%	Yes
Equity Hedge Funds	\$347	8.3%	10%	5-15%	Yes
Absolute Return Hedge Funds	533	12.8	15%	10-20	Yes
Total Hedge Funds	\$880	21.1%	25%	15-25%	Yes
Private Equity	\$357	8.6%	9%	0-10%	Yes
Venture Capital	73	1.8	6%	5-15	No
Total Private Capital	\$430	10.3%	15%	5-15%	Yes
Commodities	\$141	3.4%	3%	0-5%	Yes
Fixed Income	477	11.4	15%	10-30	Yes
Cash	94	2.3	--	0-5	Yes
Total General Endowment Fund	\$4,169	100.0%	100%		
Liquidity Requirement					Yes

- The allocation to venture capital remained below the allowable minimum, and the allocation to non-U.S. developed equity exceeded the allowable maximum.

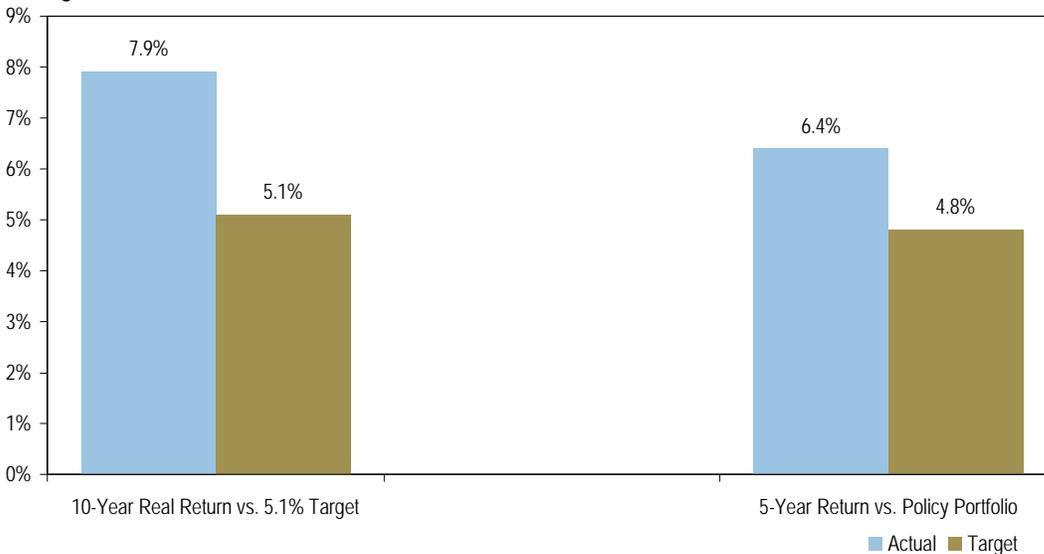
As of May 31, 2004

**Permanent University Fund
Analysis of Investment Objectives
Ending 5/31/04**



- The primary investment objective of the PUF and GEF is to preserve the purchasing power of their respective assets and annual distributions by earning an average annual real return of 5.1% over rolling ten-year periods or longer. The secondary fund objective is to generate a fund return in excess of the Policy Portfolio benchmark over rolling five-year periods or longer. These objectives have been met over the periods analyzed.

**General Endowment Fund
Analysis of Investment Objectives
Ending 5/31/04**



- An additional objective of the GEF is to outperform the median fund in a universe of similar endowments. The LTF and the PHF (the two components of the GEF) have both produced returns above the median of a Cambridge universe of endowments over the three-year period ending March 31, 2004. Over the 5- and 10- year periods, the LTF has also achieved this goal.

As of May 31, 2004

Permanent University Fund**RETURN SUMMARY**

ENDING 5/31/04

	Quarter Ending 5/31/2004	1 Year Ending 5/31/2004	3 Years Ending 5/31/2004	5 Years Ending 5/31/2004	Since Inception	Inception Date
Permanent University Fund	-1.4%	20.0%	4.7%	4.9%	9.5%	8/31/1991
Endowment Performance Benchmark ¹	0.7	19.2	4.8	4.8	11.0	
U.S. Equity	-1.8	20.3	1.0	2.4	10.7	8/31/1991
U.S. Equity Performance Benchmark	-1.8	20.2	-0.6	-0.5	10.6	
Global Ex U.S. Equity	-4.9	33.2	3.7	0.1	6.0	3/31/1993
MSCI AC World Ex-U.S. Free Index	-2.2	33.3	3.1	1.4	6.1	
Equity Hedge Funds	-0.6	--	--	--	3.6	12/31/2003
90-Day T-Bill + 4%	1.3	--	--	--	2.1	
Absolute Return Hedge Funds	0.9	17.2	10.3	--	12.7	2/29/2000
Absolute Return Benchmark	1.0	4.7	5.8	--	7.1	
Private Capital²	2.5	15.0	-5.4	4.1	9.8	1/31/1989
Private Capital Benchmark	8.3	33.2	5.7	4.9	16.2	
Commodities	5.6	--	--	--	14.2	12/31/2003
Goldman Sachs Commodity Index - 1%	9.4	--	--	--	17.8	
Total Fixed Income	-1.6	3.4	8.0	6.9	9.0	8/31/1985
LB Aggregate Bond Index	-2.3	-0.4	6.3	6.8	8.5	

- The Permanent University Fund underperformed the Endowment Performance Benchmark by 2.1 percentage points in the fiscal quarter ending May 31, 2004. Each asset class underperformed its respective benchmark, with the exception of U.S. equities, which matched its benchmark return, and fixed income, which outperformed.
- One-year performance exceeded the benchmark despite the significant underperformance produced by the private capital component. This underperformance was offset by the positive effects produced by the absolute return hedge fund and fixed income components.

¹ Reflects the U.T. System Board of Regents approved asset allocation policy targets and benchmarks beginning January 1, 2004. Performance prior to January 1, 2004, represents historical endowment policy portfolio data provided by UTIMCO.

² Actual returns for the private capital component are presented on a time-weighted basis. The Private Capital benchmark represents the Venture Economics Private Capital Benchmark beginning January 1, 2004; returns December 31, 2003 represent the Wilshire 5000 +4%.

As of May 31, 2004

General Endowment Fund**RETURN SUMMARY**

ENDING 5/31/04

	Quarter Ending 5/31/2004	1 Year Ending 5/31/2004	3 Years Ending 5/31/2004	5 Years Ending 5/31/2004	Since Inception	Inception Date
General Endowment Fund	-1.4%	20.3%	5.2%	6.4%	10.1%	8/31/1991
Endowment Performance Benchmark ¹	0.7	19.2	4.8	4.8	11.0	
U.S. Equity	-2.0	20.0	1.2	3.2	10.7	8/31/1991
U.S. Equity Performance Benchmark	-1.8	20.2	-0.6	-0.5	10.6	
Global Ex U.S. Equity	-5.0	33.4	3.8	0.9	5.4	3/31/1993
MSCI AC World Ex-U.S. Free Index	-2.2	33.3	3.1	1.4	6.1	
Equity Hedge Funds	-0.6	--	--	--	3.7	12/31/2003
90-Day T-Bill + 4%	1.3	--	--	--	2.1	
Absolute Return Hedge Funds	0.9	17.1	10.3	13.0	11.1	7/31/1998
Absolute Return Benchmark	1.0	4.7	5.8	7.5	7.7	
Private Capital²	3.2	13.4	-5.4	3.6	9.8	11/30/1986
Private Capital Benchmark	8.3	33.2	5.7	4.9	16.2	
Commodities	5.6	--	--	--	14.3	12/31/2003
Goldman Sachs Commodity Index - 1%	9.4	--	--	--	17.8	
Total Fixed Income	-1.4	3.5	8.1	7.4	11.1	8/31/1981
LB Aggregate Bond Index	-2.3	-0.4	6.3	6.8	10.4	

- The General Endowment Fund underperformed the Endowment Performance Benchmark by 2.1 percentage points in the fiscal quarter ending May 31, 2004. Each asset class underperformed its respective benchmark, with the exception of fixed income, which outperformed.
- One-year performance exceeded the benchmark despite the significant underperformance produced by the private capital component. This underperformance was offset by the positive effects produced by the absolute return hedge funds and fixed income components.

¹ Reflects the U.T. System Board of Regents approved asset allocation policy targets and benchmarks beginning January 1, 2004. Performance prior to January 1, 2004, represents historical endowment policy portfolio data provided by UTIMCO.

² Actual returns for the private capital component are presented on a time-weighted basis. The Private Capital benchmark represents the Venture Economics Private Capital Benchmark beginning January 1, 2004; returns December 31, 2003 represent the Wilshire 5000 +4%.

As of May 31, 2004

Operating Funds

RETURN SUMMARY

ENDING 5/31/04

	Quarter Ending 5/31/2004	1 Year Ending 5/31/2004	3 Years Ending 5/31/2004	5 Years Ending 5/31/2004	Since Inception	Inception Date
Short Term Fund	0.2%	1.0%	1.8%	3.4%	4.3%	8/31/1992
ML 90-day T-Bill	0.3	1.1	1.8	3.4	4.2	
Short Intermediate Term Fund	-0.8	1.0	2.8	4.4	5.1	2/28/1993
Composite Index	-0.9	0.4	4.1	5.2	5.4	
BGI U.S. Debt Index Fund	-2.3	-0.4	6.4	6.8	6.8	5/31/1999
LB Aggregate Bond Index	-2.3	-0.4	6.3	6.8	6.8	
BGI Equity Index Fund	-1.7	18.3	-2.1	-1.5	-1.5	5/31/1999
S&P 500 Index	-1.7	18.3	-2.1	-1.5	-1.5	

- The Short Term Fund approximated the performance of the benchmark during the periods shown above.
- The Short Intermediate Term Fund approximated the return of the Index during the fiscal quarter, and outperformed over the trailing one-year period. Longer term performance is below-benchmark.
- The BGI U.S. Debt Index approximated the performance of the benchmark during the periods shown above. Participants investing in the BGI U.S. Debt Index liquidated their positions during April of 2004.
- The BGI Equity Index Fund approximated the performance of its benchmark during the periods shown above.

5. U. T. System: Permanent University Fund quarterly update

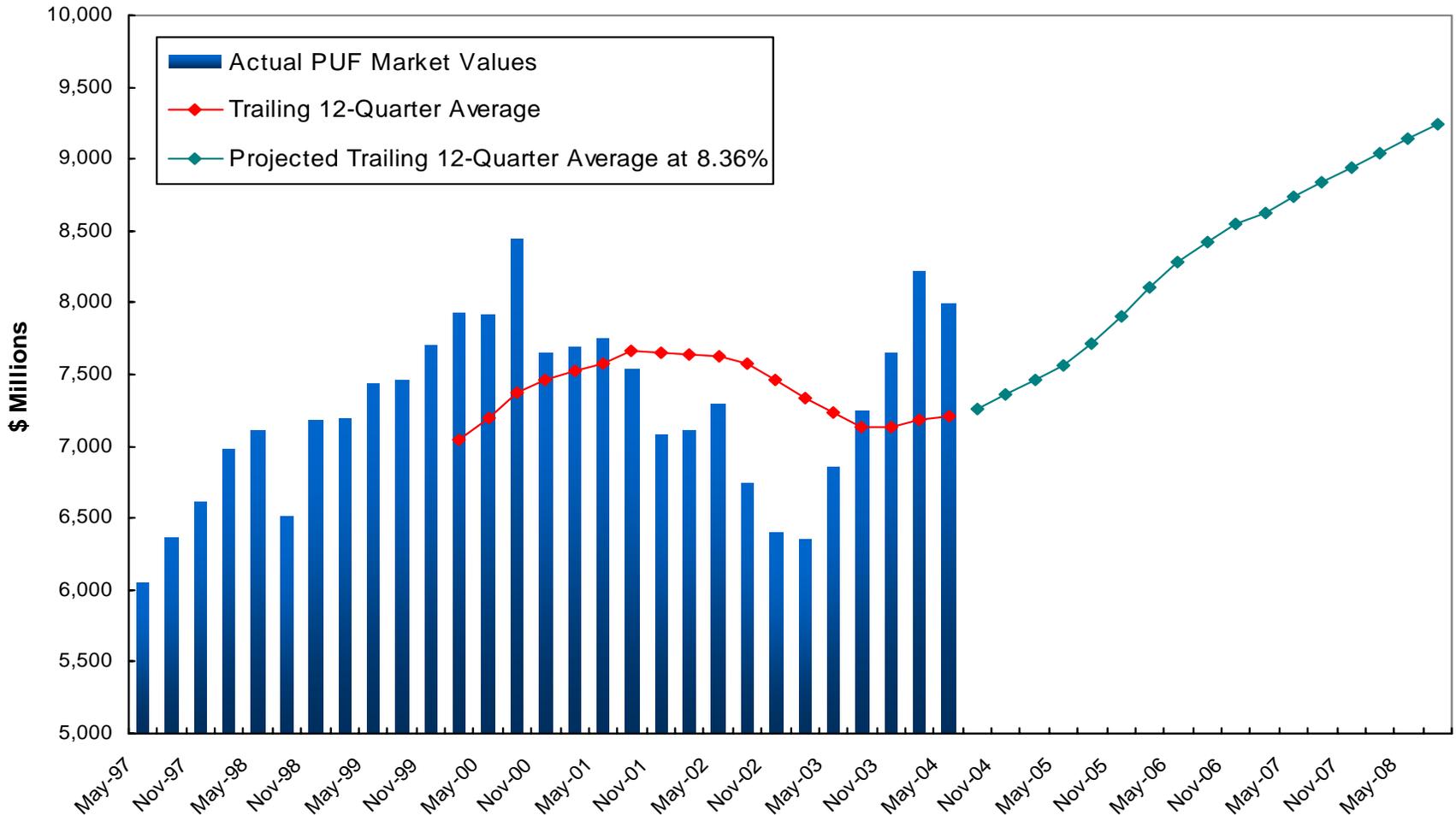
Mr. Philip R. Aldridge, Associate Vice Chancellor for Finance, will update the Committee on changes in the forecasted distributions from the Permanent University Fund (PUF) to the Available University Fund (AUF) and the resulting impacts on remaining PUF debt capacity, U. T. Austin Excellence Funds, and the AUF balance.

REPORT

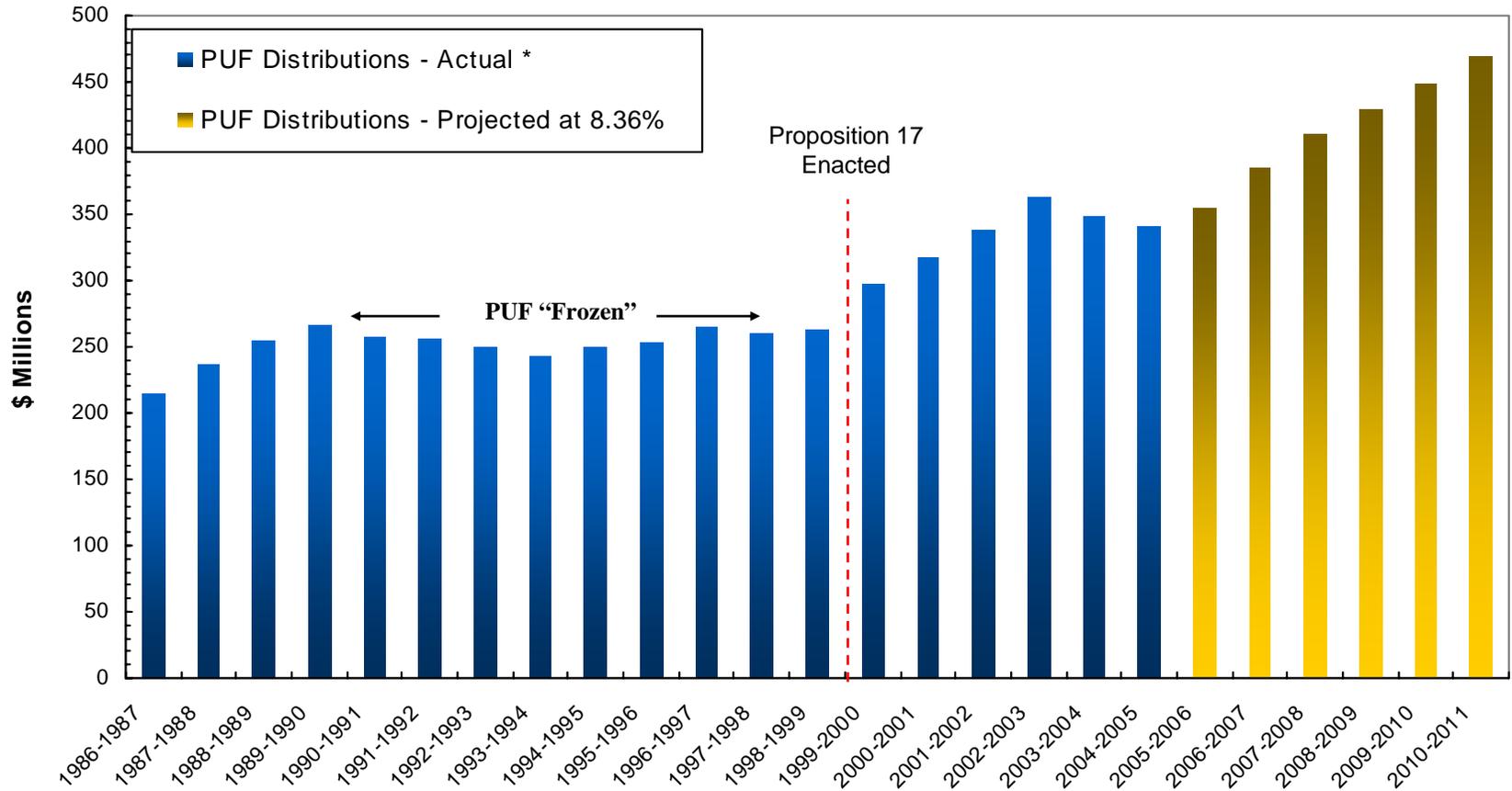
As of May 31, 2004, the market value of the PUF was \$8.0 billion compared to \$8.2 billion as of February 29, 2004 (Figure A on Page 30.1). During Fiscal Year 2005, \$341.2 million will be distributed to the AUF, compared to \$348 million in Fiscal Year 2004 (Figure B on Page 30.2). PUF distributions to the AUF are projected to steadily increase beginning in Fiscal Year 2006 and are not projected to be capped due to constitutional purchasing power restrictions.

Incorporating both the updated PUF distribution forecast and the new debt structure as a result of the PUF Bonds, Series 2004A&B transaction, there is an estimated \$308 million of additional debt capacity through Fiscal Year 2010 beyond the PUF projects currently approved, assuming a 8.36% investment return (Figure C on Page 30.3). This PUF debt capacity incorporates the impacts of the proposed \$100 million Library, Equipment, Repair and Rehabilitation (LERR) appropriation for Fiscal Year 2005 and using up to \$60 million of AUF balances to cash defease outstanding PUF debt, similar to cash defeasance transactions previously approved by the Board. (See Item 4 on Page 4.) PUF debt capacity is affected by various factors, some of which are determined by the Board while others are dependent on future market conditions (Figure D on Page 30.4).

Projected Trailing 12-Quarter PUF Market Value Average



Permanent University Fund Distributions



* Effective September 1, 1997, a statutory amendment changed the distribution of income from cash to an accrual basis, resulting in a one-time distribution adjustment to the AUF of \$47.3 million, which is not reflected.

PUF Debt Capacity-Base Case at 8.36%

Additional PUF Debt Capacity (\$307.8 Million)	\$112.4	\$0.0	\$29.6	\$71.1	\$50.2	\$44.5
Cumulative Additional PUF Debt Capacity	\$112.4	\$112.4	\$142.0	\$213.1	\$263.3	\$307.8

Available University Fund Operating Statement Forecast Data (\$ Millions)	Actual	Projected						
	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FYE 10
PUF Distribution Amount	\$363.0	\$348.0	\$341.2	\$354.4	\$385.2	\$409.7	\$429.5	\$449.2
Surface & Other Income	6.5	6.8	6.4	6.4	6.7	6.7	6.7	6.7
Divisible Income	369.6	354.8	347.6	360.8	391.9	416.4	436.2	455.9
UT System Share (2/3)	246.4	236.5	231.7	240.6	261.2	277.6	290.8	303.9
AUF Interest Income	5.1	2.8	2.2	3.6	4.3	4.9	5.4	5.7
Income Available to U.T.	251.5	239.3	233.9	244.2	265.6	282.5	296.1	309.7
TRANSFERS:								
UT Austin Excellence Funds (45%)	(114.8)	(108.3)	(105.3)	(109.9)	(119.5)	(127.1)	(133.3)	(139.4)
PUF Debt Service on Approved Projects	(69.7)	(72.1)	(83.5)	(103.0)	(104.1)	(106.7)	(109.1)	(111.9)
PUF Cash Defeasance	-	(60.0)	-	-	-	-	-	-
PUF Debt Service on Add. Debt Capacity	-	-	(9.1)	(9.1)	(11.6)	(17.6)	(21.9)	(25.8)
System Administration	(29.1)	(27.9)	(27.8)	(28.5)	(29.2)	(30.0)	(30.7)	(31.5)
Other	(1.6)	(4.4)	(1.1)	(1.1)	(1.1)	(1.1)	(1.2)	(1.2)
Debt Service (Bldg Rev)	(3.4)	(3.4)	-	-	-	-	-	-
Net Surplus/(Deficit)	32.8	(36.8)	7.2	(7.4)	0.0	0.0	0.0	0.0
Ending AUF Balance - System	82.0	45.2	52.4	45.0	45.0	45.0	45.0	45.0
PUF Debt Service Coverage	3.61:1	3.32:1	2.53:1	2.18:1	2.29:1	2.27:1	2.26:1	2.25:1

PUF Debt Capacity Sensitivities at 8.36%

30.4

	Board-Determined	Board-Determined	Board-Determined	Market-Dependent	Market-Dependent	Additional Debt Capacity (\$ Millions)						TOTAL	Projected PUF
	Annual LERR	U.T. Austin Excellence	PUF Distribution Rate	PUF Investment Return	Change in Tax-Exempt Rates	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY 2005-FY 2010	Market Value in FY 2030
	\$30 Million	45.0%	4.75%	8.36%	NA	112.4	0.0	29.6	71.1	50.2	44.5	307.8	22,668,683,686
	\$30 Million	45.0%	4.75%	8.36%	NA	112.4	0.0	29.6	71.1	50.2	44.5	307.8	22,668,683,686
	\$20 Million	45.0%	4.75%	8.36%	NA	122.4	10.0	39.6	81.1	60.2	54.5	367.8	22,668,683,686
	\$10 Million	45.0%	4.75%	8.36%	NA	132.4	20.0	49.6	91.1	70.2	64.5	427.8	22,668,683,686
	None	45.0%	4.75%	8.36%	NA	142.4	30.0	59.6	101.1	80.2	74.5	487.8	22,668,683,686
	\$30 Million	40.0%	4.75%	8.36%	NA	260.1	0.0	45.3	81.1	58.2	52.3	496.9	22,668,683,686
	\$30 Million	45.0%	4.75%	8.36%	NA	112.4	0.0	29.6	71.1	50.2	44.5	307.8	22,668,683,686
	\$30 Million	50.0%	4.75%	8.36%	NA	0.0	0.0	0.0	0.0	31.8	87.3	119.1	22,668,683,686
	\$30 Million	45.0%	4.50%	8.36%	NA	29.3	0.0	22.0	68.1	49.7	44.6	213.7	24,071,833,807
	\$30 Million	45.0%	4.75%	8.36%	NA	112.4	0.0	29.6	71.1	50.2	44.5	307.8	22,668,683,686
	\$30 Million	45.0%	5.00%	8.36%	NA	195.5	0.0	36.9	73.5	50.0	43.7	399.6	21,259,841,648
	\$30 Million	45.0%	4.75%	7.36%	NA	111.9	0.0	22.7	58.4	32.0	24.3	249.3	17,650,473,417
	\$30 Million	45.0%	4.75%	8.36%	NA	112.4	0.0	29.6	71.1	50.2	44.5	307.8	22,668,683,686
	\$30 Million	45.0%	4.75%	9.36%	NA	112.9	0.0	36.4	83.7	68.8	65.2	367.0	29,020,835,150
	\$30 Million	45.0%	4.75%	8.36%	+ 50 bps	101.7	0.0	23.3	67.0	47.0	41.8	280.8	22,668,683,686
	\$30 Million	45.0%	4.75%	8.36%	NA	112.4	0.0	29.6	71.1	50.2	44.5	307.8	22,668,683,686
	\$30 Million	45.0%	4.75%	8.36%	-50 bps	129.2	0.0	41.2	79.4	57.7	51.6	359.1	22,668,683,686

6. **U. T. Board of Regents: Adoption of Fourteenth Supplemental Resolution; authorization to complete all related transactions; and resolution of parity debt**

RECOMMENDATION

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

- a. adopt the Fourteenth Supplemental Resolution to the Master Resolution, substantially in the standard form approved by the Board of Regents on November 13, 2003, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Revenue Financing System Bonds in one or more installments in an aggregate principal amount not to exceed \$650,000,000 with a final maturity not to exceed the Year 2035 for the purpose of advance refunding certain outstanding Revenue Financing System Bonds to produce present value debt service savings; to refund a portion of the outstanding Revenue Financing System Commercial Paper Notes, Series A; to provide new money to fund construction and acquisition costs of projects in the Capital Improvement Program; and to pay the costs of issuance and any original issue discount;
- b. authorize issuance of the Bonds with natural or synthetic fixed interest rates and the execution of interest rate swap transactions to convert variable interest rates on the bonds into fixed rate obligations if the Bonds are issued with variable interest rates; and
- c. authorize appropriate officers and employees of the U. T. System as set forth in the Fourteenth Supplemental Resolution to take any and all actions necessary to carry out the intentions of the U. T. Board of Regents, within the limitations and procedures specified therein, make certain covenants and agreements in connection therewith; and resolve other matters incident and related to the issuance, sale, security, and delivery of such Bonds.

The Chancellor also concurs with the recommendation of the Executive Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System adopted by the U. T. Board of Regents on February 14, 1991, amended on October 8, 1993, and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as required by Section 5 of the Master Resolution, the U. T. Board of Regents resolve that:

- a. sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the

Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the Board relating to the Financing System; and

- b. the component institutions, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt.

BACKGROUND INFORMATION

On February 14, 1991, the Board adopted a Master Resolution establishing the Revenue Financing System (RFS) to create a cost-effective, System-wide financing structure for component institutions of the U. T. System. Since that time, the Board has adopted 13 supplemental resolutions to provide debt financing for projects that have received the requisite U. T. System Board of Regents and Texas Higher Education Coordinating Board approvals.

Adoption of the Fourteenth Supplemental Resolution (Resolution) would authorize the advance refunding of certain outstanding RFS Bonds provided the refunding exceeds a minimum 3% present value debt service savings threshold. An advance refunding involves issuing bonds to refund outstanding bonds in advance of the call date. Refunding bonds are issued at lower interest rates thereby producing debt service savings. The Resolution provides flexibility to execute the transaction using either natural or synthetic fixed rate debt. Natural fixed rate debt involves issuing fixed rate bonds. Synthetic fixed rate debt involves issuing variable rate bonds and executing a corresponding floating-to-fixed interest rate swap agreement to effectively convert the interest rate on the bonds to a fixed interest rate. The determination to issue either natural or synthetic fixed rate debt will be made based on market conditions at the time of pricing. The use of any interest rate swap agreements will be in accordance with the U. T. System Interest Rate Swap Policy approved by the Board in February 2003 using standard International Swaps and Derivatives Association, Inc. (ISDA) documentation. The Chairman of the Board of Regents and the Chairman of the Finance and Planning Committee will be informed of any proposed transactions to be undertaken pursuant to the Resolution.

In addition, the Resolution authorizes remarketing, tender, auction and broker-dealer agreements customarily utilized in connection with the types of variable rate instruments authorized.

The Resolution also authorizes the refunding of a portion of the outstanding Revenue Financing System Commercial Paper Notes, Series A, and to provide new money to fund construction and acquisition costs of projects in the Capital Improvement Program. Generally, commercial paper debt is issued to fund projects during the construction phase and the debt is not amortized. Once construction is complete, the commercial

paper is refunded with bonds. Depending on the level of interest rates at the time of pricing, outstanding commercial paper and new money for construction may be financed with long-term debt.

As provided in the Resolution, the potential bonds to be refunded include up to:

- \$3,605,000 of the RFS Bonds, Series 1998A maturing 2014-2018
- \$56,185,000 of RFS Bonds, Series 1998B maturing 2008 and 2012-2018
- \$3,365,000 of the RFS Bonds, Series 1998C maturing 2019
- \$39,725,000 of RFS Bonds, Series 2001B maturing 2020-2022
- \$18,770,000 of RFS Bonds, Series 2001C maturing 2020-2022.

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 provided the refunding achieves the minimum 3% savings target.

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

Note: The Fourteenth Supplemental Resolution and forms of auction agreement and broker-dealer agreement are in substantially the same form as the Thirteenth Supplemental Resolution and forms of auction agreement and broker-dealer agreement approved by the Board on November 13, 2003, for use as standard agreements. These documents have not been included as part of the agenda materials, but are available upon request.

7. U. T. System: Approval of aggregate amount of equipment financing for Fiscal Year 2005 and resolution of parity debt

RECOMMENDATION

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

- a. approve an aggregate amount of \$86,360,000 of Revenue Financing System Equipment Financing as allocated to those U. T. System component institutions set out on Page 35;
- b. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that:
 - parity debt shall be issued to pay the cost of equipment including costs incurred prior to the issuance of such parity debt;

- sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System;
- the component institutions and U. T. System Administration, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt parity debt in the aggregate amount of \$86,360,000 for the purchase of equipment; and
- this resolution satisfies the official intent requirements set forth in Section 1.150-2 of the Code of Federal Regulations, that evidences the Board's intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

At the April 14, 1994 meeting, the U. T. Board of Regents approved the use of Revenue Financing System debt for equipment purchases in accordance with the Guidelines Governing Administration of the Revenue Financing System. The guidelines specify that the equipment to be financed must have a useful life of at least three years. The debt is amortized twice a year with full amortization not to exceed 10 years.

This agenda item requests approval of an aggregate amount of \$86,360,000 for equipment financing. Of this amount, \$85,850,000 represents equipment financing for Fiscal Year 2005. The remaining \$510,000 represents equipment financing expected to occur during Fiscal Year 2004.

The Board approved \$80,929,000 of equipment financing in Fiscal Year 2004, of which \$41,892,000 has been issued through June 30, 2004.

Further details on the equipment to be financed and debt coverage ratios for individual components can be found on Page 35.

APPROVAL OF U. T. SYSTEM EQUIPMENT FINANCING
FY 2005

Component	\$ Amount of Request	Description of Equipment Purchases	DSC*	
			Min	Max
U. T. Arlington	\$4,164,000	Student information system computer, elevator modernization HVAC equipment replacement, lighting upgrades, utility infrastructure	1.60	1.71
U. T. Austin	2,000,000	IT hardware, research and athletic equipment	1.94	2.89
U. T. Brownsville	225,000	Stadium lighting	1.52	1.57
U. T. El Paso	1,421,000	Network system upgrades, instructional technology, elevator upgrades, vehicle replacement	1.51	2.78
U. T. San Antonio	6,000,000	Computer equipment & software, scientific & lab equipment	1.26	2.62
U. T. Southwestern Medical Center - Dallas	9,000,000	Clinical equipment, information resources projects, phone system replacement	1.54	2.10
U. T. Medical Branch - Galveston	10,000,000	Clinical & information technology equipment	2.54	3.46
U. T. M. D. Anderson Cancer Center	50,000,000	Diagnostic imaging, radiation and research equipment, information services equipment	3.06	4.63
U. T. Health Science Center-San Antonio **	510,000	Telephone switch	3.34	3.70
U. T. Health Center - Tyler	3,040,000	Network upgrade, radiology equipment, scanner, anesthesia machines, and ambulatory call center system	1.60	3.95

Total	\$86,360,000
--------------	---------------------

* Debt Service Coverage ("DSC") is net revenue divided by debt service.

** The \$510,000 telephone switch is proposed to be purchased and financed during FY 2004.

U. T. System Office of Finance, June 21, 2004

8. U. T. System: Approval of Optional Retirement Program employer contribution rates for Fiscal Year 2005

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and the Vice Chancellor for Administration that the U. T. Board of Regents approve the Optional Retirement Program (ORP) employer contribution rates for Fiscal Year 2005, as recommended by each institution as follows:

For all component institutions and System Administration with respect to employees who participated in the ORP prior to September 1, 1995, an employer contribution rate of 8.5%.

For all other employees, an employer contribution rate as set forth by institution below:

<u>Component Institution</u>	<u>Employer Contribution Rate</u>
The University of Texas at Arlington	6.0 percent
The University of Texas at Austin	6.0 percent
The University of Texas at Brownsville	6.0 percent
The University of Texas at Dallas	6.0 percent
The University of Texas at El Paso	6.0 percent
The University of Texas - Pan American	6.0 percent
The University of Texas of the Permian Basin	8.5 percent
The University of Texas at San Antonio	8.5 percent
The University of Texas at Tyler	6.0 percent
The University of Texas Southwestern Medical Center at Dallas	6.0 percent
The University of Texas Medical Branch at Galveston	8.5 percent
The University of Texas Health Science Center at Houston	6.0 percent
The University of Texas Health Science Center at San Antonio	6.0 percent
The University of Texas M. D. Anderson Cancer Center	8.5 percent
The University of Texas Health Center at Tyler	8.5 percent
The University of Texas System Administration	8.5 percent

BACKGROUND INFORMATION

Prior to September 1, 1995, the ORP employer contribution rate was 8.5% for all ORP participants. An enactment by the 74th Texas Legislature reduced ORP employer contributions to participants from 8.5% to 6.0%, effective September 1, 1995. However, U. T. System was permitted to "grandfather" those employees participating in the

ORP during the 1994-95 biennium. This resulted in a two-tiered ORP employer contribution rate for U. T. System employees: those who participated in ORP during the 1994-95 biennium continued to receive 8.5%, while those who did not participate during the 1994-95 biennium received 6.0%.

The 78th Texas Legislature enacted Texas Government Code Section 830.2015, which expanded the definition of a grandfathered employee from one who had participated during the 1994-95 biennium to one who had participated in ORP prior to September 1, 1995. The legislation also granted permissive authority for institutions of higher education to set the ORP employer contribution rate for grandfathered and nongrandfathered participants at any percentage level between 6.0% and 8.5%. It is not required that the rate be the same for grandfathered employees, nor that the rate be the same for all U. T. component institutions.

Given the diversity of the U. T. System component institutions, and the differential budget impact for each institution, it was determined that each component institution should propose its own ORP employer contribution rates for grandfathered and nongrandfathered participants. For grandfathered employees hired prior to September 1, 1995, all U. T. System component institutions elected to continue the current 8.5% employer contribution rate. For nongrandfathered participants hired after September 1, 1995, six component institutions (including U. T. System Administration) elected to increase the ORP employer contribution rate from 6.0% to 8.5%, while the remaining ten campuses elected to continue the 6% employer contribution rate.

The governing board of an institution of higher education has the authority to set the ORP employer contribution rates in accordance with rules issued by the Texas Higher Education Coordinating Board. Under those rules, the governing board is to determine the employer contribution rates once per fiscal year, to be effective for the entire fiscal year.

9. **U. T. System: Authorization to establish a deferred compensation plan under Internal Revenue Code Section 457(b), to delegate authority to administer the plan, and to authorize conforming changes to Part Two, Chapter VI, Section 9 (Deferred Compensation Plan) of the Regents' Rules and Regulations**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and the Vice Chancellor for Administration that the Board of Regents authorize the establishment of a voluntary deferred compensation plan pursuant to Internal Revenue Code Section 457(b) for all employees of the U. T. System Administration and U. T. institutions, to be known as UTSaver.

It is further recommended that the Board delegate to the Vice Chancellor for Administration the authority for the administration of UTSaver and the power to take all action and to make all decisions and interpretations that may be necessary or appropriate to administer and maintain the plan, consistent with State and federal law.

Further, it is recommended that the Counsel and Secretary to the Board be authorized to make conforming changes to the Regents' Rules and Regulations to reference the plan and the delegation to the Vice Chancellor for Administration.

BACKGROUND INFORMATION

This agenda item was deferred from the May 2004 Finance and Planning Committee meeting of the Board of Regents. Additional information regarding UTSaver was distributed to members of the Finance and Planning Committee via a memorandum dated June 18, 2004, for their consideration and comment.

In 2003, the 78th Texas Legislature, Regular Session, enacted Senate Bill 1652, codified as Texas Government Code Section 609.701 et seq. One provision of Chapter 609 authorizes an institution of higher education to establish a deferred compensation plan for its employees pursuant to Internal Revenue Code Section 457(b).

The State legislation followed the enactment of federal legislation known as the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) in 2001, which changed existing law and created an additional retirement savings opportunity for public employees. Prior to the enactment of EGTRRA, contributions to a voluntary 403(b) tax-sheltered annuity program and a voluntary 457(b) deferred compensation retirement savings program were subject to coordinated limits. This resulted in one contribution limit for both programs. EGTRRA repealed the coordinated limits for 403(b) and 457(b) programs thereby providing a separate contribution limit for each program for years beginning after December 31, 2001.

Prior to the enactment of Senate Bill 1652, the only 457(b) plan option available to U. T. System employees was the deferred compensation plan provided by the Employees Retirement System of Texas known as TexaSaver. Senate Bill 1652 authorizes U. T. System to establish its own deferred compensation plan for employees.

A U. T. System 457(b) plan offers greater convenience to participants through benefits consolidation, while utilizing a proven business model that offers a number of vendors with a variety of investment products meeting cost and quality standards. Offering accessible, well-designed, cost-effective retirement savings plans enables U. T. employees to plan for their future welfare and serves as a recruitment and retention tool for U. T. institutions in today's competitive market. The proposed name for the plan is UTSaver.

The purpose of the UTSaver deferred compensation plan is to provide employees who elect to participate in the plan the option to defer taxation on compensation subject to federal contribution limits. Employees may elect to contribute up to the maximum amount that may be deferred under the plan for the taxable year. The plan will be established pursuant to Texas Government Code Section 609.701 et seq. and is intended to constitute an "eligible deferred compensation plan" within the meaning of Section 457 of the Internal Revenue Code. All contributions to the plan will be employee contributions.

**THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION
DOCKET NO. 118**

July 19, 2004

TO MEMBERS OF THE FINANCE AND PLANNING COMMITTEE:

Woody L. Hunt, Chairman
John W. Barnhill, Jr.
H. Scott Caven, Jr.
Cyndi Taylor Krier
Robert B. Rowling

The Docket for The University of Texas System Administration and the Dockets recommended by the Presidents concerned and prepared by the institutions listed below are submitted for approval as appropriate at the meeting of the U. T. Board of Regents on August 12, 2004. The Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and the Vice Chancellor and General Counsel, and I concur in these recommendations.

