

MATERIAL SUPPORTING THE AGENDA

VOLUME XLVa

This volume contains the Material Supporting the Agenda furnished to each member of the Board of Regents prior to the meetings held on

September 25, 1997
November 12-13, 1997
December 16, 1997

The material is divided according to the standing committees and the meetings that were held and is color coded as follows:

White paper - for documentation of all items that were presented before the deadline date.

Blue paper - all items submitted to the Executive Session and distributed only to the Regents, Chancellor and Executive Vice Chancellors of the System.

Yellow paper - emergency items distributed at the meeting.

Material distributed at the meeting as additional documentation is not included in the bound volume, because sometimes there is an unusual amount and other times some people get copies and some do not get copies. If the Executive Secretary was furnished a copy, then that material goes into the appropriate subject file.



Material Supporting the Agenda
of the
Board of Regents
The University of Texas System

Meeting No.: 909

Date: November 12-13, 1997

Location: Brownsville, Texas

BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

CALENDAR

Date: Wednesday, November 12, 1997

Time: 3:30 p.m.

Place: Cancun B
Four Points Hotel by Sheraton
3777 North Expressway
Brownsville, Texas

Purpose: Convene in Open Session, Recess to
Executive Session per the Agenda on
Page Ex.S - 1, Reconvene in Open
Session, and Recess

See Page B of R - 1,
Items A - D

Date: Thursday, November 13, 1997

Time: 9:00 a.m.

Place: Gorgas Board Room, Gorgas Hall
The University of Texas at Brownsville
80 Fort Brown
Brownsville, Texas

Purpose: Reconvene in Open Session to Continue
Until Completion of Business

See Pages B of R 2 - 23,
Items E - Q

Board Luncheon and Briefing Session

Telephone Numbers

President Garcia's Office (956) 544-8201

Four Points Hotel by Sheraton (956) 350-9191
3777 North Expressway

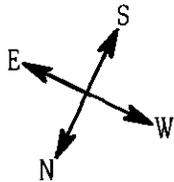
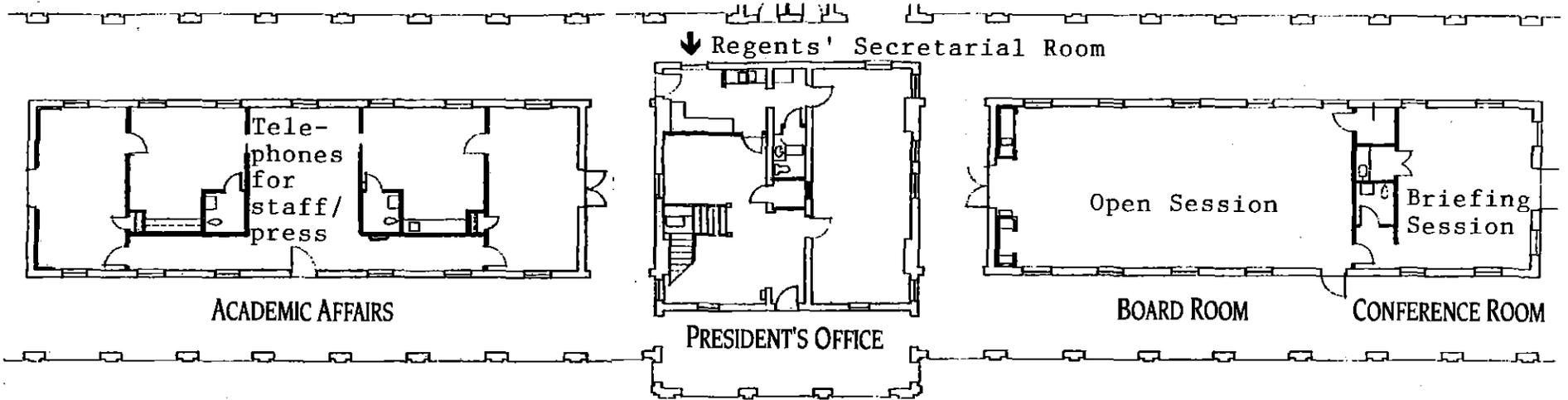
THE UNIVERSITY OF TEXAS AT BROWNSVILLE

and

TEXAS SOUTHMOST COLLEGE

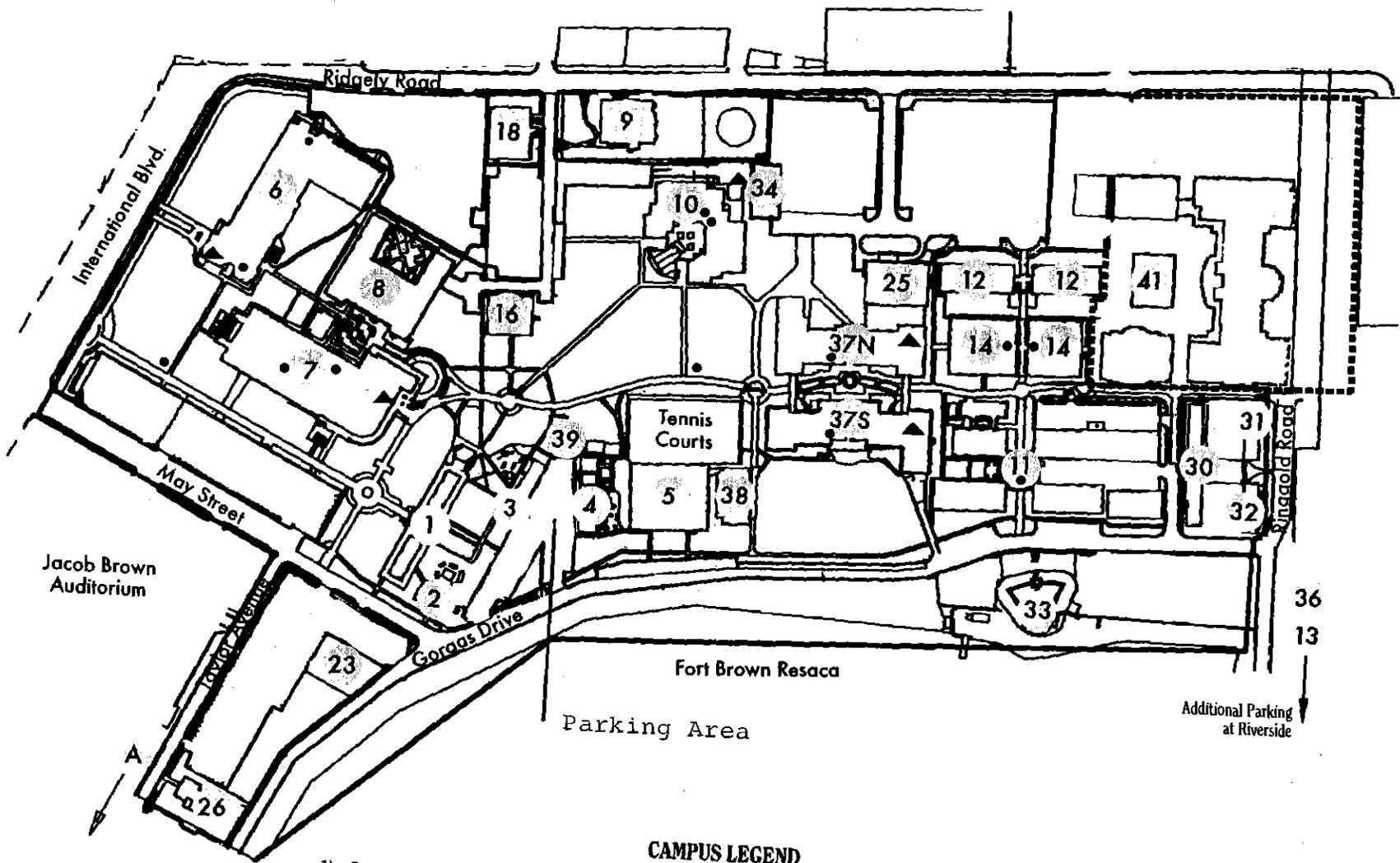
80 Fort Brown • Brownsville, Texas 78520

Gorgas Hall



CAMPUS MAP

The University of Texas at Brownsville



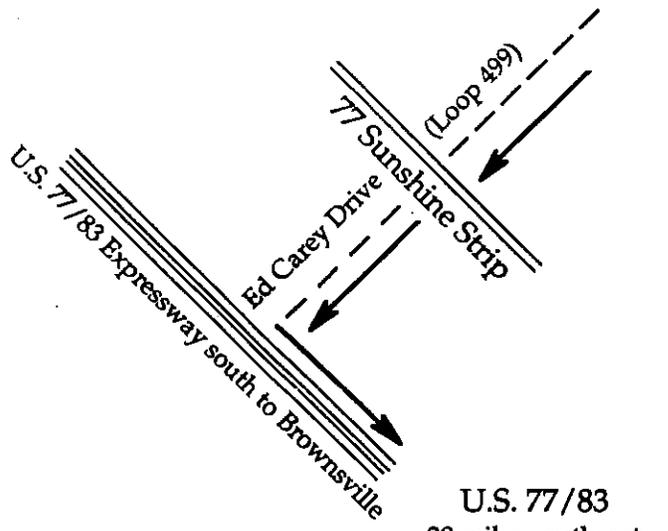
CAMPUS LEGEND

- | | | |
|-------------------------------|-------------------------------------|--|
| 1) Gorgas Hall | 12) Vocational Trade Shops | 33) Smith Amphitheatre |
| 2) Champion Hall | 13) Physical Plant at New Riverside | 34) Thermal Energy Plant |
| 3) Old Morgue | 14) Cortez Allied Health | 36) Adult Education |
| 4) Art Building | 16) Music Building | 37N) North Hall |
| 5) Garza Gymnasium | 18) School of Education | 37S) South Hall |
| 6) Tandy Hall | 23) Housekeeping | 38) Gymnasium Addition |
| 7) Oliveira Library | 25) Guerra Child Care | 39) Building II |
| 8) Lightner Student Center | 26) Commandant's Quarters | 41) Science & Tech Building |
| 9) Catholic Campus Ministries | 30) Cavalry Hall-Campus Police | A) CBED-Center for Business and Economic Development |
| 10) Eidman Hall | 31) Language Institute Office | |
| 11) Rusteberg Hall | 32) Language Institute Classrooms | |

Legend

- Phones (outside)
- ▲ Phones (inside elevators)
- Buildings**

Valley International
Airport, Harlingen



U.S. 77/83
20 miles southeast
to Brownsville

Directions to Sheraton Four Points Inn

3777 N. Expressway • 350-9191

Arriving in Brownsville from the north
via U.S. 77-83 Expressway:

- Exit McAllen Road
- Go straight at 4-way stop; stay on frontage road
- Travel approximately 3/4 mile
- Sheraton Four Points Inn will be on your right

McAllen Road

★ Sheraton Four Points Inn

U.S. 77/83
4 miles from Sheraton
to International Blvd.

Exit U.S. 77-83
at International Boulevard
Exit (Texas Highway 4)

Directions to UTB/TSC Campus

80 Fort Brown • 544-8231

Arriving in Brownsville from the north via U.S. 77-83 Expressway:

- Exit International Blvd. – *Texas Highway 4*
(Expressway ends at International)
- Turn right; go approximately 1 mile past 4 stop lights
- At May Street (5th stop light), turn left
- Continue on May Street for 2 blocks until first stop sign
- You may park your vehicle at the parking lot to your right

International Boulevard



UTB/TSC Campus

Gateway
International Bridge
to Mexico

Meeting of the Board

AGENDA FOR MEETING
OF
BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

Date: Wednesday, November 12, 1997

Time: 3:30 p.m.

Place: Cancun B
Four Points Hotel by Sheraton
3777 North Expressway
Brownsville, Texas

- A. CALL TO ORDER
- B. RECESS TO EXECUTIVE SESSION (TEXAS GOVERNMENT CODE, CHAPTER 551)

Deliberations Regarding the Purchase, Exchange,
Lease or Value of Real Property - Section 551.072

- a. U. T. Board of Regents: Consideration of Sale to the State of Texas or to a Third Party of Approximately 3.84 Acres of Land and Improvements Located at 1606 Niles Road (Also Commonly Known as #6 Niles Road and/or "Woodlawn"), Austin, Travis County, Texas
 - b. U. T. Dallas: Request for Authorization to Sell Approximately 8.0 Acres of Land West of Waterview Parkway and North of Tatum Street, Richardson, Dallas County, Texas, and Authorization to Execute All Documents Related Thereto
- C. RECONVENE IN OPEN SESSION TO CONSIDER ACTION ON EXECUTIVE SESSION MATTERS (ITEM B ABOVE)
 - D. RECESS

AGENDA FOR MEETING
OF
BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

Date: Thursday, November 13, 1997

Time: 9:00 a.m. Reconvene in Open Session to
Continue Until Completion of
Business

Place: Gorgas Board Room, Gorgas Hall, U. T. Brownsville

E. RECONVENE IN OPEN SESSION

F. WELCOME BY PRESIDENT GARCIA

G. APPROVAL OF MINUTES OF REGULAR MEETING HELD
AUGUST 13-14, 1997, AND SPECIAL MEETINGS HELD
SEPTEMBER 3-6 AND SEPTEMBER 25, 1997

H. SPECIAL ITEM

U. T. System: Report of Summary of Gift Acceptance and
Related Administrative Actions Conforming to Board Policy
for June 1, 1997 Through August 31, 1997.--

(See Pages B of R 3 - 7.)

ACCEPTANCE OF GIFTS HELD BY BOARD

# ALL ITEMS	COMPONENT INSTITUTION	ASSET TYPES					TRANSFERS	MATCHING FUNDS	TOTAL VALUE
		CASH	SECURITIES	REAL ESTATE	PLEDGES	OTHER			
5	U. T. Arlington	\$ 54,100	\$ -	\$ -	\$ -	\$ -	\$ 22,789	\$ -	\$ 76,889
63	U. T. Austin	\$ 1,332,612	\$ 551,108	\$ 161,863	\$ 605,562	\$ -	\$ 250,652	\$ 212,500	\$ 2,903,645 *
3	U. T. El Paso	\$ 10,000	\$ 26,268	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,268
2	U. T. Pan American	\$ 24,126	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,126
2	U. T. San Antonio	\$ 260,000	\$ -	\$ -	\$ -	\$ -	\$ 40,000	\$ -	\$ 300,000
1	U. T. Tyler	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,000
9	U. T. SWMC-Dallas	\$ 1,000,000	\$ 400,930	\$ -	\$ -	\$ -	\$ -	\$ 1,085,000	\$ 1,400,930 *
4	U. T. M.B.-Galveston	\$ 177,801	\$ -	\$ -	\$ -	\$ -	\$ 114,100	\$ -	\$ 279,901 *
4	UTHSC-Houston	\$ 34,117	\$ -	\$ -	\$ 88,000	\$ -	\$ -	\$ -	\$ 122,117
5	UTHSC-San Antonio	\$ 148,300	\$ -	\$ -	\$ -	\$ -	\$ 2,300	\$ -	\$ 150,600
8	UTMDACC	\$ 531,628	\$ 20,687	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 552,315
106	TOTAL	\$ 3,582,684	\$ 998,993	\$ 161,863	\$ 693,562	\$ -	\$ 429,841	\$ 1,297,500	\$ 5,856,791 *

* Not included in total: U. T. Austin - \$198,152 of transfers of previously accepted gifts and \$12,500 of Board-held matching funds;
 U. T. SWMC-Dallas - \$1,085,000 of Board-held matching funds; and
 U. T. M.B.-Galveston - \$12,000 of transfers of previously accepted gifts.

NOTE: Compiled by Office of Development and External Relations

CLASSIFICATION OF GIFTS AND OTHER ACTIONS

<u>COMPONENT INSTITUTION</u>	<u>ENDOWMENTS</u>	<u>CHARITABLE REMAINDER TRUSTS</u>	<u>POOLED INCOME FUND</u>	<u>REMAINDER INTERESTS</u>	<u>HELD IN TRUST BY OTHERS</u>	<u>CURRENT PURPOSE</u>	<u>OTHER</u>
U. T. Arlington	5	---	---	---	---	---	---
U. T. Austin	56	---	---	---	6	2	---
U. T. El Paso	3	---	---	---	---	---	---
U. T. Pan American	2	---	---	---	---	---	---
U. T. San Antonio	2	---	---	---	---	---	---
U. T. Tyler	1	---	---	---	---	---	---
U. T. SWMC-Dallas	6	---	---	---	6	---	---
U. T. M.B.-Galveston	4	---	---	---	---	---	---
UTHSC-Houston	3	---	---	---	1	---	---
UTHSC-San Antonio	5	---	---	---	---	---	---
UTMDACC	6	---	---	---	---	2	---
TOTAL	93	0	0	0	13	4	0

PURPOSES OF GIFTS HELD BY BOARD AND OTHERS

COMPONENT INSTITUTION	ENDOWMENT							CURRENT PURPOSE	OTHER PURPOSE	
	DIST. CHAIR	CHAIR	DIST. PROF'SHIP	PROF'SHIP	FACULTY FELLOWSHIP	GRADUATE FELLOWSHIP	SCHOLARSHIP			OTHER
U. T. Arlington	--	--	--	--	--	--	5	--	--	--
U. T. Austin	--	3	--	5	--	5	35	9	2	--
U. T. El Paso	--	--	--	--	--	--	1	1	--	--
U. T. Pan-American	--	--	--	--	--	--	2	--	--	--
U. T. San Antonio	--	--	1	--	--	--	1	--	--	--
U. T. Tyler	--	--	--	--	--	--	1	--	--	--
U. T. SWMC-Dallas	2	1	--	2	--	--	--	4	--	--
U. T. M.B.-Galveston	--	--	1	--	--	--	2	--	--	--
UTHSC-Houston	--	--	--	1	--	--	2	1	--	--
UTHSC-San Antonio	--	--	--	--	--	--	5	--	--	--
UTMDACC	--	--	--	--	--	--	--	2	2	--
TOTAL	2	4	2	8	0	5	54	17	4	0

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

OTHER ADMINISTRATIVE ACTIONS

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<u>COMPONENT INSTITUTION</u>	<u>ESTABLISH ENDOWMENT</u>	<u>REDESIGNATE ENDOWMENT LEVEL</u>	<u>OTHER REDESIGNATION</u>	<u>DISSOLVE ENDOWMENT</u>	<u>APPROVE/ALLOCATE MATCHING</u>	<u>ACCEPT TRUSTEESHIP</u>	<u>OTHER</u>
U. T. Arlington	5	--	--	--	--	--	--
U. T. Austin	55	1	3	3	2	--	--
U. T. El Paso	2	--	1	--	--	--	--
U. T. Pan American	2	--	--	--	--	--	--
U. T. San Antonio	2	--	--	--	--	--	--
U. T. Tyler	1	--	--	--	--	--	--
U. T. SWMC-Dallas	8	1	--	--	4	--	--
U. T. M.B.-Galveston	3	--	1	--	--	--	--
UTHSC-Houston	4	--	--	--	1	--	--
UTHSC-San Antonio	5	--	--	--	--	--	--
UTMDACC	2	1	2	1	--	--	--
TOTAL	89	3	7	4	7	0	0

COMPARATIVE SUMMARY OF GIFTS ACCEPTED VIA THE OFFICIAL ADMINISTRATIVE PROCESS

COMPONENT INSTITUTION	FY 1996 FULL YEAR	FISCAL YEAR 1997			
		9/1/96 - 11/30/96	12/1/96 - 2/28/97	3/1/97 - 5/31/97	FULL YEAR
U. T. System	\$ 40,000	\$ --	\$ --	\$ --	\$ --
U. T. Arlington	\$ 157,630	\$ --	\$ --	\$ 390,271	\$ 467,160
U. T. Austin	\$ 11,922,027	\$ 3,220,599	\$ 1,197,147	\$ 5,274,832	\$ 12,596,223
U. T. Brownsville	\$ --	\$ --	\$ --	\$ 25,000	\$ 25,000
U. T. Dallas	\$ 770,000	\$ --	\$ 67,313	\$ --	\$ 67,313
U. T. El Paso	\$ 627,444	\$ 2,115,682	\$ 343,080	\$ 218,311	\$ 2,713,341
U. T. Pan American	\$ --	\$ 150,000	\$ 469,025	\$ --	\$ 643,151
U. T. Permian Basin	\$ 362,077	\$ --	\$ --	\$ 641,000	\$ 641,000
U. T. San Antonio	\$ 645,959	\$ 25,000	\$ 55,500	\$ --	\$ 380,500
U. T. Tyler	\$ 886,046	\$ 25,000	\$ --	\$ 30,000	\$ 65,000
U. T. SWMC-Dallas	\$ 13,409,431	\$ 4,107,068	\$ 5,772,153	\$ 1,112,250	\$ 12,392,401
U. T. M.B.-Galveston	\$ 7,392,043	\$ 1,933,594	\$ 3,258,170	\$ 2,931,485	\$ 8,403,150
UTHSC-Houston	\$ 2,872,941	\$ 465,914	\$ 620,000	\$ 3,376,622	\$ 4,584,653
UTHSC-San Antonio	\$ 1,525,008	\$ 631,753	\$ 1,465,454	\$ 242,000	\$ 2,489,807
UTMDACC	\$ 3,267,099	\$ 741,404	\$ --	\$ 683,978	\$ 1,977,697
U. T. HC-Tyler	\$ 1,064,117	\$ --	\$ --	\$ 140,910	\$ 140,910
UTEP and UTMB	\$ 1,028,125	\$ --	\$ --	\$ --	\$ --
U. T. Austin/UTMDACC	\$ --	\$ --	\$ 28,048	\$ --	\$ 28,048
TOTAL	\$ 45,969,947	\$ 13,416,014	\$ 13,275,890	\$ 15,066,659	\$ 47,615,354

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

1. U. T. System: Report on Investments for the Fiscal Year Ended August 31, 1997.--

REPORT

Pages B of R 11 - 14 contain the Summary Reports on Investments for the fiscal year ended August 31, 1997.

Item a on Page B of R - 11 presents the summary report for Permanent University Fund (PUF) Investments. The PUF began the year with a market value of \$5.292 billion. During the year, contributions of mineral income from PUF Lands, largely as a result of higher oil and gas prices, increased by 30% to \$85.2 million. In addition, total investment return was a record \$1.254 billion of which \$263 million was income return and \$991 million was price return. Cash income of \$265.2 million was distributed to the Available University Fund (AUF) resulting in a year-end PUF market value of \$6.368 billion.

During the year, UTIMCO continued to diversify the PUF's assets among broadly defined equity securities. Approximately \$111 million of fixed income securities and \$23 million of cash contributions were reallocated to equities. The rebalanced funds were invested in non-U. S. equities, U. S. small cap equities and alternative equities. Another \$47 million of cash contributions was reserved and transferred to the AUF in September 1997 as part of the conversion to accrual based distributions. Year-end asset allocation was 63% broadly defined equities and 37% fixed income versus an unconstrained neutral allocation of 80% equities and 20% fixed income. Within equities, period-end allocation to equities was 44% U. S. large and mid cap stocks, 6% U. S. small cap stocks, 7% non-U. S. equities and 6% alternative assets.

PUF income distributions to the AUF of \$265.2 million increased by a nominal rate of 4.6% versus Fiscal Year 1996 and by an inflation adjusted rate of 2.4%. Interest income from fixed income securities, which accounts for 70% of total income paid to the AUF, declined slightly, by 0.3%. Dividend income, resulting from both new contributions and dividend increases, rose by 17.7% versus the previous year.

Total investment return for the year was 23.8%. Fixed income as an asset class continued to perform relatively poorly versus equities with the Salomon Broad Bond Index generating a total return of 10.0%. The Fund's fixed income portfolio at 11.3% outperformed this index. Equities, as an asset class, continued to generate higher relative returns with the S&P 500 Index and Russell 3000 Index posting returns of 40.6% and 38.4%, respectively. The PUF's equity (including international) portfolios produced a 35.1% return. Finally, alternative equities produced a 10.4% return for the year due to the "j-curve effect" experienced in initiating or expanding such investment programs.

Item b on Page B of R - 12 reports summary activity for the Long Term Fund (LTF). During the year, net contributions totaled \$66.1 million and net investment return was \$433.8 million. Distributions paid to the approximately 4,400 endowment and other accounts underlying the LTF increased to \$79.1 million from \$76.4 million for the previous year. The payout rate was unchanged at \$0.175 per unit during the year with the increase in total distributions resulting from the increase in the number of Fund units outstanding. The Fund's market value closed the year at \$2.125 billion versus \$1.712 billion for the preceding year-end. On a per unit basis, each endowment's ownership in the LTF increased from an average of \$3.90 per share to \$4.67 per share.

Asset allocation at year-end was 23% fixed income and 77% broadly defined equities. Within equities, U. S. small cap and non-U. S. equities were roughly neutral weighted at 11% and 14%, respectively. U. S. large and mid cap equities were overweighted at 47% vs. 30% while alternative equities were underweighted at 5% versus a neutral weighting of 25%. For Fiscal Year 1997 as a whole, total investment return for the LTF was 25.1% and net 18.6% after expenses of 0.2%, inflation of 2.2% and payout of 4.1%.

Item c on Page B of R - 13 presents annual activity for the Short/Intermediate Term Fund. During the year, the Fund received net contributions of \$274 million. It earned \$115.4 million in total return and incurred expenses of \$0.4 million. Distributions to the U. T. System component institutions equaled \$90.0 million resulting in a year-end Fund value of \$1.631 billion. Total return on the Fund was 8.1% for the year versus the Fund's performance benchmark of 7.0%.

Item d on Page B of R - 14 presents book and market value of cash, fixed income, equity and other securities held in funds outside of investment pools. Total cash and equivalents, consisting primarily of component operating funds held in the Dreyfus money market fund, increased by \$19 million to \$622 million during the year. Asset values for the remaining asset classes were fixed income securities: \$52 million vs. \$82 million at previous year-end; equities: \$35 million vs. \$21 million at previous year-end; and other investments of \$6.0 million.

a. PERMANENT UNIVERSITY FUND

Summary Investment Report at August 31, 1997.--

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

	FY95-96	FY96-97				Year-To-Date
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	
Beginning Market Value	4,958.5	5,292.1	5,757.0	5,823.8	6,048.9	5,292.1
PUF Lands Receipts(2)	65.7	23.9	20.2	26.4	14.7	85.2
Investment Income(3)	254.2	65.1	63.8	66.9	67.2	263.0
Change in Undistributed Income Payable to the Available University Fund(3)	(0.6)	3.8	(2.7)	2.9	(1.8)	2.2
Investment Income Distributed on Cash Basis(3)	(253.6)	(68.9)	(61.1)	(69.8)	(65.4)	(265.2)
Realized Gains (Losses)	196.8	45.4	55.2	43.8	106.6	251.0
Change in Unrealized Gains (Losses)	71.1	395.6	(8.6)	154.9	198.1	740.0
Ending Market Value	5,292.1	5,757.0	5,823.8	6,048.9	6,368.3	6,368.3
Distributed to the AUF:						
Investment Income	253.6	68.9	61.1	69.8	65.4	265.2
Surface Income	4.8	1.1	1.5	0.8	1.9	5.3
Total	258.4	70.0	62.6	70.6	67.3	270.5

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

- (1) Excludes PUF Lands mineral and surface interests with estimated June 30, 1997, values of \$550.5 million and \$151.8 million, respectively.
- (2) As of August 31, 1997: 895,504 acres under lease; 521,827 producing acres; 2,923 active leases; and 2,057 producing leases.
- (3) Change in presentation to reflect investment income earned as well as cash income distributed to the AUF.

b. LONG TERM FUND

Summary Investment Report at August 31, 1997.--

**LONG TERM FUND
SUMMARY REPORT
(\$ millions)**

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	FY95-96	FY96-97				Year-To-
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Date
Beginning Net Assets	1,558.8	1,712.1	1,876.9	1,924.0	2,015.7	1,712.1
Net Contributions	54.1	24.7	21.4	17.7	2.3	66.1
Investment Return	182.3	160.8	46.6	95.4	131.0	433.8
Expenses	(3.7)	(1.1)	(1.1)	(1.2)	(1.1)	(4.5)
Distributions (Payout)	(76.4)	(19.5)	(19.7)	(19.9)	(20.0)	(79.1)
Distribution of Gain on Participant Withdrawals	(3.0)	(0.1)	(0.1)	(0.3)	(2.9)	(3.4)
Ending Net Assets	1,712.1	1,876.9	1,924.0	2,015.7	2,125.0	2,125.0
Net Asset Value per Unit	3.897	4.211	4.269	4.432	4.672	4.672
No. of Units (End of Period)	439,352,911	445,668,754	450,718,468	454,803,542	454,803,889	454,803,889
Distribution Rate per Unit	0.175	0.04375	0.04375	0.04375	0.04375	0.1750

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

c. SHORT/INTERMEDIATE TERM FUND

Summary Investment Report at August 31, 1997.--

**SHORT/INTERMEDIATE TERM FUND
SUMMARY REPORT
(\$ millions)**

	<u>FY95-96</u>	<u>FY96-97</u>				<u>Year-To- Date</u>
	<u>Full Year</u>	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	
Beginning Net Assets	1,129.5	1,332.1	1,405.6	1,499.9	1,566.7	1,332.1
Net Contributions	216.7	40.9	111.8	69.0	52.6	274.3
Investment Return	58.2	52.9	4.2	21.6	36.7	115.4
Expenses	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)
Distributions of Income	(72.1)	(20.2)	(21.6)	(23.7)	(24.5)	(90.0)
Ending Net Assets	<u>1,332.1</u>	<u>1,405.6</u>	<u>1,499.9</u>	<u>1,566.7</u>	<u>1,631.4</u>	<u>1,631.4</u>

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

d. SEPARATELY INVESTED ASSETS

Summary Investment Report at August 31, 1997.--

**SEPARATELY INVESTED ASSETS
SUMMARY REPORT
(\$ thousands)**

ASSET TYPES	FUND TYPE													
	CURRENT PURPOSE				ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		OPERATING FUNDS		TOTAL	
	DESIGNATED		RESTRICTED		BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
Cash & Equivalents:	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
Beginning value 6/1/97	3,226	3,226	2,744	2,744	23,472	23,472	413	413	130	130	557,014	557,014	586,999	586,999
Increase/(Decrease)	12,053	12,053	(1,166)	(1,166)	11,256	11,256	224	224	(130)	(130)	12,306	12,306	34,543	34,543
Ending value 8/31/97	15,279	15,279	1,578	1,578	34,728	34,728	637	637	-	-	569,320	569,320	621,542	621,542
Debt Securities:														
Beginning value 6/1/97	6,697	6,703	7	4	42,093	42,456	8,436	8,614	-	-	-	-	57,233	57,777
Increase/(Decrease)	(2,997)	(3,003)	-	-	(3,005)	(2,506)	(12)	139	-	1	-	-	(6,014)	(5,369)
Ending value 8/31/97	3,700	3,700	7	4	39,088	39,950	8,424	8,753	-	1	-	-	51,219	52,408
Equity Securities:														
Beginning value 6/1/97	52	1,013	158	158	15,993	22,286	3,748	4,223	-	-	-	-	19,951	27,680
Increase/(Decrease)	-	3,974	1,188	1,158	355	2,262	379	541	-	-	-	-	1,922	7,935
Ending value 8/31/97	52	4,987	1,346	1,316	16,348	24,548	4,127	4,764	-	-	-	-	21,873	35,615
Other:														
Beginning value 6/1/97	-	-	689	689	(688)	(688)	5,289	5,806	-	-	-	-	5,290	5,807
Increase/(Decrease)	-	-	41	41	(42)	(42)	(76)	269	-	-	-	-	(77)	268
Ending value 8/31/97	-	-	730	730	(730)	(730)	5,213	6,075	-	-	-	-	5,213	6,075

B
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-
14

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

Details of individual assets by account furnished upon request.

2. Permanent University Fund: Report on Investments for the Fiscal Year Ended August 31, 1997.--

RECOMMENDATION

Under separate bound cover, The University of Texas Investment Management Company presents a report on Permanent University Fund investments for the fiscal year ended August 31, 1997. The report summarizes the investment transactions and balances, the investment objectives, performance and asset allocation information for that fiscal year.

Section 66.05 of the Texas Education Code requires that the report be approved by the U. T. Board of Regents prior to its distribution to the Governor, members of the Legislature, and other State Officials.

3. U. T. Board of Regents: Proposed Increase in the Long Term Fund Distribution Rate for the Fiscal Year Beginning September 1, 1997.--

RECOMMENDATION

The UTIMCO Board of Directors recommends that the distribution rate for the U. T. System Long Term Fund (LTF) be increased from \$0.175 per unit to \$0.180 per unit for the fiscal year beginning September 1, 1997.

BACKGROUND INFORMATION

At its February 5-6, 1997 meeting, the U. T. Board of Regents approved the restated Long Term Fund Investment Policy (the "Policy"). The restated Policy contains a spending formula that holds the LTF distribution rate constant at \$0.175 per unit until distributions from the Fund equal 4.5% of the average market value of LTF assets for the trailing 12 fiscal quarters. At the point that the 4.5% threshold is reached,

the spending formula increases distributions from the LTF at the rate of inflation subject to a distribution range of 3.5% to 5.5% of the average market value of LTF assets for the trailing 12 fiscal quarters.

The 4.5% threshold distribution rate was reached as of August 31, 1997. Accordingly, the UTIMCO Board of Directors, on September 15, 1997, approved an increase in the LTF distribution rate of \$.05 per unit or by the 2.86% rate of inflation during the period September 1, 1996 through August 31, 1997.

J. 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 Material Supporting the Agenda. 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 Evans
Vice-Chairman Loeffler, Vice-Chairman Clements
MSA Page Ex.C - 1

Business Affairs and Audit Committee: Chairman
Riter, Regent Hicks, Regent Oxford
MSA Page BAAC - 1

Academic Affairs Committee: Chairman Lebermann
Regent Clements, Regent Riter, Regent Smiley
MSA Page AAC - 1

Health Affairs Committee: Chairman Loeffler
Regent Clements, Regent Oxford, Regent Sanchez
MSA Page HAC - 1

Facilities Planning and Construction Committee:
Chairman Clements, Regent Lebermann, Regent Sanchez
MSA Page FPCC - 1

K. RECONVENE AS COMMITTEE OF THE WHOLE

L. ITEMS FOR THE RECORD

1. U. T. System: Report on Status of Degree Programs and Academic Organization Requests Approved by the U. T. Board of Regents and Submitted to the Texas Higher Education Coordinating Board for the Period September 1, 1996 Through August 31, 1997.--

REPORT

Following is a report for the record on the status of degree programs and academic organization requests within the U. T. System which have been approved by the U. T. Board of Regents for submission to the Texas Higher Education Coordinating Board. Included are items which have been acted upon by the Coordinating Board since September 1, 1996, or were still pending before the Coordinating Board as of August 31, 1997. Four regular Coordinating Board meetings have occurred since the last report. Full approval has been given for 19 programs and administrative change requests and 13 requests are now pending.