<u>Institutions</u>	<u>Pages</u>
The University of Texas System Administration	Docket 1 - 4
The University of Texas at Arlington	Docket 5 - 15
The University of Texas at Austin	Docket 16 - 37
The University of Texas at Brownsville	Docket 38 - 43
The University of Texas at Dallas	Docket 44 - 52
The University of Texas at El Paso	Docket 53 - 58
The University of Texas - Pan American	Docket 59 - 65
The University of Texas of the Permian Basin	Docket 66 - 71
The University of Texas at San Antonio	Docket 72 - 78
The University of Texas at Tyler	Docket 79 - 83
The University of Texas Southwestern Medical Center at Dallas	Docket 84 - 93
The University of Texas Medical Branch at Galveston	Docket 94 -102
The University of Texas Health Science Center at Houston	Docket 103-113
The University of Texas Health Science Center at San Antonio	Docket 114-122
The University of Texas M. D. Anderson Cancer Center	Docket 123-133
The University of Texas Health Center at Tyler	Docket 134-135

Mark G. Yudof
Chancellor

xc: Other Members of
the Board

TABLE OF CONTENTS

U. T. System Administration.....	1
Amendments To The 2003-04 Budget.....	1
Transfers Of Funds.....	1
Other Fiscal Items	2
Employment Agreements.....	2
Other Matters	3
Approval Of Newly Commissioned U. T. System Peace Officers	3
Real Estate Report	4
U. T. Arlington	5
Changes To Admission Criteria	5
Amendments To The 2003-04 Budget.....	6
Appointments And Promotions	6
Parking And Traffic Regulations	9
Appointment, Reappointment, Or Promotion Of Relatives	11
New Tenure Appointments And Promotions Within Tenure Ranks	12
Small Class Report, Fall 2003 And Spring 2004.....	14
U. T. Austin	16
Gifts	16
Contracts	17
General Contracts.....	17
Amendments To The 2003-04 Budget.....	18
Appointments And Promotions	18
Transfers Of Funds.....	18
Parking And Traffic Regulations	21
Fees And Miscellaneous Charges	23
Parking Permit Fees	23
Parking Enforcement Fees	25
Appointment, Reappointment, Or Promotion Of Relatives	26
New Tenure Appointments And Promotions Within Tenure Ranks	29
Other Matters	35
Approval Of Dual Positions Of Honor, Trust, Or Profit.....	35
Small Class Report, Fall 2003 And Spring 2004.....	36
U. T. Brownsville	38
Amendments To The 2003-04 Budget.....	38
Transfers Of Funds.....	38
Appointment, Reappointment, Or Promotion Of Relatives	39
New Tenure Appointments And Promotions Within Tenure Ranks	40

Small Class Report, Fall 2003 And Spring 2004.....	42
U. T. Dallas	44
Gifts	44
Amendments To The 2003-04 Budget.....	45
Transfers Of Funds	45
Other Fiscal Items	46
Employment Agreements.....	46
Fees And Miscellaneous Charges	47
Parking Permit Fees	47
Parking And Traffic Enforcement Fees	48
Appointment, Reappointment, Or Promotion Of Relatives	49
New Tenure Appointments And Promotions Within Tenure Ranks	50
Small Class Report, Fall 2003 And Spring 2004.....	51
U. T. El Paso	53
Other Fiscal Items	53
Employment Agreements.....	53
Appointment, Reappointment, Or Promotion Of Relatives	54
New Tenure Appointments And Promotions Within Tenure Ranks	55
Small Class Report, Fall 2003 And Spring 2004.....	57
U. T. Pan American.....	59
Other Fiscal Items	59
Employment Agreements.....	59
Appointment, Reappointment, Or Promotion Of Relatives	61
New Tenure Appointments And Promotions Within Tenure Ranks	62
Small Class Report, Fall 2003 And Spring 2004.....	64
U. T. Permian Basin	66
Amendments To The 2003-04 Budget.....	66
Appointments And Promotions	66
Transfers Of Funds	67
Appointment, Reappointment, Or Promotion Of Relatives	68
New Tenure Appointments And Promotions Within Tenure Ranks	69
Small Class Report, Fall 2003 And Spring 2004.....	70
U. T. San Antonio.....	72
Contracts	72
General Contracts.....	72
Appointment, Reappointment, Or Promotion Of Relatives	73
New Tenure Appointments And Promotions Within Tenure Ranks	74

Small Class Report, Fall 2003 And Spring 2004.....	77
U. T. Tyler	79
Gifts	79
Appointment, Reappointment, Or Promotion Of Relatives	80
New Tenure Appointments And Promotions Within Tenure Ranks	81
Small Class Report, Fall 2003 And Spring 2004.....	82
U. T. Southwestern Medical Center - Dallas	84
Gifts	84
Contracts	85
General Contracts.....	85
Amendments To The 2003-04 Budget.....	86
Appointments And Promotions	86
Transfers Of Funds.....	88
Appointment, Reappointment, Or Promotion Of Relatives	89
New Tenure Appointments And Promotions Within Tenure Ranks	90
Small Class Report, Fall 2003 And Spring 2004.....	92
U. T. Medical Branch – Galveston.....	94
Contracts	94
General Contracts.....	94
Amendments To The 2003-04 Budget.....	95
Appointments And Promotions	95
Appointment, Reappointment, Or Promotion Of Relatives	96
New Tenure Appointments And Promotions Within Tenure Ranks	99
Small Class Report, Fall 2003 And Spring 2004.....	101
U. T. Health Science Center - Houston	103
Gifts	103
Amendments To The 2003-04 Budget.....	104
Appointments And Promotions	104
Transfers Of Funds.....	107
Appointment, Reappointment, Or Promotion Of Relatives	108
New Tenure Appointments And Promotions Within Tenure Ranks	109
Other Matters	111
Approval Of Dual Positions Of Honor, Trust, Or Profit.....	111
Small Class Report, Fall 2003 And Spring 2004.....	112
U. T. Health Science Center - San Antonio	114
Amendments To The 2003-2004 Budget.....	114
Transfers Of Funds.....	114

Fees And Miscellaneous Charges	115
Other Fees And Charges	115
New Tenure Appointments And Promotions Within Tenure Ranks	116
Other Matters	119
Approval Of Dual Positions Of Honor, Trust, Or Profit	119
Small Class Report, Fall 2003 And Spring 2004.....	121
U. T. M. D. Anderson Cancer Center	123
Gifts	123
Amendments To The 2003-04 Budget.....	124
Appointments And Promotions	124
Appointment, Reappointment, Or Promotion Of Relatives	129
New Tenure Appointments And Promotions Within Tenure Ranks	130
Small Class Report, Fall 2003 And Spring 2004.....	133
U. T. Health Center - Tyler	134
Amendments To The 2003-04 Budget.....	134
Transfers Of Funds	134
Appointment, Reappointment, Or Promotion Of Relatives	135

U. T. SYSTEM ADMINISTRATION
AMENDMENTS TO THE 2003-04 BUDGET
TRANSFERS OF FUNDS

The following Requests for Budget Change (RBC) have been administratively approved by the Executive Vice Chancellor for Academic Affairs and the Chancellor and are recommended for approval by the U. T. Board of Regents:

<u>Description</u>	<u>\$ Amount</u>	<u>RBC #</u>
LIBRARY SPECIAL COLLECTIONS RESERVE		
1. Amount of Transfer:	60,000	3
From: U. T. System Administration – Library Special Collection Reserve		
To: U. T. Arlington		
<p>Transfer funds from the Library Special Collection Reserve to U. T. Arlington for the purchase of 116.5 linear feet of personal papers, manuscripts, and correspondence of Texas writer, A. C. Greene, and add these materials to the Special Collections Division of the U. T. Arlington Libraries. Mr. Greene played a pivotal role in focusing attention and debate on Texas letters and authors, and because of the importance of his own creative workings in the literary history of Texas, U. T. Arlington has worked many years to complete this acquisition. The papers have a market value of \$120,000 and the estate has agreed to donate half of their value to U. T. Arlington; therefore, half of the appraised valued is requested for the purchase.</p>		
2. Amount of Transfer:	125,000	4
From: U. T. System Administration – Library Special Collection Reserve		
To: U. T. Austin		
<p>Transfer funds from the Library Special Collection Reserve to U. T. Austin for purchase of the Forzinetti Archive by the Harry Ransom Humanities Research Center. The Forzinetti Archive contains seminal materials pertaining to the infamous Dreyfus Affair that took place in France in the 1890s. It also contains materials valuable for research in French literature and culture as well as Jewish and Holocaust studies. This archive would be an extremely important addition to the holdings of the Harry Ransom Center and a resource for scholars. U. T. Austin will fund the remaining \$225,000 needed for the purchase.</p>		

OTHER FISCAL ITEMS

EMPLOYMENT AGREEMENTS

The following agreement has been awarded, has been approved by the Chancellor, and is recommended for approval by the U. T. Board of Regents:

1. Item: Executive Vice Chancellor for Business Affairs
Funds: \$250,000 annually
Period: Beginning July 19, 2004
Description: Agreement for employment of Executive Vice Chancellor for Business Affairs, Dr. Scott C. Kelley. The Executive Vice Chancellor for Business Affairs reports to and is responsible to the Chancellor and shall hold office without fixed term, subject to the pleasure of the Chancellor. Compensation also includes \$8,400 annual automobile allowance to be paid monthly. System Administration will reimburse some club and professional memberships and continuing education expenses. Additionally, System Administration will either make payment for or reimburse the actual costs for expenses related to preparation and moving of household, personal, and professional possessions and will be responsible for the tax consequences, if any, of the moving expenses.

OTHER MATTERS

APPROVAL OF NEWLY COMMISSIONED U. T. SYSTEM PEACE OFFICERS

In accordance with Chapter 51.203 of the Texas Education Code, the U. T. Board of Regents is requested to approve the commissioning of the individuals listed below as peace officers effective June 11, 2004. The following officers have completed a course of training that included mandated Texas Commission on Law Enforcement Officer Standards and Education courses at The University of Texas System Police Training Academy and have successfully passed the State of Texas Peace Officer Licensing Examination.

<u>Name</u>	<u>Component Institution</u>
Michelle Luci Avila	U. T. San Antonio
Tracy Mae Buck	U. T. Southwestern Medical Center - Dallas
Michelle D'Alesandro	U. T. Medical Branch - Galveston
Tyrone T. Davis	U. T. Health Science Center - Houston
Joel Benjamin Lee Dobbins	U. T. Southwestern Medical Center - Dallas
Ryan D. Erwin	U. T. Medical Branch - Galveston
Tony M. Esprit	U. T. Health Science Center - Houston
Travis John Houston Gates	U. T. Health Science Center - Houston
Reginald R. Larson	U. T. San Antonio
Ernest Edward Natal	U. T. San Antonio
Nancy A. Olguin	U. T. Austin
Brodie E. Riner, III	U. T. Health Science Center - Houston
Kelly D. Ross	U. T. Austin
Stephen R. Schlather	U. T. Austin
Adrian L. Slaymaker	U. T. Austin
Janna M. Swain	U. T. Austin
Darryl D. Tidwell	U. T. Austin
Angelica M. Uvalle	U. T. Health Science Center – Houston

REAL ESTATE REPORT

THE UNIVERSITY OF TEXAS SYSTEM REAL ESTATE ASSETS

Managed by U. T. System Real Estate Office

Summary Report at May 31, 2004

		FUND TYPE							
		Current Purpose Restricted		Endowment & Similar Funds		Annuity & Life Income Funds		TOTAL	
		Book	Market	Book	Market	Book	Market	Book	Market
Land & Buildings:									
Ending Value	2/29/04	\$ 5,355,012	\$ 23,188,537	\$ 25,062,921	\$ 202,993,074	\$ 1,249,644	\$ 858,515	\$ 31,667,577	\$ 227,040,126
Increase or Decrease		1	1	(318,000)	(49,978)	-	-	(317,999)	(49,977)
Ending Value	3/31/04	\$ 5,355,013	\$ 23,188,538	\$ 24,744,921	\$ 202,943,096	\$ 1,249,644	\$ 858,515	\$ 31,349,578	\$ 226,990,149
Other Real Estate:									
Ending Value	2/29/04	\$ 133,098	\$ 133,098	\$ 356,886	\$ 356,886	\$ 0	\$ 0	\$ 489,984	\$ 489,984
Increase or Decrease		(1,221)	(1,221)	(16,871)	(16,871)	0	0	(18,092)	(18,092)
Ending Value	5/31/04	\$ 131,877	\$ 131,877	\$ 340,015	\$ 340,015	\$ 0	\$ 0	\$ 471,892	\$ 471,892

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

Details of individual assets by account furnished on request.

U. T. ARLINGTON

CHANGES TO ADMISSION CRITERIA

The following listing summarizes the changes proposed to admission criteria to be included in the Catalog of The University of Texas at Arlington. The changes have been administratively approved by the Executive Vice Chancellor for Academic Affairs and are recommended for approval by the U. T. Board of Regents:

Summary of Changes to Transfer Admission Criteria

Addition: Admission Policy in compliance with Texas Education Code Section 51.808. This policy describes the requirements for entrance and selection factors used in the selection of students at The University of Texas at Arlington.

U. T. Arlington recommends the following two-part change to transfer admission requirements:

1. Advance the transfer application deadline 30 days to May 1 and November 1 for the fall and spring terms respectively, and April 1 for the summer.
2. Increase the minimum grade point average for acceptance from 2.0 to 2.25.

Justification for Changes

As part of the ongoing University effort to improve incoming classes of students, to ensure the academic success of students, to better match resources with enrollment, to protect the quality of the classroom experience, and to strengthen the public perception of the University, we recommend an increase in transfer admissions requirements for Fall 2005 as well as an earlier transfer application deadline.

A modest increase in admission requirements signals that the University values academic strength. Higher expectations for student performance prior to transfer are consistent with the higher performance expectations for first time freshmen and admission to academic majors.

An earlier application deadline requires students to act sooner thus providing more time for the delivery of important services such as course evaluation, academic advising, financial aid, and orientation; in effect, more time for the things that support student success. Furthermore, a revised deadline signals that attending the University cannot be considered a last minute plan.

AMENDMENTS TO THE 2003-04 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Requests for Budget Change (RBC) have been administratively approved by the Executive Vice Chancellor for Academic Affairs and are recommended for approval by the U. T. Board of Regents:

<u>Description</u>	<u>Effective Date</u>	<u>% Time</u>	<u>Full-time Salary</u>		<u>RBC #</u>
			<u>No. Mos.</u>	<u>Rate \$</u>	
OFFICE OF THE PRESIDENT					
President					
College of Liberal Arts					
Communication					
School of Urban and Public Affairs					
1. James D. Spaniolo (T)					73
From: President		100	12	65,945	
and		R	12	173,655	
Professor of		SUPLT	12	35,400	
Communication		0	09	90,000	
To: President	3/28-8/31	100	12	65,945	
and Professor of	3/28-8/31	R	12	173,655	
Communication and	3/28-8/31	SUPLT	12	35,400	
Professor of Urban	3/28-5/31	0	09	90,000	
and Public Affairs	3/28-5/31	0	09	90,000	

AMENDMENTS TO THE 2003-04 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

<u>Description</u>	<u>Effective Date</u>	<u>% Time</u>	<u>Full-time Salary</u>		<u>RBC #</u>
			<u>No. Mos.</u>	<u>Rate \$</u>	
OFFICE OF THE PROVOST AND VICE PRESIDENT FOR ACADEMIC AFFAIRS					
Provost and Vice President for Academic Affairs					
College of Liberal Arts					
Sociology					
2. Dana Dunn (T)					44
From: Interim Provost and Vice President for Academic Affairs and Associate Professor		100 SUPLT 0	12 12 09	158,067 40,000 86,692	
To: Provost and Vice President for Academic Affairs and Associate Professor	3/1-8/31 3/1-5/31	100 0	12 09	198,067 86,692	
OFFICE OF THE PROVOST					
Office of the Vice President for Academic Affairs					
College of Liberal Arts					
Political Science					
3. Michael Moore (T)					66
From: Associate Professor and Associate Vice President for Academic Affairs		0 SUPLT 100	09 4.5 12	54,986 5,368 89,049	
To: Associate Professor and Associate Provost	3/1-5/31 3/1-5/31 3/1-8/31	0 SUPLT 100	09 4.5 12	54,986 5,368 114,049	

AMENDMENTS TO THE 2003-04 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

<u>Description</u>	<u>Effective Date</u>	<u>% Time</u>	<u>Full-time Salary</u>		<u>RBC #</u>
			<u>No. Mos.</u>	<u>Rate \$</u>	
COLLEGE OF ENGINEERING					
Electrical Engineering					
4. Raymond R. Shoults (T)					78
From: Professor and Acting Chair		100 SUPLT	09 09	94,800 7,500	
To: Professor and Chair	6/1-5/31 6/1-8/31	100 SUPLT	09 09	94,800 7,500	
COLLEGE OF LIBERAL ARTS					
English					
5. Wendy B. Faris (T)					72
From: Professor		100 SUPLT	09 09	65,606 6,000	
To: Professor and Chair	6/1-5/31 6/1-8/31	100 SUPLT	09 09	65,606 6,000	
COLLEGE OF SCIENCE					
Office of the Dean Psychology					
6. Paul B. Paulus (T)					77
From: Professor and Chair		100 SUPLT	09 09	87,450 7,000	
To: Professor and Interim Dean	5/1-5/31 5/1-8/31	0 100	09 12	87,450 140,000	

PARKING AND TRAFFIC REGULATIONS

The following listing summarizes the substantive changes proposed to Parking and Traffic Regulations of The University of Texas at Arlington. They have been approved by the Executive Vice Chancellor for Academic Affairs and the Office of General Counsel and are incorporated in model regulations approved by the U. T. Board of Regents. These regulations supersede all prior Parking and Traffic Regulations and continue in effect until modified.

<u>Page Number(s)</u>	<u>Summary of Proposed Substantive Change</u>
6	Section I. O. Visitors parking passes rate increase from \$1.00 to \$2.00 weekly and from \$5.00 to \$6.00 monthly.
12	Section III. Add statement regarding towing of unauthorized vehicles at the discretion of the reserve space owner.
17	Section V. Rate increase from \$25.00 to \$50.00 for employees who accumulate more than three unpaid traffic violations.
18	Section V. B.6. Add statement that a vehicle shall not block traffic in a university owned lot unless a vehicle occupying a space is in the process of vacating the space.
18	Section V. B.7. Add statement that a vehicle shall not block a gated access portion of a lot at any time.
21	Section VI. K.3. A rate increase from \$1.00 to \$5.00 per week for each additional hangtag after two have been issued during any one session.
23	Section VI. M. Add statement that a two week pass can be issued per doctor's letter for disabled parking until the county disabled placard can be obtained; the University recognizes vehicle parking in disabled parking displaying the Texas Department of Transportation disabled placard as legally parked in lieu of a University permit.

PARKING AND TRAFFIC REGULATIONS (CONTINUED)

<u>Page Number(s)</u>	<u>Summary of Proposed Substantive Change</u>
24	Section VI. N.2. Revised to allow visitors and temporary workers to obtain temporary hang tags.
25	Section VII. Delete "Backing unsafely"; add "Obstruction of driveway, aisle or gate"; delete "Parking in driveways".

**APPOINTMENT, REAPPOINTMENT, OR PROMOTION OF RELATIVES
AND MARRIAGE OF CERTAIN EMPLOYEES**

The following personnel actions involving the appointment, reappointment, or promotion of relatives have been administratively approved by the Executive Vice Chancellor for Academic Affairs. The personnel actions are consistent with the provisions of Section 573.001 of the Texas Government Code and the Regents' Rules and Regulations, Part One, Chapter III, Section 5.

<u>College, Department, Title, Name</u>	<u>College, Department, Title, Name</u>
PROPOSED REAPPOINTMENT	
1. Office of the President President James D. Spaniolo	RELATIVE Office of the President Special Assistant Sally Spaniolo (spouse)*
2. College of Business Administration Office of the Dean Dean Daniel D. Himarios	College of Business Administration Economics Department Senior Lecturer Jane S. Himarios (spouse)
3. Campus Printing Service Director Steven M. Burdette	Campus Printing Service Assistant Director Mary K. Ruesing (spouse)

*Mrs. Spaniolo is not listed in the budget as she is appointed without compensation.

NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS

The following personnel actions involving new tenure appointments and promotion within tenure ranks have been administratively approved by the Executive Vice Chancellor for Academic Affairs. The personnel actions have been included in the 2005 Annual Operating Budget of each component institution and are consistent with the Regents' Rules and Regulations, Part One, Chapter III, Section 6, Section 6.2, Subsection 6.25.

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
College of Business		
Administration		
Information Systems and Operations Management Mahapatra, Radha	Assistant Professor (NT)	Associate Professor (T)
College of Engineering		
Computer Science Engineering		
Lawrence B. Holder	Associate Professor (T)	Professor (T)
Farhad A. Kamangar	Associate Professor (T)	Professor (T)
Electrical Engineering Meng Tao	Assistant Professor (NT)	Associate Professor (T)
College of Liberal Arts		
Art and Art History		
Andrew Ortiz	Assistant Professor (NT)	Associate Professor (T)
Barton C. Weiss	Assistant Professor (NT)	Associate Professor (T)
Communication Alisa R. White	Assistant Professor (NT)	Associate Professor (T)
Criminology and Criminal Justice O. Elmer Polk	Assistant Professor (NT)	Associate Professor (T)
History Gerald D. Saxon	New	Associate Professor (T)
Political Science Mark A. Cichock	Associate Professor (T)	Professor (T)

**NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS
(CONTINUED)**

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
College of Liberal Arts (Continued)		
Sociology and Anthropology		
Karl M. Petruso	Associate Professor (T)	Professor (T)
Theatre Arts		
Andrew C. Gaupp	Associate Professor (T)	Professor (T)
College of Science		
Chemistry		
Rasika Dias	Associate Professor (T)	Professor (T)
Dmitry Rudkevich	Assistant Professor (NT)	Associate Professor (T)
Geology		
John M. Holbrook	New	Professor (T)
Mathematics		
Barbara A. Shipman	Assistant Professor (NT)	Associate Professor (T)
Michaela Vancliff	Assistant Professor (NT)	Associate Professor (T)
Psychology		
Charles J. Brainerd	New	Professor (T)
Robert J. Gatchel	New	Professor (T)
School of Nursing		
Mary L. Bond	New	George W. & Hazel M. Jay Professorship (T)
Barbara M. Raudonis	Assistant Professor (NT)	Associate Professor (T)

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004

Pursuant to Section 51.403 of the Texas Education Code and Section 5.301 of the Texas Higher Education Coordinating Board Rules, a report for the record regarding the teaching of small classes has been filed. The institution has reviewed the data in this report and, as appropriate, made administrative changes to ensure that teaching such small classes continues to be justified. The detailed listing of small classes is available in the U. T. System Office of Academic Affairs and is summarized as follows:

Organized Undergraduate Classes with Fewer than 10 Enrolled Students

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	22	12	34	17
b. To keep proper sequence	5	3	8	47
c. New program	15	12	27	7
d. Cross listed	6	3	9	7
e. First time offered	1	2	3	1
f. Accreditation or licensing standard	3	1	4	0
g. Limited facilities	6	1	7	18
Subtotal	58	34	92	97
h. Voluntarily offered	5	26	31	20
Total	63	60	123	117

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004 (CONTINUED)

**Organized Graduate Classes with
Fewer than 5 Enrolled Students**

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	2	1	3	10
b. To keep proper sequence	0	2	2	0
c. New program	1	5	6	2
d. Cross listed	5	13	18	5
e. First time offered	0	0	0	1
f. Accreditation or licensing standard	1	1	2	0
g. Limited facilities	0	0	0	0
Subtotal	9	22	31	18
h. Voluntarily offered	1	6	7	3
Total	10	28	38	21

U. T. AUSTIN

GIFTS

The following gift has been received, has been administratively approved by the President or his delegate, and is recommended for approval by the U. T. Board of Regents:

1. Donor Name: ConocoPhillips Company
College/School/ Department: Various colleges, sections, and units
Purpose: Benefiting a variety of programs
Asset Type: Cash
Value: \$1,000,000

CONTRACTS

The following contract has been administratively approved by the President or his delegate and the Executive Vice Chancellor for Academic Affairs and is recommended for approval by the U. T. Board of Regents:

GENERAL CONTRACTS

FUNDS COMING IN

1. Agency: Ludwig-Maximilians-Universität München
Funds: \$240,471
Period: May 1, 2004-August 31, 2012
Description: Agreement between the McDonald Observatory and Ludwig-Maximilians-Universität München (LMU), wherein LMU will provide prepayment for LMU's use of the Hobby-Eberly Telescope (HET). LMU is currently using the HET under a separate agreement.

2. Agency: University of Trinidad and Tobago
Funds: \$5,000,000
Period: August 1, 2004-July 31, 2009
Description: Collaboration Agreement wherein U. T. Austin will assist the University of Trinidad and Tobago in establishing its B.S. and M.S. degree programs in Petroleum Engineering, and a Center for Energy Studies at the University of Trinidad and Tobago, Department of Petroleum Engineering.

AMENDMENTS TO THE 2003-04 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Requests for Budget Change (RBC) have been administratively approved by the Executive Vice Chancellor for Academic Affairs and are recommended for approval by the U. T. Board of Regents:

<u>Description</u>	<u>Effective Date</u>	<u>% Time</u>	<u>No. Mos.</u>	<u>Full-time Salary Rate \$</u>	<u>RBC #</u>
COLLEGE OF COMMUNICATION					
Communication Studies					
1. Roderick P. Hart (T)					117
From: Allan Shivers Centennial Chair in Communication and Professor Chair Supplement		100 SUPLT	09 09	117,493 30,000	
To: Interim Dean and Walter Cronkite Regents Chair In Communication Dean's Chair Supplement	7/1-8/31 7/1-8/31	100 SUPLT	12 12	165,500 20,000	

TRANSFERS OF FUNDS

<u>Description</u>	<u>\$ Amount</u>	<u>RBC #</u>
SERVICE DEPARTMENTS FUNDS		
Information Technology Services		
2. Amount of Transfer:	863,300	101

From: Information Technology Services Administration Store Operating Income

To: Information Technology Services Services – Maintenance, Operation, Equipment

Transfer from I.T.S. Store income account to Services expense account to provide funding for maintenance/repair of computer equipment and software; rental of computer software; computer equipment; consumable office computer supplies; telecommunications rental; and computer software expenses.

AMENDMENTS TO THE 2003-04 BUDGET (CONTINUED)

TRANSFERS OF FUNDS (CONTINUED)

<u>Description</u>	<u>\$ Amount</u>	<u>RBC #</u>
DESIGNATED FUNDS		
Dean of Liberal Arts		
3. Amount of Transfer:	649,550	102
From: Placement Fee – Operating Income		
To: Placement Fee – Other Expenses		
Transfer placement fee income to expense account to provide funding for renovation of the Liberal Arts Career Services Office in Flawn Academic Center. (Reference RBC #104 transferring Liberal Arts' Designated Funds to Plant Funds).		
PLANT FUNDS		
Information Technology Services – U.T.X. Equipment		
4. Amount of Transfer:	1,500,000	103
From: Service Department Funds – I.T.S. Telecommunications Network – U.T.X. Telephone Systems Operating Income		
To: U.T.X. Equipment Replacement Allocation Account		
Balance forward income transferred to the equipment replacement account to fund line equipment hardware/software upgrades and internal system purchases.		
Physical Plant – Flawn Academic Center		
5. Amount of Transfer:	780,000	104
From: Designated Funds – Liberal Arts Placement Fee Operating Income		
To: Flawn Academic Center Career Services Renovation All Expenses Account		
Supplemental funding for the Liberal Arts Career Services renovation in Rooms 20, 28, and 34 of the Flawn Academic Center.		

AMENDMENTS TO THE 2003-04 BUDGET (CONTINUED)

TRANSFERS OF FUNDS (CONTINUED)

<u>Description</u>	<u>\$ Amount</u>	<u>RBC #</u>
PLANT FUNDS (Continued)		
Physical Plant – Kinsolving Dormitory		
6. Amount of Transfer:	1,800,000	105
From: Auxiliary Enterprise Funds – Housing and Food Services – Division Office Other Expenses		
To: Kinsolving – Fire Protection and Renovation All Expenses		
Supplemental funding for fire protection and renovation in the food service area and lobby of Kinsolving Dormitory.		
Physical Plant – Kinsolving Dormitory		
7. Amount of Transfer:	700,000	106
From: Housing and Food Services General Repair and Replacement Allocation Account		
To: Kinsolving – Electrical Distribution Upgrades All Expenses Account		
Funding for an electrical distribution upgrade in Kinsolving Dormitory.		

PARKING AND TRAFFIC REGULATIONS

The following listing summarizes the substantive changes proposed to Parking and Traffic Regulations of The University of Texas at Austin. They have been approved by the Executive Vice Chancellor for Academic Affairs and the Office of General Counsel and are incorporated in model regulations approved by the U. T. Board of Regents. These regulations supersede all prior Parking and Traffic Regulations and continue in effect until modified.

<u>Page Number(s)</u>	<u>Summary of Proposed Substantive Change</u>
3	Definition of visitors to include "event" parkers.
4	Parking citation debts will be invoiced to the permit holder.
6	Penalty for blocking spaces for those with disabilities.
6	Garage access will be denied for overdue charges.
7	Upon receipt of a motor vehicle transfer notification (form VTR-346) from the Department of Motor Vehicle Records, the owner will be relieved of any liability for citations issued after that date.
8	Habitation in vehicles parked on U. T. Austin campus is prohibited.
9, 20-21	Addresses the use of and regulations for Electronic Personal Assistive Mobility Devices (EPAMD) on U. T. Austin campus.
10	New definition of "park" (attended or unattended).
13	Clarification of penalties for possession or use of a lost, stolen, forged, or altered parking permit.
13-14	Extended parking (over 72 hours) must be coordinated with Parking and Transportation Services.
15	Employees who fail to abide by the parking regulations may be referred to their Dean or Director for further action and may have their parking privileges suspended with no refund.
16-17	Event signage outlining all parking restrictions and reserved parking areas will be put into place at least 72 hours before any University sponsored event. Any event which impacts parking on the University campus must be coordinated with Parking and Transportation Services.
17	Extended hours of meter to "24 hours a day" with a 30 minute limit.

PARKING AND TRAFFIC REGULATIONS (CONTINUED)

<u>Page Number(s)</u>	<u>Summary of Proposed Substantive Change</u>
18	Penalties for improper exit or misuse of garage access cards.
20, 50	Added penalty of immobilization by booting of bicycles or EPAMDs that are not parked according to these regulations.
20	Added "Low-Powered Electrical Bicycles" in the description for bicycles.
20	Added "Department Chair" as an authority who may give permission to store bicycles in buildings.
21	Bicycles or EPAMDs stored for more than five days after University housing closes will be considered abandoned and shall be deemed University property for disposal.
24, 33	Night Horn permit described.
25	Added penalty of citation for failure to display a permit.
30	Eliminated salary criteria for Class "F" permit applications.
32	Added clarification as to who is responsible for the purchase of a Class "AN" (Shift Worker) permit.
32	Surface parking overnight by students extended to 4:00 a.m. in lots west of the Interstate Highway.
34	Class "M" (Motorcycle) permits are no longer available at no cost to Class "R" (Resident) permit holders.
37	U. T. Share Garage Pass allows any faculty/staff member an opportunity to purchase a University debit card for use in garages on a space available basis.
40	Class "VN" (Vendor) permit fee must be paid by either the vendor or the coordinating University department.
51	Impoundment procedure for customer returning prior to the actual impound.
51	Boot procedure for customer returning prior to the installation of the boot.

FEES AND MISCELLANEOUS CHARGES

PARKING PERMIT FEES

Approval is recommended for the following parking permit fees to be effective beginning with the Fall Semester 2003. The Student Fees Advisory Committee, as required under Section 54.514 of the Texas Education Code, has approved the fees. The fees have also been administratively approved by the Executive Vice Chancellor for Academic Affairs.

Following Regental approval, the appropriate catalog will be amended to reflect these new fees.

	<u>Current Rates \$</u>	<u>Proposed Rates \$</u>	<u>Percent Increase</u>
<u>Academic Year:</u>			
<u>Student (Garage)</u>			
Permit "R"	616	648	5.19%
Permit "S"	510	540	5.88%
<u>Student (Surface)</u>			
Permit "C"	89	100	12.36%
Permit "C+"	139	160	15.11%
Permit "DC"	89	100	12.36%
<u>Employee/Student</u>			
Permit "E"	50	60	20.00%
Permit "M"	50	60	20.00%
Permit "N"	50	60	20.00%
<u>Annual Fee:</u>			
<u>Employee</u>			
Permit "A"	108	120	11.11%
Permit "AN"	n/a	30	n/a
Permit "D"	108	120	11.11%
Permit "F"	381	420	10.24%
Permit "FDP"	381	420	10.24%
Permit "F21"	600	672	12.00%
Permit "F99"	600	672	12.00%
Permit "O"	600	672	12.00%
Permit "VN"	381	420	10.24%

FEEES AND MISCELLANEOUS CHARGES (CONTINUED)

PARKING PERMIT FEES (CONTINUED)

	<u>Current Rates \$</u>	<u>Proposed Rates \$</u>	<u>Percent Increase</u>
<u>Single Semester Fee: Student (Garage)</u>			
Permit "R"	336	360	7.14%
Permit "S"	240	256	6.67%
<u>Single Semester Fee: Employee/Student</u>			
Permit "N"	35	44	25.71%
<u>Summer Semester Fee: Employee/Student</u>			
Permit "N"	25	30	20.00%

FEES AND MISCELLANEOUS CHARGES (CONTINUED)

PARKING ENFORCEMENT FEES

Approval is recommended for the following parking enforcement fees to be effective beginning with the Fall Semester 2004. The fees have been administratively approved by the Executive Vice Chancellor for Academic Affairs.

Following Regental approval, the appropriate catalog will be amended to reflect these new fees.

	<u>Current Rates \$</u>	<u>Proposed Rates \$</u>	<u>Percent Increase</u>
Inhabiting a vehicle of any kind on U. T. Austin property without authorization	n/a	50	n/a
Improper exit from a U. T. Austin parking garage (plus maximum daily fee due)	n/a	25	n/a

**APPOINTMENT, REAPPOINTMENT, OR PROMOTION OF RELATIVES
AND MARRIAGE OF CERTAIN EMPLOYEES**

The following personnel actions involving the appointment, reappointment, or promotion of relatives have been administratively approved by the Executive Vice Chancellor for Academic Affairs. The personnel actions are consistent with the provisions of Section 573.001 of the Texas Government Code and the Regents' Rules and Regulations, Part One, Chapter III, Section 5.

<u>College, Department, Title, Name</u>	<u>College, Department, Title, Name</u>
PROPOSED REAPPOINTMENT	RELATIVE
1. Office of the President President Larry R. Faulkner	Office of the President Special Assistant Mary Ann Faulkner (spouse)*
2. Red McCombs School of Business Accounting Professor Rowland Atiase	Red McCombs School of Business Accounting Lecturer Florence Atiase (spouse)
3. College of Education Educational Administration Sid W. Richardson Regents Chair in Community College Leadership John E. Roueche, Jr.	College of Education Educational Administration Senior Lecturer and Editor Suanne Roueche (spouse)
4. College of Engineering Biomedical Engineering Fletcher Stuckey Pratt Chair in Engineering Nicholas Peppas	College of Engineering Biomedical Engineering Research Professor Lisa Peppas (spouse)
5. College of Fine Arts Theatre and Dance Joanne Sharp Crosby Regents Chair in Design Technology Richard M. Isackes	College of Fine Arts Theatre and Dance Associate Professor Sharon Grady (spouse)
6. College of Liberal Arts Classics Raymond Dickson Centennial Professor Thomas Palaima	College of Liberal Arts Classics Senior Program Coordinator Carolyn Palaima (spouse)

*Mrs. Faulkner is not listed in the budget as she is appointed without compensation.

**APPOINTMENT, REAPPOINTMENT, OR PROMOTION OF RELATIVES
AND MARRIAGE OF CERTAIN EMPLOYEES (CONTINUED)**

<u>College, Department, Title, Name</u>	<u>College, Department, Title, Name</u>
PROPOSED APPOINTMENT (Continued)	RELATIVE
7. College of Natural Sciences Section of Integrative Biology Professor and Dean of College of Natural Sciences Mary Ann Rankin	College of Natural Sciences Section of Neurobiology Professor Wesley Thompson (spouse)
8. College of Natural Sciences Cellular and Molecular Biology Mr. and Mrs. Frank A. Smith, Jr. Regents Chair in Molecular Biology Alan Lambowitz	College of Natural Sciences Cellular and Molecular Biology Assistant Professor Ellen Gottlieb (spouse)
9. College of Pharmacy Clinical Assistant Professor Jon T. Albrecht	College of Pharmacy Clinical Instructor Linda S. Albrecht (spouse)
10. College of Pharmacy Clinical Associate Professor Yui-Wing Lam	College of Pharmacy Clinical Assistant Professor Chi –Yim Chan-Lam (spouse)
11. College of Pharmacy George H. Hitchings Chair in Drug Design Hung-Wen Liu	College of Pharmacy Research Associate Yung-Nan Liu (spouse)
12. College of Pharmacy Associate Professor Richard A. Morrisett	College of Pharmacy Research Associate Regina E. Maldve (spouse)
13. College of Pharmacy Alcon Centennial Professor in Chemistry Salomon Stavchansky	College of Pharmacy Teaching Assistant Marcus Stavchansky (son)
14. College of Pharmacy Johnson & Johnson Centennial Fellow in Pharmacy Robert O. Williams III	College of Pharmacy Director of Continuing Education Jill L. Williams (spouse)

**APPOINTMENT, REAPPOINTMENT, OR PROMOTION OF RELATIVES
AND MARRIAGE OF CERTAIN EMPLOYEES (CONTINUED)**

College, Department, Title, Name

College, Department, Title, Name

**PROPOSED APPOINTMENT
(Continued)**

RELATIVE

15. Marine Science Institute
Research Professor
Lee A. Fuiman

Marine Science Institute
Senior Office Assistant
Linda T. Fuiman (spouse)

16. Bureau of Business Research
Associate Director
J. Bruce Kellison

Bureau of Business Research
Editor II
Sally J. Furgeson (spouse)

NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS

The following personnel actions involving new tenure appointments and promotion within tenure ranks have been administratively approved by the Executive Vice Chancellor for Academic Affairs. The personnel actions have been included in the 2005 Annual Operating Budget of each component institution and are consistent with the Regents' Rules and Regulations, Part One, Chapter III, Section 6, Section 6.2, Subsection 6.25.

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
School of Architecture		
Architecture and Planning		
Michael Oden	Assistant Professor (NT)	Associate Professor (T)
Vincent L. Snyder	Assistant Professor (NT)	Associate Professor (T)
Nichole Wiedemann	Assistant Professor (NT)	Associate Professor (T)
College of Business		
Administration		
Accounting		
Michael B. Clement	Assistant Professor (NT)	Associate Professor (T)
Finance		
Zhenyu Wang	New	Associate Professor (T)
Management		
Edward G. Anderson, Jr.	Assistant Professor (NT)	Associate Professor (T)
Alison Davis-Blake	Professor (T)	Eddy Clark Scurlock Centennial Professor in Management (T)
Management Science and Information Systems		
Paul Damien	New	B.M. (Mack) Rankin, Jr. Professor in Business Administration (T)
Jonathan J. Koehler	Associate Professor (T)	Distinguished Teaching Professor (T)
Prabhudev C. Konana	Associate Professor (T)	Distinguished Teaching Professor (T)
Marketing Administration		
Susan M. Broniarczyk	Associate Professor (T)	Professor (T)

**NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS
(CONTINUED)**

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
College of Communication		
Advertising		
Geraldine R. Henderson	New	Associate Professor (T)
Deborah K. Morrison	Associate Professor (T)	William David Blunk Memorial Professor (T)
Radio-Television-Film		
Andrew S. Garrison	Assistant Professor (NT)	Associate Professor (T)
School of Journalism		
Maggie R. Rodriguez	Assistant Professor (NT)	Associate Professor (T)
College of Education		
Curriculum and Instruction		
Susan B. Empson	Assistant Professor (NT)	Associate Professor (T)
Special Education		
Diane P. Bryant	Associate Professor (T)	Professor (T)
College of Engineering		
Aerospace Engineering and Engineering Mechanics		
Jeffrey K. Bennighof	Associate Professor (T)	Professor (T)
Glenn Lightsey	Assistant Professor (NT)	Associate Professor (T)
Civil Engineering		
Carl T. Haas	Professor (T)	Clyde E. Lee Endowed Professor in Transportation Engineering (T)
Spyridon A. Kinnas	Associate Professor (T)	Professor (T)
Kara Kockelman	Assistant Professor (NT)	Associate Professor (T)
Ellen M. Rathje	Assistant Professor (NT)	Associate Professor (T)
Danny D. Reible	New	Bettie Margaret Smith Chair in Environmental Health Engineering (T)
Eric B. Williamson	Assistant Professor (NT)	Associate Professor (T)

**NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS
(CONTINUED)**

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
College of Engineering (Continued)		
Electrical and Computer Engineering Dennis G. Deppe	Professor (T)	Cullen Trust for Higher Education Endowed Professor in Engineering #5 (T)
Mechanical Engineering Steven P. Nichols	Associate Professor (T)	Clint W. Murchison, Sr. Fellow of Free Enterprise (T)
Elmira Popova	Assistant Professor (NT)	Associate Professor (T)
Petroleum & Geosystems Engineering Carlos Torres-Verdin	Assistant Professor (NT)	Associate Professor (T)
College of Fine Arts		
Art and Art History Troy D. Brauntuch Glenn A. Peers	Assistant Professor (NT) Assistant Professor (NT)	Associate Professor (T) Associate Professor (T)
Music Jeffrey L. Hellmer	Professor (T)	E.W. Doty Professor in Fine Arts (T)
Theatre and Dance James J. Glavan	Professor (T)	David Bruton, Jr. Regents Professor in Fine Arts (T)
Lynn C. Miller	Associate Professor (T)	Professor (T)
College of Liberal Arts		
American Studies Janet M. Davis	Assistant Professor (NT)	Associate Professor (T)
Asian Studies Sung-Sheng Chang Patricia Maclachlan	Associate Professor (T) Assistant Professor (NT)	Professor (T) Associate Professor (T)

**NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS
(CONTINUED)**

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
College of Liberal Arts (Continued)		
English		
Douglas S. Bruster	Assistant Professor (NT)	Associate Professor (T)
Ann Cvetkovich	Associate Professor (T)	Professor (T)
Jose E. Limon	Professor (T)	Mody C. Boatright Regents Professor in American and English Literature (T)
Adam Z. Newton	Professor (T)	Jane and Roland Blumberg Centennial Professor in English (No. 2) (T)
Roger D. Renwick	Associate Professor (T)	Professor (T)
Geography		
Paul F. Hudson	Assistant Professor (T)	Associate Professor (T)
Germanic Studies		
Sabine Hake	New	Texas Chair of German Literature and Culture (T)
Government		
Gary J. Jacobson	New	Patterson-Bannister Chair And H. Malcolm Macdonald Chair in Constitutional and Comparative Law (T)
Thomas L. Pangle	New	Joe R. Long Endowed Chair in Democratic Studies (T)
Kurt G. Weyland	Associate Professor (T)	Professor (T)
History		
Alison K. Frazier	Assistant Professor (T)	Associate Professor (T)
Seth W. Garfield	Assistant Professor (T)	Associate Professor (T)
Linguistics		
Samuel K. Walters	Associate Professor (T)	Professor (T)

**NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS
(CONTINUED)**

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
College of Liberal Arts (Continued)		
Rhetoric and Composition		
Joan M. Mullin	New	Professor (T)
Patricia Roberts-Miller	Assistant Professor (NT)	Associate Professor (T)
Jeffrey Walker	New	Professor (T)
Sociology		
Robert A. Hummer	Associate Professor (T)	Professor (T)
Marc A. Musick	Assistant Professor (NT)	Associate Professor (T)
College of Natural Sciences		
Astronomy		
Karl Gebhart	Assistant Professor (NT)	Associate Professor (T)
Chemistry and Biochemistry		
Eric V. Anslyn	Professor (T)	Norman Hackerman Professor in Chemistry and Distinguished Teaching Professor (T)
Brent L. Iverson	Professor (T)	Warren J. and Viola Mae Raymer Professor and Distinguished Teaching Professor (T)
Michael J. Krische	Assistant Professor (NT)	Professor (T)
John F. Stanton	Professor (T)	George W. Watt Centennial Professor (T)
Computer Sciences		
Douglas C. Burger	Assistant Professor (NT)	Associate Professor (T)
Anna Gal	Assistant Professor (NT)	Associate Professor (T)
Stephen W. Keckler	Assistant Professor (NT)	Associate Professor (T)
Harrick M. Vin	Associate Professor (T)	Professor (T)
Human Ecology		
Deborah B. Jacobvitz	Associate Professor (T)	Professor (T)
Bugao Xu	Associate Professor (T)	Professor (T)
Mathematics		
Sean M. Keel	Associate Professor (T)	Professor (T)

**NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS
(CONTINUED)**

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
College of Natural Sciences (Continued)		
Physics		
Fred C. Moore	Professor (T)	Marian Harris Thornberry Centennial Professor Mathematics or Physics (T)
Section of Integrative Biology		
David M. Parichy	Assistant Professor (NT)	Associate Professor (T)
College of Pharmacy		
Pharmacy		
Jamie C. Barner	Assistant Professor (NT)	Associate Professor (T)
Christine L. Duvauchelle	Assistant Professor (NT)	Associate Professor (T)
Robert O. Williams III	Associate Professor (T)	Johnson & Johnson Centennial Fellow in Pharmacy (T)
Lyndon B. Johnson School of Public Affairs		
LBJ School of Public Affairs		
William G. Spellman	Associate Professor (T)	Professor (T)
School of Social Work		
Social Work		
King E. Davis	Professor (T)	Hogg Professor in Sociology (T)

OTHER MATTERS

APPROVAL OF DUAL POSITIONS OF HONOR, TRUST, OR PROFIT

The following item has been approved by the Executive Vice Chancellor for Academic Affairs in accordance with the Regents' Rules and Regulations, Part One, Chapter III, Section 13 and is submitted for approval by the U. T. Board of Regents. It has been determined that the holding of this office or position is of benefit to the State of Texas and The University of Texas and there is no conflict between holding the position and the appointment of Dr. Flamm with The University of Texas at Austin.

By approval of this item, the Board is also asked to find that holding this position is of benefit to the State of Texas and The University of Texas and there is no conflict between the position and the University appointment.

- | | |
|---------------|---|
| Name: | Dr. Kenneth S. Flamm |
| Title: | Professor, LBJ School of Public Affairs |
| Position: | Member of the Board on Science, Technology, and Economic Policy of The National Academies |
| Period: | October 1, 2003 through October 31, 2006 |
| Compensation: | None |
| Description: | Dr. Richard E. Bissell, Executive Director of the Policy and Global Affairs Division of The National Academies appointed Dr. Flamm to serve as a member of the Board on Science, Technology, and Economic Policy. This Board makes the initial review of research projects and follows up with recommendations to the Policy and Global Affairs Division as to which projects should be funded. |

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004

Pursuant to Section 51.403 of the Texas Education Code and Section 5.301 of the Texas Higher Education Coordinating Board Rules, a report for the record regarding the teaching of small classes has been filed. The institution has reviewed the data in this report and, as appropriate, made administrative changes to ensure that teaching such small classes continues to be justified. The detailed listing of small classes is available in the U. T. System Office of Academic Affairs and is summarized as follows:

Organized Undergraduate Classes with Fewer than 10 Enrolled Students

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	58	33	91	93
b. To keep proper sequence	75	112	187	155
c. New program	0	0	0	0
d. Cross listed	28	26	54	37
e. First time offered	0	0	0	0
f. Accreditation or licensing standard	7	12	19	8
g. Limited facilities	0	0	0	0
Subtotal	168	183	351	293
h. Voluntarily offered	23	8	31	24
Total	191	191	382	317

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004 (CONTINUED)

**Organized Graduate Classes with
Fewer than 5 Enrolled Students**

<u>Primary Reasons for Teaching</u>	<u>Fall</u>	<u>Spring</u>	<u>Total</u>	<u>Prior Year Total</u>
a. Required for graduation	10	11	21	44
b. To keep proper sequence	36	45	81	38
c. New program	0	0	0	0
d. Cross listed	45	56	101	100
e. First time offered	4	0	4	0
f. Accreditation or licensing standard	9	7	16	22
g. Limited facilities	0	0	0	0
Subtotal	104	119	223	204
h. Voluntarily offered	0	0	0	0
Total	104	119	223	204

U. T. BROWNSVILLE
AMENDMENTS TO THE 2003-04 BUDGET

TRANSFERS OF FUNDS

The following Requests for Budget Change (RBC) have been administratively approved by the Executive Vice Chancellor for Academic Affairs and are recommended for approval by the U. T. Board of Regents:

<u>Description</u>	<u>\$ Amount</u>	<u>RBC #</u>
Education and General Fund		
1. Amount of Transfer:	3,040,000	28
From: Fund Balance		
To: Life Health Sciences II Education and Business Complex Maintenance and Operations		

This transfer is needed to fund building and/or equipment needs for the new Education and Business Complex. Construction is ongoing and funds will be used to continue construction and ordering of essential equipment.

2. Amount of Transfer:	800,000	29
From: Fund Balance		
To: Higher Education Assistance Fund (HEAF) – Academic Affairs Non-Capitalized Equipment and HEAF – Academic Affairs Capitalized Equipment		

To set up HEAF Budget for Academic Affairs to purchase equipment needed for research, update old computers and lab equipment.

**APPOINTMENT, REAPPOINTMENT, OR PROMOTION OF RELATIVES
AND MARRIAGE OF CERTAIN EMPLOYEES**

The following personnel action involving the appointment, reappointment, or promotion of relatives has been administratively approved by the Executive Vice Chancellor for Academic Affairs. The personnel action is consistent with the provisions of Section 573.001 of the Texas Government Code and the Regents' Rules and Regulations, Part One, Chapter III, Section 5.

College, Department, Title, Name

College, Department, Title, Name

PROPOSED REAPPOINTMENT

RELATIVE

1. **College of Liberal Arts**

Fine Arts
Chairperson/Assoc. Professor
Sue Zanne Urbis

Fine Arts
Associate Professor
Richard J. Urbis (spouse)

NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS

The following personnel actions involving new tenure appointments and promotion within tenure ranks have been administratively approved by the Executive Vice Chancellor for Academic Affairs. The personnel actions have been included in the 2005 Annual Operating Budget of each component institution and are consistent with the Regents' Rules and Regulations, Part One, Chapter III, Section 6, Section 6.2, Subsection 6.25.

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
School of Business		
Business Technology Irma Jones	Associate Professor (T)	Professor (T)
Business Administration Rafael Otero	Assistant Professor (NT)	Associate Professor (T)
School of Health Sciences		
Allied Health Shamina Davis	Associate Master Technical Instructor (T)	Master Technical Instructor (T)
Ana Linville	Technical Instructor (NT)	Assistant Master Technical Instructor (T)
Nursing Suzanne Dougherty Nancy Tang Elizabeth Freeth	Instructor (NT) Instructor (NT) Associate Master Technical Instructor (NT)	Assistant Professor (NT) Assistant Professor (NT) Associate Master Technical Instructor (T)
Vocational Nursing Virginia M. Maxwell	Assistant Master Technical Instructor (NT)	Associate Master Technical Instructor (T)
Norma Lee Loya	Assistant Master Technical Instructor (NT)	Assistant Master Technical Instructor (T)

**NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS
(CONTINUED)**

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
College of Science		
Mathematics and Technology		
Biological Sciences		
Luis V. Colom	Associate Professor (NT)	Professor (T)
Larry L�f	Assistant Professor (NT)	Assistant Professor (T)
Mathematics		
Raymond Simonsen	Assistant Professor (T)	Associate Master Technical Instructor (T)
Jorge Navarro	Associate Professor (NT)	Associate Professor (T)
Physics and Astronomy		
Natalia Guevara	Assistant Professor (NT)	Associate Professor (NT)
Computer Sciences		
Mahmoud Quweider	Assistant Professor (NT)	Associate Professor (T)
College of Liberal Arts		
English and Speech		
William H. Harris	Associate Master Technical Instructor (T)	Master Technical Instructor (T)
Mohammed N. Islam	Assistant Professor (NT)	Associate Professor (T)
Julie Larson	Associate Master Technical Instructor (T)	Master Technical Instructor (T)
Behavioral Sciences		
Virginia Wood	Associate Professor (T)	Professor (T)
Social Sciences		
Charles Chapman	Associate Professor (NT)	Associate Professor (T)
Fine Arts		
George Lorio	Associate Professor (NT)	Associate Professor (T)

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004

Pursuant to Section 51.403 of the Texas Education Code and Section 5.301 of the Texas Higher Education Coordinating Board Rules, a report for the record regarding the teaching of small classes has been filed. The institution has reviewed the data in this report and, as appropriate, made administrative changes to ensure that teaching such small classes continues to be justified. The detailed listing of small classes is available in the U. T. System Office of Academic Affairs and is summarized as follows:

Organized Undergraduate Classes with Fewer than 10 Enrolled Students

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	11	17	28	38
b. To keep proper sequence	23	23	46	17
c. New program	5	5	10	10
d. Cross listed	19	19	38	23
e. First time offered	1	0	1	9
f. Accreditation or licensing standard	1	0	1	0
g. Limited facilities	1	0	1	0
Subtotal	61	64	125	97
h. Voluntarily offered	0	2	2	5
Total	61	66	127	102

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004 (CONTINUED)

**Organized Graduate Classes with
Fewer than 5 Enrolled Students**

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	7	10	17	4
b. To keep proper sequence	0	0	0	1
c. New program	3	1	4	5
d. Cross listed	2	3	5	2
e. First time offered	0	1	1	4
f. Accreditation or licensing standard	0	0	0	0
g. Limited facilities	0	0	0	0
Subtotal	12	15	27	16
h. Voluntarily offered	1	2	3	6
Total	13	17	30	22

U. T. DALLAS

GIFTS

The following gift has been received, has been administratively approved by the President or his delegate and is recommended for approval by the U. T. Board of Regents:

1. Donor Name: Ms. Nancy B. Hamon
College/School/ Department: School of Arts and Humanities
Purpose: To establish the Margaret M. McDermott Distinguished Chair of Art and Aesthetic Studies
Asset Type: Cash
Value: \$1,000,000

AMENDMENTS TO THE 2003-04 BUDGET

The following Request for Budget Change (RBC) has been administratively approved by the Executive Vice Chancellor for Academic Affairs and is recommended for approval by the U. T. Board of Regents:

TRANSFERS OF FUNDS

<u>Description</u>	<u>\$ Amount</u>	<u>RBC #</u>
Erik Jonsson School of Engineering and Computer Science		
1. Amount of Transfer:	21,500,000	14
From: Texas Enterprise Fund		
To: U. T. Dallas – 529900 – TEF-Project Emmitt		

This adjustment is needed to establish budgets for Texas Enterprise Fund accounts.

OTHER FISCAL ITEMS

EMPLOYMENT AGREEMENTS

The following agreement has been awarded, has been approved by the Executive Vice Chancellor for Academic Affairs, and is recommended for approval by the U. T. Board of Regents. Such employment under these agreements is subject to the Constitution and Bylaws of the National Collegiate Athletic Association, any intercollegiate athletic conference of which The University of Texas at Dallas is a member, and the Rules and Regulations of the Board of Regents of The University of Texas System and the policies of The University of Texas at Dallas. The violation of the provisions of such constitution, bylaws, rules or regulations shall be grounds for suspension without pay or dismissal.

1. Item: Head Volleyball Coach
Funds: \$38,000 annually
Period: January 12, 2004 through August 31, 2004
Description: Agreement for employment of Head Volleyball Coach, Marci Sanders, for the above designated period following the standard coach's employment contract prepared by the Office of General Counsel.

FEEES AND MISCELLANEOUS CHARGES

PARKING PERMIT FEES

Approval is recommended for the following parking permit fee to be effective beginning with the Fall Semester 2004. The fee has been administratively approved by the Executive Vice Chancellor for Academic Affairs.

Following Regental approval, the appropriate component catalog will be amended to reflect this new fee.

	<u>Current Rates \$</u>	<u>Proposed Rates \$</u>	<u>Percent Increase</u>
Annual fees: <u>Student Permit Classifications</u>			
Evening Orange	n/a	\$160.00	n/a

NOTE: Evening Orange permits are issued for 12 months and allow evening students the opportunity to park in premium spaces previously vacant. Annual parking permit fees may be prorated for permits purchased for spring semester/summer session or for summer session only and at the discretion of the institution, refunds may be made for fall semester enrollment/employment only.

FEES AND MISCELLANEOUS CHARGES (CONTINUED)

PARKING AND TRAFFIC ENFORCEMENT FEES

Approval is recommended for the following parking enforcement fees to be effective beginning with the Fall Semester 2004. The fees have been administratively approved by the Executive Vice Chancellor for Academic Affairs.

Following Regental approval, the appropriate component catalog will be amended to reflect these new fees.

	<u>Current Rates \$</u>	<u>Proposed Rates \$</u>	<u>Percent Increase</u>
CLASS A			
Parking without a permit	20	40	100.00
Parking on campus with Waterview permit or parking at Waterview without Waterview permit	30	40	33.33
Parking Two Permit Levels Up	20	25	25.00
Parking Three Permit Levels Up	30	35	16.67
CLASS C – Moving Violations	50	60	20.00
Driving on sidewalks, walkways or curbs			
Exceeding posted speed limit			
Failure to stop			
Failure to yield right-of-way to pedestrians			
Illegal turn			
Leaving the scene of an accident			
Operating or parking a barred vehicle			
Parking behind barricades			
CLASS C – Non-moving Violations	35	40	14.29
Displaying expired license plates			
No inspection sticker/expired inspection			
Failure to show proof of liability insurance			
CLASS E			
Parking in a disabled space without authorization	100	120	20.00
Parking in loading zone without authorization or exceeding time limit	25	30	20.00
Parking in fire lane	50	60	20.00

**APPOINTMENT, REAPPOINTMENT, OR PROMOTION OF RELATIVES
AND MARRIAGE OF CERTAIN EMPLOYEES**

The following personnel action involving the appointment, reappointment, or promotion of relatives has been administratively approved by the Executive Vice Chancellor for Academic Affairs. The personnel action is consistent with the provisions of Section 573.001 of the Texas Government Code and the Regents' Rules and Regulations, Part One, Chapter III, Section 5.

College, Department, Title, Name

College, Department, Title, Name

PROPOSED APPOINTMENT

1. Office of the President
President
Franklyn G. Jenifer

RELATIVE

Office of the President
Special Assistant to the President
Alfleda Jenifer (spouse)*

*Mrs. Jenifer is not listed in the budget as she is appointed without compensation.

NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS

The following personnel actions involving new tenure appointments and promotion within tenure ranks have been administratively approved by the Executive Vice Chancellor for Academic Affairs. The personnel actions have been included in the 2005 Annual Operating Budget of each component institution and are consistent with the Regents' Rules and Regulations, Part One, Chapter III, Section 6, Section 6.2, Subsection 6.25.

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
School of Arts and Humanities		
Film Studies		
Adrienne McLean	Assistant Professor (NT)	Associate Professor (T)
School of Behavioral and Brain Sciences		
Communication Sciences		
Peter Assman	Associate Professor (T)	Professor (T)
Richard Golden	Associate Professor (T)	Professor (T)
Neuroscience		
Michael Kilgard	Assistant Professor (NT)	Associate Professor (T)
Stephen Lomber	Assistant Professor (NT)	Associate Professor (T)
School of Engineering and Computer Science		
Computer Science		
Jason Jue	Assistant Professor (NT)	Associate Professor (T)
Balakrishnan Prabhakaran	Assistant Professor (NT)	Associate Professor (T)
Electrical Engineering		
Mehrdad Nourani	Assistant Professor (NT)	Associate Professor (T)
Philipos Loizou	Associate Professor (T)	Professor (T)
School of Management		
Accounting		
Surya Janakiraman	Assistant Professor (NT)	Associate Professor (T)
Ramachandran Natarajan	Assistant Professor (NT)	Associate Professor (T)
School of Natural Sciences and Mathematics		
Geosciences		
Janok Bhattacharya	Associate Professor (T)	Professor (T)

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004

Pursuant to Section 51.403 of the Texas Education Code and Section 5.301 of the Texas Higher Education Coordinating Board Rules, a report for the record regarding the teaching of small classes has been filed. The institution has reviewed the data in this report and, as appropriate, made administrative changes to ensure that teaching such small classes continues to be justified. The detailed listing of small classes is available in the U. T. System Office of Academic Affairs and is summarized as follows:

Organized Undergraduate Classes with Fewer than 10 Enrolled Students

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	8	10	18	39
b. To keep proper sequence	16	22	38	44
c. New program	0	0	0	0
d. Cross listed	49	51	100	147
e. First time offered	0	0	0	12
g. Accreditation or licensing standard	0	0	0	0
g. Limited facilities	0	0	0	0
Subtotal	73	83	156	242
h. Voluntarily offered	14	3	17	4
Total	87	86	173	246

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004 (CONTINUED)

**Organized Graduate Classes with
Fewer than 5 Enrolled Students**

<u>Primary Reasons for Teaching</u>	<u>Fall</u>	<u>Spring</u>	<u>Total</u>	<u>Prior Year Total</u>
a. Required for graduation	5	2	7	9
b. To keep proper sequence	6	9	15	12
c. New program	0	0	0	0
d. Cross listed	17	23	40	36
e. First time offered	0	3	3	3
f. Accreditation or licensing standard	0	0	0	0
g. Limited facilities	0	0	0	0
Subtotal	28	37	65	60
h. Voluntarily offered	4	8	12	8
Total	32	45	77	68

U. T. EL PASO

OTHER FISCAL ITEMS

EMPLOYMENT AGREEMENTS

The following agreements have been awarded, have been approved by the Executive Vice Chancellor for Academic Affairs, and are recommended for approval by the U. T. Board of Regents. Such employment under these agreements is subject to the Constitution and Bylaws of the National Collegiate Athletic Association, any intercollegiate athletic conference of which The University of Texas at El Paso is a member, and the Rules and Regulations of the Board of Regents of The University of Texas System and the policies of The University of Texas at El Paso. The violation of the provisions of such constitution, bylaws, rules or regulations shall be grounds for suspension without pay or dismissal.

1. Item: Head Football Coach
Funds: \$225,000 annually
Period: December 21, 2003 through August 31, 2009
Description: Agreement for employment of Head Football Coach, Michael Bruce Price, for the above designated period following the standard coach's employment contract prepared by the Office of General Counsel.

2. Item: Head Basketball Coach
Funds: \$180,000 annually
Period: March 29, 2004 through March 31, 2009
Description: Agreement for employment of Head Basketball Coach, Kenneth Lee Sadler, for the above designated period following the standard coach's employment contract prepared by the Office of General Counsel.

**APPOINTMENT, REAPPOINTMENT, OR PROMOTION OF RELATIVES
AND MARRIAGE OF CERTAIN EMPLOYEES**

The following personnel actions involving the appointment, reappointment, or promotion of relatives have been administratively approved by the Executive Vice Chancellor for Academic Affairs. The personnel actions are consistent with the provisions of Section 573.001 of the Texas Government Code and the Regents' Rules and Regulations, Part One, Chapter III, Section 5.

College, Department, Title, Name

College, Department, Title, Name

PROPOSED APPOINTMENT

RELATIVE

1. Intercollegiate Athletics
Head Football Coach
Michael Price (father)

Intercollegiate Athletics
Assistant Head Football Coach
Aaron Price

2. Intercollegiate Athletics
Head Football Coach
Michael Price (father)

Intercollegiate Athletics
Assistant Head Football Coach
Eric Price

PROPOSED REAPPOINTMENT

RELATIVE

3. College of Business Administration
Institute for Policy and Economic
Development
Director
Dennis Soden (husband)

College of Business Administration
Institute for Policy and Economic
Development
Coordinator
Janet Conary

NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS

The following personnel actions involving new tenure appointments and promotion within tenure ranks have been administratively approved by the Executive Vice Chancellor for Academic Affairs. The personnel actions have been included in the 2005 Annual Operating Budget of each component institution and are consistent with the Regents' Rules and Regulations, Part One, Chapter III, Section 6, Section 6.2, Subsection 6.25.

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
College of Business		
Administration		
Marketing & Management		
Richard Posthuma	Assistant Professor (NT)	Associate Professor (T)
College of Education		
Teacher Education		
Judith Munter	Assistant Professor (NT)	Associate Professor (T)
College of Engineering		
Mechanical Engineering		
Rafael Gutierrez	Assistant Professor (NT)	Associate Professor (T)
College of Health Sciences		
Health Sciences		
Meg Weigel	Associate Professor (NT)	Professor (T)
College of Liberal Arts		
Communication		
Larry Erbert	Associate Professor (NT)	Associate Professor (T)
English		
Kate Mangelsdorf	Associate Professor (T)	Professor (T)
Evelyn Posey	Associate Professor (T)	Professor (T)
Political Science		
Irasema Coronado	Assistant Professor (NT)	Associate Professor (T)
Theatre Arts		
Cynthia Haines	Assistant Professor (NT)	Associate Professor (T)
Greg Taylor	Assistant Professor (NT)	Associate Professor (T)
Psychology		
John Wiebe	Assistant Professor (NT)	Associate Professor (T)

**NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS
(CONTINUED)**

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
College of Science		
Biological Science		
Carl Lieb	Associate Professor (T)	Professor (T)
Geological Science		
Elizabeth Anthony	Associate Professor (T)	Professor (T)

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004

Pursuant to Section 51.403 of the Texas Education Code and Section 5.301 of the Texas Higher Education Coordinating Board Rules, a report for the record regarding the teaching of small classes has been filed. The institution has reviewed the data in this report and, as appropriate, made administrative changes to ensure that teaching such small classes continues to be justified. The detailed listing of small classes is available in the U. T. System Office of Academic Affairs and is summarized as follows:

Organized Undergraduate Classes with Fewer than 10 Enrolled Students

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	5	13	18	17
b. To keep proper sequence	9	10	19	7
c. New program	2	5	7	5
d. Cross listed	111	86	197	154
e. First time offered	4	1	5	1
f. Accreditation or licensing standard	0	0	0	1
g. Limited facilities	0	4	4	2
Subtotal	131	119	250	187
h. Voluntarily offered	9	6	15	15
Total	140	125	265	202

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004 (CONTINUED)

**Organized Graduate Classes with
Fewer than 5 Enrolled Students**

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	1	0	1	10
b. To keep proper sequence	3	0	3	3
c. New program	3	1	4	2
d. Cross listed	16	19	35	37
e. First time offered	0	1	1	1
f. Accreditation or licensing standard	0	1	1	0
g. Limited facilities	1	0	1	0
Subtotal	24	22	46	53
h. Voluntarily offered	2	1	3	5
Total	26	23	49	58

U. T. PAN AMERICAN

OTHER FISCAL ITEMS

EMPLOYMENT AGREEMENTS

The following agreement has been awarded, has been approved by the Chancellor, and is recommended for approval by the U. T. Board of Regents. Such employment under these agreements is subject to the Rules and Regulations of the Board of Regents of The University of Texas System and the policies of The University of Texas - Pan American.

1. Item: President
Funds: \$235,000 annually
Period: Beginning August 23, 2004
Description: Agreement for employment of Dr. Blandina Cardenas as President of The University of Texas – Pan American. The President reports to the Chancellor and the Executive Vice Chancellor for Academic Affairs and shall hold office without fixed term subject to the pleasure of the Chancellor. Dr. Cardenas will receive \$45,600 as a salary supplement in lieu of a housing allowance pursuant to approved policy. All reasonable moving expenses from San Antonio to Arlington, Texas will be reimbursed. Dr. Cardenas is also appointed as a Professor, with tenure, in the College of Education, with an initial academic rate of \$90,000 per year. During her presidency, Dr. Cardenas will not be paid a salary as Professor.

OTHER FISCAL ITEMS (CONTINUED)

EMPLOYMENT AGREEMENTS (CONTINUED)

The following agreements have been awarded, have been approved by the Executive Vice Chancellor for Academic Affairs, and are recommended for approval by the U. T. Board of Regents. Such employment under these agreements is subject to the Constitution and Bylaws of the National Collegiate Athletic Association, any intercollegiate athletic conference of which The University of Texas – Pan American is a member, and the Rules and Regulations of the Board of Regents of The University of Texas System and the policies of The University of Texas – Pan American. The violation of the provisions of such constitution, bylaws, rules or regulations shall be grounds for suspension without pay or dismissal.

2. Item: Head Women's Basketball Coach
Funds: \$65,000 annually
Period: April 1, 2004 through March 31, 2005
Description: Agreement for employment of Head Women's Basketball Coach, DeAnn Croft, for the above designated period following the standard coach's employment contract prepared by the Office of General Counsel.
3. Item: Head Men's Basketball Coach
Funds: \$80,083 annually
Period: June 7, 2004 through August 31, 2005
Description: Agreement for employment of Head Men's Basketball Coach, Robert Davenport, for the above designated period following the standard coach's employment contract prepared by the Office of General Counsel.

**APPOINTMENT, REAPPOINTMENT, OR PROMOTION OF RELATIVES
AND MARRIAGE OF CERTAIN EMPLOYEES**

The following personnel action involving the appointment, reappointment, or promotion of relatives has been administratively approved by the Executive Vice Chancellor for Academic Affairs. The personnel action is consistent with the provisions of Section 573.001 of the Texas Government Code and the Regents' Rules and Regulations, Part One, Chapter III, Section 5.

College, Department, Title, Name

College, Department, Title, Name

PROPOSED REAPPOINTMENT

1. College of Education
Office of the Dean
Dean
Hilda Medrano

RELATIVE

College of Education
Educational Psychology
Professor
Ralph Carlson (spouse)

NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS

The following personnel actions involving new tenure appointments and promotion within tenure ranks have been administratively approved by the Executive Vice Chancellor for Academic Affairs. The personnel actions have been included in the 2005 Annual Operating Budget of each component institution and are consistent with the Regents' Rules and Regulations, Part One, Chapter III, Section 6, Section 6.2, Subsection 6.25.

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
College of Arts and Humanities		
Modern Languages & Literature Jose Maria Martinez	Assistant Professor (NT)	Associate Professor (T)
College of Business Administration		
Accounting and Business Law Raymond Landry	Associate Professor (NT)	Associate Professor (T)
Economics, Finance & General Business Cynthia Ann Brown	Assistant Professor (NT)	Associate Professor (T)
Management, Marketing & International Business Angela Hausman	Assistant Professor (NT)	Associate Professor (T)
College of Education		
Curriculum and Instruction Veronica L. Estrada	Assistant Professor (NT)	Associate Professor (T)
Educational Psychology Terry Patrice Overton	Associate Professor (NT)	Professor (T)
College of Science and Engineering		
Electrical Engineering Mounir Ben Ghalia	Assistant Professor (NT)	Associate Professor (T)

**NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS
(CONTINUED)**

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
College of Science and Engineering (Continued)		
Mechanical Engineering		
Karen Lozano	Assistant Professor (NT)	Associate Professor (T)
Ala Rafat Quabbaj	Assistant Professor (NT)	Associate Professor (T)
College of Health Sciences and Human Services		
Communication Sciences & Disorders		
Nola Radford	Associate Professor (T)	Professor (T)
Rehabilitation Services		
Charles Robert Reid	Assistant Professor (NT)	Associate Professor (T)
Occupational Therapy		
Angela Scoggin	Associate Professor (NT)	Associate Professor (T)
Pharmacy Program		
Mark C. Granberry	Assistant Professor (NT)	Associate Professor (T)

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004

Pursuant to Section 51.403 of the Texas Education Code and Section 5.301 of the Texas Higher Education Coordinating Board Rules, a report for the record regarding the teaching of small classes has been filed. The institution has reviewed the data in this report and, as appropriate, made administrative changes to ensure that teaching such small classes continues to be justified. The detailed listing of small classes is available in the U. T. System Office of Academic Affairs and is summarized as follows:

Organized Undergraduate Classes with Fewer than 10 Enrolled Students

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	1	3	4	2
b. To keep proper sequence	3	7	10	12
c. New program	0	1	1	1
d. Cross listed	35	33	68	67
e. First time offered	1	4	5	0
f. Accreditation or licensing standard	0	0	0	6
g. Faculty limited	9	5	14	15
Subtotal	49	53	102	103
h. Voluntarily offered	30	26	56	186
i. Administrative	9	2	11	9
Total	88	81	169	298

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004 (CONTINUED)

**Organized Graduate Classes with
Fewer than 5 Enrolled Students**

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	0	1	1	2
b. To keep proper sequence	0	4	4	5
c. New program	0	0	0	1
d. Cross listed	6	8	14	14
e. First time offered	1	0	1	1
f. Accreditation or licensing standard	0	0	0	0
g. Faculty limited	11	8	19	16
Subtotal	18	21	39	39
h. Voluntarily offered	1	4	5	63
i. Administrative	0	0	0	1
Total	19	25	44	103

U. T. PERMIAN BASIN

AMENDMENTS TO THE 2003-04 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Requests for Budget Change (RBC) have been administratively approved by the Executive Vice Chancellor for Academic Affairs and are recommended for approval by the U. T. Board of Regents:

<u>Description</u>	<u>Effective Date</u>	<u>% Time</u>	<u>Full-time Salary</u>		<u>RBC #</u>
			<u>No. Mos.</u>	<u>Rate \$</u>	
BEHAVIORAL SCIENCE					
1. Robert L. Perry (T)					2
From: Associate Professor		100	09	47,195	
To: Associate Professor and Department Chair	11/1-08/31	75 25	09 12	35,396 16,500	
2. Lois S. Hale (T)					3
From: Professor and Department Chair		75 25	09 12	48,002 20,219	
To: Professor and Assistant Dean	2/1-08/31	75 25	09 12	48,002 21,334	
HUMANITIES AND FINE ARTS					
3. Christopher J. Stanley (T)					4
From: Associate Professor		100	09	48,580	
To: Associate Professor and Department Chair	11/1-8/31	75 25	09 12	36,435 16,500	

AMENDMENTS TO THE 2003-04 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

<u>Description</u>	<u>Effective Date</u>	<u>% Time</u>	<u>No. Mos.</u>	<u>Full-time Salary Rate \$</u>	<u>RBC #</u>
SCHOOL OF EDUCATION					
4. Rebecca S. Oekerman (T)					5
From: Associate Professor		100	09	47,126	
To: Associate Professor and Assistant Dean	3/1-8/31	75 25	09 12	35,345 15,708	
BEHAVIORAL SCIENCE					
Sociology					
Professor Emeritus					
5. Robert C. Rhodes (T)	9/31-8/31				6

TRANSFERS OF FUNDS

<u>Description</u>	<u>\$ Amount</u>	<u>RBC #</u>
Center for Energy and Economic Development		
6. Amount of Transfer :	110,000	7
From: LERR - Equipment (501-100) FY 02/03		
To: LERR - Critical Water Systems Problems		

Transfer funds to project for resolving critical water systems problems for the Center for Energy and Economic Development.

**APPOINTMENT, REAPPOINTMENT, OR PROMOTION OF RELATIVES
AND MARRIAGE OF CERTAIN EMPLOYEES**

The following personnel actions involving the appointment, reappointment, or promotion of relatives have been administratively approved by the Executive Vice Chancellor for Academic Affairs. The personnel actions are consistent with the provisions of Section 573.001 of the Texas Government Code and the Regents' Rules and Regulations, Part One, Chapter III, Section 5, Subsection 5.

<u>College, Department, Title, Name</u>	<u>College, Department, Title, Name</u>
PROPOSED REAPPOINTMENT	RELATIVE
1. Office of the President President W. David Watts	Office of the President Associate to the Chief Administrative Officer Denise Watts (spouse)*
2. Learning Resource Center Director Charlene Shults	Learning Resource Center Professional Librarian Terrance Shults (spouse)
3. Information Resources Division Assistant Vice President/Director J. Keith Yarbrough	Information Resources Division System Analyst II Mary Yarbrough (spouse)

*Mrs. Watts is not listed in the budget as she is appointed without compensation.

NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS

The following personnel actions involving new tenure appointments and promotion within tenure ranks have been administratively approved by the Executive Vice Chancellor for Academic Affairs. The personnel actions have been included in the 2005 Annual Operating Budget of each component institution and are consistent with the Regents' Rules and Regulations, Part One, Chapter III, Section 6, Section 6.2, Subsection 6.25.

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
School Business		
Economics Scott Carson	Assistant Professor (NT)	Associate Professor (T)
Accountancy Wilma Dye	Assistant Professor (NT)	Associate Professor (T)
Management Lloyd J. Taylor III	Assistant Professor (NT)	Associate Professor (T)
Humanities and Fine Arts		
History Roland Spickermann	Assistant Professor (NT)	Associate Professor (T)
Humanities and Fine Arts		
English Sophia Andres	Associate Professor (T)	Professor (T)
Spanish Ana Leon	Associate Professor (T)	Professor (T)

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004

Pursuant to Section 51.403 of the Texas Education Code and Section 5.301 of the Texas Higher Education Coordinating Board Rules, a report for the record regarding the teaching of small classes has been filed. The institution has reviewed the data in this report and, as appropriate, made administrative changes to ensure that teaching such small classes continues to be justified. The detailed listing of small classes is available in the U. T. System Office of Academic Affairs and is summarized as follows:

Organized Undergraduate Classes with Fewer than 10 Enrolled Students

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	26	40	66	49
b. To keep proper sequence	4	6	10	40
c. New program	0	2	2	0
d. Cross listed	22	39	61	53
e. First time offered	0	0	0	7
f. Accreditation or licensing standard	0	0	0	0
g. Limited facilities	0	0	0	0
Subtotal	52	87	139	149
h. Voluntarily offered	2	1	3	9
Total	54	88	142	158

SMALL CLASS REPORT, FALL 2002 AND SPRING 2003 (CONTINUED)

**Organized Graduate Classes with
Fewer than 5 Enrolled Students**

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	2	3	5	0
b. To keep proper sequence	0	0	0	6
c. New program	0	0	0	0
d. Cross listed	4	2	6	9
e. First time offered	0	0	0	1
f. Accreditation or licensing standard	0	0	0	0
g. Limited facilities	0	0	0	0
Subtotal	6	5	11	16
h. Voluntarily offered	0	0	0	4
Total	6	5	11	20

U. T. SAN ANTONIO

CONTRACTS

The following contract has been administratively approved by the President or his delegate and the Executive Vice Chancellor for Academic Affairs, and is recommended for approval by the U. T. Board of Regents:

GENERAL CONTRACTS

FUNDS COMING IN

1. Agency: Time Warner Cable, Inc.
Funds: \$2,339,752
Period: August 1, 2004 through July 31, 2009 with the option to renew for five additional one-year periods.
Description: Time Warner Cable, Inc. agrees to provide internet, cable television, and telephone services for new student housing. U. T. San Antonio receives a 10% commission on any additional internet, telephone, and cable TV services a student purchases from the Contractor that are not included within the scope of work of this Agreement. Time Warner Cable was selected from three bidders: Time Warner Cable, Inc. from San Antonio, Texas; Grande Communications, Inc. from San Marcos, Texas; and Southwestern Bell Telephone, L.P. from San Antonio, Texas, following a competitive bid process. Although the Agreement does not specifically address exclusivity, prudent business practices dictate that one vendor provide the services.

NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS

The following personnel actions involving new tenure appointments and promotion within tenure ranks have been administratively approved by the Executive Vice Chancellor for Academic Affairs. The personnel actions have been included in the 2005 Annual Operating Budget of each component institution and are consistent with the Regents' Rules and Regulations, Part One, Chapter III, Section 6, Section 6.2, Subsection 6.25.

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
College of Business		
Economics Su Zhou	Associate Professor (T)	Professor (T)
Finance Yiuman Tse	Associate Professor (T)	Professor (T)
Management Science and Statistics Nandini Kannan Mark Leung	Associate Professor (T) Assistant Professor (NT)	Professor (T) Associate Professor (T)
College of Education and Human Development		
Counseling, Educational Psychology, Adult & Higher Education Michael Karcher Carolyn Orange	Assistant Professor (NT) Associate Professor (T)	Associate Professor (T) Professor (T)
Bicultural-Bilingual Studies Thomas Ricento	Associate Professor (T)	Professor (T)
Health & Kinesiology Wan Yao John Zhang	Assistant Professor (NT) Assistant Professor (NT)	Associate Professor (T) Associate Professor (T)
Interdisciplinary Studies and Curriculum and Instruction Maria Cortez Belinda Flores Susan Keehn	Assistant Professor (NT) Assistant Professor (NT) Assistant Professor (NT)	Associate Professor (T) Associate Professor (T) Associate Professor (T)

**NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS
(CONTINUED)**

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
College of Engineering		
Electrical Engineering Wei-Ming Lin	Associate Professor (T)	Professor (T)
College of Liberal and Fine Arts		
Anthropology James McDonald	Associate Professor (T)	Professor (T)
Art and Art History Neil Maurer	Associate Professor (T)	Professor (T)
English, Classics and Philosophy Michael Almeida	Associate Professor (T)	Professor (T)
Bernadette Andrea	Assistant Professor (NT)	Associate Professor (T)
Ben Olguin	Assistant Professor (NT)	Associate Professor (T)
History Patrick Kelly	Assistant Professor (NT)	Associate Professor (T)
Music James Balentine	Associate Professor (T)	Professor (T)
Deborah Schwartz-Kates	Assistant Professor (NT)	Associate Professor (T)
Kenneth Williams	Assistant Professor (NT)	Associate Professor (T)
College of Public Policy		
Criminal Justice Cynthia McCluskey	New	Associate Professor (T)
Public Administration Jerrell Coggburn	Assistant Professor (NT)	Associate Professor (T)
Ruben Martinez	New	Professor (T)
College of Sciences		
Applied Mathematics Weiming Cao	Assistant Professor (NT)	Associate Professor (T)
Fengxin Chen	Assistant Professor (NT)	Associate Professor (T)
Jose Iovino	Assistant Professor (NT)	Associate Professor (T)
Mary Lou Zeeman	Associate Professor (T)	Professor (T)

**NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS
(CONTINUED)**

College, Department, and Name From To

College of Sciences (Continued)

Biology

Karl Klose

New

Professor (T)

Valerie Sponsel

Associate Professor (NT)

Associate Professor (T)

Earth and Environmental
Sciences

Dibyenda Sarkar

Assistant Professor (NT)

Associate Professor (T)

School of Architecture

Mark Blizzard

Assistant Professor (NT)

Associate Professor (T)

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004

Pursuant to Section 51.403 of the Texas Education Code and Section 5.301 of the Texas Higher Education Coordinating Board Rules, a report for the record regarding the teaching of small classes has been filed. The institution has reviewed the data in this report and, as appropriate, made administrative changes to ensure that teaching such small classes continues to be justified. The detailed listing of small classes is available in the U. T. System Office of Academic Affairs and is summarized as follows:

Organized Undergraduate Classes with Fewer than 10 Enrolled Students

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	11	5	16	33
b. To keep proper sequence	7	5	12	25
c. New program	5	3	8	7
d. Cross listed	18	17	35	31
e. First time offered	0	3	3	4
f. Accreditation or licensing standard	0	0	0	0
g. Limited facilities	1	3	4	3
Subtotal	42	36	78	103
h. Voluntarily offered	8	3	11	25
Total	50	39	89	128

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004 (CONTINUED)

**Organized Graduate Classes with
Fewer than 5 Enrolled Students**

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	3	3	6	10
b. To keep proper sequence	1	1	2	12
c. New program	2	2	4	5
d. Cross listed	7	14	21	11
e. First time offered	0	2	2	4
f. Accreditation or licensing standard	0	0	0	0
g. Limited facilities	0	0	0	0
Subtotal	13	22	35	42
h. Voluntarily offered	1	7	8	9
Total	14	29	43	51

U. T. TYLER

GIFTS

The following gift has been received, has been administratively approved by the President or his delegate and is recommended for approval by the U. T. Board of Regents:

1. Donor Name: Mr. and Mrs. Robert B. Irwin
College/School/ Department: Institution
Purpose: Support of the U. T. Tyler Baseball Complex
Asset Type: Stock
Value: \$1,195,761

**APPOINTMENT, REAPPOINTMENT, OR PROMOTION OF RELATIVES
AND MARRIAGE OF CERTAIN EMPLOYEES**

The following personnel action involving the appointment, reappointment, or promotion of relatives has been administratively approved by the Executive Vice Chancellor for Academic Affairs. The personnel action is consistent with the provisions of Section 573.001 of the Texas Government Code and the Regents' Rules and Regulations, Part One, Chapter III, Section 5.