- a. Degree Programs and Academic Administrative Changes Approved by the Coordinating Board for Implementation

U. T. El Paso

Ph.D. in Biological Sciences
B.S. in Occupational Therapy
M.P.T. in Physical Therapy

U. T. Pan American

M.S. in Computer Science
M.F.A. in Art
M.S. in Rehabilitation Counseling
M.Ed. in Special Education

U. T. Permian Basin

Master of Professional Accountancy

U. T. San Antonio

M.A. in Political Science
M.S. in Sociology

U. T. Tyler

B.S. in Electrical Engineering
B.S. in Mechanical Engineering
M.Eng. in Engineering
M.A. in Political Science

U. T. Southwestern Medical Center - Dallas

Department of Molecular Biology and Oncology and
Department of Plastic Surgery
M.P.T. with Major in Physical Therapy

U. T. Medical Branch - Galveston

Ph.D. in Nursing

U. T. Health Science Center - Houston

Cytogenetics Certificate Program

U. T. Health Science Center - San Antonio

M.S. in Nursing, Pediatric Nurse Practitioner

b. Requests Approved by the U. T. Board of Regents and
Pending with the Coordinating Board

U. T. Brownsville

M.A. in Criminal Justice (Joint Program with U. T.
Pan American)
B.S. in Health Promotion
M.A. in History
B.S. in Allied Health

U. T. Dallas

M.S. in Applied Economics, M.A. and M.S. in Applied
Sociology, M.S. in Geographic Information Sciences
(Combined Proposal)
M.S. in Computer Science with Major in Software
Engineering
B.A. in Crime and Justice Studies

U. T. El Paso

Ph.D. in History

U. T. Pan American

Ed.D. in Educational Leadership (Step III)

U. T. San Antonio

Ed.D. in Educational Administration and Leadership

U. T. Southwestern Medical Center - Dallas

Revised Allied Health Sciences School's Mission
Statement to include the master's degree
Ph.D. in Integrative Biology

U. T. Health Science Center - Houston

MPH Degree through satellite program at U. T.
Southwestern Medical Center - Dallas

2. U. T. System: Report on Status of Administratively
Approved Academic Program Changes for the Period
September 1, 1996 Through August 31, 1997.--

REPORT

Under U. T. Board of Regents' guidelines, the Executive Vice Chancellor for Health Affairs or the Vice Chancellor for Academic Affairs is authorized to forward certain academic program changes to the Texas Higher Education Coordinating Board for approval at the staff level, subject to periodic reporting to the U. T. Board of Regents for the record. These changes, considered to be "nonsubstantive" according to the Coordinating Board's terminology, must be consistent with institutional Tables of Programs approved by the U. T. Board of Regents and the Coordinating Board. Four regular Coordinating Board meetings have occurred since the last report.

Full approval of 27 such nonsubstantive requests for eleven U. T. System component institutions has been granted by the staff of the Coordinating Board during the period from September 1, 1996 through August 31, 1997, as follows:

U. T. Arlington (1 item)

1. Changed the M.S. in Critical Care Nurse Practitioner to the M.S. in Acute Care Nurse Practitioner

U. T. Austin (7 items)

2. Added courses in Public Relations Management and Public Relations Publications to the B.S. in Public Relations
3. Established a B.S. in Engineering (BSE) with a Major in Geosystems Engineering and Hydrogeology
4. Changed the name of the master's and Ph.D. programs in Electrical Engineering to Electrical and Computer Engineering
5. Established Option III - Hydrogeology - Environmental Geology within the B.S. in Geological Sciences
6. Changed the M.A. in Geological Sciences to an M.S. in Geological Sciences
7. Revised curricula to include secondary teacher certification for B.S. degree programs in Biology, Chemistry, Geology and Physics
8. Consolidated the B.A. in Dance and B.A. in Drama to a B.A. in Theater and Dance

U. T. Brownsville (2 items)

9. Divided the Department of Business Administration into the Department of Accounting and the Department of Business Administration within the School of Business
10. Divided the Department of Education into the Department of Curriculum and Instruction and the Department of School Specialties within the School of Education

U. T. Dallas (1 item)

11. Added Graduate-level Certificate Program in Quantitative Analysis of Social and Economic Data

U. T. Pan American (2 items)

12. Changed the College of Liberal and Performing Arts to the College of Arts and Humanities
13. Changed the Department of Quantitative Methods and Information Systems to the Department of Computer Information Systems and Quantitative Methods

U. T. San Antonio (1 item)

14. Established a Teacher Certification Option within the B.A. in Speech Communication

U. T. Tyler (1 item)

15. Changed the Division of Nursing to the School of Nursing

U. T. Southwestern Medical Center - Dallas (1 item)

16. Created Department of Physician Assistant Studies

U. T. Medical Branch - Galveston (3 items)

17. Changed the Department of Radiation Therapy to the Department of Radiation Oncology
18. Transferred Degree Granting Authority for the Master's Degree in Nursing from the Graduate School of Biomedical Sciences to the School of Nursing
19. Restructured the Department of Surgery to form a Department of Emergency Medicine

U. T. Health Science Center - Houston (7 items)

20. Added a Family Nurse Practitioner Option within existing MSN Degree
21. Added a Nurse Practitioner Option under Acute Care Nursing
22. Revised Curriculum in the M.S. in Nursing, Pediatric Nurse Practitioner Program
23. Revised Curriculum in the M.S. in Nursing for the programs in Women's Health Care Nurse Practitioner, Gerontology Nurse Practitioner and Oncology Nurse Practitioner

24. Changed the M.S. and Ph.D. in Pathology to Molecular Pathology and the Programs in Genetics to Human and Molecular Genetics
25. Divided the Department of Craniofacial Growth and Development into the Department of Orthodontics and the Department of Pediatric Dentistry
26. Changed the Name of the Program in Occupational Health and Aerospace Medicine to Occupational and Environmental Health/Aerospace Medicine

U. T. Health Science Center - San Antonio (1 item)

27. Changed the Name of the Department of Molecular Biomedical Sciences to the Department of Molecular Medicine

M. REPORT OF BOARD FOR LEASE OF UNIVERSITY LANDS

REPORT

The Board for Lease of University Lands last met on May 13, 1997, in Midland, Texas. A total of 64,973.980 acres of Permanent University Fund lands will be offered for lease in the upcoming Regular Oil and Gas Lease Sale No. 92. Bids will be opened at the Center for Energy and Economic Diversification in Midland, Texas, on November 18, 1997, and leases will be awarded at the meeting of the Board for Lease of University Lands to be held November 19, 1997, on the ninth floor of Ashbel Smith Hall in Austin, Texas.

N. OTHER MATTERS

Presentations by individuals or groups who have requested to appear before the Board regarding issues of diversity on the U. T. Austin campus:

1. The Honorable Ron Wilson
2. The Honorable Irma Rangel
3. Others Approved by Chairman Evans

O. SCHEDULED EVENTS

1. Board of Regents' Meetings

<u>Dates</u>	<u>Locations/Hosts</u>
February 11-12, 1998	U. T. Health Center - Tyler
May 13-14, 1998	U. T. Permian Basin
August 12-13, 1998	U. T. Pan American
November 11-12, 1998	U. T. M.D. Anderson Cancer Center

2. Other Events

November 21, 1997	U. T. M.D. Anderson Cancer Center: Dedication of the Margaret and Ben Love Clinic and the Charles A. LeMaistre Clinic
-------------------	---

P. OTHER BUSINESS

Q. ADJOURNMENT

1998

JANUARY

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DECEMBER

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Executive Committee

EXECUTIVE COMMITTEE
Committee Chairman Evans

Date: November 13, 1997

Time: Following the Reconvening of the Board of Regents
at 9:00 a.m.

Place: Gorgas Board Room, Gorgas Hall, U. T. Brownsville

Page
Ex.C

There are no items to be considered by the Executive
Committee for this meeting.

Business Affairs & Audit Committee

BUSINESS AFFAIRS AND AUDIT COMMITTEE
Committee Chairman Riter

Date: November 13, 1997
Time: Following the Meeting of the Executive Committee
Place: Gorgas Board Room, Gorgas Hall, U. T. Brownsville

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3. U. T. Board of Regents: Proposed Adoption of Resolution Approving and Authorizing the Issuance of Board of Regents of The University of Texas System Permanent University Fund Bonds in an Aggregate Principal Amount Not to Exceed \$130,000,000; Approval of the Official Statement, Notice of Sale and Bidding Instructions, Official Bid Form, and Escrow Agreement; Appointment of Vinson & Elkins, L.L.P., Houston and Austin, Texas, as Bond Counsel and Disclosure Counsel; Yava D. Scott, Houston, Texas, as Special Counsel; Bankers Trust Company, New York, New York, as Escrow Agent; Texas Treasury Safekeeping Trust Company, Austin, Texas, as Paying Agent; and Deloitte & Touche L.L.P., Houston, Texas, as Escrow Verification Agent; and Authorization for Officers of U. T. System to Complete All Transactions	7

4. U. T. Board of Regents: Proposed Adoption of Sixth Supplemental Resolution to the Master Resolution Authorizing the Issuance of Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1997A and Series 1997B, in an Aggregate Principal Amount Not to Exceed \$127,000,000; Approval of the Official Statement, Paying Agent/Registrar Agreement, and Escrow Agreement; Appointment of McCall, Parkhurst & Horton, L.L.P., Dallas, Texas, as Bond Counsel and Disclosure Counsel; Bankers Trust Company, New York, New York, as Escrow Agent; Norwest Bank Texas, N. A., Dallas, Texas, as Paying Agent; and Deloitte & Touche L.L.P., Houston, Texas, as Escrow Verification Agent; Authorization for Officers of U. T. System to Complete All Transactions; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity 110

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2. U. T. System: Progress Report for Fiscal
Year 1997 on the Historically Underutilized
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1. U. T. System: Recommendation to Approve Chancellor's Docket No. 91.--

RECOMMENDATION

It is recommended that Chancellor's Docket No. 91 be approved.

It is requested that the committee confirm that authority to execute contracts, documents, or instruments approved therein has been delegated to the officer or official executing same.

2. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part Two, Chapter III, Section 2 (Deposits with Institutional Business Office), Section 3 (Deposits with the State Treasurer), and Section 4 (Local Institutional Funds).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the Regents' Rules and Regulations, Part Two, Chapter III, Sections 2 through 4, relating to deposits with the institutional business office, deposits with the State Treasurer, and local institutional funds, be amended as set forth below in congressional style:

Sec. 2. Deposits with Institutional Business Office.

. . . .

- 2.4 Petty cash funds shall be provided only on approval of, and by arrangement of, the department with the chief business officer. [~~Special petty cash fund bank accounts may be established only with the approval of the Director of the Office of Budget and Fiscal Policy.~~]

Sec. 3. Deposits with the State Treasurer.

. . .

- 3.3 Component institutions of the System are authorized by the current Appropriations Act to establish Revolving Funds under certain prescribed procedures to facilitate the payment of nominal expenses and to pay bills within cash discount periods, as well as for regular monthly payrolls, weekly, and special payrolls. [~~Such Revolving Funds are authorized, subject to approval of the Director of the Office of Budget and Fiscal Policy.~~]

Sec. 4. Local Institutional Funds.

- 4.1 All institutional funds not required to be deposited in the State Treasury must be deposited in official depository banks for safekeeping or invested as specified by law and by the applicable Rules and Regulations, Business Procedure Memoranda and Investment Policy Statements.
- 4.11 Funds held in demand deposits, time deposits, or nonnegotiable certificates of deposit shall be deposited or invested only in banks with which the Board has a depository agreement. The Board delegates to UTIMCO or the Executive Vice Chancellor for Business Affairs authority to execute and deliver depository and custody agreements when such deposit agreements are with banks meeting the then current policies of the Board and are in substantially the form of a standard deposit agreement approved by the Board or, for other agreements, in a form approved by the Office of General Counsel. Subject to the provisions of Part One, Chapter I, Section 9 of these Rules and Regulations, the Board delegates to each chief administrative officer and the Executive Vice Chancellor for Business Affairs the authority to execute and deliver contracts for banking services with banks that have a depository agreement with the Board.

4.12 Requests for documentation specifying staff authorized to sign checks or initiate funds movements, or changes thereto, for all bank accounts, bank common trust funds, or money market funds shall be approved by each institutional chief administrative officer and chief business officer [~~with copies of the changes and/or authorization sent to the Director of the Office of Budget and Fiscal Policy~~].

. . . .

BACKGROUND INFORMATION

These amendments to the Regents' Rules and Regulations, Part Two, Chapter III, Sections 2 through 4, relating to deposits with the institutional business office, deposits with the State Treasurer, and local institutional funds, are necessary to update current procedures.

3. U. T. Board of Regents: Proposed Adoption of Resolution Approving and Authorizing the Issuance of Board of Regents of The University of Texas System Permanent University Fund Bonds in an Aggregate Principal Amount Not to Exceed \$130,000,000; Approval of the Official Statement, Notice of Sale and Bidding Instructions, Official Bid Form, and Escrow Agreement; Appointment of Vinson & Elkins, L.L.P., Houston and Austin, Texas, as Bond Counsel and Disclosure Counsel; Yava D. Scott, Houston, Texas, as Special Counsel; Bankers Trust Company, New York, New York, as Escrow Agent; Texas Treasury Safekeeping Trust Company, Austin, Texas, as Paying Agent; and Deloitte & Touche L.L.P., Houston, Texas, as Escrow Verification Agent; and Authorization for Officers of U. T. System to Complete All Transactions.--

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 Resolution and approve the Official Statement, Notice of Sale and Bidding Instructions, Official Bid Form, and Escrow Agreement substantially in the form set out on Pages BAAC 9 - 109 to authorize the issuance of Board of Regents of The University of Texas System Permanent University Fund Bonds, in an aggregate principal amount not to exceed \$130,000,000 and a final maturity not to exceed July 1, 2018, to be used to refund up to \$80,000,000 of Permanent University Fund Variable Rate Notes, Series A, to provide bond proceeds for projects approved under the Capital Improvement Program and to pay issuance costs
- b. Appoint Vinson & Elkins, L.L.P., Houston and Austin, Texas, as Bond Counsel and Disclosure Counsel
- c. Appoint Yava D. Scott, Houston, Texas, as Special Counsel

- d. Appoint Bankers Trust Company, New York, New York, as Escrow Agent
- e. Appoint the Texas Treasury Safekeeping Trust Company, Austin, Texas, as Paying Agent
- f. Appoint Deloitte & Touche L.L.P., Houston, Texas, as Escrow Verification Agent
- g. Authorize appropriate officers and employees of the U. T. System as set forth in the related documents to take any and all actions necessary to carry out the intentions of the U. T. Board of Regents to complete the transactions as provided in the Resolution.

BACKGROUND INFORMATION

In order to take advantage of the current interest rate environment, the sale of these bonds is recommended to: (1) refund up to \$80,000,000 of outstanding Board of Regents of The University of Texas System Permanent University Fund Variable Rate Notes, Series A, (2) provide up to \$50,000,000 to finance approximately one year's project expenditures under the FY 1998-2003 Capital Improvement Program, and (3) pay issuance costs of approximately \$190,000.

The bonds will be sold on a competitive basis as specified in Section 7.04 of the Resolution. An Authorized Representative will take actions to ensure that the bonds are sold on the most favorable terms and are sold and awarded to the winning bidder pursuant to the Resolution. An Authorized Representative is defined in the Resolution as the Chancellor, the Executive Vice Chancellor for Business Affairs, the Assistant Vice Chancellor for Finance, or the Director of Finance.

RESOLUTION

by the

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

authorizing the issuance, sale and delivery of

**BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT UNIVERSITY FUND BONDS**

**and approving and authorizing instruments
and procedures relating thereto**

November 13, 1997

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DELIVERY OF BOARD OF REGENTS OF THE UNIVERSITY
OF TEXAS SYSTEM PERMANENT UNIVERSITY FUND
BONDS AND APPROVING AND AUTHORIZING INSTRUMENTS
AND PROCEDURES RELATING THERETO**

WHEREAS, article VII, section 18 of the Texas Constitution, as amended, authorizes the Board (hereinafter defined) to issue bonds and notes not to exceed a total amount of 20% of the cost value of investments and other assets of the Permanent University Fund (hereinafter defined), exclusive of real estate, at the time of issuance thereof and to pledge all or any part of its two-thirds interest in the Available University Fund (hereinafter defined) to secure the payment of the principal of and interest on those bonds and notes, for the purpose of acquiring land, constructing and equipping buildings or other permanent improvements, major repair and rehabilitation of buildings and other permanent improvements, acquiring capital equipment and library books and library materials, and refunding bonds or notes issued under such section or prior law, at or for the System (hereinafter defined) administration and component institutions of the System; and

WHEREAS, the Board heretofore has authorized, issued and delivered, pursuant to such constitutional provision, its Variable Rate Notes (hereinafter defined), which are now outstanding in the aggregate principal amount of \$150,000,000, and which, along with certain other outstanding obligations of the Board, are secured by a pledge of the Interest of the System (hereinafter defined) in the Available University Fund (hereinafter defined); and

WHEREAS, the Board has determined to authorize issuance of its bonds in the maximum aggregate principal amount of \$130,000,000 for the purposes of refunding the Refunded Notes (hereinafter defined), consisting of all or a portion of the outstanding Variable Rate Notes, and paying the Project Costs (hereinafter defined) of certain Eligible Projects (hereinafter defined), all pursuant to article VII, section 18 of the Texas Constitution, section 65.46, Texas Education Code, and articles 717k and 717q, Texas Revised Civil Statutes Annotated, all as amended, and other applicable laws;

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

ARTICLE I

DEFINITIONS, INTERPRETATION AND FINDINGS

Section 1.01. **DEFINITIONS.** Unless expressly provided otherwise herein or unless the context shall indicate a contrary meaning or intent, the terms and expressions defined below, when used in this Resolution, shall have the meanings set forth below for all purposes of this Resolution, except the FORM OF BOND appearing in Section 2.06 hereof.

"Additional Parity Bonds and Notes" means the additional parity bonds and the additional parity notes permitted to be issued pursuant to Section 3.04 hereof or pursuant to Section 3.04 of the Series 1988 Resolution, Section 3.04 of the Series 1991 Resolution, Section 3.04 of the Series 1992A Resolution, Section 3.04 of the Series 1992B Resolution or Section 3.04 of the Series 1996 Resolution.

"Attorney General" means the Attorney General of the State of Texas.

"Authorized Denomination" means \$5,000 principal amount or any integral multiple thereof.

"Authorized Representative" means one or more of the following officers or employees of the System, to wit: the Chancellor, the Executive Vice Chancellor for Business Affairs, the Assistant Vice Chancellor for Finance, and the Director of Finance, or in the event of a vacancy in any such position, the person duly authorized to act in such capacity pending the appointment of a successor to such position, or such other officer or employee of the System authorized by the Board to act as an *"Authorized Representative."*

"Available University Fund" means, as provided in article VII, section 18 of the Texas Constitution, as amended, all of the dividends, interest, and other income from the Permanent University Fund (less administrative expenses), including the net income attributable to the surface of Permanent University Fund land.

"Board" means the Board of Regents of the System.

"Bond" or *"Bonds"* means any one or more, as the case may be, of the bonds authorized by this Resolution, and all substitute bonds exchanged therefor, and all other substitute and replacement bonds issued pursuant to this Resolution.

"Bond Year" means the period beginning on July 2 of any calendar year and continuing through July 1 of the following calendar year.

"Code" means the Internal Revenue Code of 1986, as amended.

"Comptroller" means the Comptroller of Public Accounts of the State of Texas.

"Counsel's Opinion" means a written legal opinion of nationally recognized bond counsel acceptable to the Board.

"Construction Account" means the "Board of Regents of The University of Texas System Permanent University Fund Bond Construction Account" established by the Board pursuant to Section 7.07 of this Resolution.

"CUSIP" means the Committee on Uniform Securities Identification Procedures of the American Bankers Association, or any successor to its functions.

"Defeased Bond" means any Bond the principal of and interest on which is deemed to be paid, retired and no longer outstanding within the meaning of this Resolution, pursuant to and in accordance with Section 7.02 hereof.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"DTC Participant" means the securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

"Eligible Project" means the acquisition of land either with or without permanent improvements, the construction and equipping of buildings or other permanent improvements, major repair and rehabilitation of buildings and other permanent improvements, the acquisition of capital equipment, library books and library materials. The term **"Eligible Project"** does not include the constructing, equipping, repairing or rehabilitating of buildings or other permanent improvements that are to be used for student housing, intercollegiate athletics or auxiliary enterprises.

"Escrow Agreement" means that certain Escrow Agreement, dated as of the date of issuance and delivery of the Bonds to the initial purchaser thereof, between the Board and Bankers Trust Company, New York, New York, as escrow agent, as authorized by Section 7.06 hereof, and as such agreement may be amended from time to time in accordance with the terms thereof.

"Fiscal Year" means the fiscal year of the State of Texas, which currently ends on August 31 of each calendar year.

"Government Obligations" means direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the

United States of America, which may be United States Treasury obligations such as its State and Local Government Series, and which may be in book-entry form.

"Initial Bonds" means the Bonds authorized, issued, sold and initially delivered hereunder and upon which the registration certificate, manually executed by or on behalf of the Comptroller, has been placed.

"Interest and Sinking Fund" means the Board of Regents of The University of Texas System Permanent University Fund Bonds Interest and Sinking Fund described in Section 3.02 hereof.

"Interest of the System," when used with reference to the Available University Fund, means the System's two-thirds interest in the Available University Fund as apportioned and provided in article VII, section 18 of the Texas Constitution, as amended.

"Paying Agent" means the paying agent for the Bonds appointed by the Board in Section 2.14 hereof, or any successor to such paying agent appointed hereunder.

"Permanent University Fund" means the Permanent University Fund as created, established, implemented and administered pursuant to sections 10, 11, 11a, 15 and 18 of article VII of the Texas Constitution, as amended, and by other applicable present and future constitutional and statutory provisions.

"Principal and Interest Requirements" means, with respect to any Fiscal Year, the amounts of principal of and interest on all PUF Bonds scheduled to be paid in such Fiscal Year from the Interest of the System in the Available University Fund. If the rate of interest to be borne by any PUF Bonds is not fixed, but is variable or adjustable by any formula, agreement or otherwise, and therefore cannot be calculated as actually being scheduled to be paid in a particular amount for any particular period, then for the purposes of the previous sentence such PUF Bonds shall be deemed to bear interest at all times to their maturity or due date at the lesser of (i) the maximum rate then permitted by law or (ii) the maximum rate specified in such PUF Bonds.

"Project Costs" means all costs and expenses incurred in relation to Eligible Projects, including, without limitation, design, planning, engineering and legal costs, acquisition costs of land, interests in land, right-of-way and easements, construction costs, costs of machinery, equipment and other capital assets incident and related to the operation, maintenance and administration of an Eligible Project, and financing costs, including interest during construction and thereafter, underwriters discount and/or fees, legal, financial and other professional services, and reimbursements for such Project Costs attributable to an Eligible Project incurred prior to issuance and delivery of the Bonds or any Additional Parity Bonds and Notes.

"PUF Bonds" means the Bonds, the Series 1988 Bonds, the Series 1991 Bonds, the Series 1992A Bonds, the Series 1992B Bonds, the Series 1996 Bonds and all Additional Parity Bonds and Notes.

"Record Date" means, with respect to any scheduled interest payment date or scheduled principal payment date on the Bonds, the 15th day of the month next preceding such payment date.

"Refunded Notes" means the particular Variable Rate Notes in the aggregate principal amount of \$78,000,000 that the Authorized Representative, acting for and on behalf of the Board pursuant to Section 7.04 hereof, determines shall be refunded by the Bonds.

"Registrar" means the registrar and transfer agent for the Bonds appointed by the Board in Section 2.14 hereof, or any successor to such registrar and transfer agent appointed by the Board hereunder.

"Registration Books" means the books or records of the registration and transfer of the Bonds required to be kept by or on behalf of the Board pursuant to Section 2.09 hereof.

"Resolution" means this resolution authorizing the Bonds.

"Rule 15c2-12" means Rule 15c2-12 of the Securities and Exchange Commission, as amended from time to time.

"Series 1988 Bonds" means the Board's Permanent University Fund Refunding Bonds, Series 1988, issued under the Series 1988 Resolution in the original aggregate principal amount of \$100,000,000.

"Series 1988 Resolution" means the resolution adopted by the Board on April 14, 1988, authorizing the issuance of the Series 1988 Bonds, as such resolution may be amended from time to time.

"Series 1991 Bonds" means the Board's Permanent University Fund Refunding Bonds, Series 1991, issued under the Series 1991 Resolution in the original aggregate principal amount of \$254,230,000.

"Series 1991 Resolution" means the resolution adopted by the Board on February 14, 1991, authorizing the issuance of the Series 1991 Bonds, as such resolution may be amended from time to time.

"Series 1992A Bonds" means the Board's Permanent University Fund Refunding Bonds, Series 1992A, issued under the Series 1992A Resolution in the original aggregate principal amount of \$196,015,000.

"Series 1992A Resolution" means the resolution adopted by the Board on February 13, 1992, authorizing the issuance of the Series 1992A Resolution, as such resolution may be amended from time to time.

"Series 1992B Bonds" means the Board's Permanent University Fund Bonds, Series 1992B, issued under the Series 1992B Resolution in the original aggregate principal amount of \$80,000,000.

"Series 1992B Resolution" means the resolution adopted by the Board on February 13, 1992, authorizing the issuance of the Series 1992B Bonds, as such resolution may be amended from time to time.

"Series 1996 Bonds" means the Board's Permanent University Fund Refunding Bonds, Series 1996, issued under the Series 1996 Resolution in the original aggregate principal amount of \$263,945,000.

"Series 1996 Resolution" means the resolution adopted by the Board on January 5, 1996, authorizing the issuance of the Series 1996 Bonds, as such resolution may be amended from time to time.

"System" means The University of Texas System, including each of the following existing and operating institutions, respectively:

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

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

"Trust Company" means the Texas Treasury Safekeeping Trust Company, incorporated pursuant to Subchapter G of Chapter 404, Government Code, Texas Codes Annotated, as amended.

"Variable Rate Notes" means the Board's Variable Rate Notes, Series A, issued under a resolution adopted by the Board on April 14, 1994, whereby such notes may be issued at any time in a principal amount not to exceed \$250,000,000. As of the date of this Resolution, Variable Rate Notes are outstanding in the aggregate principal amount of \$150,000,000.

Section 1.02. RECITALS, TABLE OF CONTENTS, TITLES AND HEADINGS. The terms and phrases used in the recitals of this Resolution have been included for convenience of reference only and the meaning, construction and interpretation of such terms and phrases for purposes of this Resolution shall be determined solely by reference to Section 1.01 of this Resolution. The table of contents, titles and headings of the articles and sections of this Resolution have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof and shall never be considered or given any effect in construing this Resolution or any provision hereof or in ascertaining intent, if any question of intent should arise.

Section 1.03. INTERPRETATION. Unless the context requires otherwise, words of the singular number used in this Resolution shall be construed to include correlative words of the plural number and vice versa, and words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa. References in this Resolution to numbered Articles, Sections or portions thereof shall refer to the respective Articles and Sections of this Resolution, unless expressly specified otherwise. The terms "hereof," "herein," "hereunder" and similar terms shall refer to this Resolution as a whole and not to any particular provision of this Resolution. This Resolution and all the terms and provisions hereof shall be liberally construed to effectuate the provisions set forth herein and to sustain the validity of this Resolution.

ARTICLE II

AUTHORIZATION AND TERMS OF THE BONDS

Section 2.01. AUTHORIZATION AND AUTHORIZED AMOUNT. Pursuant to authority conferred by and in accordance with the provisions of the Constitution and laws of the State of Texas, particularly article VII, section 18 of the Texas Constitution, section 65.46, Texas Education Code, and articles 717k and 717q, Texas Revised Civil Statutes Annotated, all as amended, the Bonds are hereby authorized to be issued, in the maximum aggregate principal amount of ONE HUNDRED AND THIRTY MILLION DOLLARS (\$130,000,000) for the purpose of obtaining

funds to refund the Refunded Notes and to pay the Project Costs of certain Eligible Projects, all in accordance with and subject to the terms, conditions and limitations contained herein. The Bonds are Additional Parity Bonds permitted to be issued under Section 3.04 of the Series 1988 Resolution, Section 3.04 of the Series 1991 Resolution, Section 3.04 of the Series 1992A Resolution, Section 3.04 of the Series 1992B Resolution and Section 3.04 of the Series 1996 Resolution on a parity and in all respects of equal dignity with the Series 1988 Bonds, the Series 1991 Bonds, the Series 1992A Bonds, the Series 1992B Bonds and the Series 1996B Bonds.

Section 2.02. DESIGNATION, FORM, NUMBERS, DATE AND DENOMINATION OF THE BONDS. Each Bond shall be designated: "BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM PERMANENT UNIVERSITY FUND BOND"; provided that the designation of each Bond shall include a comma at the end of the foregoing name followed by the word "SERIES" and the calendar year during which the Bonds are sold at public sale pursuant to Section 7.04 of this Resolution. The Bonds shall be issuable only in fully registered form without coupons. The Bonds shall be lettered and numbered separately from 1 upward prefixed by the letter R. Each Bond shall be in an Authorized Denomination and shall be dated as of the first calendar day of the month in which such Bond is sold pursuant to Section 7.04 of this Resolution.

Section 2.03. INTEREST PAYMENT DATES, INTEREST RATES AND MATURITY OF THE BONDS. Interest on the Bonds shall be payable on the first January 1 or July 1 that is at least 60 days following the date of the Bonds and continuing on each January 1 and July 1 thereafter until maturity or prior redemption. The Bonds shall bear interest at the fixed rate or rates of interest per annum, calculated on the basis of a 360-day year composed of twelve 30-day months, determined at the public sale held pursuant to Section 7.04 of this Resolution; provided that (i) the interest rate or rates for the Bonds must be in a multiple of 1/8 of 1% or 1/20 of 1%, with all of the Bonds of the same maturity bearing the same interest rate, (ii) the maximum interest rate per annum borne by any Bond must not exceed 15%, and (iii) the highest interest rate on any Bond must not exceed the lowest interest rate on the Bonds by more than 4.0%. The Bonds shall mature and become payable (either by scheduled maturity or pursuant to mandatory sinking fund redemption provisions) on July 1 in each of the years 1999 through 2018 (both inclusive), subject to prior redemption as set forth in the FORM OF BOND appearing in this Resolution

Each Initial Bond and each Bond authenticated prior to the first Record-Date on the Bonds shall bear interest from the date thereof. Each Bond authenticated on or after the first Record Date on the Bonds shall bear interest from the interest payment date immediately preceding the date of authentication, unless such Bond is authenticated after any Record Date but on or before the next following interest payment date, in which case such Bond shall bear interest from such next following interest payment date; provided, however, that if at the time of delivery of any exchange or replacement Bond the interest on the Bond it replaces or for which it is being exchanged is due but has not been paid, then such Bond shall bear interest from the date to which such interest has been paid in full.

Section 2.04. REDEMPTION PRIOR TO MATURITY. (a) The Bonds are subject to optional redemption prior to stated maturity on the redemption dates and at the redemption price set forth in the FORM OF BOND appearing in this Resolution. The Bonds shall be subject to mandatory sinking fund redemption prior to stated maturity at a redemption price of par, without premium, plus accrued interest to the redemption date, in the amounts and on the dates determined at the public sale held pursuant to Section 7.04 of this Resolution.

(b) (i) Notice of any redemption shall be given to the registered owners of the Bonds to be redeemed, all as set forth in the FORM OF BOND appearing in this Resolution.

(ii) In addition to the notice of redemption set forth in the FORM OF BOND, the Registrar shall give notice of redemption of Bonds by mail, first-class postage prepaid, at least 30 days prior to a redemption date to each registered securities depository and to any national information service that disseminates redemption notices. In addition, in the event of a redemption caused by an advance refunding of the Bonds, the Registrar shall send a second notice of redemption to the persons specified in the immediately preceding sentence at least 30 days but not more than 90 days prior to the actual redemption date. Any notice sent to the registered securities depositories or such national information services shall be sent so that they are received at least two days prior to the general mailing or publication date of such notice. The Registrar shall also send a notice of prepayment or redemption to the registered owner of any Bond who has not sent the Bonds in for redemption 60 days after the redemption date. Notwithstanding the foregoing, failure to send, mail or receive any notice otherwise required by this Subsection 2.04(b)(ii), or any defect therein or in the sending or mailing thereof, shall not affect the validity or effectiveness of the proceedings for the redemption of any Bond, and it is hereby specifically provided that the publication of notice as required by the FORM OF BOND shall be the only notice actually required in connection with or as a prerequisite to the redemption of any Bonds or portions thereof.

(iii) Each notice of redemption, whether required in the FORM OF BOND or in this Section, shall contain a description of the Bonds to be redeemed including the complete name of the Bonds, the date of issue, the interest rates, the maturity dates, the CUSIP numbers, the certificate numbers, the amounts called of each certificate, the publication and mailing dates for the notices, the date of redemption, the redemption price, the names of the Paying Agent and Registrar and the address at which the Bonds may be redeemed, including a contact person and telephone number.

(iv) All redemption payments made by the Paying Agent to the registered owners of the Bonds shall include a CUSIP number relating to each amount paid to such registered owner.

Section 2.05. MEDIUM AND PLACE OF PAYMENT. The principal and redemption price of the Bonds shall be payable, without exchange or collection charges, in lawful money of the United States of America, to the respective registered owners thereof upon presentation and surrender thereof at maturity or upon the date fixed for redemption prior to maturity at the designated office for payment of the Paying Agent. Interest on the Bonds shall be payable by the Paying Agent on each interest payment date, by check dated as of such interest payment date, sent by United States mail, first-class postage prepaid, to the respective owners thereof, at the address of each such registered owner as it appears on the Record Date preceding each such interest payment date. In addition, interest may be paid by such other method acceptable to the Paying Agent requested by, at the risk and expense of, the respective registered owners of the Bonds. Any accrued interest due upon the redemption of any Bond prior to maturity as provided in this Resolution shall be payable to the registered owner thereof at the designated office for payment of the Paying Agent upon presentation and surrender thereof for redemption and payment at such principal office for payment. Notwithstanding the foregoing, any payment to Cede & Co., as nominee of DTC, or its registered assigns, shall be made in accordance with existing arrangements among the Board and DTC.