College, Department, Title, Name

College, Department, Title, Name

PROPOSED REAPPOINTMENT

RELATIVE

1. Office of the President
President
Rodney H. Mabry

Office of the President
Special Associate
Barbara M. Mabry (spouse)*

*Mrs. Mabry is not listed in the budget as she is appointed without compensation.

NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS

The following personnel actions involving new tenure appointments and promotion within tenure ranks have been administratively approved by the Executive Vice Chancellor for Academic Affairs. The personnel actions have been included in the 2005 Annual Operating Budget of each component institution and are consistent with the Regents' Rules and Regulations, Part One, Chapter III, Section 6, Section 6.2, Subsection 6.25.

College, Department, and Name	From	To
College of Business & Technology		
Public Administration		
Kenneth Wink	Assistant Professor (NT)	Associate Professor (T)
Business Administration		
Mary Helen Fagan	Assistant Professor (NT)	Associate Professor (T)
College of Arts & Sciences		
Political Science		
John LeBlanc	Assistant Professor (NT)	Associate Professor (T)
English		
Victor Scherb	Associate Professor (T)	Professor (T)
College of Engineering & Computer Science		
Electrical Engineering		
Hassan El-Kishky	Assistant Professor (NT)	Associate Professor (T)
Mechanical Engineering		
Robert Greendyke	Assistant Professor (NT)	Associate Professor (T)

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004

Pursuant to Section 51.403 of the Texas Education Code and Section 5.301 of the Texas Higher Education Coordinating Board Rules, a report for the record regarding the teaching of small classes has been filed. The institution has reviewed the data in this report and, as appropriate, made administrative changes to ensure that teaching such small classes continues to be justified. The detailed listing of small classes is available in the U. T. System Office of Academic Affairs and is summarized as follows:

Organized Undergraduate Classes with Fewer Than 10 Enrolled Students

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	7	13	20	38
b. To keep proper sequence	24	28	52	38
c. New program	0	0	0	18
d. Cross listed	3	5	8	12
e. First time offered	1	0	1	10
f. Accreditation or licensing standard	0	0	0	0
g. Limited facilities	3	3	6	5
Subtotal	38	49	87	121
h. Voluntarily offered	7	3	10	6
i. Internet	0	17	17	18
Total	45	69	114	145

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004 (CONTINUED)

**Organized Graduate Classes with
Fewer than 5 Enrolled Students**

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	6	8	14	9
b. To keep proper sequence	4	5	9	6
c. New program	0	0	0	0
d. Cross listed	1	2	3	2
e. First time offered	1	0	1	6
f. Accreditation or licensing standard	0	0	0	0
g. Limited facilities	5	0	5	0
Subtotal	17	15	32	23
h. Voluntarily offered	9	4	13	5
i. Internet	0	0	0	4
Total	26	19	45	32

U. T. SOUTHWESTERN MEDICAL CENTER - DALLAS

GIFTS

The following gifts have been received, have been administratively approved by the President or his delegate, and are recommended for approval by the U. T. Board of Regents:

1. Donor Name: Anonymous Donor
College/School/ Department: Psychiatry
Purpose: To support research activities under the direction of Dr. Carol A. Tamminga and Dr. Steven A. Kliwer
Asset Type: Cash
Value: \$650,000

2. Donor Name: Southwestern Medical Foundation
College/School/ Department: Institution
Purpose: The Foundation's grant to The University of Texas Southwestern Medical Center at Dallas for the 2003-04 academic year
Asset Type: Cash
Value: \$805,000 (represents the second and final payment on a \$1,610,000 commitment)

CONTRACTS

The following contracts have been administratively approved by the President or his delegate and are recommended for approval by the U. T. Board of Regents:

GENERAL CONTRACTS

FUNDS GOING OUT

1. Agency: Scientific Frontiers, Inc.
Funds: \$1,252,948
Period: September 1, 2003 through August 31, 2004
Description: Scientific Frontiers, Inc. agrees to provide continued services for the Continuing Education activity entitled Rheumatoid Arthritis and Biologic DMARDs Regional Meetings held in May and June 2003 and new services for those held September through December 2003. Such services include management and organization, audience generation, field force mailing, meetings materials, postage, mailing lists, food and beverage, room rental, audiovisual equipment, travel and lodging.

2. Agency: 2110 Research Row, Ltd.
Funds: \$4,465,538
Period: September 30, 2002 through August 31, 2009
Description: Amended lease to increase to 35,063 square feet of laboratory space, to amortize tenant improvements, and to extend the lease period by two years.

AMENDMENTS TO THE 2003-04 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Requests for Budget Change (RBC) have been administratively approved by the Executive Vice Chancellor for Health Affairs and are recommended for approval by the U. T. Board of Regents:

<u>Description</u>	<u>Effective Date</u>	<u>% Time</u>	<u>Full-time Salary</u>		<u>RBC #</u>
			<u>No. Mos.</u>	<u>Rate \$</u>	
SOUTHWESTERN MEDICAL SCHOOL					
Office of the Dean – Southwestern Medical School					
1. Dennis M. McKearin (T)					15
From: Associate Professor, Molecular Biology		100	12	82,900	
To: Associate Dean, Medical Science Training Program	4/1-8/31	100	12	110,000	
Center for Immunology					
2. Elizabeth S. Ward (T)					16
From: Professor		100	12	111,700	
To: Professor and Paul and Betty Meek - FINA Professorship in Molecular Biology	4/1-8/31	100	12	111,700	

AMENDMENTS TO THE 2003-04 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

<u>Description</u>	<u>Effective Date</u>	<u>% Time</u>	<u>Full-time Salary</u>		<u>RBC #</u>
			<u>No. Mos.</u>	<u>Rate \$</u>	
SOUTHWESTERN MEDICAL SCHOOL (Continued)					
Office of the Dean – Southwestern Medical School					
3. Charles M. Ginsburg (T)					23
From: Associate Dean for Faculty Development and Marilyn R. Corrigan Distinguished Chair in Pediatric Research		100	12	270,000	
To: Associate Dean for Academic Administration and Marilyn R. Corrigan Distinguished Chair in Pediatric Research	6/1-8/31	100	12	270,000	
Biochemistry					
4. Michael G. Roth (T)					24
From: Professor and Diane and Hal Brierley Chair in Biomedical Research		100	12	115,000	
To: Professor, Associate Dean of the Southwestern Graduate School of Biomedical Sciences and the Diane and Hal Brierley Chair in Biomedical Research	6/1-8/31	100	12	115,000	

AMENDMENTS TO THE 2003-04 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

TRANSFERS OF FUNDS

<u>Description</u>	<u>\$ Amount</u>	<u>RBC #</u>
SOUTHWESTERN MEDICAL SCHOOL		
Advanced Technology Program		
5. Amount of Transfer:	1,405,732	17
From: Allocation of General Revenue by the Coordinating Board		
To: Advanced Technology Programs for:		
Dynamic Organ Preservation: A Strategy to Expand the Donor Pool for Heart Transplantation	160,000	
Therapeutic Targets for Treatment of Cardiac Enlargement and Heart Failure	200,000	
Genetic Engineering of Human Cardiac Stem Cells	260,000	
New Mouse Models of Polycystic Kidney Disease	180,000	
Photoregulated Enzymes: A novel and general approach to control function in vitro and in vivo	220,000	
Gene Expression Signatures for Selection of Individual Cancer Patient Chemotherapy	180,000	
Genetically Engineered Transparent Biosynthetic Conduits for Directed and Enhanced Nerve Repair	205,732	

**APPOINTMENT, REAPPOINTMENT, OR PROMOTION OF RELATIVES
AND MARRIAGE OF CERTAIN EMPLOYEES**

The following personnel actions involving the appointment, reappointment, or promotion of relatives have been administratively approved by the Executive Vice Chancellor for Health Affairs. The personnel actions are consistent with the provisions of Section 573.001 of the Texas Government Code and the Regents' Rules and Regulations, Part One, Chapter III, Section 5.

College, Department, Title, Name

College, Department, Title, Name

PROPOSED APPOINTMENT

RELATIVE

1. Department of Physiology
Chairman
James Stull

2. Department of Orthopaedic Surgery
Chairman
Robert Bucholz

- Department of Physiology
Associate Professor
Kristine E. Kamm (spouse)
- Department of Orthopaedic Surgery
Associate Professor
Mary Beth Ezaki (spouse)

PROPOSED REAPPOINTMENT

RELATIVE

3. Office of the President
President
C. Kern Wildenthal

- Office of the President
Special Assistant
Margaret Wildenthal (spouse)*

*Mrs. Wildenthal is not listed in the budget as she is appointed without compensation.

NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS

The following personnel actions involving new tenure appointments and promotion within tenure ranks have been administratively approved by the Executive Vice Chancellor for Health Affairs. The personnel actions have been included in the 2005 Annual Operating Budget of each component institution and are consistent with the Regents' Rules and Regulations, Part One, Chapter III, Section 6, Section 6.2, Subsection 6.25.

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
Southwestern Medical School		
Biochemistry		
Kevin H. Gardner	Assistant Professor (NT)	Associate Professor (T)
Nick V. Grishin	Assistant Professor (NT)	Associate Professor (T)
Dermatology		
Amit G. Pandya	Associate Professor (NT)	Professor (T)
Internal Medicine		
Daniel J. Garry	Assistant Professor (NT)	Associate Professor (T)
Robert L. Ilaria	Assistant Professor (NT)	Associate Professor (T)
Clyde W. Yancy, Jr.	Associate Professor (NT)	Professor (T)
Microbiology		
Michael J. Gale, Jr.	Assistant Professor (NT)	Associate Professor (T)
Molecular Biology		
Leon Avery	Associate Professor (T)	Professor (T)
Rueyling Lin	Assistant Professor (NT)	Associate Professor (T)
Neurology		
Michael K. Racke	Associate Professor (T)	Professor (T)
Pathology		
Richard H. Scheuermann	Associate Professor (T)	Professor (T)
Pediatrics		
Deepak Srivastava	Associate Professor (T)	Professor (T)
Pharmacology		
Dean P. Smith	Assistant Professor (NT)	Associate Professor (T)
Hongtao Yu	Assistant Professor (NT)	Associate Professor (T)

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004

Pursuant to Section 51.403 of the Texas Education Code and Section 5.301 of the Texas Higher Education Coordinating Board Rules, a report for the record regarding the teaching of small classes has been filed. The institution has reviewed the data in this report and, as appropriate, made administrative changes to ensure that teaching such small classes continues to be justified. The detailed listing of small classes is available in the U. T. System Office of Health Affairs and is summarized as follows:

Organized Undergraduate Classes with Fewer than 10 Enrolled Students

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	12	12	24	34
b. To keep proper sequence	0	0	0	0
c. New program	0	0	0	0
d. Cross listed	0	0	0	0
e. First time offered	0	0	0	0
f. Accreditation or licensing standard	0	0	0	0
g. Limited facilities	0	1	1	4
Subtotal	12	13	25	38
h. Voluntarily offered	1	5	6	2
Total	13	18	31	40

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004 (CONTINUED)

**Organized Graduate Classes with
Fewer than 5 Enrolled Students**

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	7	15	22	17
b. To keep proper sequence	2	3	5	3
c. New program	0	0	0	0
d. Cross listed	0	1	1	5
e. First time offered	0	0	0	0
f. Accreditation or licensing standard	0	0	0	0
g. Limited facilities	15	1	16	0
Subtotal	24	20	44	25
h. Voluntarily offered	0	0	0	0
Total	24	20	44	25

U. T. MEDICAL BRANCH – GALVESTON

CONTRACTS

The following contracts have been administratively approved by the President or his delegate and the Executive Vice Chancellor for Health Affairs, and are recommended for approval by the U. T. Board of Regents:

GENERAL CONTRACTS

FUNDS GOING OUT

1. Agency: OPTUS, Incorporated
Funds: \$4,209,412
Period: May 18, 2004 through May 17, 2009
Description: OPTUS, Incorporated will provide telecommunication system maintenance and move/add/change activities for the voice communication system at U. T. Medical Branch - Galveston. The vendor was selected from six bidders: OPTUS, Incorporated from Houston, Texas; NEC Business Network Solutions from Irving, Texas; Shared Technologies, Inc. from Houston, Texas; NextiraOne from Houston, Texas; Southwestern Bell (SBC) from Bellaire, Texas; and HTIS, Inc. from Houston, Texas, following a competitive bid process.

2. Agency: Sodexho Services of Texas Limited Partnership (Sodexho)
Funds: \$28,990,790
Period: May 20, 2004 through August 31, 2007
Description: Amendment to extend the contract for an additional three-year period. Sodexho provides environmental housekeeping services to U. T. Medical Branch - Galveston and maintains an adequate staff in such manner that the facilities are kept clean from both a technical and aesthetic perspective.

AMENDMENTS TO THE 2003-04 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Requests for Budget Change (RBC) have been administratively approved by the Executive Vice Chancellor for Health Affairs and are recommended for approval by the U. T. Board of Regents:

<u>Description</u>	<u>Effective Date</u>	<u>% Time</u>	<u>Full-time Salary</u>		<u>RBC #</u>
			<u>No. Mos.</u>	<u>Rate \$</u>	
SCHOOL OF MEDICINE					
Internal Medicine					
Professor					
1. Joseph H. Sellin (T)	10/13-8/31	100	12	210,000	23
2. Allan R. Brasier (T)					24
From: Leon Bromberg, M.D. Professorship in Internal Medicine and Professor		100	12	167,500	
To: Leon Bromberg, M.D. Professorship in Internal Medicine and Chancellor's Health Fellow in Science and Professor	7/1-8/31	100	12	167,500	
Otolaryngology					
3. Shawn D. Newlands (T)					21
From: Associate Professor and Chair		100	12	300,000	
To: Professor and Chair	1/1-8/31	100	12	300,000	
4. Shawn D. Newlands (T)					19
From: Professor and Chair		100	12	300,000	
To: Harry Carothers Weiss Chair in Otolaryngology and Professor and Chair	2/1-8/31	100	12	300,000	

**APPOINTMENT, REAPPOINTMENT, OR PROMOTION OF RELATIVES
AND MARRIAGE OF CERTAIN EMPLOYEES**

The following personnel actions involving the appointment, reappointment, or promotion of relatives have been administratively approved by the Executive Vice Chancellor for Health Affairs. The personnel actions are consistent with the provisions of Section 573.001 of the Texas Government Code and the Regents' Rules and Regulations, Part One, Chapter III, Section 5.

<u>College, Department, Title, Name</u>	<u>College, Department, Title, Name</u>
PROPOSED APPOINTMENT	RELATIVE
1. Catering Catering Chef Rey Lopez	Catering Cook Pedro Almazan (brother-in-law)
2. Correctional Managed Care Cluster Dental Director (Gatesville) Dr. John Stephens	Correctional Managed Care Dentist (Gatesville) Dr. Debie Stephens (spouse)
3. Information Services Manager, Information Systems David Copado	Information Services Shift Supervisor, Computer Operations Michael Rendon (brother-in-law)
4. School of Medicine Cardiology Heart Lab Chief Electrocardiograph Technician Dorothea Senegal	School of Medicine Cardiology Heart Lab Electrocardiograph Technician I Carolyn Scott (sister)
5. School of Medicine Internal Medicine Professor Dr. Michael Boyars	School of Medicine Internal Medicine Senior Research Associate Dr. Donna Wilkey (spouse)
6. School of Medicine Microbiology Associate Professor Vladimer Motin	School of Medicine Microbiology Assistant Professor Sadhana Chauhan (spouse)
7. School of Medicine Pathology Professor Robert Tesh, M.D.	School of Medicine Pathology Research Associate I Hilda Guzman (spouse)

**APPOINTMENT, REAPPOINTMENT, OR PROMOTION OF RELATIVES
AND MARRIAGE OF CERTAIN EMPLOYEES (CONTINUED)**

<u>College, Department, Title, Name</u>	<u>College, Department, Title, Name</u>
8. School of Medicine (Continued) Pathology Associate Professor Charles Fulhorst, D.V.M., Dr. P.H.	School of Medicine (Continued) Pathology Research Associate I Mary Louise Milazzo (spouse)
9. School of Medicine Pathology Associate Professor Stephen Higgs, Ph.D.	School of Medicine Pathology Senior Research Associate I Dana Vanlandingham (spouse)
PROPOSED REAPPOINTMENT	RELATIVE
10. Office of the President President John D. Stobo, M.D.	Office of the President Special Assistant Mary Ann Stobo (spouse)*
11. School of Medicine Anesthesiology Professor Daniel L. Traber	School of Medicine Anesthesiology Laboratory Supervisor Lillian D. Traber (spouse)
12. School of Medicine Human Biological Chemistry and Genetics Professor David W. Bolen	School of Medicine Human Biological Chemistry and Genetics Research Technician Cassandra L. Bolen (spouse)
13. School of Medicine Human Biological Chemistry and Genetics Professor Werner Braun	School of Medicine Human Biological Chemistry and Genetics Senior Scientist Catherine H. Braun-Schein (spouse)
14. School of Medicine Human Biological Chemistry and Genetics Professor James C. Lee	School of Medicine Human Biological Chemistry and Genetics Senior Research Associate Lucy L. Lee (spouse)

**APPOINTMENT, REAPPOINTMENT, OR PROMOTION OF RELATIVES
AND MARRIAGE OF CERTAIN EMPLOYEES (CONTINUED)**

<u>College, Department, Title, Name</u>	<u>College, Department, Title, Name</u>
15. School of Medicine (Continued) Human Biological Chemistry and Genetics Professor Bruce Luxon	School of Medicine (Continued) Human Biological Chemistry and Genetics Office Supervisor Jacqueline Luxon (spouse)
16. School of Medicine Human Biological Chemistry and Genetics Professor John Papaconstantinou	School of Medicine Human Biological Chemistry and Genetics Research Assistant I Eugenia T. Papaconstantinou (spouse)
17. School of Medicine Human Biological Chemistry and Genetics Professor & Chair Ad-Interim Jose R. Perez-Polo	School of Medicine Human Biological Chemistry and Genetics Research Associate II Karin Werrbach-Perez (spouse)
18. School of Medicine Ophthalmology and Visual Sciences Associate Professor Stefan D. Trocme	School of Medicine Ophthalmology and Visual Sciences Research Scientist Marie C. Trocme (spouse)
19. School of Medicine Physiology and Biophysics Associate Professor Owen Hamill	School of Medicine Physiology and Biophysics Assistant Professor Rosario Maroto (spouse)
20. School of Medicine Physiology and Biophysics Professor Simon Lewis	School of Medicine Physiology and Biophysics Research Associate I Jamie Lewis (spouse)

*Mrs. Stobo is not listed in the budget as she is appointed without compensation.

NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS

The following personnel actions involving new tenure appointments and promotion within tenure ranks have been administratively approved by the Executive Vice Chancellor for Health Affairs. The personnel actions have been included in the 2005 Annual Operating Budget of each component institution and are consistent with the Regents' Rules and Regulations, Part One, Chapter III, Section 6, Section 6.2, Subsection 6.25.

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
School of Allied Health		
Physical Therapy Caroline Jansen	Assistant Professor (NT)	Associate Professor (T)
School of Medicine		
Human Biological Chemistry And Genetics Lee-Nien Lillan Chan	Associate Professor (T)	Professor (T)
Internal Medicine Jean L. Freeman	Associate Professor (T)	Professor (T)
Joseph H. Sellin	New	Professor (T)
Sanjiv Sur	Associate Professor (T)	Professor (T)
Dennis M. Walling	Assistant Professor (NT)	Associate Professor (T)
Shu-Yuan Xiao	Associate Professor (NT)	Associate Professor (T)
Microbiology and Immunology Istvan Boldogh	Associate Professor (NT)	Associate Professor (T)
Dennis M. Walling	Assistant Professor (NT)	Associate Professor (T)
Neuroscience and Cell Biology Gregg T. Nagel	Associate Professor (T)	Professor (T)
Pathology Patrick A. Adegboyega	Associate Professor (NT)	Associate Professor (T)

**NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS
(CONTINUED)**

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
School of Medicine (Continued)		
Pathology (Continued)		
Shu-Yuan Xiao	Associate Professor (NT)	Associate Professor (T)
Pediatrics		
Sanjiv Sur	Associate Professor (T)	Professor (T)
Pharmacology and Toxicology		
Xiaodong Cheng	Assistant Professor (NT)	Associate Professor (T)
Preventive Medicine and Community Health		
Jean L. Freeman	Associate Professor (T)	Professor (T)
Mary Kristen Peek	Assistant Professor (NT)	Associate Professor (T)

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004

Pursuant to Section 51.403 of the Texas Education Code and Section 5.301 of the Texas Higher Education Coordinating Board Rules, a report for the record regarding the teaching of small classes has been filed. The institution has reviewed the data in this report and, as appropriate, made administrative changes to ensure that teaching such small classes continues to be justified. The detailed listing of small classes is available in the U. T. System Office of Health Affairs and is summarized as follows:

Organized Undergraduate Classes with Fewer than 10 Enrolled Students

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	19	19	38	26
b. To keep proper sequence	17	21	38	32
c. New program	0	0	0	3
d. Cross listed	0	0	0	9
e. First time offered	0	0	0	4
f. Accreditation or licensing standard	0	0	0	0
g. Limited facilities	0	0	0	1
Subtotal	36	40	76	75
h. Voluntarily offered	3	1	4	1
Total	39	41	80	76

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004 (CONTINUED)

**Organized Graduate Classes with
Fewer than 5 Enrolled Students**

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	15	20	35	18
b. To keep proper sequence	10	11	21	33
c. New program	0	1	1	7
d. Cross listed	1	0	1	13
e. First time offered	7	7	14	6
f. Accreditation or licensing standard	0	0	0	0
g. Limited facilities	13	15	28	20
Subtotal	46	54	100	97
h. Voluntarily offered	7	6	13	25
Total	53	60	113	122

U. T. HEALTH SCIENCE CENTER - HOUSTON

GIFTS

The following gift has been received, has been administratively approved by the President or his delegate, and is recommended for approval by the U. T. Board of Regents:

1. Donor Name: The Cullen Trust for Health Care
College/School/ Department: Institution
Purpose: Support the New Frontiers Campaign for the Brown Foundation Institute of Molecular Medicine for the Prevention of Human Diseases
Asset Type: Cash
Value: \$600,000

RETURN OF GIFT

On November 8, 2001, the Board of Regents approved the acceptance from the Estate of Eula Goss Wintermann to the U. T. Health Science Center - Houston, a parcel of real estate located in Colorado County, Texas, with improvements, furnishings, and artwork to be maintained in perpetuity. The sum of \$2,000,000 was also gifted to U. T. Health Science Center - Houston, the income from which was to pay for maintenance of the other real estate. The understanding with the Wintermann Estate mandated transfer of the real estate, personal property, and cash to another educational institution in the event that U. T. Health Science Center - Houston ever determined it could not use the Wintermann assets in the manner intended by the donor. It is the intention of U. T. Health Science Center Houston to notify the Executor of the Estate of Eula Goss Wintermann and the directors of the David and Eula Wintermann Foundation that the Wintermann assets should be transferred to a successor educational institution designated by the Estate or Foundation, as appropriate.

AMENDMENTS TO THE 2003-04 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Requests for Budget Change (RBC) have been administratively approved by the Executive Vice Chancellor for Health Affairs and are recommended for approval by the U. T. Board of Regents:

<u>Description</u>	<u>Effective Date</u>	<u>% Time</u>	<u>No. Mos.</u>	<u>Full-time Salary</u>		<u>RBC #</u>
				<u>Rate \$</u>		
HSC – GENERAL						
Administrative Support						
1. L. Maximilian Buja						38
From: Executive Vice President for Academic Affairs		100	12	314,746		
		SUPLT	12	95,000		
To: Executive Vice President for Academic Affairs	9/1-8/31	100	12	314,746		
Chancellor's Health Fellow in Medical Education	9/1-8/31 4/1/04	100	12	95,000		
MEDICAL SCHOOL						
Internal Medicine						
2. Dianna M. Milewicz (T)						34
From: Professor		100	12	160,000		
		SUPLT	12	20,000		
To: Professor and President George Bush Chair in Cardiovascular Medicine	5/16-8/31	100	12	160,000		
		SUPLT	12	20,000		

AMENDMENTS TO THE 2003-04 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

<u>Description</u>	<u>Effective Date</u>	<u>% Time</u>	<u>Full-time Salary</u>		<u>RBC #</u>
			<u>No. Mos.</u>	<u>Rate \$</u>	
Radiology					
3. Susan D. John (T)					32
From: Professor and Vice Chairman		100	12	280,000	
		SUPLT	12	20,000	
To: Professor and Chairman	4/16-8/31	100	12	320,500	
		SUPLT	12	85,000	
GRADUATE SCHOOL OF BIOMEDICAL SCIENCES (GSBS)					
General Instruction - Graduate School of Biomedical Sciences					
4. Stephen P. Daiger					35
From: Professor (T)					
SCHOOL OF PUBLIC HEALTH					
Biological Sciences					
Professor (T)		100	12	113,733	
To: Professor and Thomas S. Matney, Ph.D. Endowed Professorship in Environmental and Genetics Sciences (T)	05/25/04	100	12	113,733	

AMENDMENTS TO THE 2003-04 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

<u>Description</u>	<u>Effective Date</u>	<u>% Time</u>	<u>Full-time Salary</u>		<u>RBC #</u>
			<u>No. Mos.</u>	<u>Rate \$</u>	
SCHOOL OF NURSING					
Center for Nursing Research					
4. Sandra K. Hanneman (T)					33
From:					
General Instruction – Nursing School Associate Professor Center for Nursing Research Administration Associate Dean for Research and Evaluation		100 SUPLT	12 12	81,800 10,000	
To:					
General Instruction – Nursing School Associate Professor and Jerold B. Katz Distinguished Professorship for Nursing Research Administration, Associate Dean for Research and Evaluation	5/1-8/31	100 SUPLT	12 12	81,800 10,000	

AMENDMENTS TO THE 2003-04 BUDGET (CONTINUED)

TRANSFERS OF FUNDS

<u>Description</u>	<u>\$ Amount</u>	<u>RBC #</u>
U. T. HEATH SCIENCE CENTER - HOUSTON		
Repair and Rehabilitation		
4. Amount of Transfer:	10,105	37

From: Repair and Rehabilitation (701-105) FY 00/01

To: Library, Equipment, Repair and Rehabilitation – Control the Chill Water Supply

Transfer of all remaining encumbrances prior to 2003 to complete the installation of Chilled Water Control Supply Valves in the Medical School Building Laboratory Units. This project will allow operational personnel to control the chill water supply to all the laboratory air handlers in the Medical School.

**APPOINTMENT, REAPPOINTMENT, OR PROMOTION OF RELATIVES
AND MARRIAGE OF CERTAIN EMPLOYEES**

The following personnel action involving the appointment, reappointment, or promotion of relatives has been administratively approved by the Executive Vice Chancellor for Health Affairs. The personnel action is consistent with the provisions of Section 573.001 of the Texas Government Code and the Regents' Rules and Regulations, Part One, Chapter III, Section 5.

College, Department, Title, Name

College, Department, Title, Name

PROPOSED REAPPOINTMENT

RELATIVE

1. School of Public Health
Epidemiology
Dean, Professor and
Director
R. Palmer Beasley

School of Public Health
Epidemiology
Associate Professor

Lu-Yu Hwang (wife)

NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS

The following personnel actions involving new tenure appointments and promotion within tenure ranks have been administratively approved by the Executive Vice Chancellor for Health Affairs. The personnel actions have been included in the 2005 Annual Operating Budget of each component institution and are consistent with the Regents' Rules and Regulations, Part One, Chapter III, Section 6, Section 6.2, Subsection 6.25.

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
Medical School		
Anesthesiology		
Robert D. Wartens	Associate Professor (T)	Professor (T)
Integrative Biology and Pharmacy		
Carmen W. Dessauer	Assistant Professor (NT)	Associate Professor (T)
Robert A. Kirken	Assistant Professor (NT)	Assistant Professor (T)
Internal Medicine, Infectious Diseases		
Roberto C. Arduino	Associate Professor (NT)	Associate Professor (T)
Pablo C. Okhuysen	Associate Professor (T)	Professor (T)
Internal Medicine, Renal Diseases		
Andrew M. Kahn	Associate Professor (T)	Professor (T)
Internal Medicine, Rheumatology		
Maureen D. Mayes	Professor (NT)	Professor (T)
Filemon K. Tan	Assistant Professor (NT)	Associate Professor (T)
Neurobiology and Anatomy		
Andrew Bean	Assistant Professor (NT)	Assistant Professor (T)
Ruth Heidelberger	Assistant Professor (NT)	Assistant Professor (T)
Pathology and Laboratory Medicine		
Chinnaswamy Jagannath	Associate Professor (NT)	Associate Professor (T)
Dani S. Zander	Professor (NT)	Professor (T)
Dental Branch		
Dental Public Health and Hygiene		
Donna P. Warren	Assistant Professor (NT)	Assistant Professor (T)
Department of Orthodontics		
Jeryl D. English	Associate Professor (T)	Professor (T)

**NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS
(CONTINUED)**

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
Dental Branch (Continued)		
Department of Prosthodontics		
Robert L. Engelmeier	Associate Professor (NT)	Associate Professor (T)
Periodontics		
Donna P. Warren	Assistant Professor (T)	Associate Professor (T)
School of Public Health		
Health Promotion and Behavioral Sciences		
Benjamin C. Amick III	Associate Professor (NT)	Associate Professor (T)
Maria E. Fernandez-Esquer	Assistant Professor (NT)	Associate Professor (T)
Brownsville Regional Campus/RAHC		
Maureen Sanderson	Associate Professor (NT)	Associate Professor (T)
School of Nursing		
Nursing Systems and Technology		
Christine A. Brosnan	Assistant Professor (NT)	Associate Professor (T)
Nursing for Target Populations		
Joan C. Engebretson	Associate Professor (T)	Professor (T)

OTHER MATTERS

APPROVAL OF DUAL POSITIONS OF HONOR, TRUST, OR PROFIT

The following item has been approved by the Executive Vice Chancellor for Health Affairs in accordance with the Regents' Rules and Regulations, Part One, Chapter III, Section 13 and **is** submitted for approval by the U. T. Board of Regents. It has been determined that the holding of **this** office or position is of benefit to the State of Texas and The University of Texas and there is no conflict between holding this position and the appointment of Dr. Hamilton with The University of Texas Health Science Center at Houston. By approval of this item, the Board is also asked to find that holding this position **is** of benefit to the State of Texas and The University of Texas and there is no conflict between the position and the University appointment.

- | | |
|---------------|---|
| Name: | Dr. Carlos R. Hamilton, Jr. |
| Title: | Executive Vice President for External Affairs |
| Position: | Appointment to the Health, Medical and Research Committee of the World Anti-Doping Agency (WADA) |
| Period: | November 19, 2003 |
| Compensation: | None |
| Description: | The Health Medical and Research Committee of WADA provides guidance for WADA's main programs. WADA is an international agency that regulates and supervises the ban on performance-enhancing drugs in athletic competition such as the Tour d'France and the Olympic Games. |

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004

Pursuant to Section 51.403 of the Texas Education Code and Section 5.301 of the Texas Higher Education Coordinating Board Rules, a report for the record regarding the teaching of small classes has been filed. The institution has reviewed the data in this report and, as appropriate, made administrative changes to ensure that teaching such small classes continues to be justified. The detailed listing of small classes is available in the U. T. System Office of Health Affairs and is summarized as follows:

Organized Undergraduate Classes with Fewer than 10 Enrolled Students

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	0	0	0	3
b. To keep proper sequence	0	0	0	1
c. New program	1	0	1	0
d. Cross listed	0	0	0	0
e. First time offered	0	0	0	0
f. Accreditation or licensing standard	0	0	0	0
g. Limited facilities	3	0	3	5
Subtotal	4	0	4	9
h. Voluntarily offered	0	1	1	0
Total	4	1	5	9

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004 (CONTINUED)

**Organized Graduate Classes with
Fewer than 5 Enrolled Students**

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	19	20	39	33
b. To keep proper sequence	46	61	107	92
c. New program	2	4	6	10
d. Cross listed	7	6	13	7
e. First time offered	4	5	9	9
f. Accreditation or licensing standard	0	0	0	0
g. Limited facilities	2	1	3	0
Subtotal	80	97	177	151
h. Voluntarily offered	24	27	51	27
Total	104	124	228	178

U. T. HEALTH SCIENCE CENTER - SAN ANTONIO

AMENDMENTS TO THE 2003-2004 BUDGET

TRANSFERS OF FUNDS

The following Request for Budget Change (RBC) has been administratively approved by the Executive Vice Chancellor for Health Affairs and is recommended for approval by the U. T. Board of Regents:

<u>Description</u>	<u>\$ Amount</u>	<u>RBC #</u>
SPECIAL ITEMS-INSTRUCTIONS SUPPORT		
Regional Academic Health Center (RAHC)		
1. Amount of Transfer:	9,000,000	125

From: State Appropriations Income General Revenue, Article IX Enhanced Regional Academic Health Center Funding over the 2004-2005 biennium

To: Special Items-Instructions Support RAHC

Funding from appropriations made in House Bill 1, Section 11.28(c), Article IX, Chapter 1330, Acts of the 78th Legislature, Third Called Session, the amount of \$9,000,000 from the general revenue fund for fiscal year 2004 to be transferred to The University of Texas Health Science Center at San Antonio, for operating costs for the Regional Academic Health Center in Harlingen and Edinburg for the biennium ending August 31, 2005.

FEES AND MISCELLANEOUS CHARGES

OTHER FEES AND CHARGES

The following new charge recommended for approval by the U. T. Board of Regents and inclusion in institutional catalogs has been approved by the Executive Vice Chancellor for Health Affairs. The recommended charge is consistent with applicable statutory requirements under Section 54.504 and Section 55.16 of the Texas Education Code and is proposed to effective beginning Spring 2005.

<u>Name/Description</u>	<u>\$ Amount of Fee</u>
TECHNICAL CLINICAL SKILLS FEE	
To defray the cost of consumable laboratory supplies, equipment, and other expenses associated with the Technical Clinical Skills Laboratory	
Undergraduate Nursing Students	
Semester 1	60
Semester 2	60
Semester 3	30
Semester 4	60
Graduate Nursing Students	
Semester 1	60
All other semesters	90

NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS

The following personnel actions involving new tenure appointments and promotion within tenure ranks have been administratively approved by the Executive Vice Chancellor for Health Affairs. The personnel actions have been included in the 2005 Annual Operating Budget of each component institution and are consistent with the Regents' Rules and Regulations, Part One, Chapter III, Section 6, Section 6.2, and Subsection 6.25.

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
Medical School		
Family and Community Medicine		
Claudia S. Miller	Associate Professor (T)	Professor (T)
Medicine		
Antonio R. Anzueto	Associate Professor (T)	Professor (T)
John M. Erikson	Assistant Professor (NT)	Associate Professor (T)
Cesar O. Freytes	Associate Professor (T)	Professor (T)
Stephanie M. Levine	Professor\Clinical (NT)	Professor (T)
Daniel J. Riley	Assistant Professor (NT)	Associate Professor (T)
Ophthalmology		
Randolph D. Glickman	Associate Professor/ Charles and Lillian Senderoff Professorship (NT)	Associate Professor/ Charles and Lillian Senderoff Professorship (T)
Jeffrey W. Kiel	Associate Professor (T)	Professor (T)
Stuart J. McKinnon	Assistant Professor (NT)	Associate Professor (T)
Otolaryngology - Head and Neck Surgery		
Frank R. Miller	Assistant Professor (NT)	Associate Professor (T)
Pediatrics		
Jacques Guy Baillargeon	Assistant Professor (NT)	Associate Professor (T)
Psychiatry		
Ming D. Li	Associate Professor/ Southwest Texas Addiction Research and Technology Center Genetic Research Professorship (NT)	Associate Professor/ Southwest Texas Addiction Research and Technology Center Genetic Research Professorship (T)

**NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS
(CONTINUED)**

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
Medical School (Continued)		
Psychiatry (continued)		
Donald R. Royall	Professor (NT)	Professor (T)
Peter M. Thompson	Assistant Professor (NT)	Associate Professor (T)
Dental School		
Community Dentistry		
David P. Cappelli	Assistant Professor (NT)	Associate Professor (T)
Dental Diagnostic Science		
Chih-Ko Yeh	Associate Professor (T)	Professor (T)
Endodontics		
Karl Keiser	Assistant Professor (NT)	Associate Professor (T)
Pediatric Dentistry		
Adriana Segura Donly	Associate Professor (NT)	Professor (T)
Periodontics		
Bjorn Steffensen	Associate Professor (T)	Professor (T)
Graduate School of Biomedical Sciences		
Cellular and Structural Biology		
Luzhe Sun	Associate Professor (T)	Professor (T)
Pathology		
Marilyn S. Pollack	Associate Professor (T)	Professor (T)
I-Tien Yeh	Associate Professor (T)	Professor (T)
Sherry L. Werner	Associate Professor/ Research (NT)	Associate Professor (T)
Physiology		
Glenn M. Toney	Assistant Professor (NT)	Associate Professor (T)

OTHER MATTERS

APPROVAL OF DUAL POSITIONS OF HONOR, TRUST, OR PROFIT

The following items have been approved by the Executive Vice Chancellor for Health Affairs in accordance with the Regents' Rules and Regulations, Part One, Chapter III, Section 13 and are submitted for approval by the U. T. Board of Regents. It has been determined that the holding of these offices or positions is of benefit to the State of Texas and The University of Texas and there is no conflict between holding these positions and the appointments of Dr. Cigarroa and Dr. Murphy with The University of Texas Health Science Center at San Antonio. By approval of these items, the Board is also asked to find that holding these positions are of benefit to the State of Texas and The University of Texas and there is no conflict between the positions and the University appointments.

1. Name: Francisco G. Cigarroa, M.D.
Title: President
Position: Appointment as a member of the President's Committee on the National Medal of Science
Period: February 5, 2003 through December 31, 2006
Compensation: None
Description: In March 2004 President George W. Bush reappointed Dr. Cigarroa as a member of the President's Committee on the National Medal of Science, for the remainder of a three-year term expiring December 31, 2006. Congress created the National Medal of Science in 1959 as a Presidential Award to be given to individuals "deserving of special recognition by reason of their outstanding contributions to knowledge in the physical, biological, mathematical or engineering sciences." In 1980 the award was expanded to include the social and behavioral sciences. The President appoints twelve of the nation's most prominent leaders in the fields of research, science, or engineering to evaluate award nominees.

OTHER MATTERS (CONTINUED)

APPROVAL OF DUAL POSITIONS OF HONOR, TRUST, OR PROFIT (CONTINUED)

2. Name: Sharon B. Murphy, M.D., Ph.D.
Title: Professor of Pediatrics and Director of the Children's Cancer Research Institute
Position: Appointment as a Special Government Employee or consultant to Center for Drug Evaluation and Research, Food and Drug Administration, Department of Health and Human Services
Period: Intermittently beginning May 4, 2004
Compensation: \$54.47 an hour for each assignment
Description: In May 2004, Johanna Clifford of the Food and Drug Administration, Center for Drug Evaluation and Research, Advisors and Consultants Staff, invited Dr. Murphy to serve as a Special Government Employee, or consultant, to the Division of Oncologic Drug Products, to serve ad hoc as an advisory committee member on the evaluation of oncologic drug products for the Food and Drug Administration on a case-by-case basis.

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004

Pursuant to Section 51.403 of the Texas Education Code and Section 5.301 of the Texas Higher Education Coordinating Board Rules, a report for the record regarding the teaching of small classes has been filed. The institution has reviewed the data in this report and, as appropriate, made administrative changes to ensure that teaching such small classes continues to be justified. The detailed listing of small classes is available in the U. T. System Office of Health Affairs and is summarized as follows:

Organized Undergraduate Classes with Fewer than 10 Enrolled Students

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	1	16	17	10
b. To keep proper sequence	15	14	29	33
c. New program	2	2	4	14
d. Cross listed	0	2	2	5
e. First time offered	1	2	3	0
f. Accreditation or licensing standard	0	0	0	0
g. Limited facilities	0	0	0	34
Subtotal	19	36	55	96
h. Voluntarily offered	31	39	70	24
Total	50	75	125	120

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004 (CONTINUED)

**Organized Graduate Classes with
Fewer than 5 Enrolled Students**

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	15	15	30	16
b. To keep proper sequence	14	12	26	32
c. New program	2	0	2	2
d. Cross listed	9	9	18	8
e. First time offered	0	0	0	0
f. Accreditation or licensing standard	0	0	0	0
g. Limited facilities	4	9	13	5
Subtotal	44	45	89	63
h. Voluntarily offered	14	20	34	65
Total	58	65	123	128

U. T. M. D. ANDERSON CANCER CENTER

GIFTS

The following gifts have been received, have been administratively approved by the President or his delegate, and are recommended for approval by the U. T. System Board of Regents:

1. Donor Name: The Houston Comets
College/School/ Department: Institution
Purpose: Construction of Kim's Place/Capital Improvement Program
Asset Type: Cash
Value: \$631,482

2. Donor Name: Louis and Gloria Flanzer Charitable Trust
College/School/ Department: Surgical Oncology
Purpose: Sarcoma Research
Asset Type: Cash
Value: \$1,000,000

3. Donor Name: The Prostate Cancer Foundation
College/School/ Department: Genitourinary Medical Oncology
Purpose: Prostate Cancer Research
Asset Type: Cash
Value: \$1,000,000

4. Donor Name: Mr. Morton L. Topfer
College/School/ Department: Gastro-Intestinal Medical Oncology
Purpose: Pancreatic Cancer Research
Asset Type: Common Stock
Value: \$978,039

5. Donor Name: The Commonwealth Foundation for Cancer Research
College/School/ Department: President's Office
Purpose: Cancer Research
Asset Type: Cash
Value: \$1,250,000

AMENDMENTS TO THE 2003-04 BUDGET

APPOINTMENTS AND PROMOTIONS

The following Requests for Budget Change (RBC) have been administratively approved by the Executive Vice Chancellor for Health Affairs and are recommended for approval by the U. T. Board of Regents:

<u>Description</u>	<u>Effective Date</u>	<u>% Time</u>	<u>Full-time Salary</u>		<u>RBC #</u>
			<u>No. Mos.</u>	<u>Rate \$</u>	
U. T. M. D. ANDERSON CANCER CENTER - MEDICAL STAFF					
Melanoma Medical Oncology					
Professor					
1. Wen-Jen Hwu (T)	6/1-8/31	100	12	210,000	32
Laboratory Medicine					
Professor					
2. Marcelo Fernandez-Vina (T)	5/1-8/31	100	12	202,000	33
Pediatrics					
Professor					
3. Nancy Ratner (T)	8/1-8/31	100	12	165,000	44
Diagnostic Radiology					
Professor					
4. Carl M. Sandler (T)	7/1-8/31	100	12	290,000	47
Diagnostic Radiology					
Professor					
5. Leena Ketonen (T)	8/23-8/31	100	12	320,000	48

AMENDMENTS TO THE 2003-04 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

<u>Description</u>	<u>Effective Date</u>	<u>% Time</u>	<u>Full-time Salary</u>		<u>RBC #</u>
			<u>No. Mos.</u>	<u>Rate \$</u>	
U. T. M. D. ANDERSON CANCER CENTER -					
MEDICAL STAFF (Continued)					
EVP and COO-Patient Care, Imaging Physics, and Educational Programs					
6. John Hazle (T)					34
From: Chair (ad interim), Associate Professor		100 SUPLT	12177,846 12	16,000	
To: Chair, Associate Professor	3/1-8/31 3/1-8/31	100 SUPLT	12251,000 124,000		
EVP and COO-Patient Care, Lymphoma/Myeloma					
7. Maria Rodriguez (T)					35
From: Chair (ad Interim), Professor		100 SUPLT	12 199,382 12 12,000		
To: Professor	3/1-8/31 3/1-8/31	100 SUPLT	12 199,382 12 12,000		
Neurosurgery					
8. Raymond Sawaya (T)					36
From: Chair, Professor, and Mary Beth Pawelek Endowed Chair		100	12 553,816		
To: Chair, Professor and Anne C. Brooks and Anthony D. Bullock III Distinguished Chair	3/1-8/31	100	12 553,816		

AMENDMENTS TO THE 2003-04 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

<u>Description</u>	<u>Effective Date</u>	<u>% Time</u>	<u>Full-time Salary</u>		<u>RBC #</u>
			<u>No. Mos.</u>	<u>Rate \$</u>	
U. T. M. D. ANDERSON CANCER CENTER - MEDICAL STAFF (Continued)					
Vice President and Chief Medical Officer					
9. Thomas Burke (T)					42
From: Vice President and Chief Medical Officer, Professor		100		12400,000	
To: Executive Vice President and Chief Operating Officer Senior Vice President and Chief Operating Officer (ad interim), Professor	5/1-8/31	100		12 400,000	
U. T. M. D. ANDERSON CANCER CENTER - RESEARCH					
Molecular Genetics					
10. Benoit deCrombrughe (T)					37
From: Chair, Professor, and Paul and Mary Haas Endowed Chair in Honor of Amanda Marie Whittle		100		12254,628	
To: Chair, Professor, and Hubert L. Olive Stringer Distinguished Chair in Basic Science	3/1-8/31	100		12 254,628	

AMENDMENTS TO THE 2003-04 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

<u>Description</u>	<u>Effective Date</u>	<u>% Time</u>	<u>Full-time Salary</u>		<u>RBC #</u>
			<u>No. Mos.</u>	<u>Rate \$</u>	
U. T. M. D. ANDERSON CANCER CENTER - RESEARCH (Continued)					
Molecular Genetics					
11. Richard Behringer (T)					38
From: Professor and Barnts Family Professorship in Cancer Research		100	12	162,900	
To: Professor and Ben F. Love Endowed Chair in Cancer Research	4/1-8/31	100	12	165,900	
Molecular Genetics					
12. Guillermina Lozano (T)					39
From: Professor and Anise J. Sorrell Professorship		100	12	162,682	
To: Professor and Mattie Allen Fair Research Endowed Chair	4/1-8/31	100	12	165,682	

AMENDMENTS TO THE 2003-04 BUDGET (CONTINUED)

APPOINTMENTS AND PROMOTIONS (CONTINUED)

<u>Description</u>	<u>Effective Date</u>	<u>% Time</u>	<u>Full-time Salary</u>		<u>RBC #</u>
			<u>No. Mos.</u>	<u>Rate \$</u>	
U. T. M. D. ANDERSON CANCER CENTER - RESEARCH (Continued)					
Biostatistics					
13. Peter Thall (T)					41
From: Professor		100		12159,000	
To: Professor and Anise J. Sorrell Professorship	5/1-8/31	100		12162,000	
Experimental Radiation Oncology					
14. Elizabeth Travis (T)					43
From: Professor and Mattie Allen Fair Professorship in Cancer Research		100	12	167,859	
To: EVP/CAO Office, Experimental Radiation Oncology Associate Vice President for Academic Affairs, Professor and Mattie Allen Fair Professorship in Cancer Research	5/1-8/31	100	12	167,859	
	5/1-8/31	SUPLT	12	10,000	
QUALITY MANAGEMENT					
15. Sharon Martin					60
From: Vice President, Process Improvement		100	12	174,200	
		SUPLT	12	43,550	
To: Vice President, Process Improvement and Chancellor's Health Fellow in Quality of Care and Patient Safety	7/1-8/31	100	12	174,200	
		SUPLT	12	43,550	

**APPOINTMENT, REAPPOINTMENT, OR PROMOTION OF RELATIVES
AND MARRIAGE OF CERTAIN EMPLOYEES**

The following personnel actions involving the appointment, reappointment, or promotion of relatives have been administratively approved by the Executive Vice Chancellor for Health Affairs. The personnel actions are consistent with the provisions of Section 573.001 of the Texas Government Code and the Regents' Rules and Regulations, Part One, Chapter III, Section 5.

<u>College, Department, Title, Name</u>	<u>College, Department, Title, Name</u>
PROPOSED REAPPOINTMENT	RELATIVE
1. Office of the President President and Professor John Mendelsohn	Office of the President Special Assistant Anne Mendelsohn (spouse)*
2. Radiation Oncology Division Head, Chair, Professor and Distinguished Chair James D. Cox	Radiation Oncology Professor Ritsuko Komaki (spouse)
3. EVP & Chief Academic Officer EVP and Chief Academic Officer and Professor Margaret L. Kripke	Cancer Biology Chair, Professor and Distinguished Chair Isaiah J. Fidler (spouse)

*Mrs. Mendelsohn is not listed in the budget as she is appointed without compensation.

NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS

The following personnel actions involving new tenure appointments and promotion within tenure ranks have been administratively approved by the Executive Vice Chancellor for Health Affairs. The personnel actions have been included in the 2005 Annual Operating Budget of each component institution and are consistent with the Regents' Rules and Regulations, Part One, Chapter III, Section 6, Section 6.2, Subsection 6.25.

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
U. T. M. D. Anderson Cancer Center		
Epidemiology		
Xi F. Wu	Associate Professor (T)	Professor (T)
Pathology		
Gregg A. Staerkel	Associate Professor (T)	Professor (T)
Savitri Krishnamurthy	Assistant Professor (NT)	Associate Professor (T)
Jinsong Liu	Assistant Professor (NT)	Associate Professor (T)
Lavinia P. Middleton	Assistant Professor (NT)	Associate Professor (T)
William F. Symmans	Associate Professor (NT)	Associate Professor (T)
Diagnostic Radiology		
Lawrence E. Ginsberg	Associate Professor (T)	Professor (T)
Radiation Oncology		
Thomas A. Bucholz	Associate Professor (T)	Professor (T)
Chul S. Ha	Associate Professor (NT)	Professor (T)
Mark S. Chambers	Associate Professor (NT)	Associate Professor (T)
Surgical Oncology		
Kelly K. Hunt	Associate Professor (T)	Professor (T)
Peter W. Pisters	Associate Professor (T)	Professor (T)
Gynecologic Oncology		
Karen H. Lu	Assistant Professor (NT)	Associate Professor (T)

**NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS
(CONTINUED)**

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
U. T. M. D. Anderson Cancer Center		
Biochemistry and Molecular Biology		
Sharon R. Dent	Associate Professor (T)	Professor (T)
Naoto T. Ueno	Associate Professor (NT)	Associate Professor (T)
Paul J. Chiao	Associate Professor (NT)	Associate Professor (T)
Head & Neck Surgery		
Franco DeMonte	Associate Professor (T)	Professor (T)
Behavioral Science		
Alexandre V. Prokhorov	Associate Professor (T)	Professor (T)
David W. Wetter	Associate Professor (T)	Professor (T)
Veterinary Sciences		
Jagannadha K. Sastry	Associate Professor (T)	Professor (T)
Clinical Cancer Prevention		
Anita Lyn Sabichi	Assistant Professor (NT)	Associate Professor (T)
Thoracic & Cardiovascular Surgery		
Ara A. Vaporciyan	Assistant Professor (NT)	Associate Professor (T)
Immunology		
Hector Martinez-Valdez	Associate Professor (NT)	Associate Professor (T)
Breast Medical Oncology		
Lajos Pusztai	Assistant Professor (NT)	Associate Professor (T)
Blood & Marrow Transplantation		
Issa F. Khouri	Associate Professor (T)	Professor (T)
Leukemia		
Jorge E. Cortes-Franco	Associate Professor (T)	Professor (T)
Infectious Diseases		
Dimitrios P. Kontoyiannis	Associate Professor (NT)	Associate Professor (T)

**NEW TENURE APPOINTMENTS AND PROMOTIONS WITHIN TENURE RANKS
(CONTINUED)**

<u>College, Department, and Name</u>	<u>From</u>	<u>To</u>
U. T. M. D. Anderson Cancer Center		
Sarcoma Medical Oncology Shreyaskumar Patel	Associate Professor (T)	Professor (T)
Neuro-Oncology Mark R. Gilbert	Associate Professor (NT)	Associate Professor (T)
Thoracic/Head & Neck Medical Oncology Jonathan M. Kurie	Associate Professor (T)	Professor (T)
Molecular Therapeutics Francois-Xavier Claret	Assistant Professor (NT)	Associate Professor (T)
Thoracic and Cardiovascular Surgery – Research Bingliang Fang	Assistant Professor (NT)	Associate Professor (T)
Plastic Surgery Charles W. Patrick, Jr.	Associate Professor (NT)	Associate Professor (T)
Radiation Physics – Pt. Care John D. Hazle	Associate Professor (T)	Professor (T)
Biostatistics Kim-Anh Do Linda S. Elting Keith A. Baggerly	Associate Professor (T) Associate Professor (T) Assistant Professor (NT)	Professor (T) Professor (T) Associate Professor (T)
Experimental Imaging Physics Roger E. Price	Associate Professor (T)	Professor (T)
Thoracic Head and Neck Medical Oncology – Research Li Mao	Associate Professor (T)	Professor (T)
Anesthesiology Patrick M. Dougherty	Associate Professor (NT)	Associate Professor (T)

SMALL CLASS REPORT, FALL 2003 AND SPRING 2004

Pursuant to Section 51.403 of the Texas Education Code and Section 5.301 of the Texas Higher Education Coordinating Board Rules, a report for the record regarding the teaching of small classes has been filed. The institution has reviewed the data in this report and, as appropriate, made administrative changes to ensure that teaching such small classes continues to be justified. The detailed listing of small classes is available in the U. T. System Office of Health Affairs and is summarized as follows:

Organized Undergraduate Classes with Fewer than 10 Enrolled Students

Primary Reasons for Teaching	Fall	Spring	Total	Prior Year Total
a. Required for graduation	16	19	35	38
b. To keep proper sequence	16	19	35	38
c. New program	0	0	0	0
d. Cross listed	0	0	0	0
e. First time offered	0	0	0	0
f. Accreditation or licensing Standard	0	0	0	0
g. Limited facilities	0	0	0	0
Subtotal	32	38	70	76
h. Voluntarily offered	0	0	0	0
Total	32	38	70	76

U. T. HEALTH CENTER - TYLER
AMENDMENTS TO THE 2003-04 BUDGET

TRANSFERS OF FUNDS

<u>Description</u>	<u>\$ Amount</u>	<u>RBC #</u>
LERR EQUIPMENT PROJECT		
1. Amount of Transfer:	1,832	9
From: Library, Equipment, Repair and Rehabilitation (LERR) Centralized Call Management System		
To: LERR Emergency Room Renovation		
To transfer of \$1,832.14 from approved LERR Equipment Project to a LERR Repair and Rehabilitation project. These funds are needed for an existing purchase order for a Text Telephone and Emergency Room renovation costs.		

LERR EQUIPMENT PROJECT		
2. Amount of Transfer:	4,535	10
From: LERR Analytical Electron Microscope		
To: LERR Emergency Room Renovation		
To transfer funds of \$4,535 from approved LERR Equipment Project to a LERR Repair and Rehabilitation project. These funds are needed for Emergency Room renovation costs.		

**APPOINTMENT, REAPPOINTMENT, OR PROMOTION OF RELATIVES
AND MARRIAGE OF CERTAIN EMPLOYEES**

The following personnel actions involving the appointment, reappointment, or promotion of relatives have been administratively approved by the Executive Vice Chancellor for Health Affairs. The personnel actions are consistent with the provisions of Section 573.001 of the Texas Government Code and the Regents' Rules and Regulations, Part One, Chapter III, Section 5.

College, Department, Title, Name

College, Department, Title, Name

PROPOSED REAPPOINTMENT

RELATIVE

1. Office of the President
President
Kirk A. Calhoun

Office of the President
Special Assistant
Jeanette Deas Calhoun
(spouse)*

*Mrs. Calhoun is not listed in the budget as she is appointed without compensation.



TABLE OF CONTENTS FOR ACADEMIC AFFAIRS COMMITTEE

Committee Meeting: 8/11/2004

Board Meeting: 8/12/2004
U. T. M. D. Anderson Cancer Center

Cyndi Taylor Krier, Chairman
H. Scott Caven, Jr.
Judith L. Craven, M.D.
Robert A. Estrada
Robert B. Rowling

	Committee Meeting	Board Meeting	Page
Convene	1:45 p.m. <i>Chairman Krier</i>		
1. U. T. Austin: Approval of Changes to the Coordinated Admissions Program (formerly Off-Campus Provisional Admissions Program)	1:45 p.m. Action <i>Dr. Faulkner</i>	Action	40
2. U. T. Brownsville: Wellness, Recreation and Fitness Complex – Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include project	1:55 p.m. Action <i>Mr. Sanders</i>	Action	42
3. U. T. El Paso: Authorization to establish a Ph.D. in Computer Science	2:00 p.m. Action <i>Dr. Natalicio</i>	Action	43
4. U. T. El Paso: Authorization to establish a Master of Occupational Therapy degree	2:05 p.m. Action <i>Dr. Natalicio</i>	Action	44
5. U. T. San Antonio: Authorization to establish a Master of Science and a Ph.D. degree in Physics	2:10 p.m. Action <i>Dr. Romo</i> <i>Research Institute</i> <i>representatives:</i> <i>Mr. Dan Bates</i> <i>Dr. David McComas</i>	Action	45
6. U. T. San Antonio: Recreation and Wellness Facilities, Phase II - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include project	2:30 p.m. Action <i>Mr. Sanders</i>	Action	46

7. **U. T. San Antonio: Approval to acquire the leasehold interest in 5.297 acres of land with improvements located at 301 South Frio Street, San Antonio, Bexar County, Texas; authorization to amend the FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include a new Business Technology Center Renovation project; and resolution of parity debt** 2:35 p.m.
Action
Dr. Romo **Action 47**
- Adjourn** 2:45 p.m.

1. **U. T. Austin: Approval of Changes to the Coordinated Admissions Program (formerly Off-Campus Provisional Admissions Program)**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, President Faulkner, and the Faculty Council of U. T. Austin that the U. T. Board of Regents approve changes to the admissions policies at U. T. Austin. Specifically, modifications are proposed to the Coordinated Admissions Program (CAP), primarily to strengthen the freshman year course and grade point average requirements for students who enroll in the program.

Under CAP, a Texas resident high school graduate applying for freshman admission who is not offered regular admission to U. T. Austin is given the opportunity to attend one of the other U. T. System general academic institutions cooperating in the program to complete certain minimum requirements during the freshman year. The current requirements are that during the freshman year the student complete thirty (30) semester hours of prescribed coursework with a 3.0 minimum grade point average and that the coursework be taken during the fall and spring semesters (and mini-semesters during the summer at selected campuses) immediately following high school graduation. If the student successfully completes these requirements, he or she is guaranteed the opportunity to transfer to U. T. Austin at the beginning of the sophomore year. A successful CAP student also may elect to remain at the campus at which he or she completed the freshman year. A CAP student who does not successfully complete the minimum requirements for guaranteed transfer to U. T. Austin may remain at the freshman year campus if in good academic standing.

The recommended modifications, to be in effect for freshman applicants applying for admission for the 2005 Fall Semester, are:

- The minimum grade point average requirement for the prescribed thirty (30) semester credit hours of coursework will be 3.2 rather than 3.0.
- A mathematics course beyond Math 301 (college algebra) will be required as part of the prescribed thirty (30) semester credit hours of coursework.
- Short semester courses may not be counted in the prescribed thirty (30) semester credit hours of coursework.
- Applicants offered admission into CAP must accept by a June 1 deadline rather than the current July 1 deadline.
- The other U. T. System components participating in CAP need accept for participation only those applicants offered CAP who meet the regular minimum admission requirements of the respective component.

These program modifications are designed to help improve the quality of the students enrolling in CAP and to provide enhanced transfer enrollment management at U. T. Austin.

BACKGROUND INFORMATION

The U. T. Austin Coordinated Admissions Program (CAP) was approved by the U. T. Board of Regents on November 16, 2000. (At the time of approval, the program was referred to as an Off-Campus Provisional Admissions Program and it replaced the former Summer Provisional Admissions Program at U. T. Austin. Subsequent to Board approval, the name of the program was changed to Coordinated Admissions Program.) The current CAP requirements are those originally approved. When President Faulkner recommended CAP to the U. T. Board of Regents in 2000, he also adopted the suggestion of the U. T. Faculty Council that the program be evaluated within three years of its implementation. Thus, the U. T. Austin Office of Admissions and the U. T. Austin Admissions and Registration Committee conducted the program review during the 2003 – 2004 academic year. The review was very helpful and an annual review will be performed in the future. The recommended program modifications resulted from the third-year review.

The review shows that, in general, CAP students who enroll at U. T. Austin are doing well academically. The mean grade point average for those CAP students in the 2001 - 2002 cohort after one year at U. T. Austin was 2.6. This matches that of those students who began U. T. Austin in Summer 2001 as regular freshman admits for the summer. The mean grade point average was 2.83 after one year at U. T. Austin for students who began U. T. Austin in the Fall Semester 2001 as regular freshman admits for the fall and who were not in the top 10% of the high school graduating class. The corresponding mean grade point average for those who had been in the top 10% of their graduating class was 3.10.

The review also shows that CAP has become increasingly attractive. The first year in which students participated in CAP was 2001 – 2002. For that year, U. T. Austin offered CAP to 2,084 applicants. 476 accepted the offer and attended other U. T. System components to complete the freshman program requirements. 182 of those 476 transferred to U. T. Austin after the freshman year. For 2002 – 2003, 800 of the 3,387 applicants offered CAP asked to enroll in the program. 326 of those transferred under CAP to begin the sophomore year at U. T. Austin. For 2003 – 2004, 1,751 of the 6,256 applicants offered CAP asked to enroll in the program. 873 of the 1,751 are expected to enroll as sophomores at U. T. Austin in the fall. There is a need to place some limits on the growth of the program as part of the overall enrollment management plan at U. T. Austin. The number of transfer applicants that can be accepted each year is limited.

U. T. Austin desires to have a healthy mix among the transfer cohort – made up of CAP transfers, community college transfers, and transfers from other four-year institutions. Most of the community college and four-year institution transfers admitted for the 2004 Fall Semester applied with a grade point average of at least 3.7.

The recommended changes will enhance CAP student preparation and participation and also contribute to enrollment management. CAP has been a successful cooperative venture among U. T. Austin and the other U. T. System component participants. (All of the general academic institutions participate except U. T. Dallas and U. T. Tyler, although U. T. Tyler is joining the program.) CAP will continue to provide all Texas resident high school applicants with an opportunity to earn enrollment at U. T. Austin while at the same time bringing some to U. T. System campuses that they otherwise might not have attended.

2. U. T. Brownsville: Wellness, Recreation and Fitness Complex - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include project

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President García that the U. T. Board of Regents amend the FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include the Wellness, Recreation and Fitness Complex at U. T. Brownsville as follows:

Architecturally or Historically Significant:

Yes No

Project Delivery Method: Construction Manager at Risk

Substantial Completion Date: August 2007

Total Project Cost: Source
Revenue Financing System Bond Proceeds \$12,500,000

Project Description

The Wellness, Recreation and Fitness Complex at U. T. Brownsville will enable students to gather in an environment which will emphasize exercise, athletics, and a healthy lifestyle. This facility will further develop the on-campus student experience. The facility will contain a gymnasium, weight rooms, cardio rooms, rooms for aerobics and dance, and sports fields. Although yet to be programmed, this facility should contain approximately 50,000 gross square feet. In March 2004, the students voted to assess themselves a fee to fund the project.

This off-cycle project has been approved by U. T. System staff and meets the criteria for inclusion in the Capital Improvement Program.

3. **U. T. El Paso: Authorization to establish a Ph.D. in Computer Science**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and President Natalicio that authorization be granted to establish a Ph.D. in Computer Science degree program at U. T. El Paso and to submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action.

Upon approval by the Coordinating Board, the next appropriate catalog published at U. T. El Paso will be amended to reflect this action.

BACKGROUND INFORMATION

Program Description

This proposal involves creating a separate Ph.D. program in Computer Science from the existing interdisciplinary Ph.D. program in Computer Engineering. The existing program, jointly administered by the Departments of Computer Science and Electrical and Computer Engineering, has evolved since its establishment toward two distinct emphases: computer science and computer engineering. The creation of the proposed program will make it easier to recruit students and to enhance research activities in both departments.

Program Quality

The proposed program will be supported by the faculty and staff who support the current interdisciplinary Ph.D. program. The U. T. El Paso Department of Computer Science faculty maintains a consistent record of scholarly accomplishment and research activity. They are principal investigators and co-principal investigators on current grants and gifts totaling over \$18 million.

Program Cost

There are no new costs associated with the proposed program.

4. **U. T. El Paso: Authorization to establish a Master of Occupational Therapy degree**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and President Natalicio that authorization be granted to establish a Master of Occupational Therapy degree program at U. T. El Paso; to submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action; and to authorize the Executive Vice Chancellor for Academic Affairs to certify on behalf of the U. T. Board of Regents that relevant Coordinating Board criteria for approval by the Commissioner of Higher Education have been met.

Upon approval by the Coordinating Board, the next appropriate catalog published at U. T. El Paso will be amended to reflect this action.

BACKGROUND INFORMATION

Program Description

Beginning in January 2007, the Accreditation Council for Occupational Therapy Education (ACOTE) will no longer accredit occupational therapy education programs below the post graduate level. The proposed program will provide an 82-hour entry-level master's degree that will replace the current baccalaureate program.

Program Quality

The current Occupational Therapy program at U. T. El Paso was highly commended and recently (March 2003) accredited for seven years by ACOTE. ACOTE intends to extend the current accreditation for an additional three years once the newly reorganized master's-level program has been reviewed and approved.

Program Cost

Since the proposed program replaces an existing program, most of the current courses will remain the same. In addition, current faculty will offer all the courses in the proposed program. Therefore, new costs for the program will be negligible; approximately \$1,500 in new library acquisitions.

5. **U. T. San Antonio: Authorization to establish a Master of Science and a Ph.D. degree in Physics**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and President Romo that authorization be granted to establish Master of Science (M.S.) and Doctor of Philosophy (Ph.D.) degree programs in Physics at U. T. San Antonio; to submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action; and to authorize the Executive Vice Chancellor for Academic Affairs to certify on behalf of the U. T. Board of Regents that relevant Coordinating Board criteria for approval by the Commissioner of Higher Education have been met. In addition, the Coordinating Board will be asked to change the U. T. San Antonio Table of Programs to reflect authorization for the proposed degree programs.

Upon approval by the Coordinating Board, the next appropriate catalog published at U. T. San Antonio will be amended to reflect this action.

BACKGROUND INFORMATION

Program Description

U. T. San Antonio proposes to offer the M.S. and Ph.D. degrees in Physics. These programs will be offered by the Department of Physics and Astronomy in the College of Sciences in collaboration with the Space Science and Engineering Division of Southwest Research Institute (SwRI). The programs are designed to prepare graduates to make significant contributions to the evolution of space technologies and research, the nation's biomedical infrastructure, and the rapidly advancing scientific and technological capabilities in the city, region, state, and nation. Students will have the opportunity to participate in a process of development, testing, and integration of instrumentation for space science missions, an area in which the Space Science and Engineering Division at SwRI has played a leading role for decades. Graduates of the proposed programs would be highly marketable in broad fields of research and technology development.

Program Quality

In August 2004, there will be eight tenured or tenure-track faculty members in the Department of Physics and Astronomy who will contribute to the delivery of the program. Two additional faculty members, one at the senior level, will be hired during 2004-2005. Eight researchers from SwRI will participate in the program's delivery. They will be appointed as Adjoint Professors, with all of the rights and responsibilities of U. T. San Antonio tenured or tenure-track faculty except that they will not be eligible for

tenure. All faculty who will participate in the program have excellent research records. A Letter of Agreement will be signed by the authorities at U. T. San Antonio and SwRI to define the legal contract between the two institutions.

Completion of the Biotechnology, Sciences and Engineering Building in the Fall 2005 will increase the amount of laboratory and office space available to the Department of Physics and Astronomy. At SwRI, there are currently a variety of world-class laboratories that will be used to train graduate students. One houses arguably the best existing atomic ion accelerator/space plasma instrument development facility in the world. In addition, it is anticipated that some SwRI facilities will be remodeled into teaching labs or classrooms that can be used to train graduate students.

Program Cost

Estimated expenditures for the first five years of the proposed programs total \$4,710,000. This includes \$270,000 in new faculty salaries and start-up funds, \$165,000 in the contractual arrangement with SwRI for courses taught, \$3,700,000 for graduate assistant and research assistant support, \$405,000 for new lab equipment, \$120,000 for supplies and materials, and \$50,000 for administrative support.

U. T. San Antonio will commit \$1,679,349 in existing institutional resources, \$700,000 from SwRI for student support, and \$2,355,202 in formula funding to finance the first five years of the programs.

6. **U T. San Antonio: Recreation and Wellness Facilities, Phase II – Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include project**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Romo that the U. T. Board of Regents amend the FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include the Recreation and Wellness Facilities, Phase II project at U. T. San Antonio as follows:

Architecturally or Historically Significant:

(Note: Item is before the Board; see Item 1 on Page 83.)

Project Delivery Method:

Competitive Sealed Proposals

Substantial Completion Date:

July 2007

Total Project Cost:

Source
Revenue Financing System Bond Proceeds \$44,000,000

Project Description:

The Recreation and Wellness Facilities, Phase II project at U. T. San Antonio will provide additions to the existing campus Child Development Center, Health Services Center, and Recreation Center.

With enrollment expected to increase, the existing space in the Recreation Center is currently deficient and will become more severe as U. T. San Antonio's population grows. The debt for the Revenue Financing System Bond Proceeds will be repaid from student fees.

This off-cycle project has been approved by U. T. System staff and meets the criteria for inclusion in the Capital Improvement Program.

7. **U. T. San Antonio: Approval to acquire the leasehold interest in 5.297 acres of land with improvements located at 301 South Frio Street, San Antonio, Bexar County, Texas; authorization to amend the FY 2004 - 2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include a new Business Technology Center Renovation project; and resolution of parity debt**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Romo that the U. T. Board of Regents:

- a. appropriate funds and authorize expenditure of \$15 million from Revenue Financing System Bond Proceeds to acquire the leasehold interest in 5.297 acres of land located at 301 South Frio Street, San Antonio, Bexar County, Texas, at a cost of \$8.2 million and renovate the improvements on the real property at a cost of \$6.8 million;
- b. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to include a new project entitled Business Technology Center Renovation;
- c. approve the addition of the Business Technology Center Renovation project to the CIP; and
- d. resolve in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993 and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative, that parity debt shall be issued to pay the project's cost, including any project costs prior to the issuance of such parity debt;

- sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System;
- U. T. San Antonio, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of parity debt in the aggregate amount of \$15 million; and
- this resolution satisfies the official intent requirements set forth in Section 1.150-2 of the Code of Federal Regulations that evidences the Board's intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

On May 13, 2004, the U. T. Board of Regents approved acquisition of the leasehold interest in the real property located at 301 South Frio Street, San Antonio, Bexar County, Texas. At that time, the appraisal indicated a value of \$7.3 million. Unfortunately, that appraisal contained an incorrect assumption concerning occupancy of the building. The appraisals that were subsequently obtained as part of the negotiating process indicated values of \$8.1 and \$8.25 million, respectively. Acquisition of the subject property is part of an agreement with the City of San Antonio to expand the Downtown Campus of U. T. San Antonio. Approval of this item will provide financing for the acquisition of the leasehold interest in the real property and renovation of the building through Revenue Financing System debt.

While U. T. San Antonio intends to fully utilize the facility for its own use, it expects that portions of the building will continue being leased to nongovernmental tenants until such spaces are occupied by the institution for its own use. The portion of the building occupied by nongovernmental tenants will be financed on a taxable basis until it can be converted to tax-exempt financing once U. T. San Antonio occupies the space.

Debt service on the \$15 million will be repaid with institutional resources. Annual debt service is projected at \$1,032,081.



TABLE OF CONTENTS FOR HEALTH AFFAIRS COMMITTEE

Committee Meeting: 8/11/2004

Board Meeting: 8/12/2004
U. T. M. D. Anderson Cancer Center

Rita C. Clements, *Chairman*
H. Scott Caven, Jr.
Judith L. Craven, *M.D.*
Cyndi Taylor Krier
Robert B. Rowling

	Committee Meeting	Board Meeting	Page
Convene	<i>12:30 p.m.</i> <i>Chairman Clements</i>		
1. U. T. System: Adjust the Plan Participant Premium Rate for the U. T. System Professional Medical Liability Benefit Plan effective September 1, 2004, and return a portion of Plan Reserves to participating U. T. System health components	<i>12:30 p.m.</i> Action <i>Mr. Godfrey</i>	Action	49
2. U. T. System: Amendments to The University of Texas System Professional Medical Liability Benefit Plan	<i>12:40 p.m.</i> Action <i>Mr. Godfrey</i>	Action	54
3. U. T. Health Science Center - Houston: Honoric naming of the Department of Ophthalmology and Visual Science as the Richard S. Ruiz, M.D. Department of Ophthalmology and Visual Science	<i>12:45 p.m.</i> Action <i>Dr. Willerson</i>	Action	71
4. U. T. Medical Branch - Galveston: Correctional Managed Health Care	<i>12:50 p.m.</i> Report <i>Dr. Stobo</i>	Not on Agenda	72
5. U. T. Southwestern Medical Center - Dallas: Authorization to enter into a letter of intent regarding the proposed acquisition of Zale Lipshy University Hospital and St. Paul University Hospital	<i>1:10 p.m.</i> Action <i>Dr. Wildenthal</i>	Action	73
6. U. T. System: Proposed Austin Academic Health Center	Not on Committee Agenda <i>1:45 p.m.</i>	Report <i>Dr. Shine</i>	80
Adjourn			

1. **U. T. System: Adjust the Plan Participant Premium Rate for the U. T. System Professional Medical Liability Benefit Plan Effective September 1, 2004, and Return a Portion of Plan Reserves to Participating U. T. System Health Components**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and the Vice Chancellor and General Counsel that the faculty and resident participant premium rates for Fiscal Year 2005 for The University of Texas System Professional Medical Liability Benefit Plan (Plan) be increased by an average of 4% effective September 1, 2004. The proposed premiums reflect a trend in increased claims payment amounts. It is further recommended that \$35 million be returned to the participating U. T. System component institutions. The current and proposed premium rates are set forth in Exhibits 1 and 2 (Pages 51 - 53).

BACKGROUND INFORMATION

Pursuant to the authority of Texas Education Code Section 59.01 et seq., the U. T. Board of Regents adopted The University of Texas System Professional Medical Liability Benefit Plan to provide coverage for certain physicians and medical students of the U. T. System. The Plan went into effect on April 1, 1977, and is funded primarily by the payment of premiums from the Faculty Physician Practice Plans of the component health institutions of the U. T. System. It is recommended that the U. T. Board of Regents approve an increase in participant premium rates projected for Fiscal Year 2005 for the Plan year effective September 1, 2004.

Actuaries from Tillinghast-Towers Perrin (Tillinghast), the nation's largest medical liability insurance plan actuarial firm, have reviewed the Plan's 27-year experience and recommend experience-based premiums related to the claims loss of each U. T. System health component. The 78th Legislature passed tort reform measures that will limit the liability for state employed physicians and dentists to \$100,000, and Tillinghast incorporated that statutory change into its premium calculation last fiscal year.

The Plan has reserves above the actuarially projected risks associated with the Plan, and it is recommended that a return of \$35 million, representing a portion of such reserves, be returned to participating U. T. System component institutions, via a formula to be determined by the Chancellor. This will be the eighth consecutive year for a partial return of Plan reserves.

As of August 31, 2003, there were 5,550 staff and resident physicians of the U. T. System covered by the Plan, with basic liability limits of \$500,000 per claim for staff physicians and \$100,000 for residents. In addition, approximately 3,332 medical students are enrolled in the Plan by paying \$25 a year for \$25,000 in coverage.

The University of Texas System Professional Medical Liability Benefit Plan
Summary of Rates by Risk Class by Health Component

Risk Class 1

Health Component	Current Rates As of 9/1/2003		Selected Rates As of 9/1/2004		Rate Change	
	Staff	Resident	Staff	Resident	Staff	Resident
(1)	(2)	(3)	(4)	(5)	(6)	(7)
UT Cancer Center	\$1,064	\$996	\$1,025	\$959	-3.7%	-3.7%
UT SMC Dallas	988	924	1,019	953	3.1%	3.1%
UTMB Galveston	1,571	1,469	1,675	1,567	6.6%	6.7%
UT HSC Houston	1,480	1,385	1,624	1,519	9.7%	9.7%
UT HSC San Antonio	1,183	1,107	1,214	1,137	2.6%	2.7%
UT HC Tyler	1,384	1,295	1,452	1,358	4.9%	4.9%
UT Austin	1,183	1,107	1,214	1,137	2.6%	2.7%
UT Arlington	1,183	1,107	1,214	1,137	2.6%	2.7%

Risk Class 2

Health Component	Current Rates As of 9/1/2003		Selected Rates As of 9/1/2004		Rate Change	
	Staff	Resident	Staff	Resident	Staff	Resident
(1)	(2)	(3)	(4)	(5)	(6)	(7)
UT Cancer Center	\$1,665	\$1,558	\$1,603	\$1,500	-3.7%	-3.7%
UT SMC Dallas	1,546	1,446	1,594	1,491	3.1%	3.1%
UTMB Galveston	2,458	2,299	2,620	2,453	6.6%	6.7%
UT HSC Houston	2,316	2,168	2,541	2,378	9.7%	9.7%
UT HSC San Antonio	1,851	1,733	1,899	1,780	2.6%	2.7%
UT HC Tyler	2,166	2,027	2,272	2,126	4.9%	4.9%
UT Austin	1,851	1,733	1,899	1,780	2.6%	2.7%
UT Arlington	1,851	1,733	1,899	1,780	2.6%	2.7%

Risk Class 3

Health Component	Current Rates As of 9/1/2003		Selected Rates As of 9/1/2004		Rate Change	
	Staff	Resident	Staff	Resident	Staff	Resident
(1)	(2)	(3)	(4)	(5)	(6)	(7)
UT Cancer Center	\$2,660	\$2,489	\$2,562	\$2,397	-3.7%	-3.7%
UT SMC Dallas	2,469	2,310	2,546	2,382	3.1%	3.1%
UTMB Galveston	3,926	3,672	4,185	3,918	6.6%	6.7%
UT HSC Houston	3,700	3,463	4,059	3,799	9.7%	9.7%
UT HSC San Antonio	2,957	2,768	3,034	2,843	2.6%	2.7%
UT HC Tyler	3,460	3,237	3,630	3,396	4.9%	4.9%
UT Austin	2,957	2,768	3,034	2,843	2.6%	2.7%
UT Arlington	2,957	2,768	3,034	2,843	2.6%	2.7%

Risk Class 4

Health Component	Current Rates As of 9/1/2003		Selected Rates As of 9/1/2004		Rate Change	
	Staff	Resident	Staff	Resident	Staff	Resident
(1)	(2)	(3)	(4)	(5)	(6)	(7)
UT Cancer Center	\$4,948	\$4,629	\$4,765	\$4,458	-3.7%	-3.7%
UT SMC Dallas	4,593	4,297	4,735	4,430	3.1%	3.1%
UTMB Galveston	7,303	6,829	7,785	7,287	6.6%	6.7%
UT HSC Houston	6,882	6,441	7,550	7,066	9.7%	9.7%
UT HSC San Antonio	5,499	5,149	5,642	5,288	2.6%	2.7%
UT HC Tyler	6,435	6,022	6,750	6,317	4.9%	4.9%
UT Austin	5,499	5,149	5,642	5,288	2.6%	2.7%
UT Arlington	5,499	5,149	5,642	5,288	2.6%	2.7%

For easier presentation the premium rates and rate changes shown here have been rounded by Tillinghast-Towers Perrin, the Plan actuary.
 July 2004

The University of Texas System Professional Medical Liability Benefit Plan
Summary of Rates by Risk Class by Health Component

Risk Class 5

Health Component	Current Rates As of 9/1/2003		Selected Rates As of 9/1/2004		Rate Change	
	Staff	Resident	Staff	Resident	Staff	Resident
	(2)	(3)	(4)	(5)	(6)	(7)
UT Cancer Center	\$7,289	\$6,820	\$7,019	\$6,568	-3.7%	-3.7%
UT SMC Dallas	6,766	6,330	6,976	6,526	3.1%	3.1%
UTMB Galveston	10,758	10,061	11,468	10,735	6.6%	6.7%
UT HSC Houston	10,137	9,488	11,120	10,408	9.7%	9.7%
UT HSC San Antonio	8,101	7,586	8,312	7,791	2.6%	2.7%
UT HC Tyler	9,479	8,871	9,943	9,306	4.9%	4.9%
UT Austin	8,101	7,586	8,312	7,791	2.6%	2.7%
UT Arlington	8,101	7,586	8,312	7,791	2.6%	2.7%

All Risk Classes Combined

Health Component	Current Rates As of 9/1/2003		Selected Rates As of 9/1/2004		Rate Change	
	Staff	Resident	Staff	Resident	Staff	Resident
	(2)	(3)	(4)	(5)	(6)	(7)
UT Cancer Center	\$2,559	\$3,088	\$2,464	\$2,974	-3.7%	-3.7%
UT SMC Dallas	2,708	2,461	2,792	2,538	3.1%	3.1%
UTMB Galveston	4,265	4,006	4,546	4,274	6.6%	6.7%
UT HSC Houston	3,911	8,392	4,290	9,206	9.7%	9.7%
UT HSC San Antonio	2,794	3,044	2,867	3,127	2.6%	2.7%
UT HC Tyler	2,678	4,061	2,809	4,260	4.9%	4.9%
UT Austin	NA	NA	NA	NA	NA	NA
UT Arlington	NA	NA	NA	NA	NA	NA
Total/Weighted Average	3,127	3,241	3,252	3,370	4.0%	4.0%

Notes:

(2), (3) Current rates as of 9/1/2003.