Section 2.06. FORM OF BOND. (a) The form of all Bonds issued under this Resolution shall be substantially as follows, with such appropriate variations, omissions, or insertions as are permitted or required by this Resolution.

FORM OF BOND

NO. _____

PRINCIPAL AMOUNT

\$ _____

UNITED STATES OF AMERICA
STATE OF TEXAS
BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT UNIVERSITY FUND BOND,
SERIES _____*

INTEREST RATE MATURITY DATE DATED DATE CUSIP NO.

_____ % _____ _____, 199__ _____

ON THE MATURITY DATE specified above, the BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM (the "Board"), being the governing body of The University of Texas System, an agency of the State of Texas, hereby promises to pay to _____ or the registered assignee hereof (either being hereinafter called the "registered owner") the principal amount of _____ and to pay interest thereon, calculated on the basis of a 360-day year composed of twelve 30-day months, from the dated date specified above to the maturity date specified above, or the date of redemption prior to maturity, at the interest rate per annum specified above; with interest being payable on the first January 1 or July 1 that is at least sixty days following the dated date specified above, and semiannually on each January 1 and July 1 thereafter, except that if the date of authentication of this Bond is later than the first interest payment date on this Bond, such principal amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date (hereinafter defined) but on or before the next following interest payment date, in which case such principal amount shall bear interest from such next following interest payment date.

THE PRINCIPAL OF AND INTEREST ON this Bond are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Bond shall be paid to the registered owner hereof upon presentation and surrender of this Bond at maturity or upon the date fixed for its redemption prior to maturity, at the designated office for payment of the Texas Treasury Safekeeping Trust Company in Austin, Texas, which initially is the "Paying Agent" for this Bond. The payment of interest on this Bond shall be made by the Paying Agent to the registered owner hereof on each interest payment date by check, dated as of such interest payment

*Insert year during which the Bonds are sold at public sale pursuant to Section 7.04 of this Resolution.

date, drawn by the Paying Agent on, and payable solely from, funds of the Board required by the resolution authorizing the issuance of the Bonds (the "Bond Resolution") to be on deposit with the Paying Agent for such purpose as hereinafter provided; and such check shall be sent by the Paying Agent by United States mail, first-class postage prepaid, on each such interest payment date, to the registered owner hereof, at the address of the registered owner, as it appeared on the 15th day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Board which initially is the Registrar for the Bonds, as hereinafter described. In addition, interest may be paid by such other method acceptable to the Paying Agent, requested by, and at the risk and expense of, the registered owner hereof. Any accrued interest due upon the redemption of this Bond prior to maturity as provided herein shall be paid to the registered owner at the designated office for payment of the Paying Agent upon presentation and surrender of this Bond for redemption and payment at the designated office for payment of the Paying Agent. The Board covenants with the registered owner of this Bond that on or before each principal payment date, interest payment date, and redemption date for this Bond it will make available to the Paying Agent, from the "Interest and Sinking Fund" maintained under the Bond Resolution, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Bonds, when due. Notwithstanding the foregoing, during any period in which ownership of the Bonds is determined by a book entry at a securities depository for the Bonds, payments made to the securities depository, or its nominee, shall be made in accordance with arrangements between the Board and the securities depository.

IF THE DATE for the payment of the principal of or interest on this Bond shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the designated office for payment of the Paying Agent is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day that is not a Saturday, Sunday, legal holiday, or day on which such banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

[THE FOLLOWING PARAGRAPH SHALL BE COMPLETED TO THE EXTENT NECESSARY TO CONFORM TO THE PROVISIONS OF THIS RESOLUTION.]

THIS BOND is one of an issue of Bonds issued in the original aggregate principal amount of \$_____, FOR THE PURPOSE OF PROVIDING FUNDS TO REFUND \$78,000,000 IN AGGREGATE PRINCIPAL AMOUNT OF THE BOARD'S OUTSTANDING PERMANENT UNIVERSITY FUND VARIABLE RATE NOTES, SERIES A, AND TO PAY THE "PROJECT COSTS" OF "ELIGIBLE PROJECTS" OF THE UNIVERSITY OF TEXAS SYSTEM (the quoted terms having the meanings set forth in the Bond Resolution).

On July 1, 200___,* or on any interest payment date thereafter, the Bonds of this Series may be redeemed prior to their scheduled maturities, at the option of the Board, with funds derived from any available and lawful source, as a whole or in part in any integral multiple of \$5,000 principal amount, and if in part, the particular Bonds or portions thereof to be redeemed shall be selected and designated by the Board (provided that a portion of a Bond may be redeemed only in an integral multiple of \$5,000 principal amount), at a redemption price equal to the principal amount thereof, without premium, plus accrued interest to the date fixed for redemption; provided that during any period in which ownership of the Bonds is determined by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository.

[THE FOLLOWING PARAGRAPH SHALL BE COMPLETED, REVISED OR DELETED TO THE EXTENT NECESSARY TO CONFORM TO THE TERMS OF THE WINNING BID FOR THE BONDS AT THE PUBLIC SALE HELD PURSUANT TO SECTION 7.04 OF THIS RESOLUTION.]

The Bonds of this Series maturing on _____ are subject to mandatory sinking fund redemption prior to scheduled maturity in the following amounts, on the following dates at a price of par, without premium, plus accrued interest to the date fixed for redemption:

Redemption Date	Principal
<u> (July 1) </u>	<u> Amount </u>
	\$ _____

The principal amount of the Bonds required to be redeemed on each such redemption date pursuant to the foregoing operation of the mandatory sinking fund shall be reduced, at the option of the Board, by the principal amount of any such Bonds, which, at least 45 days prior to the mandatory sinking fund redemption date, (1) shall have been acquired by the Board and delivered to the Paying Agent for cancellation, or (2) shall have been acquired and cancelled by the Paying Agent at the direction of the Board, in either case of (1) or (2) at a price not exceeding the par or principal amount of such Bonds, or (3) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory sinking fund redemption. During any period in which ownership of the Bonds is determined by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to

*Insert the tenth calendar year following the year during which the Bonds are sold at public sale pursuant to Section 7.04 of this Resolution.

be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository.

AT LEAST 30 days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity a written notice of such redemption shall be published once in a financial publication, journal, or report of general circulation among securities dealers in the City of New York, New York (including, but not limited to, The Bond Buyer or The Wall Street Journal), or in the State of Texas (including, but not limited to, The Texas Bond Reporter). Such notice also shall be sent by the Registrar by United States mail, first-class postage prepaid, not less than 30 days prior to the date fixed for any such redemption, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th day prior to such redemption date on the Registration Books kept by the Registrar; provided, however, that the failure to send, mail, or receive such notice, or any defect therein or in the sending or mailing thereof, shall not affect the validity or effectiveness of the proceedings for the redemption of any Bond, and it is hereby specifically provided that the publication of such notice as required above shall be the only notice actually required in connection with or as a prerequisite to the redemption of any Bonds or portions thereof. By the date fixed for any such redemption, due provision shall be made with the Paying Agent for the payment of the required redemption price for the Bonds or portions thereof that are to be so redeemed, plus accrued interest thereon to the date fixed for redemption. If such written notice of redemption is published and if due provision for such payment is made, all as provided above, the Bonds or portions thereof that are to be so redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive from the Paying Agent the redemption price plus accrued interest, out of the funds provided for such payment. If a portion of any Bond shall be redeemed, a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, in any denomination or denominations in any integral multiple of \$5,000 principal amount, at the written request of the registered owner, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon the surrender thereof for cancellation, at the expense of the Board, all as provided in the Bond Resolution.

THIS BOND OR ANY PORTION HEREOF IN ANY INTEGRAL MULTIPLE OF \$5,000 principal amount may be assigned and shall be transferred only in the Registration Books of the Board kept by the Registrar acting in the capacity of registrar for the Bonds, upon the terms and conditions set forth in the Bond Resolution. Among other requirements for such assignment and transfer, this Bond must be presented and surrendered to the Registrar, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Registrar, evidencing assignment of this Bond or any portion hereof in any integral multiple of \$5,000 principal amount to the assignee or assignees in whose name or names this Bond or any such portion hereof is to be transferred and registered. The form of Assignment printed or endorsed on this Bond shall be executed by the registered owner or its duly authorized attorney or representative, to evidence the

assignment hereof. A new Bond or Bonds payable to such assignee or assignees (which then will be the new registered owner or owners of such new Bond or Bonds), or to the previous registered owner in the case of the assignment and transfer of only a portion of this Bond, may be delivered by the Registrar in conversion of and exchange for this Bond, all in the form and manner as provided in the next paragraph hereof for the conversion and exchange of other Bonds. The Board shall pay the Registrar's fees and charges, if any, for making such transfer, but the one requesting such transfer shall pay any taxes or other governmental charges required to be paid with respect thereto. The registered owner of this Bond shall be deemed and treated by the Board, the Paying Agent and the Registrar as the absolute owner hereof for all purposes, including payment and discharge of liability upon this Bond to the extent of such payment, and the Board, the Paying Agent and the Registrar shall not be affected by any notice to the contrary.

ALL BONDS OF THIS SERIES are issuable solely as fully registered bonds, without interest coupons, in the denomination of \$5,000 principal amount or any integral multiple thereof. As provided in the Bond Resolution, this Bond, or any unredeemed portion hereof, may, at the request of the registered owner or the assignee or assignees hereof, be converted into and exchanged for a like aggregate principal amount of fully registered bonds, without interest coupons, payable to the appropriate registered owner, assignee, or assignees, as the case may be, having the same maturity date, and bearing interest at the same rate, in any denomination or denominations in any integral multiple of \$5,000 principal amount as requested in writing by the appropriate registered owner or assignee, as the case may be, upon surrender of this Bond to the Registrar for cancellation, all in accordance with the form and procedures set forth in the Bond Resolution. The Board shall pay the Registrar's standard or customary fees and charges for converting and exchanging any Bond or any portion thereof, but the one requesting such conversion and exchange shall pay any taxes or governmental charges required to be paid with respect thereto as a condition precedent to the exercise of such privilege of conversion and exchange.

THE REGISTRAR shall not be required to make any transfer of registration of this Bond or any portion hereof, or any conversion and exchange hereof (i) with respect to any Bond or portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date or (ii) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date.

WHENEVER the beneficial ownership of this Bond is determined by a book entry at a securities depository for the Bonds, the foregoing requirements of holding, delivering or transferring this Bond shall be modified to require the appropriate person or entity to meet the requirements of the securities depository as to registering or transferring the book entry to produce the same effect.

IN THE EVENT any Paying Agent or Registrar for the Bonds is changed by the Board, resigns, or otherwise ceases to act as such, the Board has covenanted in the Bond Resolution that it

promptly will appoint a competent and legally qualified substitute therefor, and promptly will cause written notice thereof to be mailed to the registered owners of the Bonds.

IT IS HEREBY certified, recited, and covenanted that this Bond has been duly and validly authorized, issued, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance, and delivery of this Bond have been performed, existed, and been done in accordance with law; and that the interest on and principal of this Bond, and the other Bonds of this Series, are equally and ratably secured by and payable from a first lien on and pledge of the two-thirds interest of The University of Texas System in the Available University Fund (consisting of the dividends, interest and other income from the Permanent University Fund (less administrative expenses), including the net income attributable to the surface of Permanent University Fund land) that is created and administered under the Texas Constitution, as described more fully in the Bond Resolution, all in accordance with article VII, section 18 of the Texas Constitution, as amended, and other applicable laws.

THE BOARD heretofore has issued its Permanent University Fund Refunding Bonds, Series 1988, its Permanent University Fund Refunding Bonds, Series 1991, its Permanent University Fund Refunding Bonds, Series 1992A, its Permanent University Fund Bonds, Series 1992B and its Permanent University Fund Refunding Bonds, Series 1996. All of the aforesaid bonds, which will be outstanding following issuance of the Bonds, also are secured by a first lien on and pledge of the interest of The University of Texas System in the Available University Fund, and are on a parity with and of equal dignity in all respects with the Bonds. The Board has reserved the right, subject to the restrictions referred to in the Bond Resolution, (i) to issue Additional Parity Bonds and Notes that also may be secured by and made payable from a first lien on and pledge of the aforesaid interest of The University of Texas System in the Available University Fund, in the same manner and to the same extent as this Bond and other obligations of the Board on a parity therewith, and (ii) to make certain amendments to the Bond Resolution with the approval of the owners of 51% in principal amount of all outstanding bonds and notes that are secured by and payable from a first lien on and pledge of the aforesaid interest of The University of Texas System in the Available University Fund.

THE REGISTERED OWNER hereof shall never have the right to demand payment of this Bond or the interest hereon out of any funds raised or to be raised by taxation or from any source whatsoever other than specified in the Bond Resolution.

BY BECOMING the registered owner of this Bond, the registered owner thereby acknowledges all of the terms and provisions of the Bond Resolution, agrees to be bound by such terms and provisions, acknowledges that the Bond Resolution is duly recorded and available for inspection in the official minutes and records of the Board, and agrees that the terms and provisions of this Bond and the Bond Resolution constitute a contract between each registered owner hereof and the Board.

IN WITNESS WHEREOF, the Board has caused this Bond to be signed with the manual or facsimile signature of the Chairman of the Board and countersigned with the manual or facsimile signature of the Executive Secretary of the Board, and has caused the official seal of the Board to be duly impressed, or placed in facsimile, on this Bond.

(facsimile signature)
Executive Secretary, Board of
Regents of The University of Texas System

(facsimile signature)
Chairman, Board of Regents
of The University of Texas System

(BOARD SEAL)

(b) The registration certificate of the Comptroller shall be affixed or attached to each of the Initial Bonds and shall be in substantially the following form:

OFFICE OF THE COMPTROLLER
OF PUBLIC ACCOUNTS

REGISTER NO. _____

THE STATE OF TEXAS

I hereby certify that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has this day been duly registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS MY HAND AND SEAL OF OFFICE at Austin, Texas this

Comptroller of Public Accounts
of the State of Texas

(c) A Registrar's Authentication Certificate shall be printed on each Bond (other than the Initial Bonds), in substantially the following form:

REGISTRAR'S AUTHENTICATION CERTIFICATE

It is hereby certified that this Bond has been issued under the provisions of the Bond Resolution described in this Bond; and that the initial Bonds of the series of Bonds of which this Bond is a part were approved by the Attorney General of the State of Texas.

Registrar

Dated: _____

Authorized Signature

(d) Assignment provisions shall be printed on the back of each Bond, in substantially the following form:

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned registered owner of this Bond, or duly authorized representative or attorney thereof, hereby assigns this Bond to

(Assignee's Social Security or Taxpayer Identification Number)

(print or typewrite Assignee's name and address, including zip code)

and hereby irrevocably constitutes and appoints

attorney to transfer the registration of this Bond on the Registrar's Registration Books with full power of substitution in the premises.

Date: _____

Signature Guaranteed:

NOTICE: This signature must be guaranteed by a member of the New York Stock Exchange or a commercial bank or trust company.

Registered Owner
NOTICE: This signature must correspond with the name of the Registered Owner appearing on the face of this Bond.

(e) The approving legal opinion of Vinson & Elkins L.L.P., the Board's Bond Counsel, and the assigned CUSIP numbers may, at the option of the Authorized Representative, be printed on the Bonds but neither shall have any legal effect, and shall be solely for the convenience and information of the registered owners of the Bond.

Section 2.07. EXECUTION OF BONDS. The Bonds shall be executed on behalf of the Board by the Chairman and the Executive Secretary of the Board, by their manual or facsimile signatures, and the official seal of the Board shall be impressed or placed in facsimile thereon. Such facsimile signatures on the Bonds shall have the same effect as if each of the Bonds had been signed manually and in person by said officers of the Board, and such facsimile seal on the Bonds shall have the same effect as if the official seal of the Board had been manually impressed upon each of the Bonds. In the event that any officer of the Board whose manual or facsimile signature shall appear on the Bonds shall cease to be such officer before the authentication of such Bonds or before the delivery of such Bonds, such manual or facsimile signature shall nevertheless be valid and sufficient for all purposes as if such officer had remained in such office.

Section 2.08. AUTHENTICATION OF BONDS. Except for the Initial Bonds, which shall not be authenticated by the Registrar, all other Bonds shall bear an authentication certificate, substantially in the form provided in Section 2.06 of this Resolution. No Bonds, except for the Initial Bonds, shall be deemed to be issued or outstanding, or be valid or obligatory for any purpose, or be entitled to any security or benefit of this Resolution unless and until such Bond has been duly authenticated by the Registrar by the execution of the authentication certificate appearing on such Bond. The authentication certificate appearing on any Bond shall be deemed to have been duly executed by the Registrar if dated and manually signed by an authorized signatory of the Registrar. It shall not be required that the same signatory of the Registrar sign the authentication certificate on all the Bonds.

The Registrar shall authenticate any Bonds issued in exchange, substitution or replacement of other Bonds by executing the authentication certificate appearing thereon, upon satisfaction of the conditions set forth in Section 2.09 hereof.

Section 2.09. REGISTRATION, TRANSFER, EXCHANGE AND REPLACEMENT OF BONDS. (a) The Board shall keep or cause to be kept at the designated transfer office of the Registrar books or records of the registration and transfer of the Bonds, and the Board hereby appoints the Registrar as agent to keep such Registration Books and make such transfers and registrations under such reasonable regulations as the Board and Registrar may prescribe. The Registrar shall make such transfers and registrations as provided herein.

The Registrar shall obtain and record in the Registration Books the address of the registered owner of each Bond to which payments with respect to the Bonds shall be mailed, as herein provided. It shall be the duty, however, of each registered owner to notify the Registrar in writing of the address to which payments shall be mailed, and such interest payments shall not be mailed unless such notice has been given. The Board shall have the right to inspect the Registration Books during regular business hours of the Registrar, but otherwise the Registrar shall keep the Registration Books confidential and, unless otherwise required by law, shall not permit their inspection by any other entity.

(b) Each Bond issued and delivered pursuant to this Resolution, to the extent of the unpaid or unredeemed principal balance thereof, may, upon surrender of such Bond at the designated transfer office of the Registrar, together with a written request therefor duly executed by the registered owner or its assignee, or its duly authorized attorney or representative, with guarantee of signatures satisfactory to the Registrar, at the option of the registered owner or such assignee, as appropriate, be converted into and exchanged for fully registered Bonds, without interest coupons, in an aggregate principal amount equal to the unpaid or unredeemed principal balance of any Bond so surrendered, and payable to the appropriate registered owner or assignee, as the case may be.

Registration of each Bond may be transferred in the Registration Books only upon presentation and surrender of such Bond to the Registrar for transfer of registration and cancellation, together with proper written instruments of assignment, in form and with guarantee of signatures satisfactory to the Registrar, evidencing (i) the assignment of the Bond, or any portion thereof in any Authorized Denomination, to the assignee thereof, and (ii) the right of such assignee to have the Bond or any such portion thereof registered in the name of such assignee. A form of assignment shall be printed or endorsed on each Bond, which shall be executed by the registered owner or its duly authorized attorney or representative to evidence an assignment thereof. Upon the assignment and surrender of any Bond or portion thereof for transfer of registration, an authorized representative of the Registrar shall make such transfer in the Registration Books, and shall deliver a new, fully registered substitute Bond having the characteristics herein described, payable to such assignee (which then will be the registered owner of such new Bond), or to the previous registered owner in case only a portion of a Bond is being assigned and transferred, all in conversion of and exchange for said assigned Bond or any portion thereof.

Bonds issued and delivered in conversion of and exchange for any other Bonds assigned and transferred or converted shall be in any Authorized Denomination requested in writing by the registered owner or assignee thereof, shall have all the characteristics and shall be in the form prescribed in the FORM OF BOND set forth in this Resolution, shall be in the same outstanding aggregate principal amount and shall have the same principal maturity date and bear interest at the same rate as the Bonds for which they are exchanged. The Board shall pay the Registrar's fees and charges, if any, for making such transfer or conversion and delivery of a substitute Bond, but the one requesting such transfer shall pay any taxes or other governmental charges required to be paid with respect thereto. The Registrar shall not be required to make any transfer of registration, conversion and exchange, or replacement (i) of any Bond or any portion thereof during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii), with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

(c) If a portion of any Bond shall be redeemed prior to its scheduled maturity as provided herein, a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, in any Authorized Denomination requested by the registered owner, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon surrender thereof for cancellation, at the expense of the Board.

(d) In the event any outstanding Bond is damaged, mutilated, lost, stolen, or destroyed, the Registrar shall cause to be printed, executed, and delivered a new Bond of the same principal amount, maturity, and interest rate as the damaged, mutilated, lost, stolen, or destroyed Bond, in replacement for such Bond in the manner hereinafter provided.

Application for replacement of damaged, mutilated, lost, stolen, or destroyed Bonds shall be made to the Registrar. In every case of loss, theft, or destruction of a Bond, the applicant for a replacement bond shall furnish to the Board and to the Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft, or destruction of a Bond, the applicant shall furnish to the Board and to the Registrar evidence to their satisfaction of the loss, theft, or destruction of such Bond, as the case may be. In every case of damage or mutilation of a Bond, the applicant shall surrender to the Registrar for cancellation the Bond so damaged or mutilated.

Notwithstanding the foregoing provisions of this Section, in the event any such Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of or interest on the Bond, the Board may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, provided security or indemnity is furnished as above provided in this subsection.

Prior to the issuance of any replacement bond, the Registrar shall charge the owner of such Bond with all legal, printing, and other expenses in connection therewith. Every replacement bond issued pursuant to the provisions of this Section by virtue of the fact that any Bond is lost, stolen, or destroyed shall constitute a contractual obligation of the Board whether or not the lost, stolen, or destroyed Bond shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Resolution equally and proportionately with any and all other Bonds duly issued under this Resolution.

(e) The Registrar shall convert and exchange or replace Bonds as provided herein, and each fully registered Bond delivered in conversion of and exchange for or replacement of any Bond or portion thereof as permitted or required by any provision of this Resolution shall constitute one of the Bonds for all purposes of this Resolution, and may again be converted and exchanged or replaced. No additional ordinances, orders, or resolutions need be passed or adopted by the Board or any other body or person so as to accomplish the foregoing conversion and exchange or replacement of any Bond or portion thereof. For purposes of Section 6 of article 717k-6, Texas Revised Civil Statutes Annotated, as amended, this Section of this Resolution shall constitute authority for the issuance of any substitute, exchange or replacement Bond hereunder without necessity of further action by the Board or any other body or person, and the duty of the replacement of such Bonds is hereby authorized and imposed upon the Registrar, and the Registrar shall authenticate and deliver such Bonds in the form and manner and with the effect provided in this Resolution. Upon the execution of the Registrar's authentication certificate appearing on any converted and exchanged or replaced Bond, the converted and exchanged or replaced Bond shall be valid, incontestable, and enforceable in the same manner and with the same effect as the initial Bonds originally issued pursuant to this Resolution, approved by the Attorney General.

(f) Notwithstanding the foregoing, the Registrar shall not be required to make any transfer of registration of any Bond (or portion thereof), or any conversion or exchange of any Bond (or portion thereof) (i) with respect to any Bond (or portion thereof) called for redemption prior to maturity, within 45 days prior to the applicable redemption date, or (ii) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date.

Section 2.10. BOOK-ENTRY ONLY SYSTEM. The Initial Bonds shall be delivered against payment to the successful bidder at the public sale held pursuant to Section 7.04 of this Resolution. Such successful bidder shall be required to promptly surrender the Initial Bonds to the Registrar for exchange. Bonds issued in exchange shall be registered in the name of Cede & Co., as nominee of DTC, as registered owner of the Bonds, and held in the custody of DTC. Unless otherwise requested by DTC, a single certificate will be issued and delivered to DTC for each maturity of the Bonds. Beneficial owners of Bonds will not receive physical delivery of Bond certificates except as provided hereinafter. For so long as DTC shall continue to serve as securities depository for the Bonds as provided herein, all transfers of beneficial ownership interests will be

made by book-entry only, and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of Bonds is to receive, hold or deliver any Bond certificate.

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the Board, the Paying Agent and the Registrar shall have no responsibility or obligation to any DTC Participant or to any person on whose behalf a DTC Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the Board, the Paying Agent and the Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than a registered owner of the Bonds, as shown on the Registration Books, of any notice with respect to the Bonds, including any notice of redemption, and (iii) the payment to any DTC Participant or any other person, other than a registered owner of the Bonds, as shown in the Registration Books, of any amount with respect to principal of or premium, if any, or interest on the Bonds.

Replacement Bonds may be issued directly to beneficial owners of Bonds other than DTC, or its nominee, but only in the event that (i) DTC determines not to continue to act as securities depository for the Bonds (which determination shall become effective no less than 90 days after written notice to such effect to the Board, the Paying Agent and the Registrar); or (ii) the Board has advised DTC of its determination (which determination is conclusive as to DTC and beneficial owners of the Bonds) that DTC is incapable of discharging its duties as securities depository for the Bonds; or (iii) the Board has determined (which determination is conclusive as to DTC and the beneficial owners of the Bonds) that the interests of the beneficial owners of the Bonds might be adversely affected if such book-entry only system of transfer is continued. Upon occurrence of any of the foregoing events, the Board shall use its best efforts to attempt to locate another qualified securities depository. If the Board fails to locate another qualified securities depository to replace DTC, the Board shall cause to be authenticated and delivered replacement Bonds, in certificate form, to the beneficial owners of the Bonds. In the event that the Board makes the determination noted in (ii) or (iii) above (provided that the Board undertakes no obligation to make any investigation to determine the occurrence of any events that would permit the Board to make any such determination), and has made provisions to notify the beneficial owners of Bonds of such determination by mailing an appropriate notice to DTC, it shall cause to be issued replacement Bonds in certificate form to beneficial owners of the Bonds as shown on the records of DTC provided to the Board.

Whenever, during the term of the Bonds, the beneficial ownership thereof is determined by a book entry at DTC, the requirements in this Resolution of holding, delivering or transferring Bonds shall be deemed modified to require the appropriate person or entity to meet the requirements of DTC as to registering or transferring the book entry to produce the same effect.

If at any time, DTC ceases to hold the Bonds, all references herein to DTC shall be of no further force or effect.

Section 2.11. CANCELLATION. All Bonds paid or redeemed in accordance with this Resolution, and all Bonds in lieu of which exchange Bonds or replacement Bonds are authenticated and delivered in accordance with this Resolution shall be cancelled and destroyed by the Registrar.

Section 2.12. TEMPORARY BONDS. Pending the preparation of definitive Bonds, the Board may execute and, upon the Board's request, the Registrar shall authenticate and deliver, one or more temporary Bonds that are printed, lithographed, typewritten, mimeographed or otherwise produced, in any Authorized Denomination, substantially of the tenor of the definitive Bonds in lieu of which they are delivered with provision for registration and with such appropriate insertions, omissions, substitutions and other variations as the authorized officers of the Board executing such temporary Bonds may determine, as evidenced by their signing of such temporary Bonds.

Until exchanged for Bonds in definitive form, such Bonds in temporary form shall be entitled to the benefit and security of this Resolution. The Board, without unreasonable delay, shall prepare, execute and deliver to the Registrar, and thereupon, upon the presentation and surrender of the Bonds in temporary form to the Registrar, the Registrar shall authenticate and deliver in exchange therefor Bonds of the same maturity and interest rate, in definitive form, in Authorized Denominations, and in the same aggregate principal amount, as the Bonds in temporary form surrendered. Such exchange shall be made without the making of any charge therefor to any holder of Bonds.

Section 2.13. OWNERSHIP OF BONDS. The entity in whose name any Bond shall be registered in the Registration Books at any time shall be deemed and treated as the absolute owner thereof for all purposes of this Resolution, whether or not such Bond shall be overdue, and the Board, the Paying Agent and the Registrar shall not be affected by any notice to the contrary. Payment of, or on account of, the principal of, premium, if any, and interest on any such Bond shall be made only to such registered owner. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sums so paid.

Section 2.14. PAYING AGENT AND REGISTRAR. The Board shall act as the initial Registrar for the Bonds and shall perform such duties as are required by the Registrar hereunder. Pursuant to Article 717k-6, Texas Revised Civil Statutes Annotated, as amended, and particularly Section 6 thereof, the duty of conversion and exchange or replacement of Bonds as set forth in Section 2.09 hereof hereby is imposed upon the Registrar. The Board hereby appoints the Trust Company to act as the initial Paying Agent for paying the principal of and interest on the Bonds. The Paying Agent shall keep proper records of all payments made by the Board and the Paying Agent with respect to the Bonds as provided in this Resolution. The Board hereby covenants with the registered owners of the Bonds that it will pay the fees and charges, if any, of the Paying Agent for

its services with respect to the payment of the principal of, premium, if any, and interest on the Bonds, when due.

Section 2.15. SUBSTITUTE PAYING AGENT AND REGISTRAR. The Board covenants with the registered owners of the Bonds that, at all times while the Bonds are outstanding, the Board will provide a competent and legally qualified bank, trust company, financial institution, or other agency to act as and perform the services of Paying Agent and Registrar for the Bonds under this Resolution, and that the Paying Agent and Registrar will be one entity; provided, however, that during any period in which DTC is serving as securities depository for all of the outstanding Bonds, the Trust Company may be the Paying Agent and the Board may be the Registrar. The Board reserves the right to, and may, at its option, change the Paying Agent or the Registrar upon not less than 120 days written notice to the Paying Agent or the Registrar, as appropriate, to be effective not later than 60 days prior to the next principal or interest payment date after such notice. In the event that the entity at any time acting as Paying Agent or Registrar (or its successor by merger, acquisition, or other method) should resign or otherwise cease to act as such, the Board covenants that it will promptly appoint a competent and legally qualified bank, trust company, financial institution, or other agency to act as Paying Agent and Registrar under this Resolution. Upon any change in the Registrar, the previous Registrar promptly shall transfer and deliver the Registration Books (or a copy thereof), along with all other pertinent books and records relating to the Bonds, to the new Registrar designated and appointed by the Board. Upon any change in the Paying Agent or the Registrar, the Board promptly will cause a written notice thereof to be sent by the new Paying Agent or Registrar, as appropriate, to each registered owner of the Bonds, by United States mail, first-class postage prepaid, which notice also shall give the address of the new Paying Agent or Registrar, as appropriate. By accepting the position and performing as such, each Paying Agent and Registrar shall be deemed to have agreed to the provisions of this Resolution, and a certified copy of this Resolution shall be delivered to each Paying Agent and Registrar.

Section 2.16. INITIAL BONDS; APPROVAL BY ATTORNEY GENERAL; REGISTRATION BY COMPTROLLER. There shall be one Initial Bond for each maturity, numbered consecutively in the order of their maturity. Each Initial Bond shall be registered in the name, or at the direction, of the successful bidder at the public sale of the Bonds held pursuant to Section 7.04 of this Resolution. The Initial Bonds shall be submitted to the Attorney General for approval and shall be registered by the Comptroller.

ARTICLE III

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS; ADDITIONAL PARITY BONDS AND NOTES

Section 3.01. SECURITY AND PLEDGE. Pursuant to the provisions of section 18 of article VII of the Texas Constitution, as amended, all the Bonds, and any Additional Parity Bonds and Notes hereafter issued, and the interest thereon, shall be and are hereby equally and ratably secured, together with the Series 1988 Bonds, the Series 1991 Bonds, the Series 1992A Bonds, the Series 1992B Bonds and the Series 1996 Bonds, by and payable from a first lien on and pledge of the Interest of the System in the Available University Fund.

Section 3.02. PAYMENT OF BONDS AND ADDITIONAL PARITY BONDS AND NOTES. (a) The Comptroller previously has established and shall maintain in the State Treasury a fund to be known as "Board of Regents of The University of Texas System Permanent University Fund Bonds Interest and Sinking Fund." The Board and the officers of the System shall cause the Comptroller, in addition to taking the actions required by the Series 1988 Resolution to pay the Series 1988 Bonds, by the Series 1991 Resolution to pay the Series 1991 Bonds, by the Series 1992A Resolution to pay the Series 1992A Bonds, by the Series 1992B Resolution to pay the Series 1992B Bonds and by the Series 1996 Resolution to pay the Series 1996 Bonds, (i) to transfer to the Interest and Sinking Fund, out of The University of Texas System Available University Fund (the fund in the State Treasury to which is deposited the Interest of the System in the Available University Fund), on or before each date upon which principal of, premium, if any, or interest on the Bonds and the Additional Parity Bonds and Notes, when issued, is due and payable, whether by reason of maturity or optional or mandatory redemption prior to maturity, and (ii) to withdraw from the Interest and Sinking Fund, and deposit with the Paying Agent on or before each such date, the amounts of interest or principal, premium and interest which will come due on the Bonds and Additional Parity Bonds and Notes on each such date, and in such manner that such amounts, in immediately available funds, will be on deposit with the Paying Agent on or before each such date.

(b) When Additional Parity Bonds or Notes are issued pursuant to the provisions of this Resolution or the Series 1988 Resolution or the Series 1991 Resolution or the Series 1992A Resolution or the Series 1992B Resolution or the Series 1996 Resolution, substantially the same procedures as provided above shall be followed in connection with paying the principal of and interest on such Additional Parity Bonds or Notes when due; provided, however, that other and different banks or places of payment (paying agents) and paying agents and registrars and dates and methods of payment and other procedures not in conflict with this Resolution may be named and provided for in connection with each issue of Additional Parity Bonds or Notes. In the event that any such Additional Parity Bonds or Notes are made redeemable prior to maturity, the resolution or resolutions authorizing the issuance of such Additional Parity Bonds or Notes shall prescribe the appropriate procedures for redeeming same.

Section 3.03. DISPOSITION OF FUNDS. After provision has been made for the payment of the principal of and interest on the Series 1988 Bonds, the Series 1991 Bonds, the Series 1992A Bonds, the Series 1992B Bonds, the Series 1996 Bonds, the Bonds and any Additional Parity Bonds and Notes, when issued, the balance of the Interest of the System in the Available University Fund each year shall be made available to the Board in the manner provided by law and by regulations of the Board to be used by the Board as it lawfully may direct.