(4), (5) Based on UT rate review.

(6) = (4) / (2) - 1.000

(7) = (5) / (3) - 1.000

The University of Texas System Professional Medical Liability Benefit Plan
Dental Rates by Health Component

Health Component (1)	Rates as of 9/1/2003		Rates as of 9/1/2004		Rate Change	
	Staff (2)	Residents (3)	Staff (4)	Residents (5)	Staff (6)	Resident (7)
<u>Dentist - NOC (Risk Class A)</u>						
UT Cancer Center	\$372	\$348	\$358	\$335	-3.8%	-3.7%
UT SMC Dallas	346	323	357	333	3.2%	3.1%
UTMB Galveston	550	514	586	548	6.5%	6.6%
UT HSC Houston	518	485	568	532	9.7%	9.7%
UT HSC San Antonio	414	388	425	398	2.7%	2.6%
UT HC Tyler	484	453	508	475	5.0%	4.9%
UT Austin	414	388	425	398	2.7%	2.6%
UT Arlington	414	388	425	398	2.7%	2.6%
<u>Dentist - Oral Surgery (Risk Class B)</u>						
UT Cancer Center	\$1,665	\$1,558	\$1,603	\$1,500	-3.7%	-3.7%
UT SMC Dallas	1,546	1,446	1,594	1,491	3.1%	3.1%
UTMB Galveston	2,458	2,299	2,620	2,453	6.6%	6.7%
UT HSC Houston	2,316	2,168	2,541	2,378	9.7%	9.7%
UT HSC San Antonio	1,851	1,733	1,899	1,780	2.6%	2.7%
UT HC Tyler	2,166	2,027	2,272	2,126	4.9%	4.9%
UT Austin	1,851	1,733	1,899	1,780	2.6%	2.7%
UT Arlington	1,851	1,733	1,899	1,780	2.6%	2.7%

Notes:

(2),(3) Current rates as of 9/1/2003.

(4),(5) Dentist Rates = Physician Class 1 Rates Effective 9/1/2004 x 0.35.

Dentist-Oral Surgery Rates = Physician Class 2 Rates Effective 9/1/2004.

(6) = (4) / (2) - 1.00.

(7) = (5) / (3) - 1.00.

2. **U. T. System: Amendments to The University of Texas System Professional Medical Liability Benefit Plan**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and the Vice Chancellor and General Counsel that The University of Texas System Professional Medical Liability Benefit Plan be amended in congressional style on Pages 55 - 70 to be effective September 1, 2004.

BACKGROUND INFORMATION

Authority for the establishment of a self-insurance program to indemnify U. T. physicians was granted to the Board of Regents by Senate Bill 391, Acts of the 65th Legislature, effective March 10, 1977 (later codified as Texas Education Code Section 59.01 et seq.). The Plan for Professional Medical Malpractice Self-Insurance was originally approved by the Board of Regents on April 15, 1977. Since the Plan was first approved, it has been amended several times with the most recent amendment on February 13, 2003, when coverage for dentists was added.

In addition to numerous proposed amendments aimed at consistency and clarity in interpreting the terms of the Plan, one substantive change is proposed. In Fall 2003, a Task Force of U. T. physicians and attorneys was appointed to discuss recent tort reform measures and the impact on U. T. physicians and component institutions. The Task Force overwhelmingly recommended expanding coverage to provide legal representation before the Texas State Board of Medical Examiners and the Texas State Board of Dental Examiners. The proposed amendments to Articles II, III, and V provide coverage for legal representation in disciplinary, licensing or similar administrative proceedings up to \$25,000 per proceeding and \$100,000 per enrollment year, unless other Plan exclusions apply. No fines, penalties, or costs assessed as a result of the proceedings will be covered.

**THE UNIVERSITY OF TEXAS SYSTEM
PROFESSIONAL MEDICAL LIABILITY BENEFIT PLAN**

(Effective September 1, 2004)

**ARTICLE I
PURPOSE**

The purpose of The University of Texas System Professional Medical Liability Plan (“Plan”) ~~this Plan~~ is to provide certain health care providers ~~Medical Members~~ and ~~medical~~ students of The University of Texas System (“System”) with ~~medical~~ professional liability indemnity from and against medical and dental liability claims pursuant to the authority granted to the Board of Regents of The University of Texas System by Texas Education Code, Section 59.01 et seq. Senate Bill 391, Acts of the 65th Legislature, which Act became effective March 10, 1977, as amended.

**ARTICLE II
DEFINITIONS**

~~This Plan shall be known as the Professional Medical Liability Benefit Plan (“Plan”).~~ Unless otherwise required by the context, the following definitions ~~terms~~ shall control:

A. **Plan Participant** ~~Medical Members~~ shall mean:

1. Staff physicians and dentists who are medical ~~Medical~~ doctors, oral surgeons, oral pathologists, dentists, doctors of osteopathy, ~~or and~~ podiatrists appointed to the full-time faculty of a medical or dental school or hospital of the System, medical doctors employed ~~full-time~~ in health services at and by a general academic institution of the System, ~~residents of such disciplines participating in a patient-care program in the System, and fellows whose salaries are paid by a System health component, who are duly licensed, credentialed, and registered to practice their profession;~~
2. Residents and fellows enrolled in a residency program or fellowship at a System medical or dental school who are duly licensed, credentialed, and registered to practice their profession;
3. Medical ~~medical~~ doctors, oral surgeons, oral pathologists, dentists, doctors of osteopathy, and podiatrists appointed to the faculty of a medical school or hospital of the System on a part-time or volunteer basis, and who either devote their total professional service to such appointments or provide

services to patients by assignment from the department chairman. For purposes of the Plan, such persons are "Plan Participants Medical Members" only when providing services to patients in conjunction with supervision of medical or dental students or residents physicians by assignment from the department chairman and shall become Participants in the Plan only as provided in Article IV, Section 2; and

3. ~~Residents who work additional hours for additional compensation at a U. T. System health facility or facility affiliation with the U. T. System, will be provided coverage as long as the situation meets the requirements of the Accreditation Council for Graduate Medical Education (including requirements of supervision and restrictions on allowable number of work hours), and the work has previously been identified as part of the resident's general training program.~~
 4. Medical or dental students of a medical or dental school of the System and only when participating (with prior approval of such medical or dental school) in a patient-care program of a duly accredited medical or dental school under the direct supervision of a faculty member of the school conducting such program.
- B. ~~**Participant** means any Medical Member qualifying under Article IV for participation in this Plan. The coverage afforded applies separately to each Participant against whom claim is made or suit is brought, except with respect to the limits of the System's liability.~~
- C. ~~**Medical Liability Claim** means a claim, lawsuit or cause of action (arising within the Plan territory) based upon treatment, or lack of treatment within the United States of America, its territories or possessions, or Canada, or other claimed departure that departs from accepted standards of medical or dental care which proximately results in injury to or death of a the Participant's patient, whether the claim or cause of action sounds in tort or contract, subject to the exclusions described in Article V, Section 4, below.~~
- C. **Disciplinary and Licensing Actions** means any disciplinary, licensing, or similar administrative proceeding brought against a Participant by the Texas State Board of Medical Examiners or Texas State Board of Dental Examiners that arises from professional services, except those excluded pursuant to Article V, Section 4.
- D. **System** means The University of Texas System.
- E. **Board** means the Board of Regents of The University of Texas System.

- F. **Fund** means the Professional Medical Liability Fund established by the Board.
- G. **Administrator** means the Vice Chancellor and General Counsel of The University of Texas System.
- H. **Damages** means all damages, including damages for death, which are payable because of injury to which the Plan applies, but does not include exemplary or punitive damages.
- I. **Coverage** means the medical liability indemnity and legal representation afforded Participants by this Plan.
- J. **Plan territory** means
1. The United States of America, its territories or possessions, or Canada; or
 2. Anywhere in the world for medical doctors, oral surgeons, oral pathologists, doctors of osteopathy, or podiatrists, provided the original suit for damages is brought within the United States of America, its territories or possessions, or Canada.
- K. **Annual Enrollment period** means from April 1, 1977 through March 31, 1978, and each succeeding twelve-month period (from April 1, through March 31) or part thereof terminating with the termination of this Plan begins on the date the Participant has a System appointment and meets the conditions for participation under Article IV below and ends on August 31st after enrollment begins.
- ~~KL.~~ **Certificate of Coverage** means that document issued to the Plan Participant Medical Member by The University of Texas the System specifying the terms and conditions of the Plan benefits enrollment period and limits of coverage.
- ~~LM.~~ **Professional services** means medical, dental or health care and treatment.
- ~~N.~~ **Utilization review** means the review of the medical care of a patient by a physician for the purpose of determining quality of care, determining medical necessity of care or treatment or whether a specific medical treatment or consultation will be authorized, or determining in what setting or what type of health care provider will provide the treatment or consultation, in which the physician has had no contemporaneous personal involvement in the care being evaluated. This review may include a review of medical records, medical history or patient examinations in whatever form transmitted (oral, written or electronic).
- M. **Plan year** means the twelve-month period beginning on September 1 and ending on August 31 of each year.

ARTICLE III APPLICABILITY OF PLAN PROVISION

The coverage afforded by this Plan is subject to the particular terms, conditions, and limitations (including, but not limited to limits of liability) of this Plan and the interpretation thereof by the Board or the Plan Administrator. Notwithstanding any other language of the Plan, the coverage afforded by the Plan applies only to ~~Medical Liability Claims and Disciplinary and Licensing Actions~~ arising out of incidents, transactions or events occurring on or after April 1, 1977.

ARTICLE IV CONDITIONS FOR PARTICIPATION

Section 1

Each ~~person who is a~~ Participant on the effective date of the Plan, and each person who becomes a Participant thereafter, as long as this Plan remains in effect, shall participate in the Plan provided, that

- A. Each medical or dental student, as an additional condition of participation, must pay into the Fund a fee in such amount or amounts, and at such time or times, as may be required by the Board; and
- B. A medical doctor employed ~~full-time~~ in health services at and by a general academic institution of the System shall not become a participant unless and until:
 - 1. ~~All medical doctors so employed by such institution elect to participate in the Plan,~~
 - 2. Such institution files with the Administrator a written application, on behalf of such medical doctors, for participation in the Plan, and
 - 23. Such application is approved and accepted by the Administrator.

Section 2

Plan Participants ~~Medical Members~~ as defined in Article IIA.3 ~~2~~ above shall become participants in the Plan upon written designation by the president ~~chief administrative officer~~ of the health care institution with the approval of the Administrator and the Executive Vice Chancellor for Health Affairs.

Section 3

Residents and fellows who work additional hours for additional compensation at a System health facility or facility affiliated with the System, will be provided coverage as long as it meets the requirements of the Accreditation Council for Graduate Medical Education (including requirements of supervision and restrictions on allowable number of work hours), and the work has previously been identified as part of the resident's or fellow's general training program and fees generated for professional services are deposited in a System health component practice plan, trust or affiliated foundation or certified not-for-profit corporation as approved by the Board.

ARTICLE V COVERAGE OF PARTICIPANTS

Section 1 -- Payments on Behalf of Participants

- A. Except as otherwise provided herein, the System will pay on behalf of each Participant, from monies in the Fund, all sums which the Participant shall become legally obligated to pay as damages because of a ~~Medical Liability Claim~~ arising from the exercise of the Participant's employment, duties or training with the System as a Plan Participant Medical Member performed in the practice of the Participant's ~~his or her~~ profession, including service by the Participant as a member of a formal accreditation or similar professional board or committee of a hospital or professional society with respect to medical staff privileges, accreditation or disciplinary matters related to competency.
- B. Coverage for Plan Participants Medical Members as defined in Article IIA. 3 2 above shall be limited to claims arising from assigned teaching activities and supervision of medical or dental students, and residents and fellows physicians performed within the course and scope of the Participants' assignments as ~~evidenced in writing.~~
- C. ~~Coverage for Participants shall be subject to the conditions applicable to the Medical Member through his or her Certificate of Coverage.~~
- D. Peer review performed at the request of a credentialing body or a professional society for the purpose of determining quality of care is covered provided that any funds generated from the review are deposited into the practice plan as required by the practice plan bylaws. ~~Utilization review decisions made by a participant that are pursuant to a contract with an insurance company or managed care organization as a provider of health services in which the physician has a contemporaneous personal involvement in the care of the patient care is covered.~~

- D. Coverage for Plan Participants for Disciplinary and Licensing Actions shall be limited to legal representation of the Plan Participant by an attorney in a proceeding brought against the Plan Participant by the Texas State Board of Medical Examiners or Texas State Board of Dental Examiners that arises from a covered activity, subject to the limitation in Section 3 D below and exclusions set forth in Section 4 below.

Section 2 -- Defense of Lawsuits

The System shall have the right and duty to defend any claim or lawsuit against a Participant seeking damages because of such injury even if any of the allegations of the claim or lawsuit are groundless, false or fraudulent. The System may make such investigation and settlement of any claim or lawsuit, as it deems appropriate ~~expedient~~. The System shall not be obligated to pay any claim or judgment or to defend any suit after the applicable limit of the System's liability has been exhausted by payment of judgments or settlements, or monies in the Fund have been exhausted. The System has no duty to defend any claims not covered by the ~~this~~ Benefit Plan.

Section 3 -- Supplementary Payments

The System will pay from the Fund, in addition to the applicable limit of liability:

- A. All expenses incurred by the System in investigating and defending any lawsuit, all costs taxed against the Participant in any suit defended by the System, and all interest on the entire amount of any judgment therein which accrues after entry of the judgment and before the System has paid or tendered or deposited in court that part of the judgment which does not exceed the limit of the System's liability thereon;
- B. Premiums on appeal bonds required in any such suit, premiums on bonds to release attachments in any such lawsuit for an amount not in excess of the applicable limit of liability of this Plan, but the System shall have no obligation to apply for or furnish any such bonds.
- C. Reasonable, personal expenses incurred by a Participant ~~or former Participant~~ at the System's request in assisting the System in the investigation or defense of any claim or lawsuit.
- D. Costs and expenses incurred in connection with the investigation and defense of a disciplinary and licensing action brought against the Participant; however the Plan will not pay more than \$25,000 in costs and expenses on behalf of a Participant for any single proceeding. Furthermore, the Plan will not pay more than \$100,000 for costs and expenses on behalf of a Participant for all such proceedings during an annual enrollment period.

Section 4 -- Exclusions

The System will not defend or indemnify a Participant ~~pay under this coverage~~ for:

- A. Injury arising out of the performance by the Participant of any illegal, dishonest, fraudulent, criminal, or malicious act or omission by the Participant unless Participant had no reasonable cause to believe his conduct was unlawful or illegal;
- B. Any claims or lawsuits alleging ~~based upon the violation of state or federal laws relating to,~~ including antitrust statutes, fraud and abuse, anti-kickback, and illegal remuneration laws;
- C. Injury arising out of any sexual conduct of the Participant, including but not limited to sexual harassment and sexual relations, and including, without limitation, when intentionally or negligently done in connection with any professional service, act or omission, and regardless of whether such conduct is alleged to constitute negligence;
- D. Any injury caused while Participant is acting under the influence of alcohol or controlled substances or as a result of excessive use of therapeutic drugs;
- E. Any use, administration or prescription of any drug or pharmaceutical disapproved or not yet approved by the United States Food and Drug Administration for treatment for human beings; unless such use, administration or prescription has been approved by the Institutional Review Board of the health care institution where such drug or pharmaceutical was used, administered or prescribed;
- F. Any liability arising out of any professional or licensed service, act or omission outside the scope of Participant's employment with System;
- G. Injury for which the Participant may be held liable as a proprietor, stockholder, owner, member of the board of directors, governors or trustees, superintendent, executive officer, department head or medical director of any non-System owned or managed hospital, sanitarium, laboratory, clinic with bed and board facilities, infirmary, nursing home, foundation, surgical center, blood bank, commercial or any other business enterprise whether or not related to patient care and/or treatment; but, this exclusion shall not be applied to responsibilities which require the special expertise or training of a physician or surgeon and which are not principally executive or administrative in nature;

- H. ~~Injury, of an individual practitioner,~~ arising out of the rendering of or failure to render professional services by any other person for whose acts or omissions the Participant may be held liable as a member, partner, officer, director or stockholder of any professional partnership, association or corporation;
- I. Injury to any employee of the Participant arising out of and in the course of that person's employment by the Participant;
- J. Any obligation for which the Participant or any carrier acting as insurer may be liable under any workers' compensation, unemployment compensation or disability benefits law, or under any similar law;
- K. Any liability or indemnity obligation assumed by the Participant under contract or agreement, except to the extent endorsed hereto;
- L. Injury to any employee (past or present) or applicant for employment or patient of the Participant based upon actual ~~Actual~~ or alleged discrimination based on ~~because of~~ race, religion, color, sex, national origin, age, veteran status, or disability or handicap ~~against a past or present employee or any applicant for employment with any insured, any participant, or any patient;~~
- M. Damage to property:
 - 1. owned, occupied or rented by a Participant;
 - 2. used by a Participant;
 - 3. in any Participant's care, custody or control; or
 - 4. over which a Participant is exercising physical control for any reason;
- N. Any fines, penalties, the return or withdrawal of fees or government payments, including any fines, penalties or costs assessed against a Participant by the Texas State Board of Medical Examiners or Texas State Board of Dental Examiners as a result of a Disciplinary and Licensing Action;
- O. Any award of punitive or exemplary damages, treble or multiple damages;
- P. Any claim arising out of professional services which occurred prior to the ~~prior acts~~ date of this Plan;
- Q. Any claim arising out of professional services which occurred ~~happened~~ after the termination of faculty appointment, residency or ~~medical~~ student status with the System;

- R. Any claim arising out of professional services where the professional services were billed for by the Participant and were not deposited in a System health component practice plan trust or affiliated foundation or certified not-for-profit corporation as approved by the ~~U. T. Board of Regents~~;
- S. Any claim arising out of professional services performed for professional fees, salaries or other compensation by a Plan Participant that is not part of the Plan Participant's employment with the System or training program Residents or Fellows at a non-System-owned health care facility (moonlighting); and
- T. Legal representation of a Plan Participant before the Texas State Board of Medical Examiners or Texas State Board of Dental Examiners in a Disciplinary and Licensing Action arising out of any activity that is excluded under this Plan ~~Any claim arising out of a request by a managed care company or an insurance company for a Participant to provide utilization review services in which the Participant has no contemporary personal involvement in the care being evaluated.~~

ARTICLE VI PARTICIPANTS' OBLIGATIONS

Section 1 -- ~~Assistance and Cooperation of Participant~~

~~Upon the Participant's becoming aware of an occurrence or incident involving an injury or death, or an alleged injury or death, to which this Plan applies, or may apply, written notice containing particulars sufficient to identify the Participant and also reasonably obtainable information with respect to the time, place and circumstances thereof, and the names and addresses of the patient and of available witnesses, shall be given by or for the Participant to the Administrator as soon as practicable.~~

Section 2-- ~~Notice of Claim, or Suit~~ Disciplinary and Licensing Action

The Participant shall give written notice to the System as soon as practicable of any claim made against the Participant. The notice shall identify the Participant and contain reasonably obtainable information with respect to the time, place and circumstances of the injury, including the names and addresses of the patient injured and of available witnesses. If a claim is made or a lawsuit is brought against the Participant, the Participant shall immediately forward to the Administrator every demand, notice, summons, or other process received by the Participant in accordance with administrative procedures ~~regulations for the Plan prescribed or approved by the Administrator.~~

The Participant shall give written notice to the System as soon as practicable of any disciplinary and licensing action taken against the Participant for which the Participant seeks coverage.

Section 2 3 -- Cooperation by Participant

The Participant shall cooperate with the System and, upon the System's request, respond to discovery requests, attend meetings with Plan representatives or defense counsel, and attend mediations and trials. Further, the Participant shall cooperate with the System assist in making settlements, in the conduct of suits, and in enforcing any right of contribution or indemnity against any person or organization who may be liable to the Participant because of injury or damage with respect to which coverage is afforded under this Plan. The Participant shall attend hearings and trials and assist in securing and giving evidence and obtaining the attendance of witnesses. The Participant shall not, except at Participant's own cost, and after informing the Administrator in writing, voluntarily make any payment, assume any obligation or incur any expense. The Participant shall not take any affirmative act or omission which may reasonably prejudice the defense of the claim or lawsuit. The taking of any affirmative act or omission which prejudices the defense of the claim or lawsuit shall entitle the System, but not obligate the System, to deny indemnity for any or all claims or lawsuit so prejudiced.

Section 3 4 -- Nonassignability of Interest in Plan

The Participant's interest under this Plan is nonassignable. If any Participant shall die or be adjudged incompetent, this Plan shall thereupon terminate automatically as to such Participant, but shall indemnify and defend ~~cover~~ the legal representative of such Participant's estate as a Participant with respect to liability previously incurred and covered by this Plan.

ARTICLE VII LIMITS OF LIABILITY

- A. The Plan's liability shall not exceed the limits of liability stated below, and such stated limits shall be applied as follows:
1. ~~The "per claim" limit of liability is the maximum liability the Plan can owe for a claim first made during an annual period of this Plan and covered by this Plan as a Plan Incident. A single "per claim" limit of liability shall be applicable to a Liability Claim Plan Incident regardless of the number of claimants or Plan Participants involved claims made, lawsuits filed, or physicians involved in a Plan Incident, and regardless of the number of annual periods involved with any Plan Incident.~~
 - a. A single "per claim" limit of liability shall apply to claims involving ~~If a Plan Incident involves~~ injuries to more than one patient such as in obstetrical services to the mother and fetus/child or children, a single "per claim" limit of liability shall be applicable for all such claims and resulting lawsuits.

- ~~b.~~ A Likewise, a single “per claim” limit of liability shall apply be applicable to all claims by both the patient and by the family members or the heirs or estate of such patient, including derivative claims, claims for loss of consortium, claims of beneficiaries under the Texas Wrongful Death Statute and claims for mental anguish and related injuries associated with bystander perception or reaction to the injuries sustained by the patient.
- ~~c.~~ Plan coverage limits of liability, ~~therefore,~~ will not be stacked, added or combined in any manner to increase liability under this Plan even though multiple claimants, multiple claims or injuries, multiple lawsuits, or annual periods may be involved within a Liability Claim Plan Incident.

2. The “annual aggregate for all claims for all Participants” is the maximum amount of money the Plan will pay to indemnify all Participants for all Liability Claims arising during any one Plan year ~~limit of liability is the maximum liability the Plan can owe for the aggregate of all Plan Incidents for which claims are first made during an annual period of the Plan for all participants in the Plan.~~

~~B. When a claim is first made during an annual period as to the Participant, and thereafter, during the same or a subsequent annual period, one or more additional claims or lawsuits are reported arising out of, directly or indirectly, the same Plan Incident, all such subsequent claims or lawsuits shall be considered to have been first made against such Participant at the same time and during the same annual period as such claim was initially reported, and a single “per claim” limit of liability shall be applicable.~~

~~“First made” means a claim first reported in writing to the Plan during the annual period of the Plan.~~

~~“Plan Incident” means any and all injuries and compensatory damages arising out of: the same, connected or related patient services rendered by the Participant or by anyone for whom such Participant has coverage under the Plan for vicarious liability.~~

Limits of Liability Schedule

The following limits shall apply unless lower liability limits are set by law, in which case the lower limits shall apply:

Staff Physician - \$500,000.00 per Liability Claim (up to \$1,500,000.00 per for all Liability Claims during any one enrollment period)

Resident and Fellows - \$100,000.00 per Liability Claim (up to \$300,000.00 per for all Liability Claims during any one enrollment period)

Medical or Dental Student - \$25,000.00 per Liability Claim (up to \$75,000.00 for all Liability Claims during any one enrollment period)

Annual Aggregate for all claims for all participants - \$30,000,000.00 for all Liability Claims for all Participants during any one Plan year

Per Claim Limitation – Plan liability shall be limited to \$2,000,000.00 per claim regardless of the number of the claimants or Plan Participants involved in an incident.

Per Incident Limitation

~~Liability shall be limited to \$2,000,000.00 per incident regardless of the number of the claimants or physicians involved in an incident.~~

**ARTICLE VIII
OTHER COVERAGE INSURANCE**

Section 1 -- Coverage

When the Participant has other professional liability coverage insurance which is stated to be applicable to the loss on an excess or contingent basis, the amount of the System's liability under this Plan shall not be reduced by the existence of such insurance.

Section 2 -- Insurance

When both this Plan and insurance apply to the loss on the same basis, whether primary, excess or contingent, the System shall not be liable under this Plan for a greater proportion of the loss than that stated in the applicable contribution provision below:

- A. ***Contribution by Equal Shares.*** If all such valid and collectible insurance provides for contribution by equal shares, the System shall not be liable for a greater proportion of such loss than would be payable if each such insurer contributes an equal share until the share of each insurer or the Plan equals the lowest applicable limit of liability under any one policy or the Plan or the full amount of loss is paid, and with respect to any amount of loss not so paid, the remaining insurers or the Plan then continue to contribute equal shares of the remaining amount of the loss until each such insurer or the Plan has paid its limit in full or the full amount of the loss is paid.

- B. **Contribution by Limits.** If any of such insurance does not provide for contribution by equal shares, the System shall not be liable for a greater proportion of such loss than the applicable limit of liability under this Plan for such loss bears to the total applicable limit of liability of all valid and collectible insurance and the Plan against such loss.

ARTICLE IX MODIFICATION AND TERMINATION

Section 1 -- Rights of Participants

The Board may terminate the Plan at any time, ~~or at any time~~ or from time to time, may amend, alter or suspend the Plan in whole or in part, as to all persons eligible to participate hereunder, or any class or groups of such persons, provided such action shall not impair any rights accrued prior to the effective date of such termination, amendments, alterations or suspension. Any such termination, amendments, alterations or suspension shall be effective on the date of the Board action unless a later date is specified by the Board. The Administrator shall promptly give notice of any such termination, amendment, alteration or suspension to all Participants affected thereby.

Section 2 -- Termination in Event of Mandatory Participation in Other Indemnity or Insurance Programs

It is an express condition of the Plan that if the System is required by law, or by a collective bargaining or other agreement, to contribute toward another plan, program or scheme providing professional liability insurance or indemnity benefits for a class or group of Plan Participants ~~Medical Staff Members~~, this Plan will terminate forthwith as to such class or group of Plan Participants ~~Medical Staff Members~~.

Section 3 -- Termination of Plan Participation ~~Upon Cessation of System Employment~~

This Plan shall apply to a Participant only so long as such Participant remains qualified to participate in this Plan, provided that cessation of such participation shall not impair any rights accrued under this Plan prior to the effective date of such cessation of qualification.

Section 4 -- Benefits Terminable

All coverage of a Participant under this Plan shall cease at once if the Participant engages in any business or performs any act which in the sole judgment of the Board is prejudicial to the interest of the System.

**ARTICLE X
ACTION AGAINST SYSTEM**

Section 1 -- Conditions Precedent

No action shall lie against the System unless, as a condition precedent thereto, there shall have been full compliance with all of the terms of this Plan, nor until the amount of the Participant's obligation to pay shall have been finally determined either by judgment against the Participant after actual trial, or by written agreement of the claimant and the Administrator.

Section 2 -- Third-party Actions

Any person or organization, or the legal representative thereof, who has secured such judgment or written agreement, shall thereafter be entitled to recover under this Plan to the extent of the coverage afforded by this Plan. No person or organization shall have any right under this Plan to join the System as a party to any action against the Participant to determine the Participant's liability, nor shall the System be impleaded by the Participant or the Participant's his legal representative. Bankruptcy or insolvency of the Participant or the Participant's estate shall not relieve the System of any of its obligation hereunder.

**ARTICLE XI
ADMINISTRATION OF PLAN**

Section 1 -- Administration

The Plan shall be administered by the Administrator under direction of the Board.

Section 2 -- Administrative Regulations

The Administrator may from time to time prescribe regulations for the administration of this Plan provided that such regulations shall, in the opinion of the Administrator, be consistent with the provisions of this Plan as it may be amended from time to time pursuant to Article IX of this Plan. Pursuant to ~~Section 7.2(13), Chapter II, Part One,~~ The University of Texas System Regents' Rules and Regulations, the Administrator may delegate in writing certain administrative, accounting, and investment functions of the Plan.

Section 3 -- Legal Interpretation

The text of this Plan shall control and the headings to the Articles, Sections and Paragraphs are for reference purposes only, and do not limit or extend the meaning of any of the Plan's provisions. The Plan shall be governed by and construed in accordance with the laws of the State of Texas. Any interpretation of the Plan by the Administrator shall be

conclusive as between the System and its employees and students, participating Plan Participant ~~Medical Members~~, and retired or otherwise terminated Participants, employees and students, and may be relied upon by the System and all parties in interest.

Section 4 -- Counsel and Settlement Authority

Authority to employ counsel, approve attorney fees and expenses, and approve settlement of all claims, including litigation, shall rest with the Administrator, or the Administrator's ~~his~~ delegate, subject to any additional approval required by the Board of Regents of the System pursuant to any applicable policies of the System.

ARTICLE XII GENERAL PROVISIONS

Section 1 -- Subrogation

In the event of any payment under this Plan, the System shall be subrogated to all of the Participant's rights of recovery thereof against any person or organization and the participant shall execute and deliver instruments and papers and do whatever else is necessary to secure such rights. The Participant shall do nothing after loss to prejudice such rights.

Section 2 -- Changes

Notice to any agent or knowledge possessed by any agent or by any other person shall not affect a waiver or a change in any part of this Plan, or estop the System from asserting any right under the terms of this Plan; nor shall the terms of this Plan be waived or changed, except by written waiver or amendment duly approved by the Board.

Section 3 -- Entirety of Agreement

This Plan embodies all agreements existing between any and all persons and the System or any of its agents relating to this Plan and the coverage afforded hereunder.

Section 4 -- Employment Non-Contractual

The System may terminate the appointment, internship, residency, fellowship, or student-school relationship of any Participant as freely and with the same effect as if this Plan were not in operation.

Section 5 -- Actions Against Participant

This Plan or its operations shall not in any way affect any claim or cause of action by the System against a Participant for indemnity or contribution arising out of or incident to any Liability Claim ~~medical liability claim~~.

Section 6 -- Communications

All notices, reports and statements given, made, delivered or transmitted to a Participant shall be deemed duly given, made, delivered or transmitted when delivered to the Participant him, or when mailed by first-class mail, postage prepaid, and addressed to the Participant him at the address last appearing on the books of the System. A Participant who changes his address shall forthwith give written notice to the System of such change. Written directions, notices and other communications from participants to the System shall be mailed by first-class mail, postage prepaid, or delivered as follows:

The University of Texas System
Office of General Counsel
Ashbel Smith Hall
201 West 7th Street
Austin, Texas 78701

Attention: Vice Chancellor and General Counsel

Section 7 -- Use of Pronouns

Whenever used in this Plan, masculine pronouns shall include both men and women unless the context indicates otherwise.

Section 8 -- ~~Coverage Under Prior Plan~~

~~A medical liability claim that occurred prior to the effective date of the revised Plan filed against a medical member after the effective date of the revised Plan is covered under the terms of the prior Plan.~~

Section ~~9~~ -- Effective Date

The revised Plan shall be effective September 1, 2004 ~~February 12, 1998~~.

3. **U. T. Health Science Center - Houston: Honorific naming of the Department of Ophthalmology and Visual Science as the Richard S. Ruiz, M.D. Department of Ophthalmology and Visual Science**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for External Relations, and President Willerson that the Department of Ophthalmology and Visual Science at U. T. Health Science Center - Houston be named the Richard S. Ruiz, M.D. Department of Ophthalmology and Visual Science effective upon the retirement of Dr. Ruiz from U. T. Health Science Center - Houston.

BACKGROUND INFORMATION

Dr. Ruiz has served as Chairman of the Department of Ophthalmology and Visual Science for the past 33 years. He holds the John S. Dunn Distinguished University Chair in Ophthalmology and serves as Chief of Ophthalmology at Memorial Hermann Hospital.

In 1968, Dr. Ruiz established the Hermann Eye Fund, a nonprofit, tax-exempt foundation, to help underwrite indigent patient care, teaching, research, and public service. Under Dr. Ruiz's leadership as President of the Hermann Eye Fund, contributions have grown to more than \$15 million. Hermann Eye Center physicians provide free ophthalmic care for indigent patients, while the Eye Fund underwrites their hospital costs. Through the efforts of the Eye Fund Board of Directors, Dr. Ruiz has created more than 20 endowed positions totaling approximately \$10 million within his department, including two distinguished university chairs, five chairs, two distinguished professorships, eight professorships, two special endowed funds, and one fellowship.

As the first holder of the John S. Dunn Distinguished University Chair, Dr. Ruiz was the first faculty member in the U. T. System to hold a distinguished university chair. Upon transference of these funds to U. T. Health Science Center - Houston, the Hermann Eye Fund will become one of the institution's top five donors. The Fund recently made a \$500,000 pledge to the New Frontiers Campaign in support of the Brown Foundation Institute of Molecular Medicine for the Prevention of Human Diseases (IMM).

In addition Dr. Ruiz has generously purchased and placed many commissioned works of art in the Hermann Eye Center and the grounds of the Texas Medical Center. A fountain dedicated to his mother and a metal sculpture called "The Burden", dedicated to his father stand as reminders to all who view them that there is a place for art and the humanities in this city of healing.

Dr. Ruiz's department has excelled in clinical care, research, and education, and continues to gain international attention. Few individuals measure up to the accomplishments of Dr. Richard Ruiz over the past four decades. His significant contributions to Memorial Hermann Hospital, the U. T. Medical School - Houston, U. T. Health Science Center - Houston, U. T. System, and the community continue to be measured.

The naming will not be effective until Dr. Ruiz retires from U. T. Health Science Center – Houston, however the proposed naming is consistent with the Regents' Rules and Regulations, Part Two, Chapter VIII, Section 1, Subsection 1.3, Subdivision 1.32 and institutional guidelines regarding naming of facilities and significant entities, which allow honorific namings for an employee in unusual circumstances.

4. U. T. Medical Branch - Galveston: Correctional Managed Health Care

President Stobo will present a PowerPoint on Correctional Managed Health Care as attached on Pages 72.1 – 72.10.

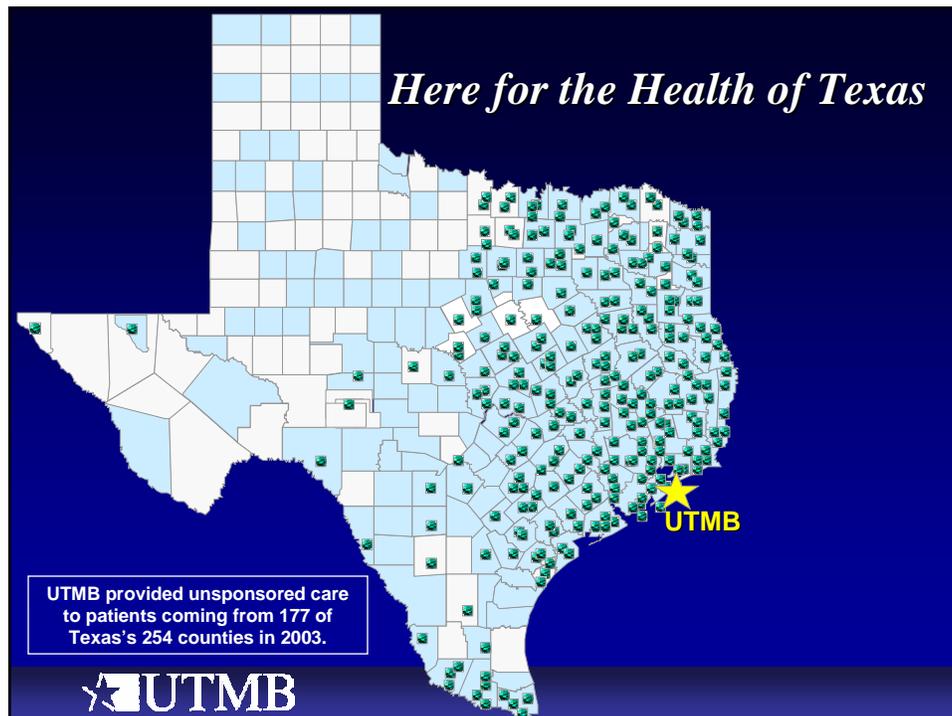


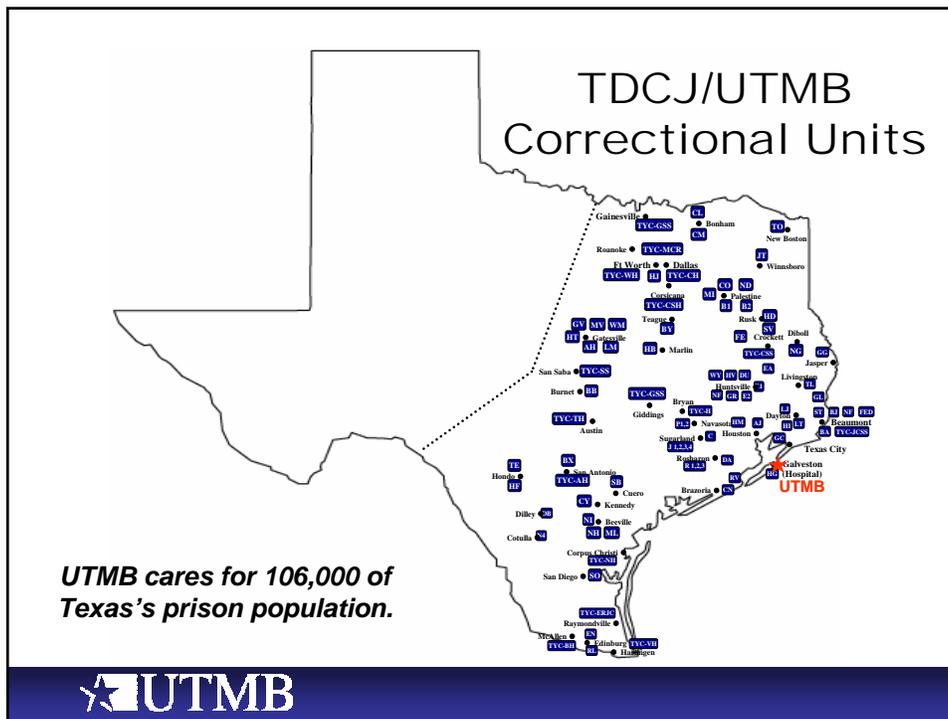
TDCJ Presentation to the UT System Board of Regents

**Dr. John D. Stobo
President, UTMB**

UT System Board of Regents Quarterly Meeting

August 11, 2004





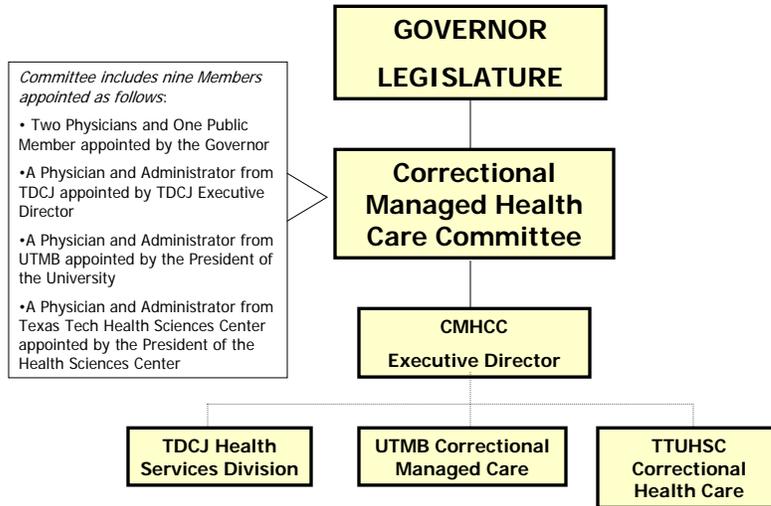
Opened July 1983

General Acute Care Inpatient Hospital

**Accredited by Joint Commission
(December 2003)**

**First multi-categorical prison hospital
on the campus of a U.S. academic
health science center**

CMHCC Organizational Relationships



Telehealth Delivery System



Telehealth Module

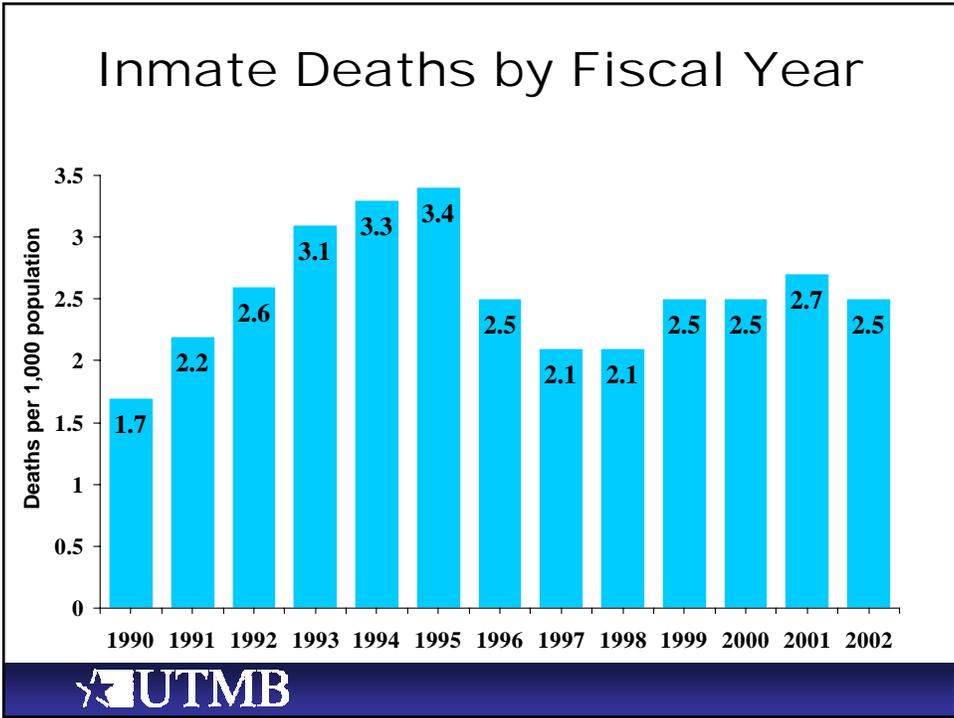
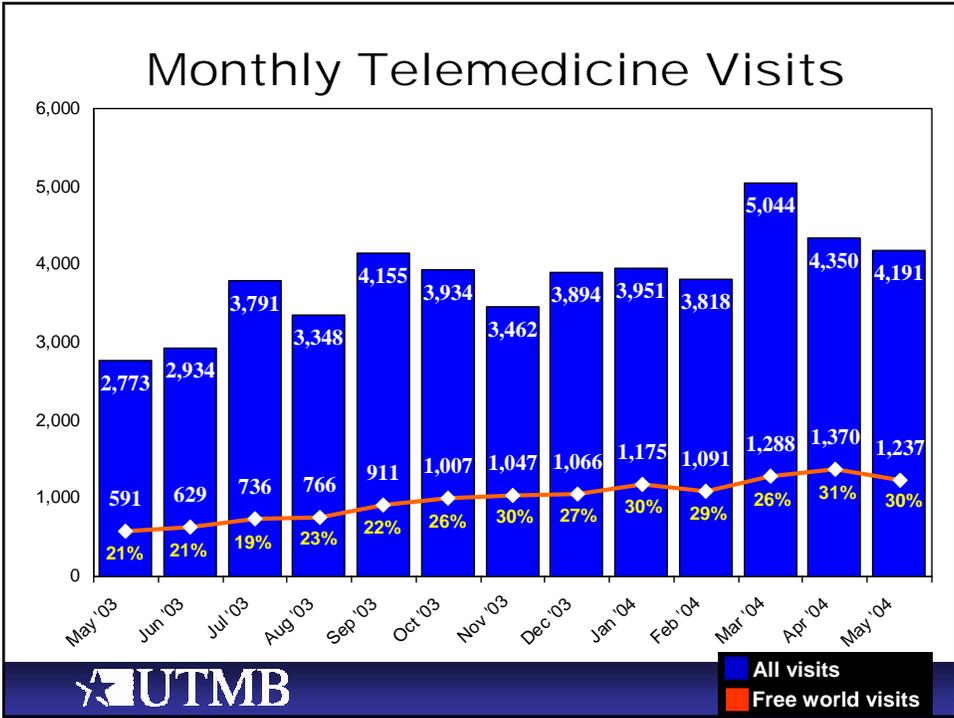


★UTMB

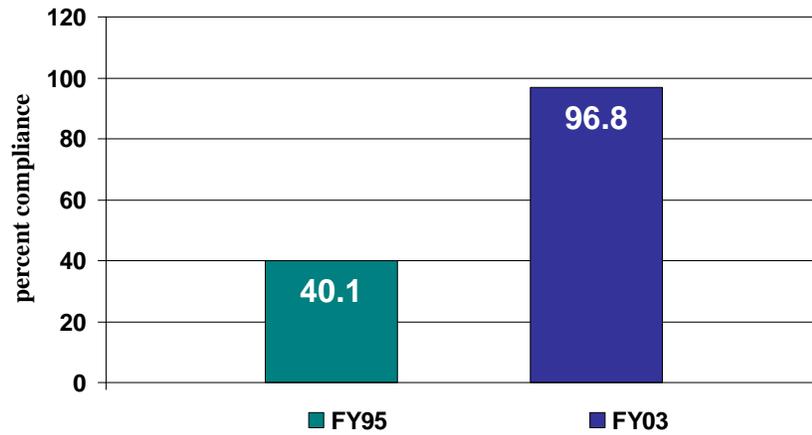
Components of Telehealth Delivery System

- Telecommunication with multiple attachments
- Pharmacy management
- Electronic medical record—HIPAA compliant
- Voice activated dictation
- Disease management/practice guidelines

★UTMB



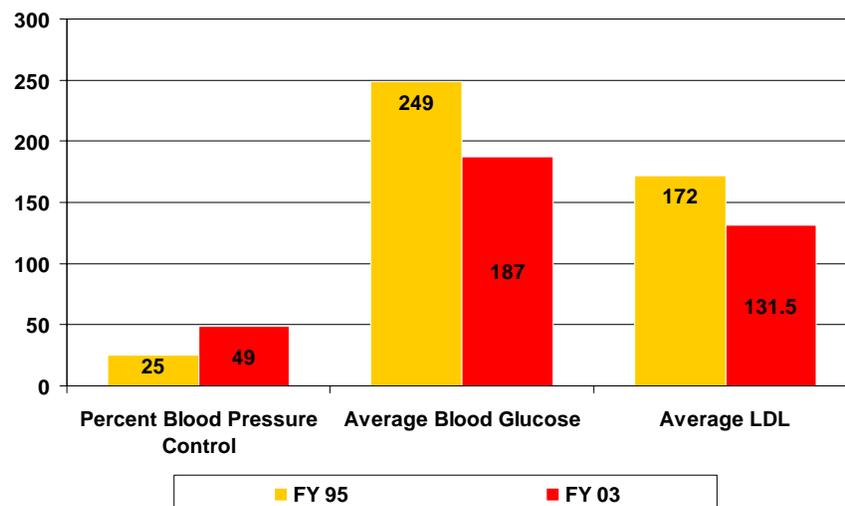
Average Compliance of All Diseases All Indicators*



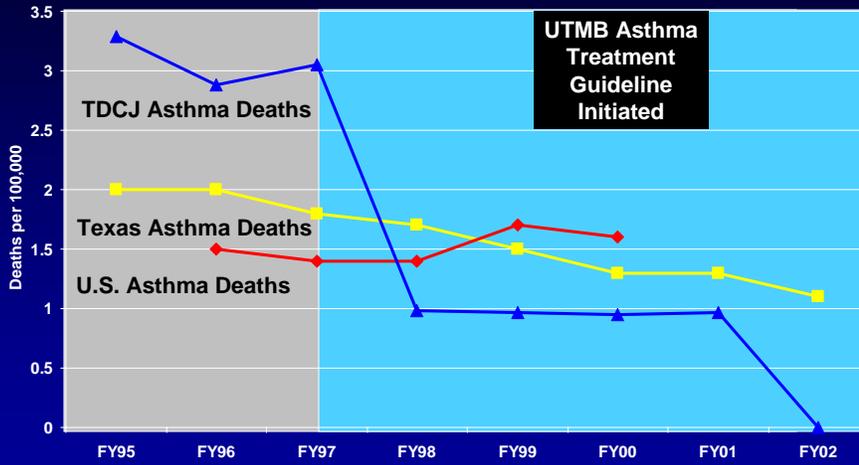
* Operational Performance Evaluation System Data, 2001.



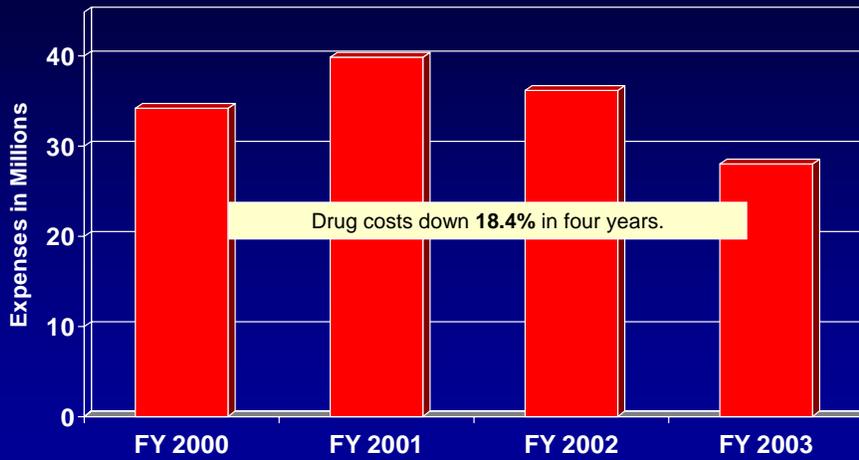
Clinical Endpoint Comparison



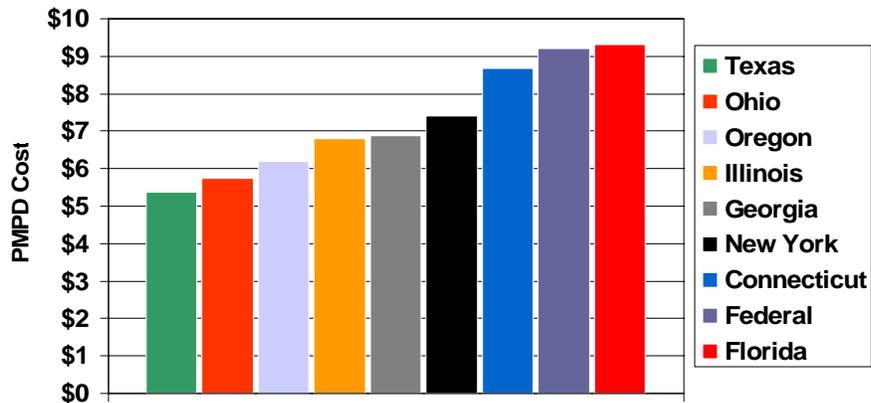
TDCJ Treatment Guidelines and Asthma Deaths



Pharmaceutical Costs



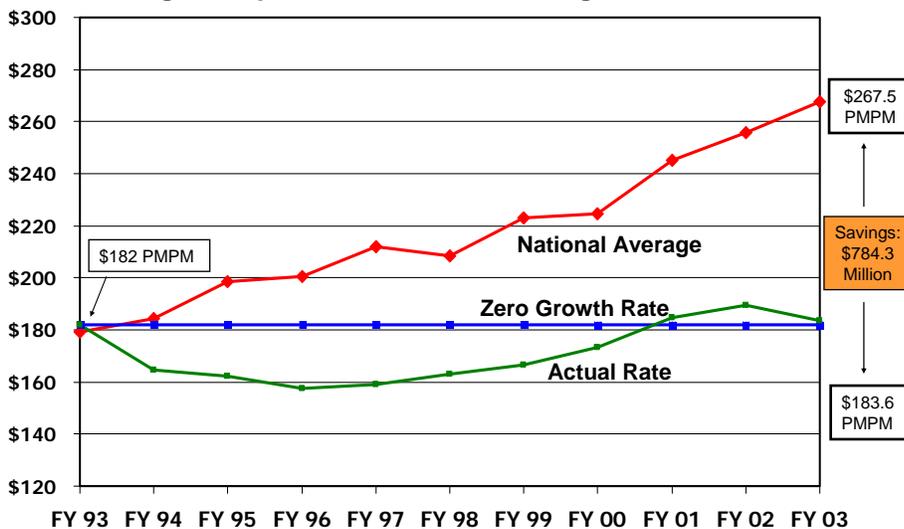
Comparison of Prison Health Care Costs (Per Member Per Day)



Based on data from The Corrections Yearbook 1999 Published by Criminal Justice Institute, Inc.

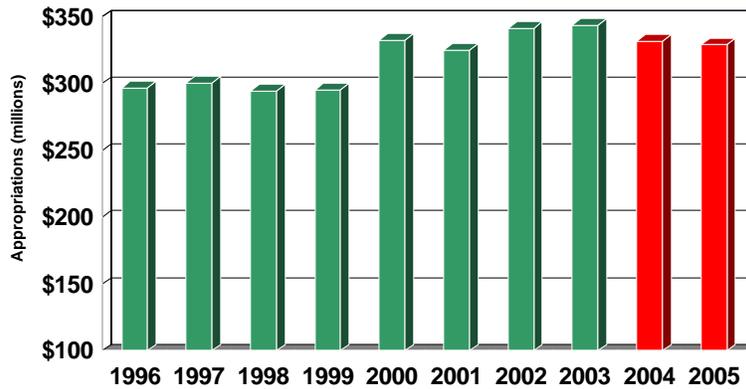


Correctional Managed Health Care Savings Comparison to National Average Medical Costs



CMHC Appropriations* 1996-2005

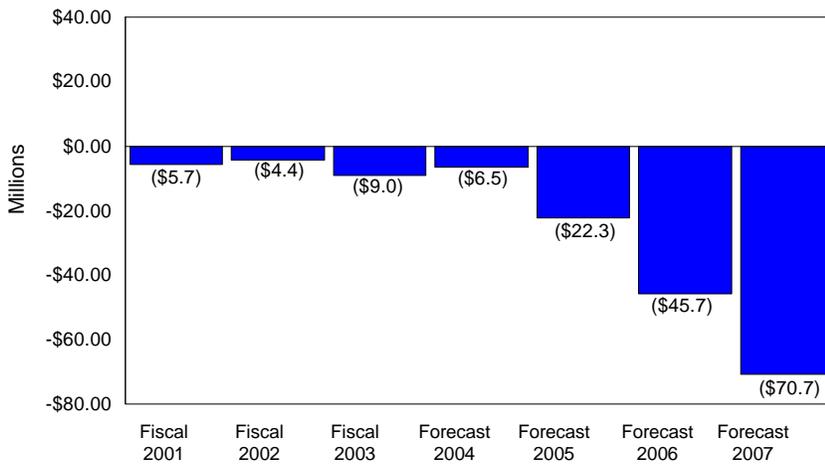
FY 04-05 Appropriations represent a reduction of \$26.6M from FY 02-03 base



*Includes designated self-funding and supplemental appropriations (legislative salary increases)



CMHC Financial Review Adjusted Operating Margin per Year



Note:
(1) Includes TDCJ Hospital, UTMB Faculty Group Practice and CMCH

Texas Medical Foundation Audit

- **Administrative Audit (July 2004)**
 - Policy and Procedures
 - Utilization Review Process
 - Quality Services
 - Credentialing Process
 - Peer Review
- **Medical Record Audit (August 2004)**
 - Quality of care / Outcomes
 - Documentation of care
- **Audit Report (December 2004)**



5. **U. T. Southwestern Medical Center - Dallas: Authorization to enter into a letter of intent regarding the proposed acquisition of Zale Lipshy University Hospital and St. Paul University Hospital**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Wildenthal that the U. T. Board of Regents authorize the Chairman, on behalf of U. T. Southwestern Medical Center – Dallas, to enter into a letter of intent with Zale Lipshy University Medical Center, Inc., Zale Lipshy University Hospital, Inc., and St. Paul University Hospital, Inc. (in substantially the form attached on Pages 77 - 79) for the purchase of the assets of Zale Lipshy University Hospital and St. Paul University Hospital in Dallas, Texas, for the benefit and use of U. T. Southwestern Medical Center - Dallas.

It is further recommended that the Board recognize that the acquisition of such hospitals is essential to conducting U. T. Southwestern Medical Center – Dallas as a medical school of the first class, and will serve the public benefit through the ownership and operation of such hospitals in accordance with the rules and regulations of U. T. Southwestern Medical Center - Dallas.

It is further recommended that the Board delegate to the Chancellor the authority to (i) direct that final agreements covering all essential issues be negotiated and submitted for Board approval at a future meeting and (ii) direct the preparation and filing of any required submittals to other governmental agencies in connection with the proposed transaction.

BACKGROUND INFORMATION

This following information was provided by President Wildenthal as a supplement to the presentation he will make to the Health Affairs Committee.

For a medical school to excel in medical education, research, and clinical care requires superior programs not only in emergencies, trauma, and acute diseases that are common in public hospitals, but also private specialty care that draws referral patients from a large, diverse population.

Over the last two decades, U. T. Southwestern Medical Center - Dallas has come to be recognized as one of America's greatest medical schools in education and research. Its clinical programs for indigent patients and emergencies at Parkland Memorial Hospital are also regarded as second-to-none, and many of its clinical faculty specialists are regularly included on peer-reviewed lists of "Best Doctors in America." However, having lacked facilities in which to care for referral patients until very recently, and even now

having to utilize multiple small, uncoordinated, and separately-identified sites for such care, U. T. Southwestern has not been able to provide the highest level of clinical care for patients who require referral to specialists and sub specialists. This need has contributed to the inability of U. T. Southwestern to achieve national prominence for broad excellence in clinical care. National recognition for excellence in clinical care, as discussed below, plays a major role in achieving substantial program improvements.

1. U. T. Southwestern has carefully analyzed its strengths and needs, and is clear that to achieve comprehensive clinical excellence and national recognition will require the full integration of its referral hospitals with its outpatient facilities and with the faculty group practice. Both for financial and management reasons, by far the best way to achieve the needed integration is through the acquisition by U. T. Southwestern of Zale Lipshy University Hospital and St. Paul University Hospital; indeed, it is fair to say that this is the only viable option that can yield lasting success.
2. For the first four decades of its existence, U. T. Southwestern's clinical programs were confined to Dallas County's public hospital (Parkland) and the Dallas VA Hospital (plus for pediatrics, Children's Medical Center of Dallas). These hospitals provided excellent sites for programs in emergency care and acute care for indigent patients, but they were not able to accommodate sufficient numbers of private and referred patients for building excellence in many specialties. Consequently, excellence in such fields as cardiac and vascular surgery, degenerative neurological diseases, neurosurgery, transplantation, liver and gastrointestinal disease, orthopedics, ophthalmology, cancer, etc., was slow to develop. (Indeed, much the same can be said for the other University of Texas campuses, excluding M. D. Anderson, in contrast to other leading state schools recognized by *US News and World Report* as among the nation's top 25, including The University of California at San Francisco, UCLA, UC San Diego, and the Universities of Michigan, Washington, North Carolina, Alabama, Virginia, and Wisconsin -- in all of which the university has for many years owned and operated a referral hospital and outpatient clinics for non-indigent patients in coordination with the medical school's referral clinical practice.)
3. To help meet U. T. Southwestern's need for facilities to accommodate private and referral patients, the medical school built and began operating the Aston Ambulatory Care Center in 1985. In 1989, the school also enlisted the help of community leaders to raise philanthropic funds to construct and operate Zale Lipshy University Hospital as a separately governed 501(c)(3) corporation. The property for the building was leased for 50 years with a 50 year renewal option from the Dallas County Hospital District. By 2000, Zale Lipshy's 145 beds were insufficient to serve U. T. Southwestern's patients. After considering the expansion of Zale Lipshy by 80 beds (the maximum its site could accommodate), it was decided instead that U. T. Southwestern would accept the proposal of Texas Health Resources to sell the real estate assets of the adjacent St. Paul Hospital (26 acres including a 300-bed hospital building) to U. T. Southwestern.

The purchased assets of St. Paul Hospital were then leased to Zale Lipshy for operational purposes. The Board of Regents approved this transaction in 2000, and the addition of St. Paul has provided a much-needed, centrally-located outlet for U. T. Southwestern's rapidly growing private practice. Currently, private and referral university programs for cardiology, cardiac surgery, heart transplant, lung transplant, emergency services, and obstetrics and gynecology are housed solely on the St. Paul campus.

4. In 2002, U. T. Southwestern embarked on a major initiative to transform the quality of the clinical service provided to patients, and to develop the highest quality education and care for private and referral patient clinical programs. As part of that process, the university performed detailed best-practice studies of leading academic medical centers (e.g., Duke, Northwestern, Massachusetts General, Vanderbilt, Johns Hopkins, Stanford, University of California at San Francisco, University of California at Los Angeles, and the Mayo Clinic) and created an outside advisory board of national health care executives, led by Dr. Eugene Braunwald from the Harvard Partner's Health System. A major conclusion of this review was that U. T. Southwestern must have operational and financial control of both the inpatient and outpatients environment in order for its clinical programs to produce the excellent level of care and training offered by these programs and to itself become nationally prominent. The Braunwald committee emphasized that comprehensive clinical excellence and national eminence would be impossible without this integration.
5. Heavily influenced by the Braunwald Committee recommendations, but also because the boards of directors St. Paul and Zale Lipshy University Hospitals, along with their parent board, reached the conclusion that U. T. Southwestern had more effective clinical and financial management than did the hospitals, U. T. Southwestern entered into a management agreement with the hospital boards in March 2003, whereby the medical school would provide the senior management for the hospitals. In the intervening 16 months, U. T. Southwestern has recruited new hospital administrators, consolidated operating and information systems, and significantly improved financial performance.
6. Although the hospitals are nearing profitability, in their current configuration they cannot achieve the levels of operating margins required to sustain and grow the excellence of U. T. Southwestern's clinical programs. The current financial structure, whereby all outpatient revenue accrues to U. T. Southwestern, will increasingly challenge the profitability of the hospitals as technology pushes more and more procedures to the outpatient environment. Rather than transferring profitable U. T. Southwestern outpatient programs to a hospital corporation outside U. T. Southwestern control, financial integration of the entire outpatient-inpatient systems under U. T. Southwestern creates a model similar to other top-ranked medical centers. Access to capital is another barrier in the current model. The Hunter Group, national experts in university hospital "turn-

arounds,” after reviewing the current hospital environment in the Dallas market emphasized that U. T. Southwestern’s affiliated university hospitals could never achieve long-term success unless they had a capital partner.

7. U. T. Southwestern is a leading academic institution; however, to achieve the goals and program improvements in clinical care requires operationally and financially integrated inpatient-outpatient systems and a consolidated brand identity, in addition to faculty excellence in research and teaching. Acquisition of the operations of St. Paul and Zale Lipshy University Hospitals will allow U. T. Southwestern to create the structure required to achieve clinical excellence in a number of crucial medical specialties. Enhanced national recognition of clinical programs will, in turn, also benefit the university’s research and education missions by increasing the visibility of the institution, promoting faculty and student recruitment, augmenting clinical research programs and opportunities to engage in clinical trials, and facilitating philanthropy. Moreover, enhancement of U. T. Southwestern’s clinical strength in referral medicine will improve the quality of care at Parkland and the VA Hospital, through the availability of highly qualified specialists who will also care for indigent patients in their area of special expertise.

8. The form of the transactions under which U. T. Southwestern will acquire the hospitals is described in the letter of intent. The transactions, which we anticipate to take place by December 31, 2004, will involve a purchase of assets, at not greater than fair market value, as supported by an independent business appraisal. The assets of St. Paul are the remaining term of the property lease from U. T. Southwestern, other fixed assets not already owned by U. T. Southwestern and financial assets. At Zale Lipshy, the assets are a ground lease for its building and all fixed and financial assets. As a part of the acquisition of the financial and fixed assets of the hospitals, the Board will acquire from Zale Lipshy University Hospital, Inc., its hospital building and equipment, and a lease for the land on which the building sits (for which the Dallas County Hospital District is the lessor). The value of the ground lease will be supported by appraisals. Along with final approval of the Zale Lipshy acquisition, U. T. Southwestern will request financing through the Revenue Financing System, for the purchase of this ground lease, equipment and building, in an amount, supported by the appraisal, at least sufficient to retire outstanding bonds issued on behalf of Zale Lipshy University Hospital. Acquisition of the ground lease and facility will require approval of the Texas Higher Education Coordinating Board and consent by Dallas County Hospital District. Although not anticipated at this time, if a delay should occur in acquiring the ground lease at the closing date, the use of a lease purchase agreement could serve as an interim step leading to an outright purchase. Of the purchase price for each hospital, all amounts in excess of hospital liabilities will ultimately be gifted back to U. T. Southwestern. The Board will not assume any liabilities, known or unknown, of the hospitals.

[To Be Placed on the Letterhead of Zale Lipshy University Medical Center. Inc.]

James R. Huffines, Chairman
The Board of Regents of The University of Texas System
201 W. 7th Street, Suite 820
Austin, TX 78701-2981

Dear Chairman Huffines:

The purpose of this Letter of Intent is to confirm current discussions and understandings between The University of Texas Southwestern Medical Center at Dallas, a component institution of The University of Texas System, ("UTSW"), and Zale Lipshy University Medical Center, Inc. ("ZLUMC"), Zale Lipshy University Hospital, Inc. ("ZLUH") and St. Paul University Hospital, Inc. ("SPUH") (ZLUMC, ZLUH and SPUH being collectively referred to in this letter as "Zale Lipshy-St. Paul"). UTSW and Zale Lipshy-St. Paul are individually referred to herein as a "Party" and collectively referred to as the "Parties". The Parties agree as follows:

1. Proposed Transactions. UTSW and Zale Lipshy-St. Paul have reached agreements in principle for the acquisition by the Board of Regents of The University of Texas System for the use and benefit of UTSW from Zale Lipshy-St. Paul of the assets of ZLUH and SPUH, as going concern general acute care hospitals, at not greater than fair market value, as supported by independent business appraisals. As a part of the acquisition of the financial and fixed assets of these hospitals, the Board of Regents will acquire a long-term ground lease and building from ZLUH, as lessee, with the Dallas County Hospital District. The value of the ground lease will be supported by a separate appraisal. The Parties understand and acknowledge that the acquisition of the ground lease and ZLUH hospital facility will require approval by the Texas Higher Education Coordinating Board and a consent or waiver by the Dallas County Hospital District. Further, the Parties understand and acknowledge that UTSW will request the issuance of bonds through The University of Texas System Revenue Financing System for the acquisition financing in an amount, as supported by the appraisals, at least sufficient to defease the outstanding bonds issued on behalf of ZLUH. The acquisition transactions may close contemporaneously; however, although not anticipated at this time, if a delay needs to occur in acquiring the assets of ZLUH, a later closing date may be specified for ZLUH or the use of a lease-purchase arrangement for ZLUH may serve as an interim process leading to the later acquisition. All amounts from the purchase price of ZLUH and SPUH in excess of the liabilities of ZLUH and SPUH ultimately will be gifted to UTSW. The Board of Regents will not assume any liabilities of Zale Lipshy-St. Paul, whether known or unknown.

2. Negotiation Time Period. The Parties each agree to use their reasonable best efforts to negotiate, complete and execute definitive documents relating to the Proposed Transactions for a closing date(s) of no later than December 31, 2004, unless this date is extended by mutual agreement of the Parties.

3. Confidentiality. To the extent permitted by applicable law, each Party will keep strictly confidential as to third parties (a) the discussions relating to and status of the Proposed Transactions, (b) the nature and substance of this Letter of Intent, and (c) all Evaluation Material (as defined below) provided to it by the other Party in connection with the discussions relating to and negotiations of the Proposed Transactions.

In connection with the Proposed Transactions, the Parties may from time to time request of and disclose to each other certain information and documentation (“Evaluation Material”) to be used to evaluate the Proposed Transactions. Each Party agrees that any Evaluation Material disclosed to it will be kept confidential to the extent permitted by applicable law (acknowledging the fact that Texas open records laws will impact upon this agreement).

Evaluation Material shall not include, and the prohibitions hereof shall not apply to, information which (i) is or becomes generally available to the public other than as a result of an unauthorized disclosure, (ii) is made available to the public or a requesting third party through compliance with the Texas open records laws, (iii) was available to a Party on a non-confidential basis prior to its disclosure, or (iv) was or becomes available to a Party on a non-confidential basis from an independent source other than the disclosing Party, provided that such source is not bound by a confidentiality obligation with the disclosing Party or otherwise prohibited from transmitting such information.

In the event that any Party or any of its Representatives are required, in the opinion of a Party’s counsel, by applicable law or legal process, to disclose any Evaluation Material supplied to it in accordance with the provisions hereof, it is agreed that such Party will give the Party from whom it received the Evaluation Material prompt written notice of the proposed disclosure.

Notwithstanding the foregoing, (1) the Parties acknowledge and agree that part or all of the Evaluation Material may be disclosed to a Party’s Representatives (defined below) who need to know such information for the purpose of evaluating the Proposed Transactions, it being understood that such Representatives shall be informed of the confidential nature of such Evaluation Material and shall be directed to treat such Evaluation Material confidentially, and (2) either Party may make such disclosures as may be appropriate or necessary, including in open meetings, in order to obtain the necessary authority and/or approval to negotiate, enter into and complete the Proposed Transactions, including, without limitation, disclosures to the Board of Regents of The University of Texas System, the Texas Higher Education Coordinating Board, the Texas Bond Review Board, the Office of the Texas Attorney General, the boards of ZLUMC, ZLUH and SPUH, and the Dallas County Hospital District. For purposes of this Agreement, the term “Representatives” shall mean a Party’s directors/trustees, officers, members, employees, attorneys, accountants, and other persons engaged to advise such Party regarding the Evaluation Material or the Proposed Transactions, as well as any of the foregoing who receive the Evaluation Material.

4. External Communication. The Parties will endeavor to ensure that any external or public communication regarding this Letter of Intent or the Proposed Transactions is approved by or consented to by the other Party beforehand.

5. Not Legally Binding. This Letter of Intent is not legally enforceable and does not constitute or create any legally enforceable or binding right or obligation on the Parties except that the provisions of Paragraph 3 relating to confidentiality are intended by the Parties to be legally binding and enforceable. The Parties intend that this Letter of Intent express their commitment to progress through a process of further negotiation and discussion toward definitive terms and documents for the Proposed Transactions. The Parties cannot execute and deliver final and legally binding definitive agreements until the respective governing boards for Zale Lipshy-St. Paul and the Board of Regents have approved those definitive terms and documents and all other legally required approvals or consents for the closing of the Proposed Transactions have been received.

6. Expenses. Each Party will pay its own expenses and costs incidental to this Letter of Intent and the negotiation and completion of the Proposed Transactions.

7. Effective Date. The date of the latter of the dates of execution of this Letter of Intent by the Parties shall be its Effective Date.

8. Counterparts. This Letter of Intent may be executed in one or more counterparts which, when taken together, shall constitute one complete document.

If you are in agreement with the provisions of this Letter of Intent, please execute this Letter of Intent in the space provided below and return the executed Letter of Intent to me at the above address on or before August 15, 2004.

Sincerely,

David Quinn, Chair of the Boards of Directors
Zale Lipshy University Medical Center, Inc.
Zale Lipshy University Hospital, Inc.
St. Paul University Hospital, Inc.
Date: _____

ACCEPTED AND AGREED TO:

The Board of Regents of The University of Texas System
for the benefit of The University of Texas Southwestern Medical
Center at Dallas

By: _____
Name: James R. Huffines
Title: Chairman
Date: _____

6. U. T. System: Proposed Austin Academic Health Center

REPORT

Dr. Kenneth Shine, Executive Vice Chancellor for Health Affairs will present an overview of interest and opportunities for the development of an academic health Center in Austin.

Considerable opportunities exist for the expansion of biomedical research, education, and training programs in Austin. The University of Texas at Austin, a major research institution, would benefit significantly from interactions with biomedical scientists and health researchers. Such research activities could translate into further economic development.

Expansion of educational opportunities for medical students and training for resident physicians would enhance health and healthcare in general, and particularly provide care for the medically indigent in the community. Research and training programs would also attract outstanding faculty physicians who would contribute to healthcare and would add to the attractiveness of the city to employers, employees, and their families.

The U. T. Medical Branch - Galveston has a long history of academic affiliations in Austin. Twenty-three medical students spend their third year training in Austin hospitals. Many other students take electives in Austin so that at any given time as many as 100 medical students are present. A new women's health hospital was opened under the direction of U. T. Medical Branch - Galveston at the Seton/Brackenridge Hospital. This program has received approval for a resident physician training program in obstetrics and gynecology. A state-of-the-art, fast MRI, imaging program is now under joint development by the U. T. Medical Branch - Galveston, U. T. Austin and the Central Texas Veterans Administration. U. T. Medical Branch - Galveston and U. T. Austin are now organizing a joint M.D./Ph.D. program.

Opportunities for an academic health center in Austin include the development of a regional school of public health, created by U. T. Health Science Center - Houston in collaboration with U. T. Austin, as well as collaborations with U. T. Health Science Center - San Antonio and other health institutions.

An academic health center could be developed in Austin through a series of incremental steps which would build research, education, patient care capacity over time. Such an academic health center could be developed in accordance with the following principles:

- a. Each component of the enterprise must be of the highest quality so as to recruit a world-class faculty and develop outstanding educational and clinical programs.

- b. Each step would be taken only if adequate funding were available for that portion of the program. Considerable private support would be required for this purpose.
- c. An incremental approach would be taken to increase the number of programs for undergraduate students seeking M.D. or M.D./Ph.D. degrees, and the addition of postgraduate residency training programs in the various medical specialties.
- d. The academic health center should be physically located proximate to the U. T. Austin campus, in order to synergize the capacities of each enterprise.
- e. An academic medical center would require the establishment of one or more medical research institutes which capitalize on synergies with U. T. Austin. An institute might focus on developmental biology, neurosciences, systems biology, cancer genetics or other aspects of molecular medicine. Substantial support from private donors would be required to create such an institution.
- f. U. T. Medical Branch - Galveston would continue to develop educational and research programs in collaboration with the new Austin Children's Hospital, the Central Texas Veterans Administration, Seton/Brackenridge Hospital, St. David's Hospital and other clinical sites for student and residency training.
- g. The School of Public Health at U. T. Health Science Center - Houston would continue to develop collaborations with U. T. Austin for research and education.
- h. Other institutions including U. T. San Antonio, U. T. Health Science Center - Houston, and Texas A&M University would be encouraged to enter into collaborations in medicine, nursing, pharmacy, allied health and other areas.

The development of expanded educational programs, including residencies, would contribute substantially to the provision of care for the medically indigent individuals. It would also contribute to an increased number of physicians practicing in Texas.

In a time of profound fiscal constraints in the State, development of these academic health programs would require substantial public and private partnerships in which the local community and local donors would have to provide substantial resources for the development of an academic health center.

While there have been no negotiations with the City of Austin, it has been reported that the City of Austin proposes to set aside 15 acres on the former Mueller Airport site for medical purposes. This site is proximate to the new Children's Hospital. A more fully developed academic health center would require substantially more space. However this property might form the initial location of the educational, research, or clinical facilities essential to developing an Academic Health Center.

Considerable public interest has been expressed in Austin to create a medical school in the community. It is possible that the incremental developments described above might lead, at some future time, to formal establishment of such a school. However incremental and gradual expansion of programs by U. T. Medical Branch - Galveston an already fully accredited institution, could continue, without the immediate major financial resources required for a new medical school. Incremental development of research program offers opportunities to recruit a small core of world class scientists upon which a great faculty could be built. This development will require effective public-private synergies and resources for its accomplishment. There does seem to be a convergence of interest and opportunity upon which to build.



TABLE OF CONTENTS FOR FACILITIES PLANNING AND CONSTRUCTION COMMITTEE

Committee Meeting: 8/11/2004

Board Meeting: 8/12/2004
U. T. M. D. Anderson Cancer Center

John W. Barnhill, Jr., Chairman
H. Scott Caven, Jr.
Rita C. Clements
Robert A. Estrada
Woody L. Hunt

	Committee Meeting	Board Meeting	Page
Convene	<i>4:00 p.m.</i> <i>Chairman Barnhill</i>		
1. U. T. System: Consideration of architecturally or historically significant projects	<i>4:00 p.m.</i> Action <i>Mr. Sanders</i>	Not on Agenda	83
2. U. T. Austin: Experimental Science Building Renovation Phase I and II - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost; approval to revise funding source; approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; resolution regarding parity debt; and redesignation of project as the Center for Nano and Molecular Science and Technology	<i>4:03 p.m.</i> Action <i>Mr. Sanders</i>	Action	83
3. U. T. Austin: MRI Imaging Center, Phase I and II - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to revise funding sources; approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; and resolution regarding parity debt	<i>4:06 p.m.</i> Action <i>Mr. Sanders</i>	Action	85
4. U. T. Austin: New Residence Halls - Phase II - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost; approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; resolution regarding parity debt; and approval of honorific naming of facility as the Almetris Duren Residence Hall	<i>4:09 p.m.</i> Action <i>Mr. Sanders</i>	Action	87

	Committee Meeting	Board Meeting	Page
5. U. T. Health Science Center - San Antonio: Teaching/Learning Lab, Regional Academic Health Center (RAHC) Harlingen - Approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; and resolution regarding parity debt	4:12 p.m. Action <i>Mr. Sanders</i>	Action	89
6. U. T. Health Center - Tyler: Health Clinic - Approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; and resolution regarding parity debt	4:15 p.m. Action <i>Mr. Sanders</i>	Action	90
7. U. T. System: Honorific naming of the Bauer House Pavilion as the Charmaine and Frank Denius Pavilion at Bauer House	4:18 p.m. Action <i>Mr. Sanders</i>	Action	92
8. U. T. Arlington: Honorific naming of the Chemistry Research Building as the W. A. Baker Chemistry Research Building	4:21 p.m. Action <i>Mr. Sanders</i>	Action	93
9. U. T. Austin: Benedict/Mezes/Batts Renovation Phase I and II - Amendment of FY 2004-2009 Capital Improvement Program and FY 2004-2005 Capital Budget to reduce appropriation of funds; approval to increase funding source; appropriation of funding and authorization of expenditure; and resolution regarding parity debt	4:24 p.m. Action <i>Mr. Sanders</i>	Action	93
10. U. T. El Paso: Parking Garage ID#, P-4 and New Bookstore - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to combine projects as the Parking Garage and Bookstore and revise total project cost	4:27 p.m. Action <i>Mr. Sanders</i>	Action	95
11. U. T. Permian Basin: Baseball Field - Honorific naming of complex as the Ted and Jan Roden Field	4:30 p.m. Action <i>Mr. Sanders</i>	Action	96
12. U. T. San Antonio: Student Housing Expansion, Phase II - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost	4:33 p.m. Action <i>Mr. Sanders</i>	Action	97
13. U. T. Tyler: Louise Herrington Patriot Center - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to reduce appropriation of funds; approval to increase funding source; approval to revise funding source; and appropriation of funding and authorization of expenditure	4:36 p.m. Action <i>Mr. Sanders</i>	Action	97

	Committee Meeting	Board Meeting	Page
14. U. T. Tyler: Patriot Village - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost; appropriation of additional funds and authorization of expenditure; and resolution regarding parity debt	4:39 p.m. Action <i>Mr. Sanders</i>	Action	99
15. U. T. Tyler: Student Dormitory and Academic Excellence Center - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost; appropriation of additional funds and authorization of expenditure; and resolution regarding parity debt	4:42 p.m. Action <i>Mr. Sanders</i>	Action	100
16. U. T. Health Science Center - Houston: Basic Science Research Building and Medical School Building - Rooftop Vivarium and Exterior Elevator - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to combine projects and redesignate as the Replacement Research Facility and revise total project cost	4:45 p.m. Action <i>Mr. Sanders</i>	Action	102
17. U. T. Health Science Center - Houston: Research Expansion Project - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to revise funding source; reduce appropriation of funds; appropriation of funds and authorization of expenditure; and resolution regarding parity debt	4:48 p.m. Action <i>Mr. Sanders</i>	Action	103
18. U. T. Health Science Center - Houston: Completion of Medical School Building Hazard Mitigation and Repair of the Medical School Building, Phase I - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to combine projects; revise total project cost; appropriation of funds and authorization of expenditure; and resolution regarding parity debt	4:51 p.m. Action <i>Mr. Sanders</i>	Action	105
19. U. T. M. D. Anderson Cancer Center: U. T. Research Park Infrastructure Improvements - Appropriation of funds and authorization of expenditure; and resolution regarding parity debt	4:54 p.m. Action <i>Mr. Sanders</i>	Action	107
Adjourn	5:00 p.m.		