Section 3.04. ADDITIONAL PARITY BONDS AND NOTES. The Board reserves the right and shall have full power at any time and from time to time, to authorize, issue, and deliver additional bonds and notes on a parity with the Bonds, the Series 1988 Bonds, the Series 1991 Bonds, the Series 1992A Bonds, the Series 1992B Bonds and the Series 1996 Bonds in as many separate installments or series as deemed advisable by the Board, but only for the purposes and to the extent provided in article VII, section 18 of the Texas Constitution, as amended, or in any amendment hereafter made to said article VII, section 18 of the Texas Constitution, or for refunding purposes as provided by law. Such Additional Parity Bonds and Notes, when issued, and the interest thereon, shall be equally and ratably secured by and payable from a first lien on and pledge of the Interest of the System in the Available University Fund, in the same manner and to the same extent as are the Series 1988 Bonds, the Series 1991 Bonds, the Series 1992A Bonds, the Series 1992B Bonds, the Series 1996 Bonds and the Bonds issued pursuant to this Resolution, and the Bonds and the Additional Parity Bonds and Notes, when issued, and the interest thereon, shall be on a parity and in all respects of equal dignity with each other and with the Bonds, the Series 1988 Bonds, the Series 1991 Bonds, the Series 1992A Bonds, the Series 1992B Bonds and the Series 1996 Bonds. It is further covenanted that no installment or series of Additional Parity Bonds or Notes shall be issued and delivered unless the Authorized Representative, or some other officer of the System designated by the Board, executes:

(a) a certificate to the effect that for the Fiscal Year immediately preceding the date of said certificate the amount of the Interest of the System in the Available University Fund was at least 1-1/2 times the average annual Principal and Interest Requirements of the installment or series of Additional Parity Bonds or Notes then proposed to be issued and all then outstanding PUF Bonds that will be outstanding after the issuance and delivery of said proposed installment or series; and

(b) a certificate to the effect that the total principal amount of (i) all Bonds and Additional Parity Bonds and Notes and (ii) all other obligations of the Board, including but not limited to the Series 1988 Bonds, the Series 1991 Bonds, the Series 1992A Bonds, the Series 1992B Bonds and the Series 1996 Bonds, that are secured by and payable from a lien on and pledge of the Interest of the System in the Available University Fund, that will be outstanding after the issuance and delivery of the installment or series of Additional Parity Bonds or Notes then proposed to be issued will not exceed 20% of the cost value of invest-

ments and other assets of the Permanent University Fund (exclusive of real estate) at the time the proposed series or installment of Additional Parity Bonds or Notes is issued.

For purposes of calculating the Principal and Interest Requirements under this Section with respect to any obligations of the Board bearing interest at interest rates that are variable or adjustable, the "maximum rate then permitted by law," for purposes of the definition of "Principal and Interest Requirements" set forth in Section 1.01 hereof, shall be deemed to be the maximum "net effective interest rate" permitted under article 717k-2, Texas Revised Civil Statutes Annotated, as such article may be amended from time to time, or such other maximum interest rate permitted to be borne by such obligations by then-applicable law. In addition, for purposes of this Resolution, including but not limited to Subsection 3.04(b) above, any obligation of the Board that is payable from amounts appropriated, pursuant to article VII, section 18 of the Texas Constitution, as amended, including any amendment hereafter made to said article VII, section 18 of the Texas Constitution, for the support and maintenance of The University of Texas at Austin or System administration does not and shall not constitute an obligation secured by and payable from a lien on and pledge of the Interest of the System in the Available University Fund.

ARTICLE IV

REMEDIES

Section 4.01. REMEDIES. Any owner or holder of any of the Bonds or Additional Parity Bonds or Notes, when issued, in the event of default in connection with any covenant contained herein, or default in the payment of said obligations, or of any interest due thereon, shall have the right to institute mandamus proceedings against the Board or any other necessary or appropriate party for the purpose of enforcing payment from the moneys herein pledged or for enforcing any covenant herein contained.

ARTICLE V

GENERAL COVENANTS OF THE BOARD

Section 5.01. GENERAL COVENANTS OF THE BOARD. The Board covenants and agrees, in addition to the other covenants of the Board hereunder, as follows:

- (a) That while any PUF Bonds are outstanding and unpaid the Board will maintain and invest and keep invested the Permanent University Fund in a prudent manner and as required by law;
- (b) That the Board will restrict expenditures for administering the Permanent University Fund to a minimum consistent with prudent business judgment;

(c) That the Board duly and punctually will pay or cause to be paid the principal of every PUF Bond, when issued, and the interest thereon, from the sources, on the days, at the places, and in the manner mentioned and provided in such obligations, according to the true intent and meaning thereof, and that it will duly cause to be called for redemption prior to maturity, and will cause to be redeemed prior to maturity, all PUF Bonds, when issued, that by their terms are required to be redeemed mandatorily prior to maturity, when and as so required, and that it faithfully will do and perform and at all times will observe fully all covenants, undertakings and provisions contained in this Resolution and in the aforesaid obligations; and

(d) That, except for the PUF Bonds, and the interest thereon, the Board will not at any time create or allow to accrue or exist any lien or charge upon the Permanent University Fund or the Interest of the System in the Available University Fund, unless such lien or charge is made junior and subordinate in all respects to the liens, pledges, and covenants in connection with the PUF Bonds, but the right to issue junior and subordinate lien obligations payable from the Interest of the System in the Available University Fund is specifically reserved by the Board; and that the lien created by this Resolution will not be impaired in any manner as a result of any action or non-action on the part of the Board or officers of the System, and the Board will, subject to the provisions hereof, continuously preserve the Permanent University Fund and each and every part thereof.

ARTICLE VI

PROVISIONS CONCERNING FEDERAL INCOME TAX EXCLUSION

Section 6.01. GENERAL TAX COVENANT. The Board intends that the interest on the Bonds shall be excludable from gross income for purposes of federal income taxation pursuant to sections 103 and 141 through 150 of the Code, and applicable regulations. The Board covenants and agrees not to take any action, or knowingly omit to take any action within its control, that if taken or omitted, respectively, would cause the interest on the Bonds to be includable in gross income, as defined in section 61 of the Code, of the holders thereof for purposes of federal income taxation. In particular, the Board covenants and agrees to comply with each requirement of this Article VI; provided, however, that the Board shall not be required to comply with any particular requirement of this Article VI if the Board has received a Counsel's Opinion that such noncompliance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or if the Board has received a Counsel's Opinion to the effect that compliance with some other requirement set forth in this Article VI will satisfy the applicable requirements of the Code, in which case compliance with such other requirement specified in such Counsel's Opinion shall constitute compliance with the corresponding requirement specified in this Article VI.

Section 6.02. USE OF PROCEEDS. The Board covenants and agrees that its use of the Net Proceeds of the Bonds and the Refunded Notes will at all times satisfy the requirements set forth in

this Section. When used in this Article VI, the term "Net Proceeds," when used with respect to the Bonds and the Refunded Notes, shall mean the proceeds from the sale of the portion of the Bonds issued to pay Project Costs of Eligible Projects and the proceeds from the sale of the Refunded Notes, as the case may be, including, in each case, investment earnings on such proceeds, less accrued interest.

(a) The Board has limited and will limit the amount of original or investment proceeds of the portion of the Bonds issued to pay Project Costs of Eligible Projects and of the Refunded Notes to be used (other than use as a member of the general public) in the trade or business of any person other than a governmental unit to an amount aggregating no more than ten percent of the Net Proceeds of the Bonds and the Refunded Notes ("private-use proceeds"). For purposes of this Section, the term "person" includes any individual, corporation, partnership, unincorporated association, or any other entity capable of carrying on a trade or business; and the term "trade or business" means, with respect to any natural person, any activity regularly carried on for profit and, with respect to persons other than natural persons, any activity other than an activity carried on by a governmental unit. Any use of proceeds of the portion of the Bonds issued to pay Project Costs of Eligible Projects and of the Refunded Notes in any manner contrary to the guidelines set forth in Revenue Procedure 97-13, including any revisions or amendments thereto, shall constitute the use of such proceeds in the trade or business of one who is not a governmental unit.

(b) The Board has not permitted and will not permit more than five percent of the Net Proceeds of the Bonds or the Refunded Notes to be used in the trade or business of any person other than a governmental unit if such use is unrelated to the governmental purpose of the Bonds or the Refunded Notes, as appropriate. Further, the amount of private-use proceeds of the portion of the Bonds issued to pay Project Costs of Eligible Project or of the Refunded Notes in excess of five percent of the Net Proceeds of the Bonds or the Refunded Notes ("excess private-use proceeds") did not and will not exceed the proceeds of the portion of the Bonds issued to pay Project Costs of Eligible Projects or of the Refunded Notes, as appropriate, expended for the governmental purpose of the Bonds or Refunded Notes to which such excess private-use proceeds relate.

(c) The Board has not permitted and will not permit an amount of proceeds of any issue of the portion of the Bonds, issued to pay Project Costs of Eligible Projects or of the Refunded Notes exceeding the lesser of (i) \$5,000,000 or (ii) five percent of the Net Proceeds of the Bonds or the Refunded Notes, as appropriate, to be used, directly or indirectly, to finance loans to persons other than governmental units.

Section 6.03. NO FEDERAL GUARANTY. The Board covenants and agrees not to take any action, or knowingly omit to take any action within its control, that, if taken or omitted, respectively, would cause the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code and applicable regulations thereunder, except as permitted by section 149(b)(3) of the Code and such regulations.

Section 6.04. **BONDS ARE NOT HEDGE BONDS.** The Board covenants and agrees that not more than 50 percent of the proceeds of the portion of the Bonds issued to pay Project Costs of Eligible Projects will be invested in nonpurpose investments (as defined in section 148(f)(6)(A) of the Code) having a substantially guaranteed yield for four years or more within the meaning of section 149(g)(3)(A)(ii) of the Code, and the Board reasonably expects that at least 85 percent of the spendable proceeds of the portion of the Bonds issued to pay Project Costs of Eligible Projects will be used to carry out the governmental purposes of the Bonds within the corresponding three-year period beginning on the date the Bonds are issued. Furthermore, the Board represents that not more than 50 percent of the proceeds of the Refunded Notes was invested in nonpurpose investments (as defined in section 148(f)(6)(A) of the Code) having a substantially guaranteed yield for four years or more within the meaning of section 149(g)(3)(A)(ii) of the Code, and the Board reasonably expected at the time the Refunded Notes were issued that at least 85 percent of the spendable proceeds of such issue would be used to carry out the governmental purposes of such issues within the corresponding three-year period beginning on the respective dates of issue of such Refunded Notes.

Section 6.05. **NO-ARBITRAGE COVENANT.** The Board shall certify, through the Authorized Representative that based upon all facts and estimates known or reasonably expected to be in existence on the date the Bonds are delivered, the Board will reasonably expect that the proceeds of the Bonds will not be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of section 148(a) of the Code and applicable regulations thereunder. Moreover, the Board covenants and agrees that it will make such use of the proceeds of the Bonds including interest or other investment income derived from proceeds of the Bonds, regulate investments of proceeds of the Bonds, and take such other and further action as may be required so that the Bonds will not be "arbitrage bonds" within the meaning of section 148(a) of the Code and applicable regulations thereunder.

Section 6.06. **ARBITRAGE REBATE.** The Board will take all necessary steps to comply with the requirement that certain amounts earned by the Board on the investment of the "gross proceeds" of the Bonds (within the meaning of section 148(f)(6)(B) of the Code) be rebated to the federal government. Specifically, the Board will (i) maintain records regarding the investment of the gross proceeds of the Bonds as may be required to calculate the amount earned on the investment of the gross proceeds of the Bonds separately from records of amounts on deposit in the funds and accounts of the Board allocable to other bond issues of the Board or moneys that do not represent gross proceeds of any bonds of the Board, (ii) calculate at such times as are required by applicable regulations, the amount earned from the investment of the gross proceeds of the Bonds that is required to be rebated to the federal government, and (iii) pay, not less often than every fifth anniversary of the date of delivery of the Bonds, all amounts required to be rebated to the federal government. Further, the Board will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any person other than the federal government by entering into any investment arrangement with respect to the gross proceeds of the Bonds that

might result in a reduction in the amount required to be paid to the federal government because such arrangement results in a smaller profit or larger loss than would have resulted if the arrangement had been at arm's length and had the yield on the issue not been relevant to either party.

Section 6.07. INFORMATION REPORTING. The Board covenants and agrees to file or cause to be filed with the Secretary of the Treasury, not later than the 15th day of the second calendar month after the close of the calendar quarter in which the Bonds are issued, an information statement concerning the Bonds, all under and in accordance with section 149(e) of the Code and applicable regulations thereunder.

Section 6.08. CONTINUING OBLIGATION. Notwithstanding any other provision of this Resolution, the Board's obligations under the covenants and provisions of this Article VI shall survive the defeasance and discharge of the Bonds.

ARTICLE VII

MISCELLANEOUS PROVISIONS

Section 7.01. INDIVIDUALS NOT LIABLE. All covenants, stipulations, obligations, and agreements of the Board contained in this Resolution shall be deemed to be covenants, stipulations, obligations, and agreements of the System and the Board to the full extent authorized or permitted by the Constitution and laws of the State of Texas. No covenant, stipulation, obligation, or agreement herein contained shall be deemed to be a covenant, stipulation, obligation, or agreement of any member of the Board or agent or employee of the Board in his individual capacity and neither the members of the Board nor any officer thereof shall be liable personally on the Bonds or Additional Parity Bonds or Notes when issued, or be subject to any personal liability or accountability by reason of the issuance thereof.

Section 7.02. DEFEASANCE OF BONDS. (a) Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of this Resolution, except to the extent provided in subsection (c) of this Section, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption), or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent for such payment (1) lawful money of the United States of America sufficient to make such payment or (2) Government Obligations that mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the Board with the Paying Agent and the Registrar for the payment of their services until after all Defeased Bonds shall have become due and

payable. At such time as a Bond shall be deemed to be a Defeased Bond hereunder, as aforesaid, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the Interest of the System in the Available University Fund, and such principal and interest shall be payable solely from such money or Government Obligations, and shall not be regarded as outstanding for the purposes of Section 3.04 hereof or any other purpose.

(b) Any moneys so deposited with or made available to the Paying Agent also may be invested at the written direction of the Board in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from such Government Obligations received by the Paying Agent that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be turned over to the Board, or deposited as directed in writing by the Board.

(c) Until all Defeased Bonds shall have become due and payable, the Paying Agent and the Registrar shall perform their respective services as Paying Agent and Registrar, as applicable, for such Defeased Bonds the same as if they had not been defeased, and the Board shall make proper arrangements to provide and pay for such services as required by this Resolution.

Section 7.03. AMENDMENT OF RESOLUTION. (a) The owners of PUF Bonds aggregating 51% in principal amount of the aggregate principal amount of then-outstanding PUF Bonds shall have the right from time to time to approve any amendment to any resolution authorizing the issuance of PUF Bonds that may be deemed necessary or desirable by the Board; provided, however, that nothing herein contained shall permit or be construed to permit, without the approval of the owners of all of the outstanding PUF Bonds, the amendment of the terms and conditions in said resolutions or in any PUF Bond so as to:

- (1) Make any change in the maturity of the outstanding PUF Bonds;
- (2) Reduce the rate of interest borne by any of the outstanding PUF Bonds;
- (3) Reduce the amount of the principal payable on the outstanding PUF Bonds;
- (4) Modify the terms of payment of principal of or interest on the outstanding PUF Bonds, or impose any conditions with respect to such payment;
- (5) Affect the rights of the owners of less than all of the PUF Bonds then outstanding;
or
- (6) Change the minimum percentage of the principal amount of PUF Bonds necessary for consent to such amendment.

(b) If at any time the Board shall desire to amend a resolution under this Section, the Board shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in the City of New York, New York, once during each calendar week for at least two successive calendar weeks. Such notice shall set forth briefly the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of each paying agent/registrant for the PUF Bonds for inspection by all owners of PUF Bonds. Such publication is not required, however, if notice in writing is given to each owner of PUF Bonds.

(c) Whenever at any time not less than thirty days, and within one year, from the date of the first publication of said notice or other service of written notice of the proposed amendment the Board shall receive an instrument or instruments executed by the owners of at least 51% in aggregate principal amount of all PUF Bonds then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the Board may adopt the amendatory resolution in substantially the same form.

(d) Upon the adoption of any amendatory resolution pursuant to the provisions of this Section, the resolution being amended shall be deemed to be amended in accordance with the amendatory resolution, and the respective rights, duties, and obligations of the Board and all the owners of then outstanding PUF Bonds and all future PUF Bonds thereafter shall be determined, exercised, and enforced hereunder, subject in all respects to such amendment.

(e) Any consent given by the owner of a PUF Bond pursuant to the provision of this Section shall be irrevocable for a period of six months from the date of the first publication or other service of the notice provided for in this Section, and shall be conclusive and binding upon all future owners of the same PUF Bond during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the owner who gave such consent, or by a successor in title, by filing notice thereof with the Registrar for such PUF Bonds and the Board, but such revocation shall not be effective if the owners of 51% in aggregate principal amount of the then-outstanding PUF Bonds as in this Section defined have, prior to the attempted revocation, consented to and approved the amendment.

(f) For the purpose of this Section the ownership and other matters relating to all PUF Bonds shall be determined from the registration books kept for such bonds by the respective paying agent/registrant therefor.

Section 7.04. ISSUANCE AND SALE OF BONDS. (a) The Authorized Representative is hereby authorized to act for and on behalf of the Board in connection with the issuance and sale of the Bonds. In that capacity, the Authorized Representative, acting for and on behalf of the Board, shall determine the date for issuance and sale of the Bonds, the total amount of Bonds to be issued and sold, and the particular Refunded Notes to be refunded by the Bonds.

(b) The Bonds shall be sold by competitive bid at public sale. Prior to the date of public sale, the Authorized Representative, acting for and on behalf of the Board, shall cause (i) an appropriate notice of sale, in a form approved by the Authorized Representative, to be published at least one time in a financial publication, journal or report of general circulation among securities dealers in the City of New York (including, but not limited to, The Bond Buyer or The Wall Street Journal), or in the State of Texas (including, but not limited to, The Texas Bond Reporter), and (ii) an official statement, along with a notice of sale and bidding instructions and an official bid form, to be provided to each bidder, such documents to be in substantially the forms presented to the Board on the date of this Resolution, which forms are hereby approved, but with such changes and completions as the Authorized Representative may approve, including such changes and completions to the official statement as the Authorized Representative may deem necessary or appropriate to enable the Authorized Representative, acting for and on behalf of the Board, to deem the official statement to be final as of its date, except for such omissions as are permitted by Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"). Each bidder shall be allowed to name the price for the Bonds, the principal amortization schedule for the Bonds and the rate or rates of interest to be borne by the Bonds; provided, that, (i) the price named for the Bonds must be no less than 98 percent of the par amount thereof (plus accrued interest from the date of the Bonds to the date of delivery thereof against payment therefor), (ii) the principal amortization schedule named for the Bonds must include scheduled maturities or mandatory sinking fund redemption requirements on each of the maturity dates specified in Section 2.03 of this Resolution, (iii) the interest rate or rates named for the Bonds must comply with Section 2.03, and (iv) the principal amortization schedule and interest rate or rates so named must produce substantially level debt service on the Bonds during the Bond Years ending on July 1 of the years 1999 through 2018, both inclusive, such that the highest total debt service on the Bonds during any such Bond Year does not exceed the lowest total debt service on the Bonds during any such Bond Year by more than \$10,000. The Authorized Representative, acting for and on behalf of the Board, shall, subject to the right to reject any or all bids and to waive any irregularities, award the sale of the Bonds to the bidder whose bid produces the lowest true interest cost to the Board, such interest cost being the rate obtained by doubling the semi-annual interest rate (compounded semi-annually) necessary to discount the principal and interest payments on the Bonds from the dates of payment thereof to the dated date of the Bonds and to the price bid. The price bid for the purpose of the preceding sentence shall not include the amount of interest accrued on the Bonds from their date to the date of delivery thereof against payment therefor. Within seven business days after the award of the sale of the Bonds, the Authorized Representative, acting for and on behalf of the Board, shall cause a supplement to the official statement (setting forth the principal amortization schedule, the interest rates and price or yield for the Bonds and such additional information, if any, so that the supplement and the official statement shall constitute a final official statement for purposes of Rule 15c2-12) to be provided to the successful bidder in compliance with Rule 15c2-12. The official statement and the supplement may be used by the successful bidder in the reoffering of the Bonds.

(c) Following the award of the sale of the Bonds, the Authorized Representative shall notify the Paying Agent in writing of the identity of the purchaser of the Bonds, and of the following terms for the Bonds: dated date; principal amount; date for issue; maturities; mandatory sinking fund redemption provisions; rate or rates of interest; and first interest payment date. The Authorized Representative shall deliver the Initial Bonds to the purchaser thereof against payment therefor. Incident to the delivery of the Bonds, the Authorized Representative shall execute:

(1) a certificate to the effect that for the Fiscal Year immediately preceding the date of said certificate the amount of the Interest of the System in the Available University Fund was at least 1-1/2 times the average annual Principal and Interest Requirements (calculated in the manner described in Section 3.04 of this Resolution) of the Bonds and all then outstanding PUF Bonds that will be outstanding after the issuance and delivery of the Bonds;

(2) a certificate to the effect that the total principal amount of (a) all Bonds and Additional Parity Bonds and Notes and (b) all other obligations of the Board, including but not limited to the Series 1988 Bonds, the Series 1991 Bonds, the Series 1992A Bonds, the Series 1992B Bonds and the Series 1996 Bonds, that are secured by and payable from a lien on and pledge of the Interest of the System in the Available University Fund, that will be outstanding after the issuance and delivery of the Bonds will not exceed 20% of the cost value of investments and other assets of the Permanent University Fund (exclusive of real estate) at the time the Bonds are issued; provided that any obligation of the Board that is payable from amounts appropriated, pursuant to article VII, section 18 of the Texas Constitution, as amended, including any amendment hereafter made to said article VII, section 18 of the Texas Constitution, for the support and maintenance of The University of Texas at Austin or System administration does not and shall not constitute an obligation secured by and payable from a lien on and pledge of the Interest of the System in the Available University Fund;

(3) a certificate to the effect that all action on the part of the Board necessary for the valid issuance of the Bonds issued has been taken, that such Bonds have been issued in compliance with the terms of this Resolution; and

(4) a certificate to the effect that the Board is in compliance with the covenants set forth in Articles V and VI of this Resolution as of the date of such certificate.

Section 7.05. APPLICATION OF BOND PROCEEDS. Proceeds from the sale of the Bonds shall, promptly upon receipt thereof, be applied by the Authorized Representative as follows:

- (i) accrued interest shall be deposited into the Interest and Sinking Fund;
- (ii) the remaining proceeds from the sale of the Bonds shall, to the extent required, be applied to establish an escrow fund in an amount, together with investment earnings thereon, sufficient to accomplish the discharge and final payment of the Refunded Notes in accordance with Section 7.06 of this Resolution, to fund the Construction Account in accordance with Section 7.07 of this Resolution and, to the extent not otherwise provided for, to pay all expenses arising in connection with the issuance of the Bonds and the refunding of the Refunded Notes; and
- (iii) except as otherwise required by Section 7.07 of this Resolution, any proceeds of the Bonds remaining after making all such deposits and payments shall be deposited into the Interest and Sinking Fund.

Section 7.06. REFUNDING OF REFUNDED NOTES. The discharge and defeasance of the Refunded Notes shall be effected pursuant to the terms and provisions of the Escrow Agreement. The Authorized Representative, acting for and on behalf of the Board, is also hereby authorized to execute and deliver the Escrow Agreement, in substantially the form submitted at this meeting, with such changes therein as the Authorized Representative executing the same may approve, such approval to be conclusively evidenced by such execution thereof. To assure the purchase of the "Escrowed Securities" referred to in the Escrow Agreement, the Authorized Representative, acting for and on behalf of the Board, is hereby authorized to subscribe for, agree to purchase and purchase obligations of the United States of America, in such amounts and maturities and bearing interest at such rates as may be provided for in the Escrow Agreement, and to execute any and all subscriptions, purchase agreements, commitments, letters of authorization and other documents necessary to effectuate the foregoing.

The Authorized Representative, acting for and on behalf of the Board, shall sign and otherwise execute and deliver such notices, instructions, certificate, instruments and other documents as may be necessary or convenient to accomplish the refunding of the Refunded Notes as set forth herein and in accordance with their terms. It is hereby found and determined that the refunding of the Refunded Notes is advisable and necessary in order to restructure the debt service requirements of the Board so as to fix the borrowing cost of the Board for financing the facilities financed through the issuance of the Refunded Notes for the long term at favorable rates.

Section 7.07. CONSTRUCTION ACCOUNT. (a) There is hereby established a separate account designated as the "Board of Regents of the University of Texas System Permanent University Fund Bond Construction Account" (the "Construction Account"). The Construction Account shall be maintained by the Board in an official depository of the System. Money on deposit or to be deposited in the Construction Account shall remain therein until from time to time expended for Project Costs of Eligible Projects, and shall not be used for any other purposes whatsoever, except as otherwise provided below. Pending the expenditure of money in the Construction

Account, monies deposited therein or credited thereto may be invested in the manner prescribed by law and in accordance with the written policies adopted by the Board. Any income received from investments in the Construction Account shall be retained in the Construction Account. Any amounts remaining in the Construction Account and not anticipated to be needed for the payment of Project Costs of Eligible Projects shall be transferred to the Interest and Sinking Fund.

(b) Concurrently with the issuance and delivery of the Bonds to the purchaser thereof against payment therefor, the balance of the proceeds of sale of the Bonds (other than accrued interest which shall be deposited into the Interest and Sinking Fund), remaining after the deposit required by Section 7.06 of this Resolution, shall be deposited into the Construction Account and used for the purposes set forth above.

Section 7.08. DTC LETTER OF REPRESENTATION. The Authorized Representative, acting for and on behalf of the Board, is hereby authorized and directed to approve, execute and deliver, if deemed necessary or advisable by said Authorized Representative, a Letter of Representation with DTC with respect to the Bonds to implement the book-entry only system of Bond registration, such approval to be conclusively evidenced by the Authorized Representative's execution thereof.

Section 7.09. CONTINUING DISCLOSURE UNDERTAKING. (a) Annual Reports. The Board shall provide annually to each NRMSIR and any SID, within six months after the end of each Fiscal Year ending after the public sale of the Bonds pursuant to Section 7.04 of this Resolution, financial information and operating data with respect to the Permanent University Fund and the Interest of the System in the Available University Fund of the general type included in the final Official Statement authorized by Section 7.04 of this Resolution, being the information described in Exhibit A hereto. Any financial statements with respect to the Permanent University Fund so to be provided shall be (1) prepared in accordance with the accounting principles described in Exhibit A hereto and (2) audited, if the Board commissions an audit of such statements and the audit is completed within the period during which they must be provided. If audited financial statements with respect to the Permanent University Fund are not so provided within the required period, then the Board shall provide unaudited financial statements with respect to the Permanent University Fund for the applicable Fiscal Year to each NRMSIR and any SID, and shall file audited financial statements with respect to the Permanent University Fund when and if audited financial statements become available. If audited financial statements are not prepared with respect to the Permanent University Fund for any Fiscal Year and audited financial statements are prepared with respect to the State of Texas for such Fiscal Year, the Board shall provide, or cause to be provided, the audited financial statements of the State of Texas for the applicable Fiscal Year to each NRMSIR and any SID within six months after the end of said Fiscal Year or as soon thereafter as such audited financial statements become available from the State Auditor of the State of Texas. Any such audited financial statements of the State of Texas so provided shall be prepared in accordance with generally

accepted accounting principles for state governments, as such principles may be changed from time to time to comply with state law.

If the Board changes the Fiscal Year, it will notify each NRMSIR and any SID of the change (and of the date of the new Fiscal Year end) prior to the next date by which the Board otherwise would be required to provide financial information and operating data pursuant to this Section.

The financial information and operating data to be provided pursuant to this Subsection may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to each NRMSIR and any SID or filed with the SEC.

(b) *Material Event Notices.* The Board shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws:

- A. Principal and interest payment delinquencies;
- B. Non-payment related defaults;
- C. Unscheduled draws on debt service reserves reflecting financial difficulties;
- D. Unscheduled draws on credit enhancements reflecting financial difficulties;
- E. Substitution of credit or liquidity providers, or their failure to perform;
- F. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- G. Modifications to rights of holders of the Bonds;
- H. Bond calls;
- I. Defeasances;
- J. Release, substitution, or sale of property securing repayment of the Bonds;
and
- K. Rating changes.

The Board shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any failure by the Board to provide financial information or operating data in accordance with Subsection 7.09(a) above by the time required.

(c) *Limitations, Disclaimers, and Amendments.* The Board shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the Permanent University Fund or the Interest of the System in the Available University Fund remains an "obligated person" with respect to the Bonds within the meaning of Rule 15c2-12, except that the Board in any event will give the notice otherwise required under this Resolution of any Bond calls and defeasance that cause the Permanent University Fund or the Interest of the System in the Available University Fund to be no longer "obligated persons."

The provisions of this Section 7.09 are for the sole benefit of the holders and beneficial owners of the Bonds, and nothing in this Section, expressed or implied, shall give any benefit or any legal or equitable right, remedy or claim hereunder to any other person. The Board undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the financial results, condition, or prospects of the Permanent University Fund or the Interest of the System in the Available University Fund or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The Board does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE BOARD BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE BOARD, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS ARTICLE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR *MANDAMUS* OR SPECIFIC PERFORMANCE.

No default by the Board in observing or performing its obligations under this Section shall constitute a breach of or default under this Resolution for purposes of any other provision of this Resolution.

Nothing in this Section is intended or shall act to disclaim, waive or otherwise limit the duties of the Board under federal and state securities laws.

The provisions of this Section may be amended by the Board from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Board or the Permanent University Fund, but only in (1) the provisions of this subsection, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (2) either (A) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Resolution that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (B) a person that is unaffiliated with the Board and the Permanent University Fund (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If the Board so amends the provisions of this Section, it shall include with any amendment financial information or operating data next provided in accordance with Subsection (a) of this Section an explanation, in narrative form, of the reasons

for the amendment and of the impact of any change in the type of financial information or operating data so provided. The Board may also amend or repeal the provisions of this continuing disclosure requirement if the SEC amends or repeals the applicable provisions of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

(d) *Definitions.* As used in this Section 7.09, the following terms have the meanings ascribed to such terms below:

"MSRB" means the Municipal Securities Rulemaking Board.

"NRMSIR" means each person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the rule from time to time.

"SEC" means the United States Securities and Exchange Commission.

"SID" means any person designated by the State of Texas or an authorized department, officer, or agency thereof as, and determined by the SEC or its staff to be, a state information depository within the meaning of Rule 15c2-12 from time to time.

Section 7.10. **FURTHER PROCEDURES.** The Chairman of the Board, the Executive Secretary of the Board, the Authorized Representative, the Vice Chancellor and General Counsel of the System, and all other officers, employees, and agents of the Board, and each of them, shall be and they are hereby expressly authorized, empowered, and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge, and deliver in the name and under the seal and on behalf of the Board all such instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Resolution, the Bonds, the preliminary official statement and the official statement for the Bonds, the Escrow Agreement, the Bond Purchase Contract and the DTC Letter of Representation. In case any officer whose signature appears on any Bond shall cease to be such officer before the delivery of such Bond, such signature shall nevertheless be valid and sufficient for all purposes the same as if he or she had remained in office until such delivery.

ADOPTED AND APPROVED this the 13th day of November, 1997.

/s/ Donald L. Evans
Chairman
Board of Regents of
The University of Texas System

Attest:

/s/ Arthur H. Dilly
Executive Secretary
Board of Regents of
The University of Texas System

[SEAL]

EXHIBIT A

**CONTINUING DISCLOSURE -
DESCRIPTION OF ANNUAL FINANCIAL INFORMATION**

Pursuant to Subsection 7.09(a), the information to be updated in the Board's annual filing includes all quantitative financial information and operating data with respect to the Permanent University Fund or the Interest of the System in the Available University Fund of the general type included in the Official Statement under the heading "Permanent University Fund" and in Appendices A, B and C. The updated information will include annual financial statements with respect to the Permanent University Fund provided on an accrual basis, or such other basis as the Board may be required to employ from time to time pursuant to state law or regulation.

NEW ISSUE: Book-Entry Only

RATINGS: See "Ratings."

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds are not private activity bonds. See "Tax Matters" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

§ _____
Board of Regents of The University of Texas System
Permanent University Fund Bonds
Series 199__



The Bonds will constitute valid and legally binding special obligations of the Board of Regents (the "Board") of The University of Texas System (the "System"), secured by and payable from a first lien on and pledge of the "Interest of the System" in the "Available University Fund" (as defined herein) on a parity with the Board's outstanding Permanent University Fund Bonds, Series 1988, Series 1991, Series 1992A, Series 1992B and Series 1996. The Board has reserved the right to issue additional bonds on a parity with the Bonds. THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE BOARD, THE SYSTEM, THE STATE OF TEXAS OR ANY POLITICAL SUBDIVISION OF THE STATE OF TEXAS. THE BOARD HAS NO TAXING POWER, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED AS SECURITY FOR THE BONDS. See "Security for the Bonds."

The Bonds will mature (either by scheduled maturity or pursuant to mandatory sinking fund provisions) on July 1 in each of the years 1999 through 2018 (both inclusive), in the amounts and will bear interest at the per annum rates, established by competitive bid at public sale. The maturity schedule and interest rates on the Bonds will be set forth on a Supplement to this Official Statement dated as of the date of such public sale. The Bonds will be dated as of the first calendar day of the month during which they are sold at public sale. The Bonds will bear interest from their date and interest will be payable January 1 and July 1 of each year, commencing _____, until maturity or prior redemption.

The Bonds are subject to optional redemption prior to maturity as described herein. See "Description of the Bonds -- Redemption."

The Bonds are initially issuable only to Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the book-entry only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof. Interest on and principal of the Bonds will be payable by the Texas Treasury Safekeeping Trust Company, the initial Paying Agent, to Cede & Co., as nominee for DTC, which will make distribution of the amounts so paid to DTC Participants (as defined herein) who will make payments to the Beneficial Owners (as defined herein) of the Bonds. See "Description of the Bonds -- Book-Entry Only System."