1. **U. T. System: Consideration of architecturally or historically significant projects**

RECOMMENDATION

It is recommended that the Committee review the following projects scheduled for architectural selection for possible designation as architecturally or historically significant pursuant to the Regents' Rules and Regulations, Part Two, Chapter VIII, Section 3, Subsection 3.3:

• **U. T. San Antonio**

Recreation and Wellness Facilities, Phase II

Project Cost: \$44,000,000

Anticipated Delivery Method: Competitive Sealed Proposals
(See Item 6 on Page 46)

Student Housing Expansion, Phase II

Proposed Project Cost: \$27,000,000

Current Project Cost: \$20,500,000

Anticipated Delivery Method: Competitive Sealed Proposals
(See Item 12 on Page 97)

2. **U. T. Austin: Experimental Science Building Renovation Phase I and II - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost; approval to revise funding source; approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; resolution regarding parity debt; and redesignation of project as the Center for Nano and Molecular Science and Technology**

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Faulkner that the U. T. Board of Regents approve the recommendations for the Experimental Science Building Renovation Phase I and II project at The University of Texas at Austin as follows:

Project Number: 102-906

Architecturally or Historically Significant: Yes No

Project Delivery Method: Construction Manager at Risk

Substantial Completion Date: July 2006

Total Project Cost:	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Revenue Financing System Bond Proceeds	\$35,000,000	\$28,000,000
	Unexpended Plant Funds		<u>\$10,000,000</u>
			\$38,000,000

Debt Service

The \$28,000,000 in Revenue Financing System debt will be repaid from Designated Tuition. Annual debt service on the project is estimated at \$1,926,551. Overall debt service coverage on projects funded through Designated Tuition is expected to be at least 3.2 times.

Recommendations

- a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to increase the total project cost from \$35,000,000 to \$38,000,000;
- b. revise the funding sources;
- c. approve design development plans;
- d. approve the evaluation of alternative energy economic feasibility;
- e. appropriate funds and authorize expenditure of funds; and
- f. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project’s cost, including any costs prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System; and
 - U. T. Austin, which is a “Member” as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt parity debt in the aggregate amount of \$28,000,000; and
- g. redesignate the project as the Center for Nano and Molecular Science and Technology.

Previous Board Actions

On November 13, 2002, the Board approved combining the Experimental Science Building Renovation Phase I and II projects with a preliminary project cost of \$35,000,000 with funding from Revenue Financing System Bond Proceeds.

Project Description

The Experimental Science Building Renovation Phase I was for the development of an overall program and cost estimate for subsequent phase work. The Experimental Science Building Renovation Phase II project will renovate a small portion of the existing building to support state-of-the-art research and teaching laboratories, classrooms, and offices. The addition to the north side of the building will provide approximately 53,000 gross square feet for research facilities and supporting office components for the Center for Nano and Molecular Science and Technology.

Approval of this item increases the total project cost to fund the additional project scope costs associated with providing all utilities to the site. U. T. Austin has requested the name change of the project to the Center for Nano and Molecular Science and Technology to better reflect the nature of the project.

The existing Experimental Science Building is a 50-year old building designed as a teaching and research building. The existing facility has had no additions and only small renovations of specific laboratories.

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

The economic impact of the project will be reported to the U. T. Board of Regents as part of the design development presentation.

3. U. T. Austin: MRI Imaging Center, Phase I and II - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to revise funding sources; approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; and resolution regarding parity debt

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Faulkner that the U. T. Board of Regents approve the recommendations for the MRI Imaging Center, Phase I and II project at The University of Texas at Austin as follows:

Project Number: 102-197

Architecturally or Historically Significant: Yes No

Project Delivery Method: Construction Manager at Risk

Substantial Completion Date: January 2005

Total Project Cost:	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Grants	\$5,500,000	\$ 850,000
	Revenue Financing System Bond Proceeds		\$2,550,000
	Unexpended Plant Funds		<u>\$2,100,000</u>
			<u>\$5,500,000</u>

Recommendations

- a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to revise the funding sources from \$5,500,000 from Grants to \$850,000 from Grants, \$2,550,000 from Revenue Financing System Bond Proceeds, and \$2,100,000 from Unexpended Plant Funds;
- b. approve design development plans;

- c. approve the evaluation of alternative energy economic feasibility;
- d. appropriate funds and authorize expenditure of funds; and
- e. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System; and
 - U. T. Austin, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt parity debt in the aggregate amount of \$2,550,000.

Debt Service

The \$2,550,000 in Revenue Financing System debt will be repaid from net revenues on the project. Total annual debt service on the project is estimated at \$175,454. Debt service coverage on the project is expected to be at least 1.42 times.

Previous Board Actions

On February 4, 2004, the project was included in the CIP with a preliminary project cost of \$5,500,000 with funding from Grants.

Project Description

The MRI Imaging Center, Phase I and II at U. T. Austin will construct a facility containing approximately 9,000 gross square feet to house a 3-Tesla MRI. U. T. Austin will utilize the new MRI Imaging Center to focus on education and research in the fields of imaging, bio-behavioral substance abuse disorders, and bioengineering. Modifying the funding sources will more specifically reflect the financing for the project and will allow construction to start.

U. T. Austin has developed a relationship with the Central Texas Veterans Health Care System (CTVHCS) and The University of Texas Medical Branch at Galveston to establish a joint imaging center. CTVHCS will use the MRI Center primarily for research concerning the aging process, brain and spinal cord injuries, dementia and neuronal degeneration, major psychosis, mood disorder and stress, sensory disorder, and substance abuse. U. T. Medical Branch - Galveston substance abuse research focuses on brain-adaptive neurochemical responses that mediate the reward effects of abused drugs.

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

The economic impact of the project will be reported to the U. T. Board of Regents as part of the design development presentation.

4. U. T. Austin: New Residence Halls - Phase II - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost; approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; resolution regarding parity debt; and approval of honorific naming of facility as the Almetris Duren Residence Hall

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Faulkner that the U. T. Board of Regents approve the recommendations for the New Residence Halls – Phase II project at The University of Texas at Austin as follows:

Project Number: 102-043

Architecturally or Historically Significant: Yes No

Project Delivery Method: Construction Manager at Risk

Substantial Completion Date: June 2006

Total Project Cost:	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Revenue Financing System Bond Proceeds	\$24,000,000	\$38,750,000
	Auxiliary Enterprise Balances	<u>\$ 6,000,000</u>	<u>\$11,250,000</u>
		\$30,000,000	\$50,000,000

Debt Service

The \$38,750,000 in Revenue Financing System debt will be repaid from net revenues of the housing system. Annual debt service on the project is estimated at \$2,666,209. Overall debt service coverage on projects funded through housing system revenues is expected to be at least 1.6 times.

Recommendations

- a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to increase the total project cost from \$30,000,000 to \$50,000,000;
- b. approve design development plans;
- c. approve the evaluation of alternative energy economic feasibility;
- d. appropriate funds and authorize expenditure of funds;
- e. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project’s cost, including any costs prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System; and

- U. T. Austin, which is a “Member” as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt parity debt in the aggregate amount of \$38,750,000; and

f. approve honorific naming as the Almetris Duren Residence Hall.

Previous Board Actions

On August 7, 2003, the project was included in the CIP with a preliminary project cost of \$30,000,000 with funding of \$24,000,000 from Revenue Financing System Bond Proceeds and \$6,000,000 from Auxiliary Enterprise Balances.

Project Description

The New Residence Halls – Phase II project at U. T. Austin will consist of 175,000 gross square feet of additional on-campus residence hall space. Common spaces include a multipurpose room, lounges, study rooms, a game room, a TV room, a laundry facility, an activity room, and mailbox areas. Approval of this item will increase the total project cost to fund the additional project scope associated with this site as a gateway to the University campus with additional costs for provision of utilities to the site and an increase in the number of student beds from 403 to 574.

U. T. Austin is significantly expanding its student housing because on-campus living is known to benefit students, particularly freshmen, by enhancing academic performance and persistence, GPA, retention rates, graduation rates, integration in the campus community, friendships with diverse peers, and overall development and satisfaction. Currently, U. T. Austin residence halls house approximately 6,700 students. This includes about 4,700 freshmen students and 1,900 upper-division students. U. T. Austin has a current goal to provide housing to 10,000 students on campus.

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

The economic impact of the project will be reported to the U. T. Board of Regents as part of the design development presentation.

The naming of the New Residence Halls – Phase II as the Almetris Duren Residence Hall will recognize the contributions and service of the late Mrs. Almetris Duren rendered to students, faculty, and staff. She served as housemother, friend, and advisor, and mentor to African-American students from 1956 to 1980. Almetris Duren’s profound impact on the University community and her contributions to residence life are the reason the Division of Housing and Food Service wishes to name the proposed new housing complex in her honor. This naming is consistent with the Regents’ Rules and Regulations, Part Two, Chapter VIII, Section 1, Subsection 1.3 relating to honorific namings of facilities, and institutional guidelines on the naming of facilities.

5. U. T. Health Science Center - San Antonio: Teaching/Learning Lab, Regional Academic Health Center (RAHC) Harlingen - Approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; and resolution regarding parity debt

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Cigarroa that the U. T. Board of Regents approve the recommendations for the Teaching/Learning Lab, RAHC Harlingen project for The University of Texas Health Science Center at San Antonio as follows:

Project Number: 402-137

Architecturally or Historically Significant: Yes No

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: May 2006

Total Project Cost:	<u>Source</u>	<u>Current</u>
	Tuition Revenue Bond Proceeds	\$25,500,000

Debt Service

Annual debt service on the \$25,500,000 of Tuition Revenue Bonds is projected to be \$2,223,206. While the annual debt service is payable from Pledged Revenues, it is expected that debt service on Tuition Revenue Bonds will be reimbursed through General Revenue Appropriations.

Recommendations

- a. approve design development plans;
- b. approve the evaluation of alternative energy economic feasibility;
- c. appropriate funds and authorize expenditure of funds; and
- d. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System; and
 - U. T. Health Science Center - San Antonio, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt parity debt in the aggregate amount of \$25,500,000.

Previous Board Actions

On August 8, 2001, the project was included in the CIP with a preliminary project cost of \$25,500,000. The Regional Academic Health Center project was divided into four separate projects with three overseen by U. T. Health Science Center – San Antonio and one overseen by U. T. Health Science Center – Houston.

Project Description

The Teaching/Learning Lab, RAHC Harlingen will be a component of U. T. Health Science Center – San Antonio. This is the second building of a proposed complex of buildings of a multisite regional campus. The Harlingen location will serve as the headquarters of the Regional Academic Health Center, as well as a home base for medical training and educational programs. The 77th Session of the Texas Legislature authorized \$25,500,000 of Tuition Revenue Bonds to construct a teaching and learning laboratory in or near the City of Harlingen.

The new construction includes approximately 79,000 gross square feet to house the Outpatient Clinic. The clinic facilities will provide an educational opportunity for U. T. Health Science Center – San Antonio. Along with the Outpatient Clinic, the building will consist of educational space for medical students and residents, as well as a Clinical Research Center.

The Teaching/Learning Lab, RAHC Harlingen is a medical education and research endeavor in which programs are directed at distinctive regional needs and conducted in affiliation with health professionals and educational entities of the region. It operates as a geographically separate campus of U. T. Health Science Center - San Antonio’s School of Medicine.

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

The economic impact of the project will be reported to the U. T. Board of Regents as part of the design development presentation.

6. U. T. Health Center - Tyler: Health Clinic - Approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; and resolution regarding parity debt

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Calhoun that the U. T. Board of Regents approve the recommendations for the Health Clinic project for The University of Texas Health Center at Tyler as follows:

Project Number: 801-209

Architecturally or Historically Significant: Yes No

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: August 2005

Total Project Cost:	<u>Source</u>	<u>Current</u>
	Revenue Financing System Bond Proceeds	\$3,500,000

Debt Service

The \$3,500,000 in Revenue Financing System debt will be repaid from net revenues on the project. Annual debt service is projected to be \$280,849. Debt service coverage on the project is expected to be at least 1.6 times.

Recommendations

- a. approve design development plans;
- b. approve the evaluation of alternative energy economic feasibility;
- c. appropriate funds and authorize expenditure of funds; and
- d. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project’s cost, including any costs prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System; and
 - U. T. Health Center - Tyler, which is a “Member” as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt parity debt in the aggregate amount of \$3,500,000.

Previous Board Actions

On May 13, 2004, the project was included in the CIP with a preliminary project cost of \$3,500,000.

Project Description

The Health Clinic will be located on the U. T. Tyler campus. This project proposes to construct a 10,000 gross square feet, one-story facility incorporating outpatient clinic facilities for the general public, faculty, staff, and students of U. T. Tyler. The facility will include examination rooms, nurse and clerical work areas, medical records storage, teaching and testing areas, waiting rooms, and staff offices. An additional parking area will also be constructed adjacent to the facility.

U. T. Health Center – Tyler currently operates and leases two facilities in South Tyler and has been exploring different options for consolidating operations into one facility. This possibility, combined with the need to provide student, faculty, and staff health care on the U. T. Tyler campus, provides justification for a more permanent investment. In addition to being able to serve a greater patient population in the new facility, U. T. Health Center – Tyler also expects a decrease in overhead costs as a result of the combined operation with the debt for financing repaid from patient care income. Furthermore, operations at this facility will provide an on-campus teaching forum for education and clinical research for students.

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building. Therefore, the Project Architect prepared an evaluation for this project in accordance with

the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

The economic impact of the project will be reported to the U. T. Board of Regents as part of the design development presentation.

7. **U. T. System: Honorific naming of the Bauer House Pavilion as the Charmaine and Frank Denius Pavilion at Bauer House**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor for External Relations that the U. T. Board of Regents approve the naming of the Bauer House Pavilion at U. T. System as the Charmaine and Frank Denius Pavilion at Bauer House.

BACKGROUND INFORMATION

Bauer House Pavilion is a small structure on the grounds of the Bauer House property, the official residence of the Chancellor. The Pavilion has not been used in recent years due to mold infestation and broken plumbing lines below the foundation. The rebuilding of this small facility will allow the new structure to serve as a meeting room and a place to host community events and dinners for larger numbers of individuals than those which can currently be served. The Pavilion will accommodate up to 60 people for a seated event or 150 people for a reception.

Mr. and Mrs. Frank and Charmaine Denius generously provided funding of \$300,000, a majority of the total project cost, in support of this project through their family foundation, the Cain Foundation. The Deniuses are longtime donors and supporters of The University of Texas. Mr. Frank Denius is immediate past Chairman of the Chancellor's Council and member of the Chancellor's Council Executive Committee. He is a distinguished alumnus of The University of Texas at Austin where he also served as a past president of the Ex-Students' Association, former Chair of the Austin Leadership Council, and is a current member of the Commission of 125.

The proposed naming is consistent with the Regents' Rules and Regulations, Part Two, Chapter VIII, Section 1, Subsection 1.3 relating to honorific namings of facilities.

8. **U. T. Arlington: Honoric naming of the Chemistry Research Building as the W. A. Baker Chemistry Research Building**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Spaniolo that the U. T. Board of Regents approve the naming of the Chemistry Research Building at U. T. Arlington as the W. A. Baker Chemistry Research Building.

BACKGROUND INFORMATION

The Chemistry Research Building at U. T. Arlington was constructed in 1996 with approximately 67,000 gross square feet used predominantly for graduate and sponsored research by the Chemistry Department.

Dr. W. A. Baker graduated from Texas College of Arts and Industries with a B.S. in 1955 and graduated from U. T. Austin with a Ph.D. in 1959. He was chairman of the Chemistry Department at Syracuse University from 1965 until January 1971. Dr. Baker was Vice President for Academic Affairs at U. T. Arlington from 1973 to 1993 during which time the University experienced unprecedented growth and expansion. Dr. Baker was instrumental in the academic advancements and the University's emergence as a research university. Vice President Baker was directly involved in securing approval for the construction of the Chemistry Research Building. Dr. Baker also served as Provost and Vice President for Academic Affairs at U. T. Tyler.

The proposed naming of the Chemistry Research Building at U. T. Arlington to recognize the distinguished service of Dr. W. A. Baker is consistent with the Regents' Rules and Regulations, Part Two, Chapter VIII, Section 1, Subsection 1.3 relating to honorific namings of facilities, and institutional guidelines on the naming of facilities.

9. **U. T. Austin: Benedict/Mezes/Batts Renovation Phase I and II - Amendment of FY 2004-2009 Capital Improvement Program and FY 2004-2005 Capital Budget to reduce appropriation of funds; approval to increase funding source; appropriation of funding and authorization of expenditure; and resolution regarding parity debt**

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Faulkner that the U. T. Board of Regents approve the recommendations for the Benedict/Mezes/Batts Renovation Phase I and II project at The University of Texas at Austin as set forth on Page 94.

Project Number: 102-027

Architecturally or Historically Significant: Yes No

Project Delivery Method: Construction Manager at Risk

Substantial Completion Date: July 2006

Total Project Cost:	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Revenue Financing System Bond Proceeds	\$30,000,000	\$48,000,000
	Designated Tuition	<u>\$18,000,000</u>	
		\$48,000,000	

Debt Service

The \$18,000,000 in Revenue Financing System debt will be repaid from Designated Tuition. Annual debt service on the project is estimated at \$1,238,497. Overall debt service coverage on projects funded through Designated Tuition is expected to be at least 3.2 times.

Recommendations

- a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to reduce the appropriation of \$18,000,000 from Designated Tuition;
- b. increase the funding source from \$30,000,000 to \$48,000,000 from Revenue Financing System Bond Proceeds;
- c. appropriate funds and authorize expenditure of additional funds of \$18,000,000; and
- d. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System; and
 - U. T. Austin, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of additional tax-exempt parity debt in the aggregate amount of \$18,000,000.

Previous Board Actions

On November 10, 1999, the Phase I project was authorized for inclusion in the CIP at a preliminary project cost of \$6,000,000 with funding from Designated Tuition. On August 8, 2001, the Phase I project was revised to increase the preliminary project cost to \$32,000,000 with funding from Designated Tuition. On May 9, 2002, the Board approved the design development for Phase I with a total project cost of \$32,000,000 with funding from Designated Tuition. On November 13, 2002, the Board reduced the Phase I total project cost to \$30,000,000, revised the funding source from Designated Tuition to Revenue Financing System Bond Proceeds, and authorized appropriation of funds in the amount of \$30,000,000 from Revenue Financing System Bond Proceeds. On November 12, 2003, the Board approved combining the Benedict/Mezes/Batts Renovation Phase I and II projects and increased the total project cost to \$48,000,000 with additional funding of \$18,000,000 from Designated Tuition.

Project Description

The Phase I renovation work for Benedict Hall and Mezes Hall was substantially completed in June 2004. The Phase II work started in June 2004 and will include renovation of classrooms and offices in Batts Hall. The decrease in the Designated Tuition funding source allows construction to continue in a timely manner with the appropriation of additional Revenue Financing System Bond Proceeds in the amount of \$18,000,000.

Benedict Hall, Mezes Hall, and Batts Hall form the eastern edge of the buildings on the south mall of the central campus and comprise approximately 110,000 gross square feet of classroom/lab instruction space and faculty office space. The buildings have not been renovated since they were occupied in 1951. The renovation includes all modifications necessary to comply with applicable life safety code provisions. The infill building between Benedict Hall and Mezes Hall will link the buildings, adding 20,000 gross square feet and improving traffic circulation.

10. U. T. El Paso: Parking Garage ID#, P-4 and New Bookstore - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to combine projects as the Parking Garage and Bookstore and revise total project cost

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Natalicio that the U. T. Board of Regents approve the recommendations for the Parking Garage ID#, P-4 project and the New Bookstore project at The University of Texas at El Paso as follows:

Project Numbers: 201-184 (Parking Garage ID#, P-4) / 201-186 (New Bookstore)

Architecturally or Historically Significant: Yes No

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: May 2006

Total Project Cost:	<u>Source</u>	<u>Current</u>
Parking Garage ID#, P-4	Revenue Financing System Bond Proceeds	\$25,000,000

Total Project Cost:	<u>Source</u>	<u>Current</u>
New Bookstore	Auxiliary Enterprise Balances	\$ 4,950,000

Combined Total Project Cost:	<u>Source</u>	<u>Proposed</u>
Parking Garage and Bookstore	Revenue Financing System Bond Proceeds	\$25,000,000
	Auxiliary Enterprise Balances	<u>\$ 4,950,000</u>
		\$29,950,000

Recommendations

- amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to combine the Parking Garage ID#, P-4 project, and the New Bookstore project to be designated as the Parking Garage and Bookstore; and
- revise the preliminary project cost.

Previous Board Actions

On August 7, 2003, the Parking Garage ID#, P-4 project was included in the CIP with a preliminary project cost of \$25,000,000 and the New Bookstore project was included in the CIP with a preliminary project cost of \$4,950,000.

Project Description

U. T. El Paso has requested that the two projects be combined to better reflect the scope of the work. The parking garage will contain approximately 500 parking spaces and will house a bookstore in the ground level which will be approximately 28,000 gross square feet.

11. U. T. Permian Basin: Baseball Field - Honorific naming of complex as the Ted and Jan Roden Field

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Watts that the U. T. Board of Regents approve the naming of the Baseball Field at U. T. Permian Basin as the Ted and Jan Roden Field.

BACKGROUND INFORMATION

The construction of the baseball field for the new men's club/intercollegiate baseball team will be completed in November 2004. The first phase of the facility will consist of the field, an infield practice area, and grass-covered berms for seating built on 230,500 gross square feet at a total project cost of \$650,000.

U. T. Permian Basin wishes to name the complex to recognize the gift of \$200,000 from Mr. and Mrs. Ted G. Roden. Mr. Roden is a longtime Odessa business and civic leader and philanthropist. He is a 1943 graduate of U. T. Austin with a B.S. in Chemical Engineering. He helped to facilitate the location of U. T. Permian Basin in Odessa and to acquire its four-year status, and he continues to serve on the Development Board. Standard Sales Company honored Mr. Roden by establishing and permanently endowing the Ted G. Roden Presidential Scholarship in Business at U. T. Permian Basin.

Mr. and Mrs. Roden also established the Ted and Jan Roden Center of Excellence in Engineering Leadership at U. T. Austin. A number of namings for Roden family members, from faculty chairs to art collections, are visible at U. T. Permian Basin.

The naming is consistent with the Regents' Rules and Regulations, Part Two, Chapter VIII, Section 1, Subsection 1.3 relating to honorific namings of facilities, and institutional guidelines on the naming of facilities.

12. U. T. San Antonio: Student Housing Expansion, Phase II - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Romo that the U. T. Board of Regents approve the recommendation for the Student Housing Expansion, Phase II project at The University of Texas at San Antonio as follows:

Project Number: 401-211

Architecturally or Historically Significant: (Note: Item is before the Board; see Item 1 on Page 83.)

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: April 2007

Total Project Cost:	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Revenue Financing System Bond Proceeds	\$20,500,000	\$27,000,000

Recommendations

- a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to increase the preliminary project cost from \$20,500,000 to \$27,000,000.

Previous Board Actions

On August 7, 2003, the project was included in the CIP with a preliminary project cost of \$20,500,000 with funding from Revenue Financing System Bond Proceeds.

Project Description

U. T. San Antonio is increasing the scope of the project to construct 200 more beds, bringing the total to 700 beds. The project will be apartment-style student housing. Based on extensive research, this facility will be designed to incorporate shared living spaces, meeting rooms, lounges, and study rooms.

U. T. San Antonio is expanding its student housing. Current student housing occupies 1,965 beds. The Student Housing Phase I project will provide housing for an additional 500 students with scheduled occupancy for the Fall Semester 2004. The waiting list currently stands at 500 students. The Student Housing Phase II project is scheduled for occupancy for the Fall Semester 2006.

13. U. T. Tyler: Louise Herrington Patriot Center - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to reduce appropriation of funds; approval to increase funding source; approval to revise funding source; and appropriation of funding and authorization of expenditure

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Mabry that the U. T. Board of Regents approve the recommendations for the Louise Herrington Patriot Center project at The University of Texas at Tyler as set forth on Page 98.

Project Number: 802-019

Architecturally or Historically Significant: Yes No

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: August 2003

Total Project Cost:	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Permanent University Fund Bond Proceeds	\$ 9,700,000	\$ 9,700,000
	Revenue Financing System Bond Proceeds	\$ 6,000,000	\$ 900,000
	Gifts	\$ 3,600,000	\$ 8,545,933
	Auxiliary Enterprise Balances		\$ 154,067
		<u>\$19,300,000</u>	<u>\$19,300,000</u>

Recommendations

- amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to decrease the appropriation of \$6,000,000 to \$900,000 from Revenue Financing System Bond Proceeds;
- increase the funding source from \$3,600,000 to \$8,545,933 from Gifts;
- revise the funding source to include Auxiliary Enterprise Balances in the amount of \$154,067; and
- appropriate funds and authorize expenditure of funds.

Previous Board Actions

On January 20, 2000, the Executive Committee of the Board allocated \$9,700,000 from Permanent University Fund Bond Proceeds for the Student Health and Kinesiology Building project. On February 9, 2000, the project was included in the CIP with a preliminary project cost of \$19,300,000 with funding of \$9,600,000 from Gifts and \$9,700,000 from Permanent University Fund Bond Proceeds. On February 15, 2001, the Board approved design development plans and a total project cost of \$19,300,000 with funding of \$9,600,000 from Gifts and \$9,700,000 from Permanent University Fund Bond Proceeds. On November 8, 2001, the Board approved revising the funding sources to \$9,700,000 from Permanent University Fund Bond Proceeds, \$6,000,000 from Revenue Financing System Bond Proceeds, and \$3,600,000 from Gifts, and appropriated the funding of \$6,000,000 from Revenue Financing System Bond Proceeds. On July 22, 2002, the Chancellor approved the redesignation of the project as the Patriot Center. On August 7, 2003, the Board approved the honorific naming of the project as the Louise Herrington Patriot Center.

Project Description

U. T. Tyler requests approval to revise the funding to reflect the actual and final funding to close out the completed project.

The Louise Herrington Patriot Center consists of approximately 127,000 gross square feet of classrooms, labs, offices, and recreational space.

14. U. T. Tyler: Patriot Village - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost; appropriation of additional funds and authorization of expenditure; and resolution regarding parity debt

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Mabry that the U. T. Board of Regents approve the recommendations for the Patriot Village project at The University of Texas at Tyler as follows:

Project Number: 802-171

Architecturally or Historically Significant: Yes No

Project Delivery Method: Design/Build

Substantial Completion Date: July 2005

Total Project Cost:	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Revenue Financing System Bond Proceeds	\$7,200,000	\$10,800,000

Debt Service

The \$3,600,000 in Revenue Financing System debt will be repaid from net revenues on the project. Total annual debt service on the project is estimated at \$743,098. Debt service coverage on the project is expected to be at least 1.3 times.

Recommendations

- a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to increase the total project cost from \$7,200,000 to \$10,800,000;
- b. appropriate additional funds and authorize expenditure of funds; and
- c. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System; and
 - U. T. Tyler, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt parity debt in the aggregate amount of \$3,600,000.

Previous Board Actions

On August 7, 2003, the project was included in the CIP with a preliminary project cost of \$7,200,000 with funding from Revenue Financing System Bond Proceeds. On November 13, 2003, the Board approved the design development plans and a total project cost of \$7,200,000. On March 31, 2004, the Chancellor, under delegated authority from the Board, approved the nonhonorific naming of the Student Apartments project as Patriot Village.

Project Description

U. T. Tyler is requesting an increase in the total project cost of \$3,600,000 from Revenue Financing System Bond Proceeds for the construction of an additional apartment building at the complex and related site improvements to increase from 200 to 300 beds. The current housing is fully occupied.

Enrollment expansion and enhanced character of student life on campus has increased demand to require housing for upper-and lower-division students. This apartment style housing is the first housing project to be directly managed by U. T. Tyler and supports the continued growth at U. T. Tyler. Currently, the University Pines Apartments, a privately developed and managed housing complex, is the only housing available to students. With the completion of the Patriot Village and Student Dormitory project, approximately 600 beds will be added to meet the campus master plan that anticipates housing for approximately 950 students.

15. U. T. Tyler: Student Dormitory and Academic Excellence Center - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost; appropriation of additional funds and authorization of expenditure; and resolution regarding parity debt

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Mabry that the U. T. Board of Regents approve the recommendations for the Student Dormitory and Academic Excellence Center project at The University of Texas at Tyler as follows:

Project Number: 802-166

Architecturally or Historically Significant: Yes No

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: July 2006

Total Project Cost:	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Revenue Financing System Bond Proceeds	\$ 8,000,000	\$13,884,000
	Gifts	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>
		\$11,000,000	\$16,884,000

Debt Service

The \$5,884,000 in Revenue Financing System debt will be repaid from net revenues on the project. Total annual debt service on the project is estimated at \$955,294. Debt service coverage on the project is expected to be at least 1.15 times and average 1.42 times over the first 10 years.

Recommendations

- a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to increase the total project cost from \$11,000,000 to \$16,884,000;
- b. appropriate additional funds and authorize expenditure of funds; and

c. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that

- parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;
- sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System; and
- U. T. Tyler, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt parity debt in the aggregate amount of \$5,884,000.

Previous Board Actions

On February 13, 2003, the project was included in the CIP with a preliminary project cost of \$11,000,000 with funding of \$8,000,000 from Revenue Financing System Bond Proceeds and \$3,000,000 from Gifts.

On November 13, 2003, the Board approved the design development plans and a total project cost of \$11,000,000 with funding of \$8,000,000 from Revenue Financing System Bond Proceeds and \$3,000,000 from Gifts.

Project Description

U. T. Tyler is requesting an increase in the total project cost of \$5,884,000 from Revenue Financing System Bond Proceeds to increase the number of beds from 200 to 268 to allow for the additional design configuration.

This is the first student dormitory at U. T. Tyler. The dormitory project will consist of housing for approximately 200 students and will include lounge areas, centralized laundry facilities and kitchen, and offices for dormitory staff. The Academic Excellence Center will consist of a large meeting room and smaller breakout rooms and will be connected to the dormitory on the first floor.

Enrollment growth over the last few years and future projected growth at the U. T. Tyler campus have resulted in increased demand to provide new living facilities for undergraduate students. Currently, the University Pines Apartments, a privately developed and managed housing complex, is the only housing available to students. With the completion of the Patriot Village and Student Dormitory project, approximately 600 beds will be added to meet the campus master plan that anticipates housing for approximately 950 students.

16. U. T. Health Science Center - Houston: Basic Science Research Building and Medical School Building - Rooftop Vivarium and Exterior Elevator - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to combine projects and redesignate as the Replacement Research Facility and revise total project cost

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Willerson that the U. T. Board of Regents approve the recommendations for the Basic Science Research Building project and the Medical School Building – Rooftop Vivarium and Exterior Elevator project at The University of Texas Health Science Center at Houston as set forth below:

Project Number: 701-160
Architecturally or Historically Significant: Yes No

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: August 2005

Total Project Cost:	<u>Source</u>	<u>Current</u>
Basic Science Research Building	Revenue Financing System Bond Proceeds	\$20,000,000
	Tuition Revenue Bond Proceeds	\$30,000,000
	Gifts	<u>\$30,000,000</u>
		<u>\$80,000,000</u>

Total Project Cost:	<u>Source</u>	<u>Current</u>
Medical School Building – Rooftop Vivarium and Exterior Elevator	Gifts	\$ 6,000,000
	Tuition Revenue Bond Proceeds	\$ 7,300,000
	Insurance Claims	<u>\$24,700,000</u>
		<u>\$38,000,000</u>

Revised Total Project Cost:	<u>Source</u>	<u>Proposed</u>
Replacement Research Facility Project	Tuition Revenue Bond Proceeds	\$23,600,000
	Gifts	\$ 9,330,000
	Insurance Claims	\$16,600,000
	Grants	<u>\$ 6,000,000</u>
		<u>\$55,530,000</u>

Recommendations

- a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to combine the Basic Science Research Building project and the Medical School Building – Rooftop Vivarium and Exterior Elevator project to be redesignated as the Replacement Research Facility; and
- b. revise the total project cost.

Previous Board Actions

Medical School Building – Rooftop Vivarium and Exterior Elevator: On November 13, 2002, the Vivarium project was added to the CIP with a preliminary project cost of \$38,000,000. On August 7, 2003, the Board approved appropriation of \$7,300,000 from Tuition Revenue Bond Proceeds for the Vivarium project.

Basic Science Research Building: On August 8, 2001, the project was included in the CIP with a preliminary project cost of \$80,000,000.

Project Description

The Replacement Research Facility project is the first phase of the Institute of Molecular Medicine and will be a six-story building consisting of 208,000 gross square feet of laboratory and vivarium with supporting areas to follow the completion of the Research Expansion Project (see Item 17 on Page 103). This building will replace the existing two-story John Freeman Building. In addition to highly flexible biotechnology laboratory and animal facilities, the building will house office space, mechanical rooms, and break rooms.

The vivarium will occupy the top two floors with the bottom four floors being laboratory floors. There will be a dedicated loading dock for support of the vivarium facility and a mechanical penthouse.

During the 78th Session, the Texas Legislature authorized \$64,900,000 of tuition revenue bonds to be issued for U. T. Health Science Center – Houston for recovery from damage caused by Tropical Storm Allison. Of this amount, \$23,600,000 is being allocated for the Basic Science Research Building project and the Medical School Building – Rooftop Vivarium and Exterior Elevator project. The use of Tuition Revenue Bond Proceeds is requested to improve infrastructure for recovery from the damage caused by Tropical Storm Allison and for the replacement of research and academic facilities.

17. U. T. Health Science Center - Houston: Research Expansion Project - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to revise funding source; reduce appropriation of funds; appropriation of funds and authorization of expenditure; and resolution regarding parity debt

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Willerson that the U. T. Board of Regents approve the recommendations for the Research Expansion Project at The University of Texas Health Science Center at Houston as follows:

Project Number: 701-059

Architecturally or Historically Significant: Yes No

Project Delivery Method: Construction Manager at Risk

Substantial Completion Date: August 2005

Total Project Cost:	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Tuition Revenue Bond Proceeds		\$ 15,000,000
	Permanent University Fund Bond Proceeds	\$ 50,000,000	\$ 50,000,000
	Gifts	<u>\$ 70,000,000</u>	<u>\$ 55,000,000</u>
		\$120,000,000	\$120,000,000

Debt Service

Annual debt service on the \$15,000,000 of Tuition Revenue Bonds is projected to be \$1,307,768. While the annual debt service is payable from Pledged Revenues, it is expected that debt service on Tuition Revenue Bonds will be reimbursed through General Revenue Appropriations.

Recommendations

- a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to revise the funding source to include Tuition Revenue Bond Proceeds in the amount of \$15,000,000;
- b. reduce the appropriation from Gifts from \$70,000,000 to \$55,000,000;
- c. appropriate funds and authorize expenditure of funds; and
- d. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project’s cost, including any costs prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System; and
 - U. T. Health Science Center - Houston, which is a “Member” as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt parity debt in the aggregate amount of \$15,000,000.

Previous Board Actions

On November 10, 1999, the project was included in the CIP with a preliminary project cost of \$120,000,000 with funding of \$21,000,000 from Permanent University Fund Bond Proceeds and \$99,000,000 from Gifts. On January 20, 2000, the Executive Committee of the Board allocated \$50,000,000 from Permanent University Fund Bond Proceeds for the project. On January 9, 2002, the Board designated the project as architecturally significant. On November 13, 2002, the Board approved revising the source of funding. On February 13, 2003, the project received design development approval.

Project Description

This new building is the second phase of the Institute of Molecular Medicine and will be a comprehensive basic research facility of 206,000 gross square feet, designed to support research and collaboration in the area of molecular medicine. The facility will house dry and wet laboratories, offices, conferencing areas, and a 200-seat assembly facility. A vivarium capable of supporting a transgenic rodent colony will be included. The facility will house 80 to 100 Principal Investigators (PI). Each PI will support four or five researchers including graduate assistants, lab technicians, and postdoctoral fellows. Office and conference room support will be provided. The first phase of the Institute of Molecular Medicine is the Replacement Research Facility (see Item 16 on Page 101).

During the 78th Session, the Texas Legislature authorized \$64,900,000 of Tuition Revenue Bonds to be issued for U. T. Health Science Center – Houston for recovery from damage caused by Tropical Storm Allison. Of this amount, \$15,000,000 is being allocated to the Research Expansion Project. The use of the \$15,000,000 of Tuition Revenue Bond Proceeds is requested to improve infrastructure for recovery from the damage caused by Tropical Storm Allison and for the replacement of research and academic facilities.

18. U. T. Health Science Center - Houston: Completion of Medical School Building Hazard Mitigation and Repair of the Medical School Building, Phase I - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to combine projects; revise total project cost; appropriation of funds and authorization of expenditure; and resolution regarding parity debt

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Willerson that the U. T. Board of Regents approve the recommendations for the Completion of Medical School Building Hazard Mitigation project and the Repair of the Medical School Building, Phase I at The University of Texas Health Science Center at Houston as follows:

Institutionally Managed: Yes No

Architecturally or Historically Significant: Yes No

Project Delivery Method: Construction Manager at Risk

Substantial Completion Date: March 2005

Total Project Cost:	<u>Source</u>	<u>Current</u>
Completion of MSB Hazard Mitigation	Tuition Revenue Bond Proceeds	\$10,000,000

Total Project Cost:	<u>Source</u>	<u>Current</u>
Repair of the Medical School Building, Phase I	Tuition Revenue Bond Proceeds	\$15,100,000
	Insurance Claims	<u>\$34,900,000</u>
		\$50,000,000

Revised Total Project Cost:	<u>Source</u>	<u>Proposed</u>
Repair of the Medical School Building, Phase I	Tuition Revenue Bond Proceeds	\$23,800,000
	Insurance Claims	<u>\$36,200,000</u>
		\$60,000,000

Debt Service

Annual debt service on the \$23,800,000 of Tuition Revenue Bonds is projected to be \$2,074,992. While the annual debt service is payable from Pledged Revenues, it is expected that debt service on Tuition Revenue Bonds will be reimbursed through General Revenue Appropriations.

Recommendations

- a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to combine the Completion of Medical School Building Hazard Mitigation project and the Repair of the Medical School Building, Phase I project into the Repair of the Medical School Building Phase I project;
- b. revise the total project cost to \$60,000,000;
- c. appropriate funds and authorize expenditure of funds; and
- d. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System; and
 - U. T. Health Science Center - Houston, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt parity debt in the aggregate amount of \$8,700,000.

Previous Board Actions

On February 14, 2002, the Repair of the Medical School Building, Phase I project was included in the CIP with a preliminary project cost of \$20,000,000 and was authorized for institutional management. On May 9, 2002, the Board increased the total project cost to \$50,000,000 and appropriated funding. On August 7, 2003, the Completion of the MSB Hazard Mitigation project was included in the CIP with a preliminary project cost of \$10,000,000 and was authorized for institutional management.

Project Description

During the 78th Session, the Texas Legislature authorized \$64,900,000 of Tuition Revenue Bonds to be issued for U. T. Health Science Center – Houston for recovery from damage caused by Tropical Storm Allison. Of this amount, \$23,800,000 is being allocated to the Repair of the Medical School Building, Phase I project.

The Completion of MSB Hazard Mitigation is part of the project underway to protect against future disasters since Tropical Storm Allison. The work involves installation of a hydrostatic wall and relocation of the imaging center. The Repair of the Medical School Building, Phase I project will restore basic building infrastructure. The basement was rendered totally unusable by storm damage. The project includes demolition of the basement, installation of new air handling units, and installation of electrical distribution systems, as well as build back and reconfiguration of the basement and ground floors.

The combining of the two projects revises the project scope to add the mitigation of the primary electrical feed to the Medical School Building and the reconstruction of the balance of space in the Medical School Basement as the final phase of the institution's managed-recovery program.

19. U. T. M. D. Anderson Cancer Center: U. T. Research Park Infrastructure Improvements - Appropriation of funds and authorization of expenditure; and resolution regarding parity debt

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Mendelsohn that the U. T. Board of Regents approve the recommendations for the U. T. Research Park Infrastructure Improvements project at The University of Texas M. D. Anderson Cancer Center as follows:

Institutionally Managed: Yes No

Architecturally or Historically Significant: Yes No

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: December 2007

Total Project Cost:	<u>Source</u>	<u>Current</u>
	Tuition Revenue Bond Proceeds	\$20,000,000

Debt Service

Annual debt service on the \$20,000,000 of Tuition Revenue Bonds is projected to be \$1,743,691. While the annual debt service is payable from Pledged Revenues, it is expected that debt service on Tuition Revenue Bonds will be reimbursed through General Revenue Appropriations.

Recommendations

- a. appropriate funds and authorize expenditure of funds; and
- b. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System; and
 - U. T. M. D. Anderson Cancer Center, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt parity debt in the aggregate amount of \$20,000,000.

Previous Board Actions

On August 7, 2003, the project was included in the Capital Improvement Program with a preliminary project cost of \$20,000,000 with funding from Tuition Revenue Bond Proceeds and authorized for institutional management.

Project Description

The U. T. Research Park Infrastructure Improvements project at U. T. M. D. Anderson Cancer Center involves development of the south campus, including roadways, underground detention and storm water systems, water and sanitation systems, underground telecommunications, underground off-site electrical, demolition, landscaping, and lighting. Street, utility, and storm drainage systems must be in place before the buildings are constructed to support biotechnology research and development needs.

During the 78th Session, the Texas Legislature authorized \$20,000,000 of Tuition Revenue Bonds for U. T. M. D. Anderson Cancer Center to fund capital costs related to biotechnology research and development facilities.

M. RECONVENE MEETING OF THE BOARD

N. OTHER MATTER

**U. T. Board of Regents: Presentation of certificate of appreciation to
President Nevárez**

ADJOURN