Proceeds from the sale of the Bonds, together with other available moneys of the Board, will be used for the purposes of currently refunding certain outstanding obligations of the Board, providing funds for improvements at various institutions within the System and paying the costs of issuance of the Bonds. See "Plan of Financing."

The Bonds are offered when, as and if issued, are subject to approval of legality by the Attorney General of the State of Texas and by Vinson & Elkins L.L.P., Austin and Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Board by its special counsel, Yava D. Scott, Attorney-at-law, Houston, Texas. The Bonds are expected to be available for delivery through The Depository Trust Company.

Sealed bids will be received prior to 10:00 a.m., CT, on a day ("the Sale Date") during a _____ week period beginning _____, 199__ and ending _____, 199__. At least 24 hours prior to the sale of the Bonds, the Board will notify prospective bidders by MUNIFACTS NEWS SERVICE of the Sale Date and the date fixed for delivery of the Bonds, which is anticipated to be within 30 business days of the Sale Date.

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

OFFICERS

Donald L. Evans, Chairman,
Rita Crocker Clements, Vice-Chairman
Tom Loeffler, Vice-Chairman
Arthur H. Dilly, Executive Secretary

MEMBERS

Terms Expire February 1, 1999

Thomas O. Hicks	.	.	.	.	Dallas
Lowell H. Lebermann, Jr.	.	.	.	.	Austin
Martha E. Smiley	.	.	.	.	Austin

Terms Expire February 1, 2001

Rita Crocker Clements	.	.	.	.	Dallas
Donald L. Evans	.	.	.	.	Midland
Tom Loeffler	.	.	.	.	San Antonio

Terms Expire February 1, 2003

Patrick C. Oxford	.	.	.	.	Houston
A.W. "Dub" Riter, Jr.	.	.	.	.	Tyler
A.R. (Tony) Sanchez, Jr.	.	.	.	.	Laredo

SYSTEM ADMINISTRATION

Dr. William H. Cunningham, Chancellor
Charles B. Mullins, M.D., Executive Vice Chancellor for Health Affairs
R. D. Burck, Executive Vice Chancellor for Business Affairs
Francie A. Frederick, Acting Vice Chancellor for Academic Affairs
Ray Farabee, Vice Chancellor and General Counsel
Michael Millsap, Vice Chancellor for Governmental Relations
Shirley Bird Perry, Vice Chancellor for Development and External Relations

**CHIEF ADMINISTRATIVE OFFICERS OF
UNIVERSITY SYSTEM COMPONENT INSTITUTIONS**

Dr. Robert E. Witt, President, The University of Texas at Arlington
Dr. Peter T. Flawn, Interim President, The University of Texas at Austin
Dr. Juliet V. Garcia, President, The University of Texas at Brownsville
Dr. Franklyn G. Jenifer, President, The University of Texas at Dallas
Dr. Diana S. Natalicio, President, The University of Texas at El Paso
Dr. Miguel A. Nevárez, President, The University of Texas-Pan American
Dr. Charles A. Sorber, President, The University of Texas of the Permian Basin
Dr. Samuel A. Kirkpatrick, President, The University of Texas at San Antonio
Dr. George F. Hamm, President, The University of Texas at Tyler
Kern Wildenthal, M.D., Ph.D., President, The University of Texas Southwestern Medical Center at Dallas
John D. Stobo, M.D., President, The University of Texas Medical Branch at Galveston
M. David Low, M.D., Ph.D., President, The University of Texas Health Science Center at Houston
John P. Howe III, M.D., President, The University of Texas Health Science Center at San Antonio
John Mendelsohn, M.D., President, The University of Texas M.D. Anderson Cancer Center at Houston
George A. Hurst, M.D., Director, The University of Texas Health Center at Tyler

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USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized by the Board, the System or the Initial Purchaser to give any information, or to make any representations other than those contained in the Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Board, the System, the Permanent University Fund, the Interest of the System in the Available University Fund or other matters described herein since the date hereof.

The price and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Initial Purchaser may over allot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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OFFICIAL STATEMENT

relating to

§ _____
**Board of Regents of The University of Texas System
Permanent University Fund Bonds, Series 199__**

INTRODUCTION

This Official Statement, which includes the cover page and the Appendices hereto and the Supplement hereto setting forth the maturity schedule and interest rates on the Bonds as determined by competitive bid at public sale, provides certain information regarding the issuance by the Board of Regents (the "Board") of The University of Texas System (the "System") of its bonds, entitled "Board of Regents of The University of Texas System Permanent University Fund Bonds, Series 199__" (the "Bonds"). Capitalized terms used in this Official Statement and not otherwise defined have the same meanings assigned to such terms in the resolution (the "Resolution") adopted by the Board on November 13, 1997, authorizing the issuance of the Bonds.

The System was established pursuant to the provisions of the Constitution and the laws of the State of Texas (the "State") as an agency of the State. The System presently consists of 15 State-supported general academic and health-related education and research institutions, including The University of Texas at Austin, all as listed on the inside cover of this Official Statement. Preliminary total enrollment for the System for the Fall 1997 semester is 140,822 students. The Board is the governing body of the System and its members are officers of the State, appointed by the Governor with the advice and consent of the State Senate.

This Official Statement contains summaries and descriptions of the plan of financing, the Resolution, the Bonds, the Board, the System and other related matters. All references to and descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document, copies of which are available from the Board upon request at the Office of Finance, 201 W. 7th Street, Austin, Texas 78701-2981.

PLAN OF FINANCING

Authority for Issuance of the Bonds

The Bonds will be issued under the authority of Article VII, Section 18 of the Texas Constitution (the "Constitutional Provision"), Section 65.46, Texas Education Code, and Articles 717k and 717q, Texas Revised Civil Statutes Annotated, all as amended, and pursuant to the terms of the Resolution and the action of the authorized representative of the Board awarding the sale of the Bonds and establishing their final terms.

Purpose

The Bonds are being issued for the purposes of currently refunding \$78,000,000 in principal amount of the Board's Permanent University Fund Variable Rate Notes, Series A (the "Refunded Notes"), funding the costs of improvements at various institutions within the System and paying the costs of issuance of the Bonds. The issuance of the Bonds will permit the Board to restructure its debt service requirements with respect to the Refunded Notes through the establishment of long-term fixed rates for the Board's permanent financing of certain facilities initially financed through the issuance of such Refunded Notes.

Refunded Notes

The Refunded Notes, and interest thereon, are to be paid on the scheduled payment date of each such note (but not later than 90 days after the delivery of the Bonds to the Initial Purchaser thereof) from funds to be deposited with

Bankers Trust Company (the "Escrow Agent") pursuant to an escrow agreement (the "Escrow Agreement") between the Board and the Escrow Agent.

The Resolution provides that from the proceeds of the sale of the Bonds to the Initial Purchaser thereof, the Board will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Notes. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase obligations of the United States of America (the "Government Obligations").

Deloitte & Touche LLP, independent certified public accountants, will verify at the time of delivery of the Bonds to the Initial Purchaser thereof that the Government Obligations will mature and pay interest in such amounts, which together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Notes.

By the deposit of the Government Obligations and cash with the Escrow Agent pursuant to the Escrow Agreement, the Board will have effected the defeasance of the Refunded Notes, such that the Refunded Notes will no longer be payable from the "Interest of the System" in the "Available University Fund" (as such terms are defined herein).

Parity Bonds

The Bonds will be issued on a parity with the Board's previously issued and outstanding Permanent University Fund Refunding Bonds, Series 1988, Series 1991, Series 1992A and Series 1996 and Permanent University Fund Bonds, Series 1992B (collectively, the "Outstanding PUF Bonds"), currently outstanding in the aggregate principal amount of \$519,200,000. The Outstanding PUF Bonds, the Bonds and all additional bonds and notes issued on a parity therewith ("Additional Parity Bonds and Notes") are referred to collectively herein as the "PUF Bonds". The anticipated debt service requirements for the Bonds combined with the debt service requirements for the Outstanding PUF Bonds are set forth in Appendix C.

DESCRIPTION OF THE BONDS

General

The Bonds will be issued only as fully registered bonds, without coupons, in any integral multiple of \$5,000 principal amount within a stated maturity, will be dated as of the first calendar day of the month during which they are sold by competitive bid at public sale, and will accrue interest from their dated date. The Bonds will mature (either by scheduled maturity or pursuant to mandatory sinking fund provisions) on July 1 in each of the years 1999 through 2018 (both inclusive), in the amounts and will bear interest at the per annum rates, established by competitive bid at public sale. The maturity schedule for the Bonds (including any mandatory sinking fund requirements) and the interest rates on the Bonds will be set forth on the Supplement to this Official Statement. Interest on the Bonds (calculated on the basis of a 360-day year composed of twelve 30-day months) is payable on January 1 and July 1 of each year, commencing

The Bonds are initially issuable in book-entry only form. Initially, Cede & Co., the nominee of The Depository Trust Company ("DTC"), New York, New York, will be the registered owner and references herein to the Bondholders, holders, holders of the Bonds or registered owners of the Bonds shall mean Cede & Co. and not the beneficial owners of the Bonds. See "Description of the Bonds -- Book-Entry Only System."

In the event that any date for payment of the principal of or interest on the Bonds is a Saturday, Sunday, legal holiday or day on which banking institutions in the city where the designated office for payment of the Paying Agent is located are authorized by law or executive order to close, then the date for such payment will be the next succeeding day which is not a Saturday, Sunday, legal holiday or day on which such banking institutions are authorized to close. Payment on such later date will not increase the amount of interest due and will have the same force and effect as if made on the original date payment was due.

Redemption

Optional Redemption. The Bonds scheduled to mature on and after July 1, ____, are subject to redemption prior to maturity at the option of the Board on July 1, ____, or on any interest payment date thereafter, in whole or in part, in any integral multiple of \$5,000 (and, if in part, the particular Bonds or portions thereof to be redeemed shall be selected by the Board) at the redemption price of par plus accrued interest to the redemption date; provided that during any period in which ownership of the Bonds is determined by a book entry at a securities depository for such Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository.

Mandatory Redemption. The Bonds may be subject to mandatory sinking fund redemptions in lieu of or in tandem with serial maturities, if such option is made a part of the winning bid of the Initial Purchaser. Any mandatory sinking fund redemption requirements for the Bonds will be set forth on the Supplement to this Official Statement. The principal amount of any Bonds required to be redeemed on each such redemption date pursuant to operation of the mandatory sinking fund shall be reduced, at the option of the Board, by the principal amount of any such Bonds, which, at least 45 days prior to the mandatory sinking fund redemption date, (1) shall have been acquired by the Board and delivered to the Paying Agent for cancellation, or (2) shall have been acquired and canceled by the Paying Agent at the direction of the Board, in either case of (1) or (2) at a price not exceeding the par or principal amount of such Bonds, or (3) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory sinking fund redemption. During any period in which ownership of the Bonds is determined by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository.

Notice of Redemption. Not less than 30 days prior to a redemption date, a notice of redemption will be published once in a financial publication, journal or report of general circulation among securities dealers in the City of New York, New York, or in the State. Additional notice will be sent by the Registrar by United States mail, first-class, postage prepaid, to each registered owner of a Bond to be redeemed in whole or in part at the address of each such owner appearing on the registration books of the Registrar on the 45th day prior to such redemption date, to each registered securities depository and to any national information service that disseminates redemption notices. Failure to mail or receive such notice will not affect the proceedings for redemption and publication of notice of redemption in the manner set forth above shall be the only notice actually required as a prerequisite for redemption. In addition, in the event of a redemption caused by an advance refunding of the Bonds, the Registrar shall send a second notice of redemption to registered owners of Bonds subject to redemption at least 30 days but not more than 90 days prior to the actual redemption date. Any notice sent to registered securities depositories or national information services shall be sent so that they are received at least two days prior to the general mailing or publication date of such notice. The Registrar shall also send a notice of prepayment or redemption to the registered owner of any Bond who has not sent Bonds in for redemption 60 days after the redemption date.

All redemption notices shall contain a description of the Bonds to be redeemed including the complete name of the Bonds, the date of issue, the interest rates, the maturity dates, the CUSIP numbers, the certificate numbers, the amounts of each certificate called, the publication and mailing dates for the notices, the dates of redemption, the redemption prices, the names of the Paying Agent and Registrar and the address at which the Bonds may be redeemed including a contact person and telephone number.

Paying Agent and Registrar

The initial Paying Agent is named on the cover page hereof. The Board will serve as the initial Registrar for the Bonds. In the Resolution, the Board reserves the right to replace the Paying Agent or Registrar and covenants to maintain and provide a Paying Agent and Registrar at all times while the Bonds are outstanding. Any successor Paying Agent or Registrar is required by the Resolution to be a competent and legally qualified bank, trust company, financial institution or other agency. Upon any change in the Paying Agent or Registrar, the Board is required promptly to cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent or Registrar.

Book-Entry Only System

Book-Entry Only System. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond certificate will be issued for each maturity, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds bonds that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of the customers in bearer form or registered in "street name," and will be the responsibility of such Participant

and not of DTC, the Paying Agent or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Board and the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Board. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Board or the Initial Purchaser. In reading this Official Statement it should be understood that while the Bonds are in the book-entry only system, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry only system, and (ii) except as described above, notices that are to be given to registered owners under the Resolution will be given only to DTC.

Termination of Book-Entry Only System. DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving notice to the Board, the Paying Agent and the Registrar and discharging its responsibilities with respect thereto under applicable law. Under such circumstances (if there is not a successor securities depository), certificated Bonds are required to be delivered as described in the Resolution.

If the Board determines that (a) DTC is incapable of discharging its responsibilities or (b) the interests of the Beneficial Owners of the Bonds might be adversely affected if the book-entry only system is continued, the Board shall appoint a successor securities depository or deliver certificated Bonds, each as described in the Resolution.

Effect of Termination of Book-Entry Only System. In the event that the Book-Entry Only System is terminated by DTC or the Board, the following provisions will be applicable to the Bonds:

(a) *Payments.* The principal and redemption price of all Bonds is payable to the registered owners thereof at maturity or on the date of earlier redemption and only upon presentation and surrender of such Bonds at the designated office for payment of the Paying Agent. Interest on the Bonds will be paid by check mailed by the Paying Agent to the registered owners thereof as shown in the bond registration books of the Registrar as of the Record Date, which will be the 15th day of the month next preceding each interest payment date. Alternatively, upon the request and at the risk and expense of a registered owner, interest may be paid by another method acceptable to the Paying Agent.

(b) *Transfer, Exchange and Registration.* Bonds may be transferred and exchanged on the registration books of the Registrar only upon presentation and surrender thereof to the Registrar, together with proper written instruments of assignment in form and with guarantee of signatures satisfactory to the Registrar. Any such transfer or exchange will be without expense or service charge to the registered owner except for any tax or other governmental charges required to be paid with respect thereto. A new Bond or Bonds will be delivered by the Registrar, in lieu of the Bonds being transferred or exchanged, at the principal office of the Registrar. Any Bond issued in exchange or transfer for another Bond may be in any integral multiple of \$5,000 principal amount for any one maturity and shall have the same aggregate unpaid principal amount, interest rate and maturity date as the Bond or Bonds surrendered for exchange or transfer. The Board, the Paying Agent and the Registrar may treat the person in whose name a Bond is registered as the absolute owner thereof for all purposes, whether such Bond is overdue or not, including for the purpose of receiving payment of, or on account of, the principal of and interest on such Bond.

(c) *Limitation on Transfer.* Neither the Board nor the Registrar shall be required to assign, transfer, or exchange (i) any Bond or any portion thereof during a period beginning at the close of business on any Record Date, and ending at the opening of business on the next following principal or interest payment date or (ii) any Bond or any portion thereof that has been called for redemption within 45 days prior to the date fixed for redemption.

Amendment of Terms

The owners of PUF Bonds aggregating 51% of the aggregate principal amount of the then outstanding PUF Bonds have the right under the Resolution to approve any amendment to the Resolution or any other resolution authorizing the issuance of PUF Bonds that may be deemed necessary or desirable by the Board; provided, however, that the owners of all of the outstanding PUF Bonds must approve the amendment of the terms and conditions in any PUF Bond, the Resolution or such other resolutions so as to (a) make any change in the maturity of the outstanding PUF Bonds; (b) reduce the rate of interest borne by any of the outstanding PUF Bonds; (c) reduce the amount of the principal payable on the outstanding PUF Bonds; (d) modify the terms of payment of principal or interest on the outstanding PUF Bonds, or impose any conditions with respect to such payment; (e) affect the rights of the owners of less than all of the PUF Bonds then outstanding; or (f) change the minimum percentage of the principal amount of PUF Bonds necessary for consent to such amendment.

If at any time the Board shall desire to amend the Resolution or any such other resolution, the Board shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in the City of New York, New York once during each calendar week for at least two successive calendar weeks. Such notice shall set forth briefly the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of each paying agent/registrar for the PUF Bonds for inspection by all owners of PUF Bonds. Such publication is not required, however, if notice in writing is given to each owner of PUF Bonds.

Defeasance

The Resolution makes the following provisions for the defeasance of the Bonds:

(a) Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of the Resolution (a "Defeased Bond") except to the extent provided in (c) below, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent for such payment (1) lawful money of the United States of America sufficient to make such payment, or (2) Government Obligations that mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the Board with the Paying Agent and the Registrar for the payment of their services until after all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of the Interest of the System in the Available University Fund, and such principal and interest shall be payable solely from such money or Government Obligations, and shall not be regarded as outstanding under the Resolution. See "Security for the Bonds."

(b) Any moneys so deposited with or made available to the Paying Agent also may be invested at the written direction of the Board in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from such Government Obligations received by the Paying Agent that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be turned over to the Board, or deposited as directed in writing by the Board.

(c) Until all Defeased Bonds shall have become due and payable, the Paying Agent and the Registrar shall perform the services of Paying Agent and Registrar, respectively, for such Defeased Bonds the same as if they had not been defeased, and the Board shall make proper arrangements to provide and pay for such services as required by the Resolution.

(d) For purposes of these provisions, "Government Obligations" means direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

SECURITY FOR THE BONDS

Pledge Under the Resolution

PUF Bonds and the interest thereon are equally and ratably secured by and payable from a first lien on and pledge of the Interest of the System in the Available University Fund, as described below. Pursuant to the Resolution, the Board has reserved the right to issue Additional Parity Bonds and Notes on a parity with the Bonds and the Outstanding PUF Bonds. See "Security for the Bonds -- Additional Parity Bonds and Notes."

The Bonds do not constitute general obligations of the Board, the System, the State or any political subdivision of the State. The Board has no taxing power, and neither the credit nor the taxing power of the State or any political subdivision thereof is pledged as security for the Bonds.

Available University Fund

The Available University Fund is defined by the State Constitution to consist of all the dividend, interest and other income of the Permanent University Fund (less administrative expenses), including net income attributable to the surface of Permanent University Fund land. See "Permanent University Fund." Through Fiscal Year 1997, all such earnings from the Permanent University Fund were distributed to the Available University Fund on a cash-as-received basis. As a result of a recent change in state law, beginning with Fiscal Year 1998, accrued earnings from the Permanent University Fund will now be credited to the Available University Fund at least once a month. For Fiscal Year 1994 and thereafter, the System has reported amounts credited to the Available University Fund on an accrual basis. See "Permanent University Fund--Income, Debt Service Requirements and Coverage."

Two-thirds of the amounts attributable to the Available University Fund (less administrative expenses of the Permanent University Fund) are constitutionally appropriated to the System to be used for constitutionally prescribed purposes. This two-thirds share is referred to herein and in the Resolution as the "Interest of the System" in the "Available University Fund." The remaining one-third of the amounts attributable to the Available University Fund, after deducting such expenses, is constitutionally appropriated to The Texas A&M University System.

Money credited to the Available University Fund is administered by the State Comptroller and, along with other funds of the State, is invested in accordance with State law. Earnings on that portion of the Available University Fund appropriated to the System accrue to and become a part of the Interest of the System in the Available University Fund.

General Covenants

The resolutions authorizing the Outstanding PUF Bonds and the Resolution require the State Comptroller to maintain in the State Treasury an Interest and Sinking Fund for the PUF Bonds. Such resolutions collectively require the Board and the officers of the System to cause the State Comptroller, on or before the date on which principal or interest is due on the PUF Bonds, to transfer from the Interest and Sinking Fund to the paying agents for such bonds amounts sufficient to pay such principal and interest.

The Board additionally covenants and agrees:

- (a) that while any PUF Bonds are outstanding and unpaid, the Board will maintain and invest and keep invested the Permanent University Fund in a prudent manner and as required by law;
- (b) that the Board will restrict expenditures for administering the Permanent University Fund to a minimum consistent with prudent business judgment;
- (c) that the Board will duly and punctually pay or cause to be paid the principal of every PUF Bond, and the interest thereon, from the sources, on the days, at the places and in the manner mentioned and provided in such obligations, according to the true intent and meaning thereof, and that it will duly cause to be redeemed prior to maturity all PUF Bonds that by their terms are required to be redeemed mandatorily prior to maturity, when and as so required,

and that it will faithfully do and perform and at all times fully observe all covenants, undertakings and provisions contained in the Resolution and in the aforesaid obligations; and

(d) that, except for the PUF Bonds, and the interest thereon, the Board will not at any time create or allow to accrue or exist any lien or charge upon the Permanent University Fund or the Interest of the System in the Available University Fund, unless such lien or charge is made junior and subordinate in all respects to the liens, pledges, and covenants in connection with the PUF Bonds, but the right to issue junior and subordinate lien obligations payable from such Interest of the System in the Available University Fund is specifically reserved by the Board; and that the lien created by the Resolution will not be impaired in any manner as a result of any action or non-action on the part of the Board or officers of the System, and the Board will continuously preserve the Permanent University Fund and each and every part thereof.

General Tax Covenant

In the Resolution, the Board states its intention that the interest on the Bonds shall be excludable from gross income for purposes of federal income taxation pursuant to Sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the "Code"), and applicable regulations. The Board covenants and agrees not to take any action, or knowingly omit to take any action within its control, that if taken or omitted, respectively, would cause the interest on the Bonds to be includable in gross income, as defined in Section 61 of the Code, of the holders thereof for purposes of federal income taxation. In particular, the Board covenants and agrees in the Resolution to comply with each requirement of the Resolution relating to the treatment of interest on the Bonds for federal income tax purposes; provided, however, that the Board shall not be required to comply with any particular requirement if the Board has received an opinion of nationally recognized bond counsel acceptable to the Board that such noncompliance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or if the Board has received an opinion of such counsel to the effect that compliance with some other requirement set forth in the Resolution will satisfy the applicable requirements of the Code, in which case compliance with such other requirement specified in such counsel's opinion shall constitute compliance with the corresponding requirement specified in the Resolution.

Additional Parity Bonds and Notes

The Board reserves the right, exercisable at any time and from time to time, to issue and deliver Additional Parity Bonds and Notes, in as many separate installments or series as deemed advisable by the Board, but only for constitutionally permitted (including refunding) purposes. Such Additional Parity Bonds and Notes, when issued, and the interest thereon, shall be equally and ratably secured by and payable from a first lien on and pledge of the Interest of the System in the Available University Fund, in the same manner and to the same extent as are the Bonds and the Outstanding PUF Bonds. It is further covenanted, however, that no installment or series of Additional Parity Bonds or Notes shall be issued and delivered unless the Chancellor, Executive Vice Chancellor for Business Affairs, the Assistant Vice Chancellor for Finance, the Director of Finance of the System or some other officer of the System designated by the Board executes:

(a) a certificate to the effect that for the Fiscal Year immediately preceding the date of said certificate, the amount of the Interest of the System in the Available University Fund was at least 1-1/2 times the average annual Principal, and Interest Requirements (as defined below) of the installment or series of Additional Parity Bonds or Notes then proposed to be issued and all then outstanding PUF Bonds that will be outstanding after the issuance and delivery of such proposed installment or series; and

(b) a certificate to the effect that the total principal amount of (i) all PUF Bonds and (ii) all other obligations of the Board that are secured by and payable from a lien on and pledge of the Interest of the System in the Available University Fund that will be outstanding after the issuance and delivery of the installment or series of Additional Parity Bonds or Notes then proposed to be issued will not exceed 20% of the cost value of investments and other assets of the Permanent University Fund (exclusive of the PUF Land, as hereinafter defined) at the time the proposed series or installment of Additional Parity Bonds or Notes is issued.

For purposes of the calculation required by (a) above and for other purposes of the Resolution, "Principal and Interest Requirements" means, with respect to any Fiscal Year of the System, the amounts of principal of and interest on all PUF Bonds scheduled to be paid in such Fiscal Year from the Interest of the System in the Available University Fund. If the rate of interest to be borne by any PUF Bonds is not fixed, but is variable or adjustable by any formula, agreement, or otherwise, and therefore cannot be calculated as actually being scheduled to be paid in a particular amount for any particular period, then for the purposes of the previous sentence such PUF Bonds shall be deemed to bear interest at all times to their maturity or due date at the lesser of (i) the maximum rate then permitted by law or (ii) the maximum rate specified in such PUF Bonds.

Future Financings

The Constitutional Provision provides that the System and its component institutions designated in the Constitutional Provision may not receive any funds from the general revenue of the State for acquiring land, with or without improvements, for constructing or equipping buildings or other permanent improvements, or for major repair and rehabilitation of buildings or other permanent improvements, except in case of fire or natural disaster (when the State Legislature may appropriate amounts to replace uninsured losses) or in cases of demonstrated need, as statutorily expressed in an appropriations act adopted by a two-thirds vote of both houses of the State Legislature. Accordingly, the needs of the System for capital funds through the issuance of bonds or notes are on-going. The Board reserves the right to issue Additional Parity Bonds and Notes and other obligations should it elect to do so. See Table II, "Historical Availability and Outstanding Bonds and Notes."

Remedies

Any owner of any of the Outstanding PUF Bonds, the Bonds or Additional Parity Bonds or Notes shall, in the event of default in connection with any covenant contained in the Resolution or default in the payment of any amount due with respect to such obligations, have the right to institute mandamus proceedings against the Board or any other necessary or appropriate party for the purpose of enforcing payment from the moneys pledged under the Resolution or for enforcing any such covenant. Except for the remedy of mandamus to enforce the Board's covenants and obligations under the Resolution, the Resolution does not establish other remedies or specifically enumerate the events of default with respect to the Bonds. The Resolution does not provide for a trustee to enforce the covenants and obligations of the Board. In no event will registered owners have the right to have the maturity of the Bonds accelerated as a remedy. The enforcement of the remedy of mandamus may be difficult and time consuming. No assurance can be given that a mandamus or other legal action to enforce a default under the Resolution would be successful.

The opinion of the Bond Counsel will note that all opinions relative to the enforceability of the Resolution and the Bonds are limited by bankruptcy, insolvency, reorganization, moratorium, liquidation, and other similar laws relating to creditors' rights generally. See "Appendix D – Form of Bond Counsel Opinion."

Subordinate Lien Notes

In addition to the PUF Bonds, pursuant to the Constitutional Provision, the Board has authorized an interim financing program through the issuance of its Permanent University Fund Variable Rate Notes, Series A to be outstanding at any time in the maximum principal amount of \$250,000,000 (the "Subordinate Lien Notes"). Following the delivery of the Bonds and the retirement of the Refunded Notes, there will be \$72,000,000 in principal amount of Subordinate Lien Notes outstanding. The Subordinate Lien Notes are secured by a lien on the Interest of the System in the Available University Fund subordinate to the lien securing the PUF Bonds. The Board has entered into a Standby Note Purchase Agreement with Westdeutsche Landesbank Girozentrale, New York Branch, Bayerische Landesbank Girozentrale, New York Branch, and Landesbank Hessen-Thüringen Girozentrale, New York Branch, pursuant to which each bank, acting severally but not jointly, is obligated to purchase up to \$65,000,000 (collectively, \$195,000,000) of Subordinate Lien Notes through the period ending May 31, 2000 (which term may be extended annually by the Board for successive one-year periods if the banks consent thereto in accordance with the agreement). Such agreement provides a source of liquidity to the Board with respect to the Subordinate Lien Notes, but does not constitute security or credit enhancement. See "Permanent University Fund – Constitutional Debt Power, Debt Limitations."

Residual Funds

After the payment of annual debt service on the PUF Bonds and after payment of any other obligations secured by a lien on the Interest of the System in the Available University Fund, the Constitutional Provision appropriates the remaining amount attributable to the Interest of the System in the Available University Fund (the "Residual AUF") to the Board for the support and maintenance of The University of Texas at Austin and for the administration of the System.

PERMANENT UNIVERSITY FUND

Introduction

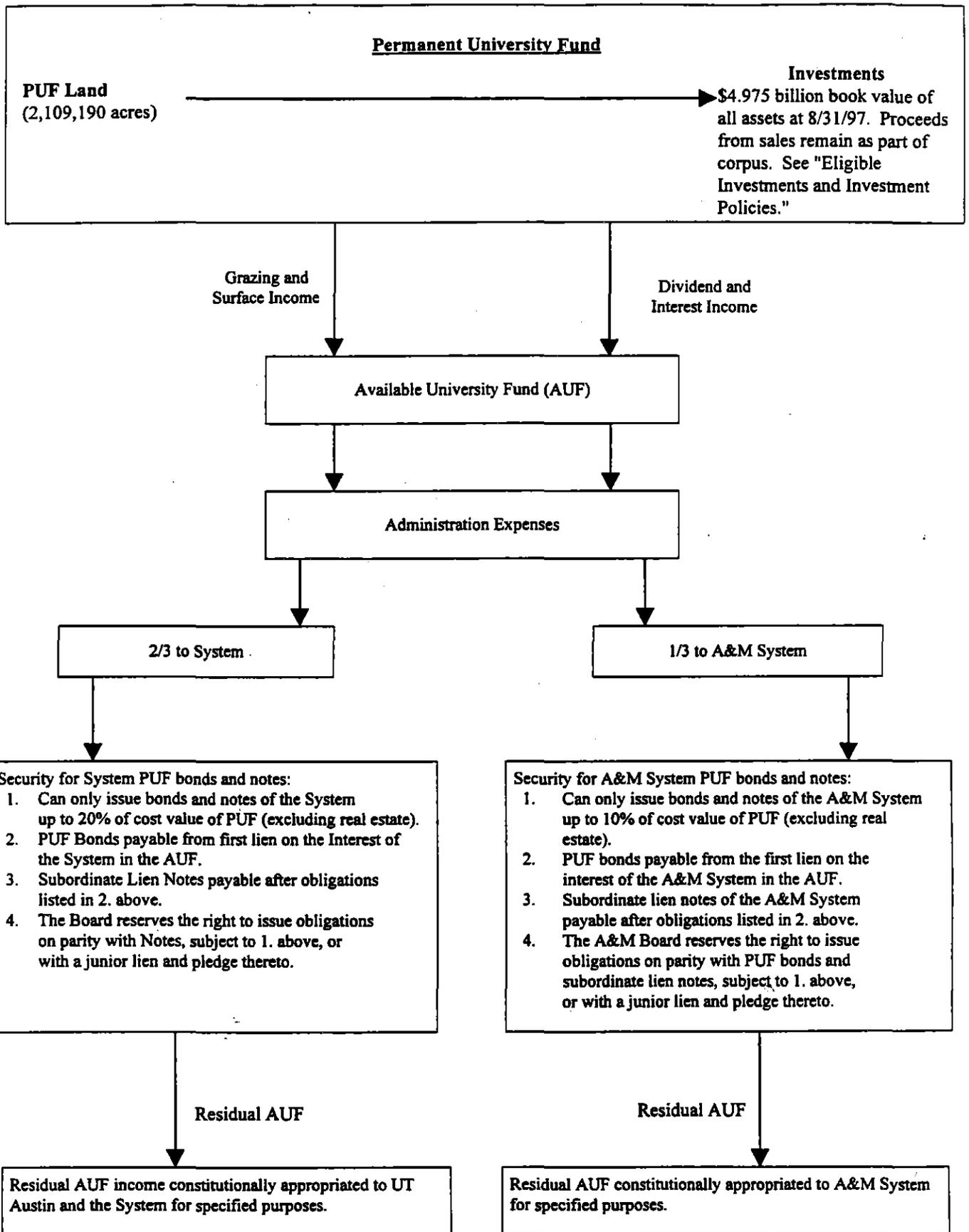
The Permanent University Fund is a constitutional fund, created in the Texas Constitution of 1876 through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the Permanent University Fund were completed in 1883. Today, the Permanent University Fund contains 2,109,190 acres located in 24 counties in North and West Texas (collectively, the "PUF Land").

As interpreted by the State Supreme Court and by the State Attorney General, the Permanent University Fund must be forever kept intact, and the proceeds from oil, gas, sulphur and water royalties, together with all gains on investments, all rentals on mineral leases, all lease bonuses and all amounts received from the sale of land must be retained as a part of the corpus of the Permanent University Fund.

The assets and earnings of the Permanent University Fund are dedicated to the uses and purposes of the System and The Texas A&M University System. See "Security for the Bonds -- Available University Fund." The Permanent University Fund functions as a public endowment contributing to the support of institutions of the System (other than The University of Texas-Pan American and The University of Texas at Brownsville) and eligible 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).

A graphic summary and analysis of the relationship among the Permanent University Fund, the Available University Fund, the System and The Texas A&M University System follows. Said summary and analysis is qualified in its entirety by reference to the full text of this Official Statement and to the documents, laws and constitutional provisions referred to herein.

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Income, Debt Service Requirements and Coverage

Table I below sets forth historical earnings of the Permanent University Fund that were deposited to the Available University Fund, together with the debt service requirements of the Outstanding PUF Bonds and the Subordinate Lien Notes and the coverage thereof. See "Security for the Bonds – Subordinate Lien Notes and Residual Funds."

Table I

Historical Available University Fund (In Thousands)

Fiscal Year Ending August 31	AUF (After Administrative Expenses ^(1&2))	Interest of the System in Available University Fund	Other Income ⁽¹⁾	Total Income Available to Pay Debt Service	Total Debt Service Payable from Available University Fund ⁽³⁾	Coverage ⁽⁴⁾
1988	\$231,417	\$154,278	\$5,939	\$160,217	\$43,531	3.68x
1989	248,146	165,431	9,216	174,647	51,867	3.36x
1990	258,219	172,146	8,188	180,334	50,549	3.57x
1991	250,421	166,948	5,211	172,159	53,506	3.21x
1992	250,255	166,837	5,260	172,097	63,466	2.71x
1993	245,025	163,350	4,182	167,532	65,906	2.54x
1994 ⁽⁵⁾	245,562	163,708	4,163	167,871	66,042	2.54x
1995 ⁽⁵⁾	245,400	163,600	4,458	168,058	66,927	2.51x
1996 ⁽⁵⁾	250,542	167,028	4,451	171,479	57,750	2.97x
1997 ⁽⁵⁾						

- (1) The amounts are unaudited amounts reflected on the System's books.
- (2) Numbers shown reflect the Available University Fund (net of expenses of administering the Permanent University Fund). The expenses of administering the Permanent University Fund constitute a first claim on the income therefrom and are deducted prior to dividing the Available University Fund between the System and The Texas A&M University System. The Resolution contains a covenant restricting administrative expenses of the Permanent University Fund to a minimum consistent with prudent business judgment.
- (3) Includes Debt Service on PUF Bonds and Subordinate Lien Notes.
- (4) Represents Total Income Available to Pay Debt Service divided by Total Debt Service Payable from Available University Fund.
- (5) For Fiscal Years 1994 and thereafter, the System began reporting accrued earnings from the Permanent University Fund as credits to the Available University Fund, while earnings from the Permanent University Fund were actually distributed to the Available University Fund on a cash-as-received basis. The amounts actually distributed to the Available University Fund on a cash basis for 1994, 1995, 1996 and 1997 are \$237,620,000, \$243,940,000, \$249,383,000 and \$ _____, respectively. As a result of a recent state law change, beginning with Fiscal Year 1998, accrued earnings from the Permanent University Fund will now be credited to the Available University Fund at least monthly.

Constitutional Debt Power, Debt Limitations

The discretion to direct the use of the Interest of the System in the Available University Fund, after administrative expenses, for constitutionally authorized purposes is vested in the Board. The discretion to direct the use of the one-third interest of The Texas A&M University System in the Available University Fund, after administrative expenses, is vested in the Board of Regents of The Texas A&M University System.

The Constitutional Provision authorizes the Board to issue bonds and notes, payable from all or any part of the Interest of the System in the Available University Fund for the purpose of (a) acquiring land, with or without permanent improvements, (b) constructing and equipping buildings or other permanent improvements, (c) making major repair and

rehabilitation of buildings and other permanent improvements, (d) acquiring capital equipment, library books and library materials, and (e) refunding bonds or notes issued under such Constitutional Provision or prior law at or for System administration and certain component institutions of the System. The pledge and security interest made and granted in the Resolution is accomplished pursuant to that Constitutional Provision.

The Constitutional Provision limits the aggregate amount of bonds and notes secured by the Interest of the System in the Available University Fund that may be issued by the Board to amounts not exceeding, at the time of issuance, 20% of the cost value of investments and other assets of the Permanent University Fund, exclusive of the PUF Land. As of August 31, 1997, the unaudited cost value of the Permanent University Fund, exclusive of PUF Land, was \$4,974,515,767 and outstanding bonds and notes secured by the Interest of the System in the Available University Fund totaled \$669,200,000. Accordingly, using the August 31, 1997, valuation (without taking into account the issuance of the Bonds and the refunding of the Refunded Notes), the Board will be authorized to issue an additional \$325,703,153 of bonds or notes secured by the Interest of the System in the Available University Fund. For the purpose of making these calculations, "cost value" and "book value" are treated as equivalent terms.

Table II shows the constitutional debt limits of the Permanent University Fund for each Fiscal Year 1988 through 1997 and the amount of outstanding bonds and notes secured by the respective interests in the Available University Fund for each of such years for both the System and The Texas A&M University System.

Table II
Historical Availability and Outstanding Bonds and Notes
(In Thousands)

Fiscal Year Ending August 31	Book Value of Fund	The University of Texas System		The Texas A&M University System	
		Constitutional Debt Limit	Outstanding	Constitutional Debt Limit	Outstanding
1988	\$3,082,119	\$616,438	\$442,100	\$308,218	\$224,180
1989	3,294,392	658,878	477,205	329,439	248,050
1990	3,435,080	687,016	542,155	343,508	255,685
1991	3,526,481	705,296	551,465	352,648	308,300
1992	3,656,917	731,383	626,840	365,698	288,427
1993	4,044,284	808,857	602,630	404,428	324,759
1994	4,213,209	842,642	615,110	421,321	355,319
1995	4,375,824	875,165	586,315	437,592	344,659
1996	4,638,337	927,667	607,885	463,834	329,930
1997					

Investment Governance and Management Structure

The Board for Lease of University Lands, composed of representatives of the System, The Texas A&M University System and the State Land Commissioner, is responsible for the approval of oil, gas and other mineral leases of Permanent University Fund lands.

The fiduciary responsibility for managing and investing the Permanent University Fund is constitutionally assigned to the Board. In 1995, the State Legislature authorized the Board to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board subject to the following conditions: (a) that the corporation not engage in any business other than investing funds designated by the Board under the contract; (b) that the Board approve (i) the articles of incorporation and by-laws 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; (c) that the Board appoint all members of the corporation's nine-member board of directors which shall consist of at least three members of the Board, the Chancellor of the System, at least one member appointed by the Board from a list of candidates submitted by the Board of Regents of the A&M System and up to four independent directors; (d) that the Board provide for an annual financial audit of the Permanent University Fund; and (e) that the corporation file quarterly reports with the Board concerning matters required by the Board.

On February 8, 1996, the Board approved a contract for the investment management of all funds under the Board's control and management with The University of Texas Investment Management Company ("UTIMCO"), a corporation organized under the laws of the State of Texas, in accordance with the 1995 legislation. The Board's existing investment management and operating staff were then transferred to UTIMCO. The Board pays UTIMCO an annual fee for investment management services. On April 23, 1996, UTIMCO received a determination from the Internal Revenue Service that it constitutes a tax-exempt organization described in Section 501(c)(3) of the Code.

Investment Management Firms

UTIMCO may hire unaffiliated investment managers from time to time in order to provide the Permanent University Fund with increased diversity through their unique style and approach to investing, as well as to improve the Permanent University Fund's return and risk characteristics. The external managers are screened and evaluated on the basis of investment philosophy and historical performance. Investment managers are monitored periodically for performance and adherence to investment discipline. UTIMCO reviews the composition of managers from time to time and may add or terminate managers in order to optimize portfolio returns. As of August 31, 1997, external managers managed approximately 18.6% of the investment assets of the Permanent University Fund on an active, fully discretionary basis, and 31.0% on a passive indexed basis.

Eligible Investments and Investment Policies

Pursuant to an amendment to Article VII of the State Constitution which was approved by the voters of the State on November 8, 1988, the Board is authorized, subject to procedures and restrictions it establishes, to invest the Permanent University Fund in any kind of investments and in amounts it considers appropriate; provided that it adheres to the prudent person investment standard, which requires that, in making each and all investments, the Board shall exercise the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income therefrom, as well as the probable safety of their capital.

On February 6, 1997, the Board adopted a new investment policy for the Permanent University Fund. The new policy explicitly recognizes the constitutional segregation of total investment return between income return, all of which must be distributed to the Available University Fund, and price return (realized and unrealized gains) which must be retained as Permanent University Fund corpus. The new policy also recognizes the perpetual nature of the Permanent University Fund and stipulates two long term investment objectives: (i) to preserve the purchasing power of Permanent University Fund assets and annual distributions by earning an average annual total return after inflation of 5.5% over rolling ten-year periods or longer and (ii) to generate a return on the Permanent University Fund in excess of a policy portfolio benchmark established by UTIMCO and comprised of a blend of asset class indices weighted to reflect Permanent University Fund asset allocation policy targets. The new policy also established long-term asset allocations for the Permanent University Fund of 50% to 90% in equities (including domestic and international stocks and alternative asset investments) and not more than 50% in fixed income securities.

The new policy delegates authority to UTIMCO to establish a neutral allocation and a range for each asset class within the broad policy guidelines described above, with actual allocations to be determined by UTIMCO in response to changes in the outlook for investments. UTIMCO is required to report specific asset allocation policies to the Board. Table III sets forth the neutral allocations and ranges so established by UTIMCO by asset class.

**Table III
Neutral Allocations and Ranges**

<u>Asset Class</u>	<u>Neutral Allocation</u>	<u>Allocation Ranges</u>
Cash and Equivalents	0%	0%-5%
Equities		
U.S. Common Stocks:		
Med/Large Capitalization Stocks	30%	25%-35%
Small Capitalization Stocks	<u>10%</u>	<u>5%-15%</u>
Sub-total	40%	30%-50%
International Common Stocks:		
Established Markets	12%	5%-20%
Emerging Markets	<u>3%</u>	<u>0%-10%</u>
Sub-total	<u>15%</u>	<u>5%-30%</u>
Total Common Stocks	55%	35%-80%
Alternative Assets:		
Liquid	5%	0%-5%
Illiquid	15%	10%-20%
Inflation Hedging	<u>5%</u>	<u>0%-5%</u>
Total Alternative Assets	25%	10%-30%
TOTAL EQUITIES	80%	50%-85%
Fixed Income		
U.S. (Domestic)	15%	15%-50%
International	5%	0%-5%
TOTAL FIXED INCOME	<u>20%</u>	15%-50%
TOTAL ASSETS	100%	

The neutral allocations established by UTIMCO and the actual allocation percentages as of August 31, 1997, are set forth in Table IV below.

**Table IV
Specific Asset Allocation**

<u>Asset Class</u>	<u>Neutral Allocation</u>	<u>Percentage Allocation (as of August 31, 1997)</u>
Cash & Cash Equivalents	0%	0.3%
U.S. Common Stocks	40%	50.1%
International Common Stocks	15%	6.5%
Alternative Assets	25%	6.1%
U.S. Fixed Income	15%	37.0%
International Fixed Income	<u>5%</u>	<u>0.0%</u>
Total Assets	100%	100.0%

The change in the asset allocation is expected to increase the amount of income distributed to the Available University Fund over the long term, although the implementation of the new asset mix is expected to be gradual, so that distributable income is not expected to increase in significant amounts for several years.

The Resolution requires the Board to maintain and invest and keep invested the Permanent University Fund in a prudent manner and as required by law. To the best knowledge and belief of the Board, the Board's investments, practices and policies are in full compliance with the requirements of the State Constitution and the Resolution.

Table V shows the annual growth in the book value of the Permanent University Fund through Fiscal Year 1997. Proceeds from the sale of investment securities contained in such Fund, including capital gains, are constitutionally required to remain as part of the corpus of such Fund.

Table V
Annual Permanent University Fund Growth
(In Millions)

Fiscal Year Ending <u>August 31</u>	<u>Beginning Balance</u>	PUF <u>Lands Receipts</u>	Net <u>Realized Gains⁽¹⁾</u>	<u>Total Additions</u>	<u>Ending Balance⁽²⁾</u>
1988	\$2,919.5	\$80.3	\$82.3	\$162.6	\$3,082.1
1989	3,082.1	71.8	140.5	212.3	3,294.4
1990	3,294.4	78.5	62.2	140.7	3,435.1
1991	3,435.1	89.3	2.1	91.4	3,526.5
1992	3,526.5	64.6	65.8	130.4	3,656.9
1993	3,656.9	69.4	318.0	387.4	4,044.3
1994	4,044.3	59.6	109.3	168.9	4,213.2
1995	4,213.2	57.1	105.5	162.6	4,375.8
1996	4,375.8	65.7	196.8	262.5	4,638.3
1997	-----	-----	-----	-----	-----

(1) Net of realized losses on sale of Permanent University Fund securities.
(2) Excludes nominal value of PUF Land of \$10,027,384.

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Table VI shows a summary comparison of the investments, excluding the PUF Land, of the Permanent University Fund for Fiscal Years ended August 31, 1996 and 1997. Though market values are shown, assets are valued at their book value in the financial records of the System. The 2,109,190 acres of PUF Land owned by the Permanent University Fund are carried on the books at the nominal book value of \$10,027,384.

Table VI
Permanent University Fund
Comparison Summary of Investments
August 31, 1996
(In Thousands)

	<u>Book Value</u>	<u>Yield</u>	<u>Market Value</u>	<u>Yield</u>
Debt Securities				
U.S. Govt. Obligations (Direct)	\$342,857	8.87%	\$364,273	6.57%
U.S. Govt. Obligations (Guaranteed)	43,239	8.18%	44,801	7.77%
U.S. Govt. Agencies (Non-Guaranteed)	333,275	8.45%	342,961	7.73%
Foreign Government Obligations	95,445	7.66%	96,483	7.58%
Municipal and County Bonds	98,897	7.66%	97,385	7.31%
Corporate Bonds	<u>1,380,510</u>	<u>7.88%</u>	<u>1,382,275</u>	<u>7.77%</u>
Total Debt Securities	2,294,223	8.10%	2,328,178	7.55%
Preferred Stocks	2,696	9.67%	2,690	9.69%
Equity Securities				
Convertible Preferred Stocks	1,075	6.83%	1,177	6.24%
Common Stocks	842,771	3.21%	1,111,631	2.44%
Limited Partnerships and Other	190,107	0.00%	245,227	0.00%
Indexed Funds	<u>1,157,976</u>	<u>3.19%</u>	<u>1,453,704</u>	<u>2.57%</u>
Total Equity Securities	2,191,929	2.92%	2,811,739	2.29%
Cash and Cash Equivalents				
Cash Held at State Treasury	26,846	5.25%	26,846	5.25%
Money Markets	8,162	5.94%	8,162	5.94%
Commercial Paper	<u>115,000</u>	<u>5.30%</u>	<u>115,000</u>	<u>5.30%</u>
Total Cash and Cash Equivalents	150,008	5.33%	150,008	5.33%
Total Investments of Securities - Principal	4,638,856	<u>5.56%</u>	5,292,615	<u>4.70%</u>
Trade Receivables	4,890		4,890	
Trade Payables	(5,409)		(5,409)	
Value of Fund - Principal	<u>\$4,638,337</u>		<u>\$5,292,096</u>	

Note: Bonding limits are based on the Permanent University Fund's book value which includes investments, receivables and payables. Values for Fiscal Years 1996 and 1997 have been reported on a trade date basis which includes trade receivables and payables. The yields shown in the table above represent the income from the respective types of investments divided by the book value or market value, as the case may be, at the date shown.

Table VI (continued)
Permanent University Fund
Comparison Summary of Investments
August 31, 1997
(In Thousands)

	<u>Book</u> <u>Value</u>	<u>Yield</u>	<u>Market</u> <u>Value</u>	<u>Yield</u>
Debt Securities				
U.S. Govt. Obligations (Direct)				
U.S. Govt. Obligations (Guaranteed)				
U.S. Govt. Agencies (Non-Guaranteed)				
Foreign Government Obligations				
Municipal and County Bonds				
Corporate Bonds				
Total Debt Securities				
 Preferred Stocks				
 Equity Securities				
Convertible Preferred Stocks				
Common Stocks				
Limited Partnerships and Other				
Indexed Funds				
Total Equity Securities				
 Cash and Cash Equivalents				
Cash Held at State Treasury				
Money Markets				
Commercial Paper				
Total Cash and Cash Equivalents				
 Total Investments of Securities - Principal				
 Trade Receivables				
Trade Payables				
 Value of Fund - Principal				

Note: Bonding limits are based on the Permanent University Fund's book value which includes investments, receivables and payables. Values for Fiscal Years 1996 and 1997 have been reported on a trade date basis which includes trade receivables and payables. The yields shown in the table above represent the income from the respective types of investments divided by the book value or market value, as the case may be, at the date shown.

Table VII shows a summary of the income from investments in the Permanent University Fund for the Fiscal Year ended August 31, 1997, which was deposited in the Available University Fund.

**Table VII
Permanent University Fund
Summary of Income
Year Ended August 31, 1997
(In Thousands)**

	<u>Cash</u>	<u>Accrued</u>
Debt Securities		
U. S. Govt. Obligations (Direct)	\$	\$
U. S. Govt. Obligations (Gtd)		
U. S. Govt. Agencies (Non-Gtd)		
Foreign Government Obligations		
Municipal and County Bonds		
Corporate Bonds		
Total Debt Securities		
Preferred Stocks		
Equity Securities		
Convertible Preferred Stocks		
Common Stocks & Other Equities		
Index Funds		
Total Equity Securities		
Cash and Cash Equivalents		
Cash Held at State Treasury		
Money Markets		
Commercial Paper		
Total Cash and Cash Equivalents		
Other Investment Income		
Securities Lending		
Director's Fees		
Total Other Investment Income		
Total Investment Income		
Surface and Other Income		
Grazing Leases		
Land Easements		
Exploration & Prospecting		
Permits		
Miscellaneous		
Total Surface and Other Income		
Total Income		

Financial Information

Beginning with the Fiscal Year ended August 31, 1987, the State began issuing audited financial statements, prepared in accordance with generally accepted accounting principles, for the State government as a whole. The statements are prepared by the State Comptroller and are audited by the State Auditor's office. The State Auditor expresses an opinion on the financial statements of the State but does not express an opinion on the financial statements of individual component units, including those of the System and the Permanent University Fund.

The scope of the State Auditor's audit includes tests for compliance with the covenants of bond issues of the State or its component agencies and institutions. In addition, supplementary schedules are included in the State financial statements, providing for each bond issue information related to pledged revenues and expenditures, coverage of debt service requirements, restricted account balances and/or other relevant information which may feasibly be incorporated. The State Auditor expresses an opinion on such schedules in relation to the basic financial statements taken as a whole. Any material compliance exceptions related to bond covenants are disclosed in the notes to the financial statements and all compliance exceptions related to bond covenants are addressed in the overall management letter for the State audit.

For the Fiscal Year ended August 31, 1997, the Board commissioned an audit of the statement of investment assets and liabilities of the Permanent University Fund, including the comparison summary of investments as of August 31, 1996, and the related statement of investment income (accrual basis and cash basis), the statement of changes in net investment assets and the schedule of changes in book value of investments for the year then ended. As noted in the audit, the preparation of the statement of investment income on a cash basis is a comprehensive basis of accounting other than generally accepted accounting principles. The report of the independent auditor with the summary of investments and the statement of investment income (accrual basis and cash basis) are included in Appendix A hereto.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the unqualified approval of the Attorney General of the State of Texas and of Vinson & Elkins L.L.P., Bond Counsel, whose approving opinion will be in the form attached hereto as Appendix D. The payment of legal fees to Bond Counsel in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Board by its special counsel, Yava D. Scott, Attorney-at-law, Houston, Texas.

ABSENCE OF LITIGATION

Neither the Board nor the System is a party to any litigation or other proceeding pending or, to the knowledge of the General Counsel of the System, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to either such party, would have a material adverse effect on the financial condition of the System, the Permanent University Fund or the Interest of the System in the Available University Fund. No litigation of any nature has been filed, or to the knowledge of the General Counsel of the System threatened, which seeks to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security, or in any manner questioning the validity of the Bonds. The Board will furnish to the Initial Purchaser a certificate to the effect that, as of the date at delivery of the Bonds to the Initial Purchaser, no litigation of any nature has been filed or is then pending which seeks to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security, or in any manner questioning the validity of the Bonds.

TAX MATTERS

Tax Exemption

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, (ii) certain "original issue discount" on any Bonds for which the public offering price as set forth on the Supplement to this Official Statement is less than the stated redemption price at maturity thereof (the "Original Issue Discount Bonds") is excludable from gross income for federal income tax purposes under existing law as described more fully in "Tax Matters -- Tax Accounting Treatment of Original Issue Discount Bonds" and (iii) the Bonds are not "private activity bonds" under the Code, and interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excluded from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States, and requirement that the issuer file an information report with the Internal Revenue Service. The Board has covenanted in the Resolution that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Resolution pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the Board and the Initial Purchaser of the Bonds with respect to matters solely within the knowledge of the Board and the Initial Purchaser of the Bonds, respectively, which Bond Counsel has not independently verified. If the Board should fail to comply with the covenants in the Resolution or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

The Code also imposes a 20% alternative maximum tax on the "alternative minimum taxable income" of a corporation, if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. The "Superfund Revenue Act of 1986" also imposes an additional 0.12% "environmental tax" on the alternative minimum taxable income of a corporation in excess of \$2,000,000. Generally, for taxable years beginning after 1989, the alternative minimum taxable income of a corporation (other than any "S" corporation, regulated investment company, REIT, REMIC or FASIT) includes 75% of the amount by which its "adjusted current earnings" exceed its other "alternative minimum taxable income." Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Except as stated above, and as stated below in "Tax Matters -- Tax Accounting Treatment of Original Issue Discount Bonds," Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of, the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayer who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the U. S. may be subject to the "branch profits tax" on their effectively-connected earnings and profits including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in law that may thereafter occur or become effective.

Tax Accounting Treatment of Original Issue Discount Bonds

The initial public offering price to be paid for any Original Issue Discount Bonds is less than the stated redemption price at maturity thereof. Bond Counsel, under existing law and based upon the assumptions hereinafter stated, will render an opinion to the effect that:

(a) The difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds; and

(b) Such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portions of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption "Tax Matters – Tax Exemption" generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bonds at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.)

In rendering the foregoing opinion, Bond Counsel will assume, in reliance upon certain representations of the Initial Purchaser, that (a) the Initial Purchaser has purchased the Bonds for contemporaneous sale to the public and (b) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transaction for a price (and with no other consideration being included) not more than the initial offering prices thereof. Neither the Board nor the Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions. Certain of the representations of the Initial Purchaser, upon which Bond Counsel will rely in rendering the foregoing opinion, are based on records or facts the Initial Purchaser had no reason to believe were not correct.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semi-annual anniversary dates of the date of the Bonds and ratably within each six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bonds for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds

should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original issue Discount Bonds.

LEGAL INVESTMENTS IN TEXAS

Pursuant to Article 717k-6, Texas Revised Civil Statutes Annotated, as amended, the Bonds are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries and trustees, and for the sinking funds of cities, towns, villages, school districts and other political subdivisions or public agencies of the State. The Bonds are eligible to secure deposits of public funds of the State, or any political subdivision or public agency of the State, and are legal security for those deposits to the extent of their market value. The Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "Investment Act"), provides that any "local government" and "state agency" (as those are defined in the Investment Act) may invest in the Bonds, provided the Bonds have received a rating of not less than "A" from a nationally recognized investment rating firm. No investigation has been made of other laws, regulations or investment criteria which might limit the ability of such institutions or entities to invest in the Bonds, or which might limit the suitability of the Bonds to secure the funds of such entities. No review by the Board has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

RATINGS

Ratings on the Bonds have been received from Moody's Investor's Service, Inc. ("Moody's"), Standard & Poor's Corporation ("S&P") and Fitch Investors Service ("Fitch"). Moody's has assigned a rating of "Aaa" to the Bonds. S&P and Fitch have each assigned a rating of "AAA" to the Bonds. An explanation of the significance of each such rating may be obtained from the company furnishing the rating. The ratings will reflect only the views of such organizations at the time such ratings are given, and the Board makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of such rating companies, circumstances so warrant. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Issuance of the Bonds will be subject to delivery by Deloitte & Touche LLP, independent certified public accountants, of a report of the mathematical accuracy of certain computations relating to the accuracy of the maturing principal amounts of the Government Obligations held in the Escrow Fund, together with a portion of the interest income thereon and uninvested cash, if any, to pay, when due, the principal of and interest on the Refunded Notes.

CONTINUING DISCLOSURE OF INFORMATION

In the Resolution, the Board has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The Board is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the Board will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

The Board will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the Permanent University Fund and the Interest of the System in the Available University Fund of the general type included in this Official Statement under the heading "Permanent University Fund" and in Appendices A, B and C. The Board will update and provide this information within six months after the end of each Fiscal Year ending after the public sale of the Bonds. The Board will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

The Board may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 ("Rule 15c2-12"). The updated information will include annual financial statements with respect to the Permanent University Fund provided on an accrual basis, or such other basis as the Board may be required to employ from time to time pursuant to state law or regulation, and will be audited, if the Board commissions an audit of such financial statements and the audit is completed during the period during which they must be provided. If audited financial statements with respect to the Permanent University Fund are not so provided within the required period, then the Board shall provide unaudited financial statements with respect to the Permanent University Fund for the applicable Fiscal Year to each NRMSIR and any SID, and shall file audited financial statements with respect to the Permanent University Fund when and if audited financial statements become available. If audited financial statements with respect to the Permanent University Fund are not prepared for any Fiscal Year, and audited financial statements are prepared with respect to the State for such Fiscal Year, the Board shall provide, or cause to be provided, the audited financial statements of the State for the applicable Fiscal Year. Any such financial statements of the State shall be provided within six months after the end of such Fiscal Year or as soon thereafter as such audited financial statements of the State become available from the State Auditor. Any such financial statements of the State shall be prepared in accordance with generally accepted accounting principles for state governments, as such principles may be changed from time to time to comply with state law.

The State's current Fiscal Year end is August 31. Accordingly, the Board must provide updated information by the last day of February in each year, unless the State changes its Fiscal Year. If the State changes its Fiscal Year, the Board will notify each NRMSIR and any SID of the change.

Material Event Notices

The Board will also provide timely notices of certain events to certain information vendors. The Board will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. (Neither the Bonds nor the Resolution make any provision for debt service reserves, credit enhancement or liquidity enhancement.) In addition, the Board will provide timely notice of any failure by the Board to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The Board will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

The Board has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State of Texas as a SID, and the SEC staff has issued a no action letter confirming that it will accept that designation. The address of the Municipal Advisory Council of Texas is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

Limitations and Amendments

The Board has agreed to file updated information and to provide notices of material events only as described above. The Board has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Board makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Board disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the Board to comply with its agreement.

This continuing disclosure agreement may be amended by the Board from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Board or the Permanent University Fund, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 since such offering as well as such changed circumstances and (2) either (a) the holders of 51% in aggregate principal amount of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the Board and the Permanent University Fund (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the holders and beneficial owners of the Bonds. The Board may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

The Board has not failed to comply with its previous continuing disclosure agreements in accordance with SEC Rule 15c2-12.

OTHER MATTERS

The financial data and other information contained herein have been obtained from the Board's records, financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the constitutional provisions, statutes and documents contained in this Official Statement are made subject to all of the provisions of such constitutional provisions, statutes and documents. The summaries do not purport to be complete statements of such provisions and reference is made to such provisions and documents for further information. Reference is made to original documents in all respects.

At the time of payment for and delivery of the Bonds, the Initial Purchaser will be furnished a certificate, executed by an authorized representative of the Board, to the effect that, to the best of such representative's knowledge, (i) this Official Statement, including any addendum, supplement or amendment hereto (hereafter, this "Official Statement") does not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (ii) no event affecting the Board, the Permanent University Fund or the Interest of the System in the Available University Fund has occurred since the date of the Official Statement which is materially adverse for the

purpose for which the Official Statement is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any respect; and (iii) there has not been any material adverse change in the financial condition of the Board, the Permanent University Fund or the Interest of the System in the Available University Fund from that reflected in the Board's financial statements and the financial information contained in the Official Statement.

The Resolution authorizing the issuance of the Bonds also approved the form and content of this Official Statement and authorized its further use in the reoffering of the Bonds by the Initial Purchaser.

/s/ Pamela K. Clayton
Interim Assistant Vice Chancellor for Finance,
The University of Texas System

APPENDIX A

**AUDITED STATEMENT OF INVESTMENT ASSETS AND LIABILITIES
OF THE PERMANENT UNIVERSITY FUND,
STATEMENT OF INVESTMENT INCOME
(ACCRUAL BASIS AND CASH BASIS),
STATEMENT OF CHANGES IN NET
INVESTMENT ASSETS AND SCHEDULE
OF CHANGES IN BOOK VALUE OF INVESTMENTS**

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APPENDIX B

PERMANENT UNIVERSITY FUND SCHEDULE OF INVESTMENT VALUES

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APPENDIX C

**COMBINED DEBT SERVICE REQUIREMENTS
OF THE OUTSTANDING PUF BONDS AND THE BONDS**

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APPENDIX D
FORM OF BOND COUNSEL OPINION

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**NOTICE OF SALE
AND
BIDDING INSTRUCTIONS**

§ _____
**BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT UNIVERSITY FUND BONDS
SERIES 199__**

THE SALE

Bonds Offered For Sale At Competitive Bidding

The Board of Regents of The University of Texas System (the "Board") is offering for sale its \$ _____ Permanent University Fund Bonds, Series 199__ (the "Bonds").

Address of Bids

Sealed bids, plainly marked "Bid for Bonds", should be addressed to "Interim Assistant Vice Chancellor for Finance, The University of Texas System" (the "Assistant Vice Chancellor"), and delivered to 201 West 7th Street, Ashbel Smith Hall, 2nd Floor, Austin, Texas 78701, prior to 10:00 AM, CT, on the date of the bid opening described below. All bids must be submitted on the Official Bid Form, without alteration or interlineation.

Place and Time of Bid Opening

The Board will accept bids for the sale of the Bonds on a day during the ___ week period beginning _____, 199__ and ending _____, 199__. At least 24 hours prior to the sale of the Bonds, the Assistant Vice Chancellor will communicate, through MUNIFACTS NEWS SERVICE, the date and time for submission of bids. The Assistant Vice Chancellor, acting on behalf of the Board, shall accept bids up to the time specified in the notice as hereinbefore described. The Authorized Representative, defined below, shall accept the winning bid or reject any and all bids submitted.

Award of the Bonds

On November 13, 1997, the Board authorized the Chancellor, the Executive Vice Chancellor for Business Affairs, the Interim Assistant Vice Chancellor for Finance and the Director of Finance (each the "Authorized Representative") to receive bids, to award the Bonds or to reject all bids on the date of the bid opening. THE AUTHORIZED REPRESENTATIVE RESERVES THE RIGHT TO REJECT ANY OR ALL BIDS, AND TO WAIVE ANY IRREGULARITIES, EXCEPT TIME OF FILING OF A BID.

THE BONDS

Description

The Bonds will be dated as of the first day of the month that includes the sale date (the "Bond Date"), and interest will accrue from the Bond Date, and is payable on January 1 and July 1 of each year, commencing _____, calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds

will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity. The Bonds will mature on July 1 in the years determined as described in the following paragraph.

Each bidder shall be allowed to name the price for the Bonds, the principal amortization schedule for the Bonds and the rate or rates of interest to be borne by the Bonds; provided, that (i) the price named for the Bonds must be no less than 98 percent of the par amount thereof (plus accrued interest from the date of the Bonds to the date of delivery thereof against payment therefor), (ii) the principal amortization schedule named for the Bonds must include scheduled maturities or mandatory sinking fund redemption requirements on each July 1 in each of the years 1999 through 2018 (each date inclusive), (iii) the interest rate or rates named for the Bonds must comply with the methodology described in "Conditions of the Sale -- Type of Bids and Interest Rates," below, and (iv) the principal amortization schedule and interest rate or rates so named must produce substantially level debt service on the Bonds during the Bond Years ending on July 1 of the years 1999 through 2018 (each date inclusive), such that the highest total debt service on the Bonds during any such Bond Year does not exceed the lowest total debt service on the Bonds during any such Bond year by more than \$10,000. "Bond Year" means the period beginning on July 2 of any calendar year and continuing through July 1 of the following calendar year.

Book-Entry Only System

The Board intends to utilize the Book-Entry Only System of The Depository Trust Company ("DTC"). See "DESCRIPTION OF THE BONDS - Book-Entry Only System" in the Official Statement.

Redemption

The Board reserves the right, at its option, to redeem Bonds having stated maturities on and after July 1, _____, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on July 1, _____, or any interest payment date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

If the winning bid includes term bonds with mandatory sinking fund requirements, the Bonds will be subject to mandatory sinking fund redemptions on the dates specified in the winning bid (subject to the requirements set forth in "The Bonds -- Description," above) and at the redemption price of par, without premium, plus accrued interest to the redemption date.

Paying Agent/Registrar

The Board shall act as the initial Registrar for the Bonds and the Texas Treasury Safekeeping Trust Company shall act as the initial Paying Agent.

Source of Payment

The Bonds constitute special obligations of the Board and are payable solely from a first lien on and pledge of the "Interest of the System" in the "Available University Fund" (as defined in the Official Statement) on a parity with the Board's outstanding Permanent University Fund Refunding Bonds, Series 1988, Series 1991, Series 1992A and Series 1996 and Permanent University Fund Bonds, Series 1992B. The Board has reserved the right to issue additional parity bonds and notes from time to time.

Further details regarding the Bonds are set forth in the Official Statement.

CONDITIONS OF THE SALE

Type of Bids and Interest Rates

The Bonds will be sold in one block on an "All or None" basis, and at a price of not less than 98 percent of their par value plus accrued interest to the date of delivery of the Bonds. See "THE BONDS -- Description" above. Bidders are invited to name the rate(s) of interest to be borne by the Bonds, provided that (i) **each rate bid must be in a multiple of 1/8 or 1% or 1/20 of 1%, with all of the Bonds of the same maturity bearing the same interest rate.** (ii) **the maximum interest rate per annum borne by any Bond must not exceed 15%, and** (iii) **the highest interest rate on any Bond must not exceed the lowest interest rate on the Bonds by more than 4%.** No limitation is imposed upon bidders as to the number of rates or changes which may be used. No bids involving supplemental interest rates will be considered. Each bidder shall state in the bid the True Interest Cost Rate, which will be considered informative only and not a part of the bid.

Basis for Award

The sale of the Bonds will be awarded to the bidder making a bid that conforms to the specifications herein and which produces the lowest True Interest Cost Rate to the Board. The True Interest Cost Rate is that rate which, when used to compute the total present value as of the Bond Date of all debt service payments on the Bonds on the basis of semiannual compounding, produces an amount equal to the sum of the par value of the Bonds plus any premium bid (but not interest accrued from the Bond Date to the date of delivery of the Bonds). In the event of a bidder's error in True Interest Cost Rate calculations, the interest rates, premium or discount, if any, set forth in the Official Bid Form will be considered as the intended bid.

Good Faith Deposit

A Good Faith Deposit, payable to "The University of Texas System" in the amount of \$ _____ is required. Such Good Faith Deposit shall be in the form of a bank cashier's check or a certified check, which is to be retained uncashed by the Board pending the Purchaser's compliance with the terms of the bid and this Notice of Sale and Bidding Instructions. The Good Faith Deposit may accompany the Official Bid Form or it may be submitted separately. If submitted separately, it shall be made available to the Board prior to the opening of the bids, and shall be accompanied by instructions from the bank on which drawn which authorize its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. **The Good Faith Deposit of the Purchaser will be returned to the Purchaser upon payment for the Bonds.** No interest will be allowed on the Good Faith Deposit. In the event the Purchaser should fail or refuse to take up and pay for the Bonds in accordance with the bid, then said check shall be cashed and accepted by the Board as full and complete liquidated damages. The checks accompanying bids other than the winning bid will be returned immediately after the bids are opened and an award of the Bonds has been made.

Historically Underutilized Businesses Participation

The Board encourages historically underutilized businesses to submit bids for the Bonds. Each senior manager of any underwriting syndicate that submits a bid for the Bonds is strongly encouraged to include certified historically underutilized businesses in its syndicate.

As used herein, "historically underutilized business" means (i) a corporation formed for the purpose of making a profit in which at least 51 percent of all classes of the shares of stock or other equitable securities are owned by one or more persons who have been historically underutilized because of their identification as women or members of certain minority groups, including Black Americans, Hispanic Americans, Asian Pacific Americans and Native Americans, (ii) a sole proprietorship for the purpose of making a profit that is 100 percent owned, operated and controlled by a person described above, or (iii) a partnership for the purpose of

making a profit in which 51 percent of the assets and interest in the partnership is owned by one or more persons described above. Those persons must have a proportionate interest in the control, operation and management of the partnership's affairs.

DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS

CUSIP Numbers

It is anticipated that CUSIP identification numbers will appear on the Bonds, but neither the failure to print or type such number on any bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of this Notice of Sale and Bidding Instructions and the terms of the Official Bid Form. All expenses in relation to the printing or typing of CUSIP numbers on the Bonds shall be paid by the Board; provided, however, that the CUSIP Service Bureau charge for the assignment of the numbers shall be the responsibility of and shall be paid for by the Purchaser.

Initial Delivery of Initial Bonds

Initial delivery will be accomplished by the issuance of one Initial Bond for each maturity (also called the "Bond" or "Bonds"), either in typed or printed form, in the aggregate principal amount of \$ _____ payable to the Purchaser, approved by the Attorney General, and registered and manually signed by the State Comptroller of Public Accounts. Upon delivery of the Initial Bonds, they shall be immediately canceled and one Bond for each maturity will be delivered and deposited with DTC in connection with DTC's Book-Entry Only System. Initial delivery will be at the Austin, Texas office of Vinson & Elkins L.L.P., 29th Floor, One American Center, 600 Congress Avenue, Austin, Texas 78701. Payment for the Bonds must be made in immediately available funds for unconditional credit to the Board, or as otherwise directed by the Board. At least 24 hours prior to the sale of the Bonds, the Director will communicate, through MUNIFACTS NEWS SERVICE, the date fixed for delivery of the Initial Bonds. It is anticipated that initial delivery of the Initial Bonds will be made by the 30th business day following the award of the Bonds (the "Closing Date"), and it is understood and agreed that the Purchaser will accept delivery and make payment for the Bonds by 10:00 AM, CT, on the Closing Date, or thereafter on the date the Initial Bonds are tendered for delivery, up to and including an additional 15 business days following the Closing Date. If for any reason the Board is unable to make delivery on or before the Closing Date, the Board shall immediately contact the Purchaser and offer to allow the Purchaser to extend its offer for an additional 15 business days. If the Purchaser does not elect to extend its offer within six business days thereafter, then its Good Faith Deposit will be returned, and both the Board and the Purchaser shall be relieved of any further obligation. In no event shall the Board be liable for any damages by reason of its failure to deliver the Bonds, provided such failure is due to circumstances beyond the Board's reasonable control.

Conditions to Delivery

The obligation of the Purchaser to take up and pay for the Bonds is subject to the Purchaser's receipt of (i) the legal opinion of Vinson & Elkins L.L.P., Houston and Austin, Texas, Bond Counsel for the Board ("Bond Counsel"), (ii) the no-litigation certificate, and (iii) the certification as to the Official Statement, all as further described in the Official Statement.

In order to provide the Board with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986, as amended, relating to the exclusion of interest on the Bonds from the gross income of their owners for federal income tax purposes, the Purchaser will be required to complete, execute, and deliver to the Board (on or before the sixth business day prior to the delivery of the Bonds) a certification as to their "issue price" substantially in the form and to the effect attached hereto or accompanying this Notice

of Sale and Bidding Instructions. In the event the successful bidder will not reoffer the Bonds for sale, such certificate may be modified in a manner approved by the Authorized Representative. **In no event will the Board fail to deliver the Bonds as a result of the Purchaser's inability to sell a substantial amount of the Bonds at a particular price prior to delivery.** Each bidder, by submitting its bid, agrees to complete, execute and deliver such a certificate by the date of delivery of the Bonds, if its bid is accepted by the Board. It will be the responsibility of the Purchaser to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel.

Legal Opinions

The Bonds are offered when, as and if issued, subject to the approval of the Attorney General of the State of Texas. Delivery of any payment for the Bonds is subject to the receipt by the Purchaser of opinions of Bond Counsel, to the effect that the Bonds are valid and binding special obligations of the Board and that the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" in the Official Statement, including the alternative minimum tax on corporations.

Change in Tax Exempt Status

At any time before the Bonds are tendered for delivery, the Purchaser may withdraw its bid if the interest received by private holders on bonds of the same type and character shall be declared to be taxable income under present federal income tax laws, either by ruling of the Internal Revenue Service or by a decision of any federal court, or shall be declared taxable or be required to be taken into account in computing any federal income taxes, by the terms of any federal income tax law enacted subsequent to the date of this Notice of Sale and Bidding Instructions.

Continuing Disclosure

In its resolution (the "Resolution") authorizing issuance of the Bonds, the Board has agreed to provide certain periodic information and certain notices of material events, all in accordance with Securities and Exchange Commission Rule 15c2-12 ("SEC Rule 15c2-12") and as described in the Official Statement under "CONTINUING DISCLOSURE OF INFORMATION." The Purchaser's obligation to accept and pay for the Bonds is conditioned upon delivery to the Purchaser or its agent of copies of the resolution containing the agreement described under such caption in addition to the other documents described under the subheading "Conditions to Delivery" above.

GENERAL

Blue Sky Laws

By submission of its bid, the Purchaser represents that the sale of the Bonds in states other than Texas will be made only pursuant to exemptions from registration or, where necessary, the Purchaser will register the Bonds in accordance with the securities law of the states in which the Bonds are offered or sold. The Board agrees to cooperate with the Purchaser, at the Purchaser's written request and expense, in registering the Bonds or obtaining an exemption from registration in any state where such action is necessary; provided, however, that the Board shall not be obligated to execute a general or special consent to service of process in any such jurisdiction.

Not an Offer to Sell

This Notice of Sale and Bidding Instructions does not alone constitute an offer to sell the Bonds, but is merely notice of sale of the Bonds. The offer to sell the Bonds is being made by means of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement. Prospective Purchasers are urged to carefully examine the Official Statement to determine the investment quality of the Bonds.

Ratings

Ratings on the Bonds have been received from Moody's Investor's Service, Inc. ("Moody's"), Standard & Poor's Corporation ("S & P") and Fitch Investors Service ("Fitch"). The Bonds are rated "Aaa" by Moody's and "AAA" by S&P and Fitch.

The Official Statement and Compliance with SEC Rule 15c2-12

The Board has prepared the accompanying Official Statement and, for the limited purpose of complying with SEC Rule 15c2-12, deems such Official Statement to be final as of its date within the meaning of such Rule for the purpose of review prior to bidding. Representations made and to be made by the Board concerning the absence of material misstatements and omissions in the Official Statement are addressed elsewhere in this Notice of Sale and Bidding Instructions and in the Official Statement.

The Board will furnish to the Purchaser, acting through a designated senior representative, in accordance with instructions received from the Purchaser, within seven business days from the sale date an aggregate of ___ copies of the Official Statement together with a like number of copies of a Supplement dated the sale date (the "Supplement") reflecting the maturity schedule, interest rates and other terms relating to the initial reoffering of the Bonds. Official Statements and Supplements in excess of the number specified shall be prepared and distributed at the cost of the Purchaser. The Purchaser shall be responsible for providing in writing the initial reoffering prices and other terms, if any, to the Authorized Representative by the close of the next business day after the award. Except as noted above, the Board assumes no responsibility or obligation for the distribution or delivery of any copies of the Official Statement or the Supplement in connection with the offering or reoffering of the Bonds.

Additional Copies of Notice, Bid Form, and Statement

A limited number of additional copies of this Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, as available over and above the normal mailing, may be obtained from Pamela K. Clayton (512) 499-4334, The University of Texas System, 201 West 7th Street, Ashbel Smith Hall, 2nd Floor, Austin, Texas 78701.

On the date of the sale, the Authorized Representative will confirm the approval of the form and content of the Official Statement, and any addendum, supplement, or amendment thereto, and authorize its use in the reoffering of the Bonds by the Purchaser.

/s/ Pamela K. Clayton
INTERIM ASSISTANT VICE CHANCELLOR FOR FINANCE
THE UNIVERSITY OF TEXAS SYSTEM

_____, 199__

OFFICIAL BID FORM

Director of Finance
The University of Texas System

_____, 199__

Reference is made to your Official Statement and Notice of Sale and Bidding Instructions, dated _____, 199__, relating to \$ _____ BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM PERMANENT UNIVERSITY FUND BONDS, SERIES 199__, both of which constitute a part hereof.

For your legally issued Bonds, as described in said Notice of Sale and Bidding Instructions and Official Statement, we will pay you \$ _____ and accrued interest from date of issue to date of delivery to us for Bonds maturing and bearing interest as follows:

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate*</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate*</u>
7-1-1999	\$ _____	_____%	7-1-2009	\$ _____	_____%
7-1-2000	\$ _____	_____%	7-1-2010	\$ _____	_____%
7-1-2001	\$ _____	_____%	7-1-2011	\$ _____	_____%
7-1-2002	\$ _____	_____%	7-1-2012	\$ _____	_____%
7-1-2003	\$ _____	_____%	7-1-2013	\$ _____	_____%
7-1-2004	\$ _____	_____%	7-1-2014	\$ _____	_____%
7-1-2005	\$ _____	_____%	7-1-2015	\$ _____	_____%
7-1-2006	\$ _____	_____%	7-1-2016	\$ _____	_____%
7-1-2007	\$ _____	_____%	7-1-2017	\$ _____	_____%
7-1-2008	\$ _____	_____%	7-1-2018	\$ _____	_____%

Complete if applicable: Term Bonds, maturing in the amounts and years set forth below, shall be subject to mandatory sinking fund redemptions in the amounts set above corresponding to the years set forth below:

<u>Term Bonds</u>		<u>Years of Mandatory Sinking Fund Redemptions</u>
<u>Year of Maturity (7-1)</u>	<u>Principal Amount</u>	
_____	\$ _____	____, ____ , ____ , ____ , ____ , ____
_____	\$ _____	____, ____ , ____ , ____ , ____ , ____
_____	\$ _____	____, ____ , ____ , ____ , ____ , ____

Our calculation (which is not a part of this bid) of the interest cost from the above:

True Interest Cost Rate _____%

Submitted herewith (but it is not a part of this bid) is a debt service table prepared by the bidder which shows the annual installments of principal and interest on the Bonds based upon the foregoing bid.

The Initial Bonds shall be registered in the name of _____. We will advise The Depository Trust Company ("DTC") of registration instructions at least five business days prior to the Closing Date described below.

* All interest rates on installments which are mandatory sinking fund redemptions of the same term bond, if any, should be completed with a uniform interest rate.

A bank cashier's check or a certified check of the _____ Bank, _____ in the amount of \$ _____ which represents our Good Faith Deposit (is attached hereto) or (has been made available to you prior to the opening of this bid), and is submitted in accordance with the terms as set forth in the Official Statement and Notice of Sale and Bidding Instructions.

We agree to accept delivery of the Bonds utilizing the Book-Entry Only System through DTC and make payment for the Initial Bonds in immediately available funds, pursuant to written direction of the Board, not later than 10:00 AM, CT, on the scheduled date of delivery of the Bonds (the "Closing Date") communicated to us by the Board of Regents of The University of Texas System (the "Board"), or thereafter on the date the Bonds are tendered for delivery, pursuant to the terms set forth in the Notice of Sale and Bidding Instructions.

The undersigned agrees to complete, execute, and deliver to the Board, at least six (6) business days prior to the Closing Date, a certificate relating to the "issue price" of the Bonds in the form and to the effect accompanying the Notice of Sale and Bidding Instructions, with such changes thereto as may be acceptable to the Board.

We agree to provide in writing the initial reoffering prices and other terms, if any, to the Authorized Representative by the close of the next business day after the award.

Respectfully submitted,

By: _____
Authorized Representative

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by the Board of Regents of The University of Texas System, subject to all and in accordance with the Notice of Sale and Bidding Instructions, this the ____ day of _____, 199_.

Authorized Representative,
The University of Texas System

ESCROW AGREEMENT

THIS ESCROW AGREEMENT (this "Escrow Agreement") dated as of _____, 199__ is made and entered into by and between the BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM (the "Board") and BANKERS TRUST COMPANY, New York, New York, as escrow agent (together with any successor or assign in such capacity, the "Escrow Agent").

WHEREAS, the Board has heretofore issued its Permanent University Fund Variable Rate Notes, Series A, currently outstanding in the aggregate principal amount of \$150,000,000; and

WHEREAS, the Board desires to refund the Refunded Notes (as hereinafter defined); and

WHEREAS, Article 717k, Vernon's Texas Civil Statutes, as amended, authorizes and empowers the Board to issue, sell and deliver refunding bonds and to deposit the proceeds of such bonds with any place of payment for the Refunded Notes in an amount which is sufficient to provide for the payment or redemption of the principal of and interest on the Refunded Notes; and

WHEREAS, the Board has adopted a resolution (the "Refunding Bond Order") authorizing the issuance of its Permanent University Fund Bonds, Series 1997, in the maximum aggregate principal amount of \$ _____, and on the date hereof the Board is issuing, selling and delivering the Refunding Bonds (as hereinafter defined), for the purposes of (i) funding the costs of improvements at various institutions within The University of Texas System and (ii) providing the funds necessary to refund the Refunded Notes to restructure the Board's debt service requirements; and

WHEREAS, the Board has provided for the transfer to the Escrow Agent pursuant to this Escrow Agreement of a portion of the proceeds of the Refunding Bonds and other money lawfully available for such purpose, to provide for the payment of the Refunded Notes; and

WHEREAS, the Board has further determined to effectuate the refunding of the Refunded Notes pursuant to this Escrow Agreement, under which provision is made for the safekeeping, investment, reinvestment, administration and disposition of proceeds of the Refunding Bonds so as to provide firm banking and financial arrangements for the discharge and final payment of the Refunded Notes;

NOW, THEREFORE, in consideration of the mutual undertakings, promises and agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, and in order to secure the full and timely payment of the principal of and interest on the Refunded Notes, the Board and the Escrow Agent contract and agree as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATIONS

Section 1.01. Definitions. Unless otherwise expressly provided or unless the context clearly requires otherwise, the following terms shall have the respective meanings specified below for all purposes of this Escrow Agreement:

"Board" shall mean the Board of Regents of The University of Texas System, and any successor to its duties and functions.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder and under the Internal Revenue Code of 1954.

"Escrow Agent" shall mean Bankers Trust Company, New York, New York, in its capacity as escrow agent hereunder, and any successor or assign in such capacity.

"Escrow Agreement" shall mean this escrow agreement.

"Escrow Fund" shall mean the fund created in Section 3.01 of this Escrow Agreement to be administered by the Escrow Agent pursuant to the provisions of this Escrow Agreement.

"Escrow Funding Date" shall mean the date on which the Board deposits with the Escrow Agent the Escrowed Securities and cash described in Section 2.01.

"Escrowed Securities" shall mean the direct non-callable and non-prepayable United States Treasury obligations initially purchased with proceeds of the Refunding Bonds, all as more fully described in Exhibit A hereto.

"Paying Agent for the Refunded Notes" shall mean Bankers Trust Company, New York, New York.

"Refunded Note Resolution" shall mean the amended and restated resolution adopted by the Board on April 14, 1997, authorizing the issuance of the Refunded Notes.

"Refunded Notes" shall mean \$78,000,000 of the Board's Permanent University Fund Variable Rate Notes, Series A, bearing interest at the "Flexible Rate" for the "Flexible Rate Periods" shown on Exhibit B hereto (the quoted terms having the meaning assigned to such terms in the Refunded Note Resolution).

"Refunding Bond Resolution" shall mean the resolution adopted by the Board on November 13, 1997, authorizing the issuance of the Refunding Bonds.

"Refunding Bonds" shall mean the Board's Permanent University Fund Bonds, Series 199 __, dated as of the first calendar day of the month during which they are sold at public sale, being issued, sold and delivered on the date hereof in the aggregate principal amount of \$ _____.

Section 1.02. Interpretations. The titles and headings of the articles and sections of this Escrow Agreement have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict the terms hereof. This Escrow Agreement and all of the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to achieve the intended purpose of providing for the refunding of the Refunded Notes in accordance with applicable law.

ARTICLE II

DEPOSIT OF FUNDS AND ESCROWED SECURITIES

Section 2.01. Deposits with Escrow Agent: Acquisition of Escrowed Securities. On the Escrow Funding Date the Board will deposit, or cause to be deposited, with the Escrow Agent the following:

- (a) Escrowed Securities in the principal amount of \$ _____, purchased with proceeds of the Refunding Bonds and other money lawfully available for such purpose; and
- (b) A beginning cash balance of \$ _____.

ARTICLE III

CREATION AND OPERATION OF ESCROW FUND

Section 3.01. Escrow Fund. On the Escrow Funding Date the Escrow Agent will create on its books a special fund and irrevocable escrow to be known as the "Board of Regents of The University of Texas System Permanent University Fund Bonds, Series 199 __, Escrow Fund" into which will be deposited the cash and Escrowed Securities described in Section 2.01. The Escrowed Securities, all proceeds therefrom, and all cash balances from time to time on deposit in the Escrow Fund shall be the property of the Escrow Fund and shall be applied only in strict conformity with the terms and conditions hereof. The Escrowed Securities, all proceeds therefrom and all cash balances from time to time on deposit in the Escrow Fund are hereby irrevocably pledged to the payment of the principal of and interest on the Refunded Notes, which payment shall be made by timely transfers to the Paying Agent for the Refunded Notes of such amounts at such times as are provided in Section 3.02 hereof. When the final transfers have been made to the Paying Agent for the Refunded Notes for the payment of such principal of and interest on the Refunded Notes, any balance then remaining in the Escrow Fund shall be transferred to the Board, and the Escrow Agent shall thereupon be discharged from any further duties hereunder.

Section 3.02. Payment of Principal of and Interest on Refunded Notes. The Escrow Agent is hereby irrevocably instructed to transfer to the Paying Agent for the Refunded Notes from the cash balance from time to time on deposit in the Escrow Fund the amounts required to pay the principal of and interest on the Refunded Notes as the same become due and payable, as shown in Exhibit B hereto.

Section 3.03. Sufficiency of Escrow Fund. On the basis of a report delivered by Deloitte & Touche LLP, independent certified public accountants, a copy of which has been delivered to the Escrow Agent, the Board represents that the successive receipts of the principal of and interest on the Escrowed Securities will assure that the cash balance on deposit from time to time in the Escrow Fund will be at all times sufficient to provide money for transfer to the Paying Agent for the Refunded Notes at the times and in the amounts required to pay the interest on the Refunded Notes as such interest comes due and to pay the principal of the Refunded Notes as the Refunded Notes are redeemed. If, for any reason, at any time, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund shall be insufficient to transfer the amounts required to make the payments set forth in Section 3.02 hereof, the Board shall timely deposit into the Escrow Fund, from lawfully available funds, additional funds in the amounts required to make such payments. Notice of any such insufficiency shall be given promptly as hereinafter provided, but the Escrow Agent shall not be Responsible for any insufficiency of funds in the Escrow Fund or the Board's failure to make additional deposits thereto.

Section 3.04. Escrow Fund. The Escrow Agent at all times shall hold the Escrow Fund, the Escrowed Securities and all other assets of the Escrow Fund wholly segregated from all other funds and securities on deposit with the Escrow Agent; it shall never allow the Escrowed Securities or any other assets of the Escrow Fund to be commingled with any other funds or securities of the Escrow Agent; and it shall hold and dispose of the assets of the Escrow Fund only as set forth herein. The Escrowed Securities and other assets of the Escrow Fund always shall be maintained by the Escrow Agent as special trust funds for the purposes specified in this Escrow Agreement and for the benefit of the holders of the Refunded Notes; and a special account evidencing such fact shall be maintained at all times on the books of the Escrow Agent. The holders of the Refunded Notes shall be entitled to the same preferred claim and first lien upon the Escrowed Securities, the proceeds thereof and all other assets of the Escrow Fund as are enjoyed by other beneficiaries of similar accounts. The amounts received by the Escrow Agent under this Escrow Agreement shall not be considered as a banking deposit by the Board, and the Escrow Agent shall have no right or title with respect thereto except as escrow agent under the term" hereof. The amounts received by the Escrow Agent hereunder shall not be subject to warrants, drafts or checks drawn by the Board.

ARTICLE IV

REDEMPTION OF REFUNDED NOTES PRIOR TO MATURITY

Section 4.01. Optional Redemption of Refunded Notes. The Board has irrevocably exercised its option to call the Refunded Notes for redemption prior to maturity, on the redemption dates set

forth on Exhibit B hereto, at a price of 100% of par plus accrued interest to the date fixed for redemption. Such optional redemption shall be carried out in accordance with the Refunded Note Resolution. The Escrow Agent is hereby authorized to provide funds therefor as set forth in Section 3.02 hereof.

ARTICLE V

LIMITATION ON INVESTMENTS

Section 5.01. General. Except as herein otherwise expressly provided, the Escrow Agent shall not have any power or duty to invest any money held hereunder, or to make substitutions of the Escrowed Securities, or to sell, transfer or otherwise dispose of the Escrowed Securities.

Section 5.02. Substitution of Securities. At the written request of the Board, and upon compliance with the conditions hereinafter stated, the Escrow Agent shall sell, transfer, otherwise dispose of or request the redemption of all or any portion of the Escrowed Securities and apply the proceeds therefrom to purchase and cancel Refunded Notes or to purchase direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America and which do not permit the redemption or prepayment thereof at the option of the obligor. Any such transaction may be effected by the Escrow Agent only if (1) the Escrow Agent shall have received a written opinion from a recognized firm of certified public accountants that such transaction will not cause the amount of money and securities in the Escrow Fund to be reduced below an amount which will be sufficient, when added to the interest to accrue thereon, to provide for the payment of principal of and interest on the remaining Refunded Notes as they become due, and (2) the Escrow Agent shall have received the unqualified written legal opinion of nationally recognized bond counsel or tax counsel acceptable to the Board and the Escrow Agent to the effect that (a) such transaction will not cause any of the Refunded Notes or Refunding Bonds to be an "arbitrage bond" within the meaning of the Code, and (b) that such transaction complies with the Constitution and laws of the State of Texas and with all relevant documents relating to the issuance of the Refunded Notes and the Refunding Bonds.

ARTICLE VI

RECORDS AND REPORTS

Section 6.01. Records. The Escrow Agent shall keep books of record and account in which complete and correct entries shall be made of all transactions relating to the receipt, disbursement, allocation and application of the money and Escrowed Securities deposited to the Escrow Fund and all proceeds thereof, and such books shall be available for inspection at reasonable hours and under reasonable conditions by the Board and the holders of the Refunded Notes.

Section 6.02. Report. On or before _____, 199__, the Escrow Agent shall prepare and send to the Board a written report summarizing all transactions relating to the Escrow Fund

during the period from the Escrow Funding Date and ending on _____, 1997, including, without limitation, credits to the Escrow Fund as a result of interest payments on or maturities of the Escrowed Securities and transfers from the Escrow Fund to the Paying Agent for the Refunded Notes or otherwise, together with the cash balance on deposit in the Escrow Fund as of the end of such period.

Section 6.03. Notification. The Escrow Agent shall notify the Board immediately if at any time during the term of this Escrow Agreement it determines that the cash and Escrowed Securities in the Escrow Fund are not sufficient to provide for the transfer to the Paying Agent for the Refunded Notes for timely payment of all interest on and principal of the Refunded Notes, but the Escrow Agent shall not be responsible for any insufficiency of funds in the Escrow Fund or the Board's failure to make additional deposits thereto.

ARTICLE VII

CONCERNING THE ESCROW AGENT

Section 7.01. Representations Of Escrow Agent. The Escrow Agent hereby represents that it is the Paying Agent for the Refunded Notes, that it has all necessary power and authority to enter into this Escrow Agreement and undertake the obligations and responsibilities imposed upon it herein, and that it will carry out all of its obligations hereunder.

Section 7.02. Limitation on Liability. The Escrow Agent shall not be liable for any action taken or neglected to be taken by it in good faith in the exercise of reasonable care and believed by it to be within the discretion or power conferred upon it by this Escrow Agreement, nor shall the Escrow Agent be responsible for the consequences of any error of judgment; and the Escrow Agent shall not be answerable except for its own neglect or default, nor for any loss unless the same shall have been through its negligence or want of good faith.

The liability of the Escrow Agent to transfer funds to the Paying Agent for the Refunded Notes for the payments of the principal of and interest on the Refunded Notes shall be limited to the proceeds of the Escrowed Securities and the cash balances from time to time on deposit in the Escrow Fund. Notwithstanding any provision contained herein to the contrary, the Escrow Agent shall have no liability whatsoever for the insufficiency of funds from time to time in the Escrow Fund or any failure of the obliger of the Escrowed Securities to make timely payment thereon, except for its obligation to notify the Board promptly of any such occurrence.

The recitals herein and in the proceedings authorizing the Refunding Bonds shall be taken as the statements of the Board and shall not be considered as made by, or imposing any obligation or liability upon, the Escrow Agent. In its capacity as Escrow Agent, it is agreed that the Escrow Agent need look only to the terms and provisions of this Escrow Agreement.

The Escrow Agent makes no representation as to the value, condition or sufficiency of the Escrow Fund, or any part thereof, or as to the title of the Board thereto, or as to the security afforded thereby or hereby, and the Escrow Agent shall incur no liability or responsibility with respect to any of such matters.

It is the intention of the Board and the Escrow Agent that the Escrow Agent shall never be required to use or advance its own funds or otherwise incur personal financial liability in the performance of any of its duties or the exercise of any of its rights and powers hereunder.

Unless it is specifically provided otherwise herein, the Escrow Agent has no duty to determine or inquire into the happening or occurrence of any event or contingency or the performance or failure of performance of the Board with respect to arrangements or contracts with others, with the Escrow Agent's sole duty hereunder being to safeguard the Escrow Fund and to dispose of and deliver the same in accordance with this Escrow Agreement. If, however, the Escrow Agent is called upon by the terms of this Escrow Agreement to determine the occurrence of any event or contingency, the Escrow Agent shall be obligated, in making such determination, only to exercise reasonable care and diligence, and in event of error in making such determination the Escrow Agent shall be liable only for its own misconduct or its negligence. In determining the occurrence of any such event or contingency the Escrow Agent may request from the Board or any other person such reasonable additional evidence as the Escrow Agent in its discretion may deem necessary to determine any fact relating to the occurrence of such event or contingency, and in this connection may make inquiries of, and consult with the Board, among others, at any time.

Section 7.03. Compensation. On the date hereof, the Board has paid to the Escrow Agent, and the Escrow Agent hereby acknowledges its receipt of, a fee of \$ _____ as full and sufficient compensation for performing the services hereunder and for all expenses incurred or to be incurred by the Escrow Agent in the administration of this Escrow Agreement, and for its services in its capacity as Paying Agent for the Refunded Notes. If the Escrow Agent is requested to perform any extraordinary services hereunder, the Board hereby agrees to pay reasonable fees to the Escrow Agent for such extraordinary services and to reimburse the Escrow Agent for all expenses incurred by the Escrow Agent in performing such extraordinary service. It is expressly provided that the Escrow Agent shall look only to the Board for the payment of such additional fees and reimbursement of such additional expenses. The Escrow Agent hereby agrees that in no event shall it ever assert any claim or lien against the Escrow Fund for any fees for its services, whether regular, additional or extraordinary, as Escrow Agent, or in any other capacity, or for reimbursement for any of its expenses.

Section 7.04. Successor Escrow Agents. If at any time the Escrow Agent or its legal successor or successors should cease to be the Paying Agent for the Refunded Notes, a vacancy shall forthwith exist hereunder in the office of the Escrow Agent. Any successor Paying Agent for the Refunded Notes appointed by the Board shall succeed, without further act, to all the rights, immunities, powers and trusts of the predecessor Escrow Agent hereunder. Upon the request of any such successor Escrow Agent, the Board shall execute any and all instruments in writing for more

fully and certainly vesting in and confirming to such successor Escrow Agent all such immunities, rights, powers and duties. The Escrow Agent shall pay over to its successor Escrow Agent a proportional part of the Escrow Agent's fee hereunder equal to the portion of such fee attributable to duties to be performed after the date of succession.

ARTICLE VIII

MISCELLANEOUS

Section 8.01. Notices. Any notice, authorization, request, or demand required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when mailed by registered or certified mail, postage prepaid, addressed as follows:

To the Escrow Agent:

Bankers Trust Company
Corporate and Trust Agency Group
Four Albany Street, 4th Floor
New York, New York 10006
Attention: Ms. Karen Sheridan

To the Board:

The Board of Regents of
The University of Texas System
201 West Seventh Street, ASH 2nd Floor
Austin, Texas 78701-2981
Attention: Interim Assistant Vice Chancellor for Finance

The United States Post Office registered or certified mail receipt showing delivery of the aforesaid shall be conclusive evidence of the date and fact of delivery. Any party hereto may change the address to which notices are to be delivered by giving to the other party not less than ten days prior notice thereof.

Section 8.02. Termination of Escrow Agent's Obligations. Upon the taking by the Escrow Agent of all the actions as described herein, the Escrow Agent shall have no further obligations or responsibilities hereunder to the Board, the holders of the Refunded Notes or to any other person or persons in connection with this Escrow Agreement.

Section 8.03. Binding Agreement. This Escrow Agreement shall be binding upon the Board and the Escrow Agent and their respective successors and legal representatives, shall inure solely to the benefit of the holders of the Refunded Notes, the Board, the Escrow Agent and their respective

successors and legal representatives. This Escrow Agreement shall not be subject to amendment without the written consent of the holders of all Refunded Notes then outstanding.

Section 8.04. Severability. If any one or more of the provisions contained in this Escrow Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Escrow Agreement, but this Escrow Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

Section 8.05. Governing Law. THIS ESCROW AGREEMENT SHALL BE DEEMED TO BE A CONTRACT MADE UNDER THE LAWS OF THE STATE OF TEXAS AND FOR ALL PURPOSES SHALL BE CONSTRUED IN ACCORDANCE WITH, AND ITS VALIDITY GOVERNED BY, THE LAWS OF SAID STATE, EXCEPT THAT THE RIGHTS, IMMUNITIES AND DUTIES OF THE ESCROW AGENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

Section 8.06. Time of Essence. Time shall be of the essence in the performance of obligations from time to time imposed upon the Escrow Agent by this Escrow Agreement.

Executed as of _____, 199__.

THE BOARD OF REGENTS
THE UNIVERSITY OF TEXAS SYSTEM

By: _____
Interim Assistant Vice Chancellor for Finance

BANKERS TRUST COMPANY, as Escrow Agent

By: _____
Title: _____

ESCROWED SECURITIES

The following noncallable United States Treasury obligations constitute "Escrowed Securities":

<u>Instrument</u>	<u>Coupon [%]</u>	<u>Maturity</u>	<u>Par Amount</u>
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REFUNDED NOTES

BOARD OF REGENTS OF THE
UNIVERSITY OF TEXAS SYSTEM
PERMANENT UNIVERSITY FUND VARIABLE RATE NOTES
SERIES A

4. U. T. Board of Regents: Proposed Adoption of Sixth Supplemental Resolution to the Master Resolution Authorizing the Issuance of Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1997A and Series 1997B, in an Aggregate Principal Amount Not to Exceed \$127,000,000; Approval of the Official Statement, Paying Agent/Registrar Agreement, and Escrow Agreement; Appointment of McCall, Parkhurst & Horton, L.L.P., Dallas, Texas, as Bond Counsel and Disclosure Counsel; Bankers Trust Company, New York, New York, as Escrow Agent; Norwest Bank Texas, N. A., Dallas, Texas, as Paying Agent; and Deloitte & Touche L.L.P., Houston, Texas, as Escrow Verification Agent; Authorization for Officers of U. T. System to Complete All Transactions; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--

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 Sixth Supplemental Resolution to the Master Resolution and approve the Official Statement, Paying Agent/Registrar Agreement, and Escrow Agreement substantially in the form set out on Pages BAAC 114 - 250 to authorize the issuance of Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1997A and Series 1997B, in an aggregate principal amount not to exceed \$127,000,000 with a final maturity not to exceed August 15, 2018, to be used to refund up to \$119,959,000 of Revenue Financing System Commercial Paper Notes, Series A, and to pay issuance costs
- b. Appoint McCall, Parkhurst & Horton, L.L.P., Dallas, Texas, as Bond Counsel and as Disclosure Counsel
- c. Appoint Bankers Trust Company, New York, New York, as Escrow Agent

- d. Appoint Norwest Bank Texas, N. A., Dallas, Texas, as Paying Agent
- e. Appoint Deloitte & Touche L.L.P., Houston, Texas, as Escrow Verification Agent
- f. Authorize appropriate officers and employees of the U. T. System as set forth in the related documents to take any and all actions necessary to carry out the intentions of the U. T. Board of Regents to complete the transactions as provided in the Resolution.

The Chancellor also concurs in 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, and amended on October 8, 1993 and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as set out on Page BAAC - 113, the U. T. Board of Regents resolves that:

- a. Parity Debt shall be issued to refund outstanding Revenue Financing System Commercial Paper Notes, Series A
- b. Sufficient funds will be available to meet the financial obligations of the U. T. System including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System .
- c. The "members" as such term is used in the Master Resolution possess the financial capacity to satisfy their Direct Obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

BACKGROUND INFORMATION

Proceeds from the Revenue Financing System Bonds, Series 1997A, will be used to refund Revenue Financing System Commercial Paper Notes, Series A, that were issued to fund construction costs of \$10,455,000 for projects authorized by Section 55.1714 of the Texas Education Code. These projects are part of the South Texas/Border Initiative Program.

Proceeds from the Revenue Financing System Bonds, Series 1997B, will be used to refund \$109,504,000 of Revenue Financing System Commercial Paper Notes, Series A, that were issued to provide interim financing during the construction of auxiliary projects. This method of financing allows the component institutions to pay short-term rates during construction and does not require any amortization of the debt during this period. Once the project construction is completed, the commercial paper debt is refunded with fixed rate debt and amortization begins. Proceeds not used for the purpose of refunding the Notes will be used to pay issuance costs of approximately \$190,000.

The bonds will be sold on a competitive basis as specified in Section 3 of the Resolution. A U. T. System Representative will take actions to ensure that the bonds of each series are sold on the most favorable terms and are sold and awarded to the winning bidder pursuant to the Resolution. The U. T. System Representative is defined in the Resolution as the Chancellor, the Executive Vice Chancellor for Business Affairs, the Assistant Vice Chancellor for Finance, or the Director of Finance.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned Interim Assistant Vice Chancellor for Finance of The University of Texas System, a U. T. System Representative under the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System adopted by the Board on February 14, 1991, and amended on October 8, 1993 and August 14, 1997, (the "Master Resolution"), do hereby execute this certificate for the benefit of the Board of Regents pursuant to Section 5 (a) (ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity Debt" pursuant to the Master Resolution to refund outstanding Revenue Financing System Commercial Paper Notes, Series A, and do certify that to the best of my knowledge the Board of Regents is in compliance with all covenants contained in the Master Resolution, Amended and Restated First Supplemental Resolution Establishing an Interim Financing Program, Second Supplemental Resolution, Third Supplemental Resolution, Fourth Supplemental Resolution, and the Fifth Supplemental Resolution and is not in default of any of the terms, provisions, and conditions in said Master Resolution, Amended and Restated First Supplemental Resolution, Second Supplemental Resolution, Third Supplemental Resolution, Fourth Supplemental Resolution, and the Fifth Supplemental Resolution as amended.

EXECUTED this 13 day of November, 1997



Interim Assistant Vice Chancellor for Finance

SIXTH SUPPLEMENTAL RESOLUTION TO THE MASTER
RESOLUTION AUTHORIZING THE ISSUANCE, SALE, AND
DELIVERY OF BOARD OF REGENTS OF THE UNIVERSITY OF
TEXAS SYSTEM REVENUE FINANCING SYSTEM BONDS, AND
APPROVING AND AUTHORIZING INSTRUMENTS AND
PROCEDURES RELATING THERETO

SIXTH SUPPLEMENTAL RESOLUTION TO THE MASTER
RESOLUTION AUTHORIZING THE ISSUANCE, SALE, AND
DELIVERY OF BOARD OF REGENTS OF THE UNIVERSITY
OF TEXAS SYSTEM REVENUE FINANCING SYSTEM BONDS,
AND APPROVING AND AUTHORIZING INSTRUMENTS AND
PROCEDURES RELATING THERETO

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EXHIBIT A - DEFINITIONS

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SIXTH SUPPLEMENTAL RESOLUTION TO THE MASTER RESOLUTION AUTHORIZING THE ISSUANCE, SALE, AND DELIVERY OF BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM REVENUE FINANCING SYSTEM BONDS, AND APPROVING AND AUTHORIZING INSTRUMENTS AND PROCEDURES RELATING THERETO

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

WHEREAS, unless otherwise defined herein, terms used herein shall have the meaning given in the Master Resolution; and

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

WHEREAS, the Board, has previously adopted the First through Fifth Supplemental Resolutions to the Master Resolution authorizing Parity Debt thereunder; and

WHEREAS, the Board has determined to authorize the issuance of Parity Debt in the form of long term fixed rate bonds (i) to provide permanent financing for facilities and improvements financed with the proceeds of some of its outstanding Revenue Financing System Commercial Paper Notes, Series A (the "Refunded Obligations"); and

WHEREAS, the Board hereby determines and deems it necessary to authorize the issuance of Parity Debt pursuant to this Sixth Supplement to the Master Resolution for such purposes ; and

WHEREAS, the bonds (the "Bonds") authorized to be issued by this Sixth Supplement are to be issued and delivered pursuant to Chapter 55, Texas Education Code, Vernon's Texas Civil Statutes Article 717q, and other applicable laws, including Vernon's Texas Civil Statutes Article 717k insofar as it may be required in connection with the refunding of the Refunded Obligations.

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

Section 1. **DEFINITIONS.** In addition to the definitions set forth in the preamble of this Sixth Supplement, the terms used in this Sixth Supplement (except in the Form of Bonds) and not otherwise defined shall have the meanings given in the Master Resolution or in Exhibit "A" to this Sixth Supplement attached hereto and made a part hereof.

Section 2. AMOUNT, PURPOSE, AND DESIGNATION OF THE BONDS. The Board's "BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM REVENUE FINANCING SYSTEM BONDS, SERIES 1997A", are hereby authorized to be issued and delivered in the maximum aggregate principal amount of \$11,500,000, FOR THE PURPOSE OF (i) REFUNDING \$10,455,000, IN AGGREGATE PRINCIPAL AMOUNT OF THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM REVENUE FINANCING SYSTEM COMMERCIAL PAPER NOTES, SERIES A ISSUED FOR THE PURPOSE OF ACQUIRING, PURCHASING, CONSTRUCTING, IMPROVING, ENLARGING, AND EQUIPPING THE PROPERTY AND FACILITIES OF THE MEMBERS OF THE REVENUE FINANCING SYSTEM PURSUANT TO SECTION 55.1714 OF THE TEXAS EDUCATION CODE AND (ii) PAYING THE COSTS RELATED THERETO; and the Board's "BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM REVENUE FINANCING SYSTEM BONDS, SERIES 1997B", are hereby authorized to be issued and delivered in the maximum aggregate principal amount of \$115,500,000, FOR THE PURPOSE OF (i) REFUNDING \$109,504,000, IN AGGREGATE PRINCIPAL AMOUNT OF THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM REVENUE FINANCING SYSTEM COMMERCIAL PAPER NOTES, SERIES A AND (ii) PAYING THE COSTS RELATED THERETO.

The Bonds, herein authorized, unless otherwise indicated, are hereinafter referred to as the "Bonds", which may be in the form of either Current Interest Bonds or Capital Appreciation Bonds as provided in Section 6.

Section 3. DATE, DENOMINATIONS, NUMBERS, MATURITIES AND TERMS OF BONDS. (a) Terms of Bonds. For each Series of Bonds, there shall initially be issued, sold, and delivered hereunder fully registered bonds, without interest coupons, in the form of Current Interest Bonds or Capital Appreciation Bonds, numbered consecutively for each Series of Bonds from R-1 upward, in the case of Current Interest Bonds and CR-1 upward, in the case of Capital Appreciation Bonds, payable to the respective initial registered owners thereof, or to the registered assignee or assignees of said bonds or any portion or portions thereof (in each case, the "Registered Owner"), in the denomination of \$5,000 or any integral multiple thereof with respect to Current Interest Bonds and in the denomination of \$5,000 in Maturity Amount or any integral multiple thereof with respect to Capital Appreciation Bonds (an "Authorized Denomination"), maturing not later than August 15, 2018, serially or otherwise on the dates, in the years and in the principal amounts, respectively, and dated, all as set forth in the Award Certificate of the U.T. System Representative.

(b) Award Certificate. As authorized by Vernon's Texas Civil Statutes Article 717q, as amended, the U.T. System Representative is hereby authorized, appointed, and designated to act on behalf of the Board in selling and delivering the Bonds of each Series and carrying out the other procedures specified in this Resolution, including determining and fixing the date of the Bonds of each Series, any additional designation or title by which the Bonds of each Series shall be known, the price at which the Bonds of each Series will be sold, the years in which the Bonds of each Series will mature, the principal amount to mature in each of such years, the aggregate principal amount of the Bonds of each Series, the aggregate principal amount of Current Interest Bonds and Capital Appreciation Bonds of each Series, the rate of interest to be borne by each maturity, the interest payment periods, the dates, price, and terms upon and at which the Bonds of each Series shall be

subject to redemption prior to maturity at the option of the Board, as well as any mandatory sinking fund redemption provisions, and all other matters relating to the issuance, sale, and delivery of the Bonds of each Series, and the refunding of the Refunded Obligations, all of which shall be specified in a certificate of the U.T. System Representative delivered to the Executive Secretary to the Board (the "Award Certificate"); provided that (i) the price to be paid for the Bonds of each Series shall not be less than 95% of the aggregate original principal amount thereof plus accrued interest thereon from its date to its delivery, and (ii) none of the Bonds shall bear interest at a rate greater than 8% per annum or in excess of the maximum rate allowed by law. It is further provided, however, that, notwithstanding the foregoing provisions, the Bonds of a Series shall not be delivered unless prior to delivery, the Bonds of such Series have been rated by a nationally recognized rating agency for municipal securities in one of the four highest rating categories for long term obligations, as required by Vernon's Texas Civil Statutes Article 717q, as amended. The Award Certificate is hereby incorporated in and made a part of this Resolution and shall be filed in the minutes of the Board as a part of this Sixth Supplement.

(c) Sale of The Bonds. The U.T. System Representative, acting for and on behalf of the Board, is authorized to seek competitive bids for the sale of the Bonds of each Series and to take such actions as in the judgment of the U.T. System Representative are necessary to insure that the Bonds of each Series are sold on the most favorable terms, and the U.T. System Representative is authorized and directed to receive such bids and to award the sale of the Bonds of each Series to the winning bidder pursuant to this Resolution. The name of the winning bidder and the terms of the bid shall be included in the Award Certificate.

(d) Continuing Disclosure. (i) Annual Reports. The Board shall provide annually to each NRMSIR and any SID, within six months after the end of each Fiscal Year ending in or after 1997, financial information and operating data with respect to The University of Texas System of the general type included in the Official Statement dated February 9, 1996, relating to the Board's Revenue Financing System Bonds, Series 1996A and Series 1996B under the captions "Annual Debt Service Requirements", "Financial Management of The University of Texas System" and "General Description of The University of Texas System-- Enrollment and Faculty and Employees" and in Appendix C to such Official Statement, Financial Statements of The University of Texas System. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in Exhibit C hereto and (2) audited, if the Board commissions an audit of such statements and the audit is completed within the period during which they must be provided. If audited financial statements are not so provided within the required period, then the Board shall provide unaudited financial statements for the applicable Fiscal Year to each NRMSIR and any SID, and shall file audited financial statements when and if audited financial statements become available. If audited financial statements are not prepared for any Fiscal Year and audited financial statements are prepared with respect to the State of Texas for such Fiscal Year, the Board shall provide, or cause to be provided, the audited financial statements of the State of Texas for the applicable Fiscal Year to each NRMSIR and any SID within six months after the end of said Fiscal Year or as soon thereafter as such audited financial statements become available from the State Auditor of the State of Texas. Any such audited financial statements of the State of Texas so provided shall be prepared in accordance with generally accepted accounting principles for state governments, as such principles may be changed from time to time to comply with state law.

If the Board changes the Fiscal Year, the Board will notify each NRMSIR and any SID of the change (and of the date of the new Fiscal Year end) prior to the next date by which the Board otherwise would be required to provide financial information and operating data pursuant to this Section.

The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to each NRMSIR and any SID or filed with the SEC.

(ii) Material Event Notices. The Board shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws:

- A. Principal and interest payment delinquencies;
- B. Non-payment related defaults;
- C. Unscheduled draws on debt service reserves reflecting financial difficulties;
- D. Unscheduled draws on credit enhancements reflecting financial difficulties;
- E. Substitution of credit or liquidity providers, or their failure to perform;
- F. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- G. Modifications to rights of holders of the Bonds;
- H. Bond calls;
- I. Defeasances;
- J. Release, substitution, or sale of property securing repayment of the Bonds;
and
- K. Rating changes.

The Board shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any failure by the Board to provide financial information or operating data in accordance with this Section of this Sixth Supplement by the time required.

(iii) Limitations, Disclaimers, and Amendments. The Board shall be obligated to observe and perform the covenants specified in this Section 3(d) for so long as, but only for so long as, the Board remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the Board in any event will give the notice required by this Sixth Supplement of any Bond calls and defeasance that cause the Bonds to be no longer outstanding.

The provisions of this Section are for the sole benefit of the holders and beneficial owners of the Bonds, and nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The Board undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the Board's financial results, condition, or prospects relating to the Financing System or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided

herein. The Board does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE BOARD BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE BOARD, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the Board in observing or performing its obligations under this Section shall constitute a breach of or default under this Sixth Supplement for purposes of any other provision of this Sixth Supplement.

Nothing in this Section is intended or shall act to disclaim, waive, or otherwise limit the duties of the Board under federal and state securities laws.

The provisions of this Section may be amended by the Board from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Board, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (A) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Sixth Supplement that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (B) a Person that is unaffiliated with the Board (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If the Board so amends the provisions of this Section, it shall include with any amended financial information or operating data next provided in accordance with this Section an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided. The Board may also amend or repeal the provisions of this continuing disclosure requirement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds.

(e) In General. The Bonds of each Series (i) may and shall be redeemed prior to the respective scheduled maturity dates, (ii) may be assigned and transferred, (iii) may be exchanged for other Bonds of such Series, (iv) shall have the characteristics, and (v) shall be signed and sealed, and the principal of and interest on the Bonds shall be payable, all as provided, and in the manner required or indicated, in the FORM OF BONDS set forth in Exhibit B to this Sixth Supplement and as determined by the U.T. System Representative as provided herein, with such changes and

additions as are required to be consistent with the terms and provisions shown in the Award Certificate relating to a Series of Bonds.

Section 4. INTEREST. The Current Interest Bonds of each Series of Bonds shall bear interest calculated on the basis of a 360-day year composed of twelve 30-day months from the dates specified in the FORM OF BONDS and in the Award Certificate to their respective dates of maturity at the rates set forth in the Award Certificate.

The Capital Appreciation Bonds of each Series of Bonds shall bear interest from the Issuance Date for such Series of Bonds, calculated on the basis of a 360-day year composed of twelve 30-day months (subject to rounding to the Compounded Amounts thereof), compounded semiannually on the dates set forth in the Award Certificate (the "Compounding Dates") commencing on the date set forth in the Award Certificate, and payable, together with the principal amount thereof, in the manner provided in the FORM OF BONDS at the rates set forth in the Award Certificate. Attached to the Award Certificate if Capital Appreciation Bonds are to be issued shall be an Exhibit (the "Compounded Amount Table") which will set forth the rounded original principal amounts at the Issuance Date for the Capital Appreciation Bonds and the Compounded Amounts and Maturity Amounts thereof (per \$5,000 Maturity Amount) as of each Compounding Date, commencing the date set forth in the Award Certificate, and continuing until the final maturity of such Capital Appreciation Bonds. The Compounded Amount with respect to any date other than a Compounding Date is the amount set forth on the Compounded Amount Table with respect to the last preceding Compounding Date, plus the portion of the difference between such amount and the amount set forth on the Compounded Amount Table with respect to the next succeeding Compounding Date that the number of days (based on 30-day months) from such last preceding Compounding Date to the date for which such determination is being calculated bears to the total number of days (based on 30-day months) from such last preceding Compounding Date to the next succeeding Compounding Date.

Section 5. REGISTRATION, TRANSFER, AND EXCHANGE; AUTHENTICATION; BOOK-ENTRY-ONLY SYSTEM. (a) Paying Agent/Registrar. Norwest Bank Texas, N.A. in Dallas, Texas, is hereby appointed the Paying Agent/Registrar for each Series of Bonds. The U.T. System Representative is authorized to enter into and carry out a Paying Agent/Registrar Agreement with the Paying Agent/Registrar with respect to the Bonds in substantially the form submitted to the Board.

(b) Registration Books. The Board shall keep books or records for the registration of the transfer, exchange, and replacement of each Series of Bonds (the "Registration Books"), and the Board hereby designates the Paying Agent/Registrar as the initial registrar and transfer agent to keep such books or records and make such registrations of transfers, exchanges, and replacements under such reasonable regulations as the Board may prescribe; and the Paying Agent/Registrar shall make such registrations, transfers, exchanges, and replacements as herein provided. The Paying Agent/Registrar shall obtain and record in the Registration Books the address of the registered owner of each Bond to which payments with respect to the Bonds shall be mailed, as herein provided; but it shall be the duty of each registered owner to notify the Paying Agent/Registrar in writing of the address to which payments shall be mailed, and such interest payments shall not be

mailed unless such notice has been given. The Board, if not the Paying Agent/Registrar, shall have the right to inspect the Registration Books during regular business hours of the Paying Agent/Registrar, but otherwise the Paying Agent/Registrar shall keep the Registration Books confidential and, unless otherwise required by law, shall not permit their inspection by any other entity.

(c) Ownership of Bonds. The entity in whose name any Bond shall be registered in the Registration Books at any time shall be deemed and treated as the absolute owner thereof for all purposes of this Sixth Supplement, whether or not such Bond shall be overdue, and, to the extent permitted by law, the Board and the Paying Agent/Registrar shall not be affected by any notice to the contrary; and payment of, or on account of, the principal of, premium, if any, and interest on any such Bond shall be made only to such registered owner. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

(d) Payment of Bonds and Interest. The Board hereby further appoints the Paying Agent/Registrar to act as the paying agent for paying the principal of and interest on the Bonds, all as provided in this Sixth Supplement. The Paying Agent/Registrar shall keep proper records of all payments made by the Board and the Paying Agent/Registrar with respect to the Bonds.

(e) Authentication. The Bonds of each Series initially issued and delivered pursuant to this Sixth Supplement shall be authenticated by the Paying Agent by execution of the Paying Agent's Authentication Certificate unless they have been approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas, and on each substitute Bond issued in exchange for any Bond or Bonds issued under this Sixth Supplement the Paying Agent/Registrar shall execute the PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE. The Authentication Certificate shall be in the form set forth in the FORM OF BONDS.

(f) Transfer, Exchange, or Replacement. Each Bond issued and delivered pursuant to this Sixth Supplement, to the extent of the unpaid or unredeemed principal amount or Maturity Amount thereof, may, upon surrender of such Bond at the corporate trust office of the Paying Agent/Registrar, together with a written request therefor duly executed by the registered owner or the assignee or assignees thereof, or its or their duly authorized attorneys or representatives, with guarantee of signatures satisfactory to the Paying Agent/Registrar, may, at the option of the registered owner or such assignee or assignees, as appropriate, be exchanged for fully registered bonds, without interest coupons, in the appropriate form prescribed in the FORM OF BONDS set forth in this Sixth Supplement, in the denomination of any Authorized Denominations (subject to the requirement hereinafter stated that each substitute Bond shall be of the same Series and have a single stated maturity date), as requested in writing by such registered owner or such assignee or assignees, in an aggregate principal amount equal to the unpaid or unredeemed principal amount or Maturity Amount, of any Bond or Bonds so surrendered, and payable to the appropriate registered owner, assignee, or assignees, as the case may be. If a portion of any Bond shall be redeemed prior to its scheduled maturity as provided herein, a substitute Bond or Bonds having the same Series designation and maturity date, bearing interest at the same rate, and payable in the same manner, in

Authorized Denominations at the request of the registered owner, and in aggregate principal amount or Maturity Amount equal to the unredeemed portion thereof, will be issued to the registered owner upon surrender thereof for cancellation. If any Bond or portion thereof is assigned and transferred, each Bond issued in exchange therefor shall have the same Series designation and maturity date and bear interest at the same rate and payable in the same manner as the Bond for which it is being exchanged. Each substitute Bond of each Series shall bear a letter and/or number to distinguish it from each other Bond of such Series. The Paying Agent/Registrar shall exchange or replace Bonds as provided herein, and each fully registered bond delivered in exchange for or replacement of any Bond or portion thereof as permitted or required by any provision of this Sixth Supplement shall constitute one of the Bonds for all purposes of this Sixth Supplement, and may again be exchanged or replaced. On each substitute Bond issued in exchange for or replacement of any Bond or Bonds issued under this Sixth Supplement there shall be printed an Authentication Certificate, in the form set forth in Exhibit B to this Sixth Supplement. An authorized representative of the Paying Agent shall, before the delivery of any such Bond, date and manually sign the Authentication Certificate, and, except as provided in (e) above, no such Bond shall be deemed to be issued or outstanding unless such Certificate is so executed. The Paying Agent/Registrar promptly shall cancel all Bonds surrendered for transfer, exchange, or replacement. No additional orders or resolutions need be passed or adopted by the Board or any other body or person so as to accomplish the foregoing transfer, exchange, or replacement of any Bond or portion thereof, and the Paying Agent/Registrar shall provide for the printing, execution, and delivery of the substitute Bonds in the manner prescribed herein, and said Bonds shall be in typed or printed form as determined by the U.T. System Representative. Pursuant to Vernon's Texas Civil Statutes Article 717k-6, and particularly Section 6 thereof, the duty of transfer, exchange, or replacement of Bonds as aforesaid is hereby imposed upon the Paying Agent/Registrar, and, upon the execution of the above Paying Agent/Registrar's Authentication Certificate, the exchanged or replaced Bond shall be valid, incontestable, and enforceable in the same manner and with the same effect as the Bonds which were originally issued pursuant to this Sixth Supplement. The Board shall pay the Paying Agent/Registrar's standard or customary fees and charges, if any, for transferring, and exchanging any Bond or any portion thereof, but the one requesting any such transfer and exchange shall pay any taxes or governmental charges required to be paid with respect thereto as a condition precedent to the exercise of such privilege. The Paying Agent/Registrar shall not be required to make any such transfer, exchange, or replacement of Bonds or any portion thereof (i) with respect to a Current Interest Bond, during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following interest payment date, or, (ii) with respect to any Bond or portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date. To the extent possible, any new Bond issued in an exchange, replacement, or transfer of a Bond will be delivered to the registered owner or assignee of the registered owner not more than three business days after the receipt of the Bonds to be cancelled and the written request as described above.

(g) Substitute Paying Agent/Registrar. The Board covenants with the registered owners of the Bonds that at all times while the Bonds are outstanding the Board will provide a competent and legally qualified bank, trust company, financial institution, or other agency to act as and perform the services of Paying Agent/Registrar for the Bonds under this Sixth Supplement. The Board reserves the right to, and may, at its option, change the Paying Agent/Registrar upon not less than 120 days written notice to the Paying Agent/Registrar, to be effective not later than 60 days prior to the next

principal or interest payment date after such notice. In the event that the entity at any time acting as Paying Agent/Registrar (or its successor by merger, acquisition, or other method) should resign or otherwise cease to act as such, the Board covenants that promptly it will appoint a competent and legally qualified bank, trust company, financial institution, or other agency to act as Paying Agent/Registrar under this Sixth Supplement. Upon any change in the Paying Agent/Registrar, the previous Paying Agent/Registrar promptly shall transfer and deliver the Registration Books (or a copy thereof), along with all other pertinent books and records relating to the Bonds, to the new Paying Agent/Registrar designated and appointed by the Board. Upon any change in the Paying Agent/Registrar, the Board promptly will cause a written notice thereof to be sent by the new Paying Agent/Registrar to each registered owner of the Bonds, by United States mail, first-class postage prepaid, which notice also shall give the address of the new Paying Agent/Registrar. By accepting the position and performing as such, each Paying Agent/Registrar shall be deemed to have agreed to the provisions of this Sixth Supplement, and a certified copy of this Sixth Supplement shall be delivered to each Paying Agent/Registrar.

(h) Book-Entry-Only System. The Bonds of each Series issued in exchange for the Bonds initially issued shall be issued in the form of a separate single fully registered Bond for each of the maturities thereof registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), and except as provided in subsection (i) hereof, all of the Outstanding Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the Board, the Paying Agent/Registrar shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom such a DTC Participant holds an interest on the Bonds. Without limiting the immediately preceding sentence, the Board, the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than a Bondholder, as shown on the Registration Books, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than a Bondholder, as shown in the Registration Books of any amount with respect to principal of, premium, if any, or interest on the Bonds. Notwithstanding any other provision of this Sixth Supplement to the contrary but to the extent permitted by law, the Board, the Paying Agent/Registrar shall be entitled to treat and consider the person in whose name each Bond is registered in the Registration Books as the absolute owner of such Bond for the purpose of payment of principal, premium, if any, and interest, with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective owners, as shown in the Registration Books as provided in this Sixth Supplement, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Board's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than an owner, as shown in the Registration Books, shall receive a Bond certificate evidencing the obligation of the Board to make payments of principal, premium, if any, and interest pursuant to this Sixth Supplement. Upon delivery by DTC to the

Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in this Sixth Supplement with respect to interest checks being mailed to the registered owner at the close of business on the Record Date, the word "Cede & Co." in this Sixth Supplement shall refer to such new nominee of DTC.

(i) Successor Securities Depository; Transfers Outside Book-Entry-Only System. In the event that the Board determines to discontinue the use of the Book-Entry-Only System through DTC or DTC determines to discontinue providing its services with respect to the Bonds, the Board shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants of the appointment of such successor securities depository and transfer one or more separate Bonds of each such Series to such successor securities depository or (ii) notify DTC and DTC Participants of the availability through DTC of Bonds and transfer one or more separate Bonds of each such Series to DTC Participants having Bonds of such Series credited to their DTC accounts. In such event, the Bonds of such Series shall no longer be restricted to being registered in the Registration Books in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Bondholders transferring or exchanging such Bonds shall designate, in accordance with the provisions of this Sixth Supplement.

(j) Payments to Cede & Co. Notwithstanding any other provision of this Sixth Supplement to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of, premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the representation letter of the Board to DTC.

(k) Notices of Redemption and Defeasance. (i) In addition to the Notice of Redemption set forth in the FORM OF BONDS, the Authority shall give notice of redemption or defeasance to the Paying Agent/Registrar at least 45 days prior to a redemption date in the case of a redemption and on the defeasance date in the case of a defeasance and the Paying Agent/Registrar shall give notice of redemption or of defeasance of Bonds by mail, first-class postage prepaid at least thirty (30) days prior to a redemption date and within thirty (30) days after a defeasance date to each registered securities depository and to any national information service that disseminates such notices. In addition, in the event of a redemption caused by an advance refunding of the Bonds, the Paying Agent/Registrar shall send a second notice of redemption to the persons specified in the immediately preceding sentence at least thirty (30) days but not more than ninety (90) days prior to the actual redemption date. Any notice sent to the registered securities depositories or such national information services shall be sent so that they are received at least two (2) days prior to the general mailing or publication date of such notice. The Paying Agent/Registrar shall also send a notice of prepayment or redemption to the registered owner of any Bond who has not sent the Bonds in for redemption sixty (60) days after the redemption date.

(ii) Each Notice of Redemption or Defeasance, whether required in the FORM OF BONDS or in this Section, shall contain a description of the Bonds to be redeemed or defeased including the complete name of the Bonds, the Series, the date of issue, the interest rate, the maturity date, the

CUSIP number, the certificate numbers, the amounts called of each certificate, the publication and mailing date for the notice, the date of redemption or defeasance, the redemption price, if any, the name of the Paying Agent/Registrar and the address at which the Bonds may be redeemed or paid, including a contact person and telephone number.

(iii) All redemption payments made by the Paying Agent/Registrar to the registered owners of the Bonds shall include a CUSIP number relating to each amount paid to such registered owner.

Section 6. FORM OF BONDS. The form of the Bonds, including the form of Paying Agent/Registrar's Authentication Certificate, the form of Assignment and the form of Registration Certificate of the Comptroller of Public Accounts of the State of Texas, if needed with respect to the Bonds of each Series initially issued and delivered pursuant to this Sixth Supplement, shall be, respectively, substantially as set forth in Exhibit B, with such appropriate variations, omissions, or insertions as are permitted or required by this Sixth Supplement and any Award Certificate.

Section 7. ESTABLISHMENT OF FINANCING SYSTEM AND ISSUANCE OF PARITY DEBT. By adoption of the Master Resolution, the Board has established The University of Texas System Revenue Financing System for the purpose of providing a financing structure for revenue supported indebtedness of components of The University of Texas System which are from time to time included as Members of the Financing System. The Master Resolution is intended to establish a master plan under which revenue supported debt of the Financing System can be incurred. This Sixth Supplement provides for the authorization, issuance, sale, delivery, form, characteristics, provisions of payment and redemption, and security of the Bonds as Parity Debt. The Master Resolution is incorporated herein by reference and as such made a part hereof for all purposes, except to the extent modified and supplemented hereby, and the Bonds are hereby declared to be Parity Debt under the Master Resolution. As required by Section 5(a) of the Master Resolution, the Board hereby determines that upon the issuance of the Bonds it will have sufficient funds to meet the financial obligations of The University of Texas System, including sufficient Pledged Revenues 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 that the Members on whose behalf the Bonds are to be issued possess the financial capacity to satisfy their Direct Obligations after taking the Bonds into account.

Section 8. SECURITY AND PAYMENTS. The Bonds are special obligations of the Board payable from and secured solely by the Pledged Revenues pursuant to the Master Resolution and this Sixth Supplement. The Pledged Revenues are hereby pledged, subject to the liens securing the Prior Encumbered Obligations, to the payment of the principal of, premium, if any, and interest on the Bonds as the same shall become due and payable. The Board agrees to pay the principal of, premium, if any, and the interest on the Bonds when due, whether by reason of maturity or redemption.

Section 9. PAYMENTS. (a) Immediately after the delivery of the Bonds the Board shall deposit all accrued interest received from the sale and delivery of each Series of Bonds to the credit of a special account to be held to pay interest on such Series of Bonds on the first interest payment date.

(b) Semiannually on or before each principal or interest payment date while any of the Bonds are outstanding and unpaid, commencing on the first interest payment date for each respective Series of Bonds as provided in the Award Certificate, the Board shall make available to the Paying Agent/Registrar, money sufficient to pay such interest on and such principal of the Bonds as will accrue or mature, or be subject to mandatory redemption prior to maturity, on such principal, redemption, or interest payment date. The Paying Agent/Registrar shall cancel all paid Bonds and shall furnish the Board with an appropriate certificate of cancellation.

Section 10. DAMAGED, MUTILATED, LOST, STOLEN, OR DESTROYED BONDS.

(a) Replacement Bonds. In the event any outstanding Bond is damaged, mutilated, lost, stolen, or destroyed, the Paying Agent/Registrar shall cause to be printed, executed, and delivered, a new bond of the same Series, principal amount, maturity, and interest rate, and in the same form, as the damaged, mutilated, lost, stolen, or destroyed Bond, in replacement for such Bond in the manner hereinafter provided.

(b) Application for Replacement Bonds. Application for replacement of damaged, mutilated, lost, stolen, or destroyed Bonds shall be made to the Paying Agent/Registrar. In every case of loss, theft, or destruction of a Bond, the applicant for a replacement bond shall furnish to the Board and to the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft, or destruction of a Bond, the applicant shall furnish to the Board and to the Paying Agent/Registrar evidence to their satisfaction of the loss, theft, or destruction of such Bond, as the case may be. In every case of damage or mutilation of a Bond, the applicant shall surrender to the Paying Agent/Registrar for cancellation the Bond so damaged or mutilated.

(c) Payment in Lieu of Replacement. Notwithstanding the foregoing provisions of this Section, in the event any such Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of, redemption premium, if any, or interest on the Bond, the Board may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, provided security or indemnity is furnished as above provided in this Section.

(d) Charge for Issuing Replacement Bonds. Prior to the issuance of any replacement bond, the Paying Agent/Registrar shall charge the owner of such Bond with all legal, printing, and other expenses in connection therewith. Every replacement bond issued pursuant to the provisions of this Section by virtue of the fact that any Bond is lost, stolen, or destroyed shall constitute a contractual obligation of the Board whether or not the lost, stolen, or destroyed Bond shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Sixth Supplement equally and proportionately with any and all other Bonds duly issued under this Sixth Supplement.

(e) Authority for Issuing Replacement Bonds. In accordance with Section 6 of Vernon's Texas Civil Statutes Article 717k-6, this Section shall constitute authority for the issuance of any such replacement bond without the necessity of further action by the Board or any other body or person, and the duty of the replacement of such Bonds is hereby authorized and imposed upon the

Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such Bonds in the form and manner and with the effect, as provided in Section 5(f) of this Sixth Supplement for Bonds issued in exchange and replacement for other Bonds.

Section 11. AMENDMENT OF SUPPLEMENT. (a) Amendments Without Consent. This Sixth Supplement and the rights and obligations of the Board and of the owners of the Bonds may be modified or amended at any time without notice to or the consent of any owner of the Bonds or any other Parity Debt, solely for any one or more of the following purposes:

(i) To add to the covenants and agreements of the Board contained in this Sixth Supplement, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Board in this Sixth Supplement;

(ii) To cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in this Sixth Supplement, upon receipt by the Board of an approving opinion of Bond Counsel, that the same is needed for such purpose, and will more clearly express the intent of this Sixth Supplement;

(iii) To supplement the security for the Bonds, replace or provide additional credit facilities, or change the form of the Bonds or make such other changes in the provisions hereof as the Board may deem necessary or desirable and which shall not, in the judgment of the Board, materially adversely affect the interests of the owners of the Outstanding Bonds; or

(iv) To make any changes or amendments requested by any bond rating agency then rating or requested to rate Bonds, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the Board, materially adversely affect the interests of the owners of the Outstanding Bonds.

(b) Amendments With Consent. Subject to the other provisions of this Sixth Supplement, the owners of Outstanding Bonds aggregating 51 percent in Outstanding Principal Amount shall have the right from time to time to approve any amendment, other than amendments described in Subsection (a) of this Section, to this Sixth Supplement which may be deemed necessary or desirable by the Board, provided, however, that nothing herein contained shall permit or be construed to permit, without the approval of the owners of all of the Outstanding Bonds, the amendment of the terms and conditions in this Sixth Supplement or in the Bonds so as to:

- (1) Make any change in the maturity of the Outstanding Bonds;
- (2) Reduce the rate of interest borne by Outstanding Bonds;
- (3) Reduce the amount of the principal payable on Outstanding Bonds;
- (4) Modify the terms of payment of principal of or interest on the Outstanding Bonds, or impose any conditions with respect to such payment;

- (5) Affect the rights of the owners of less than all Bonds then Outstanding; or
- (6) Change the minimum percentage of the Outstanding Principal Amount of Bonds necessary for consent to such amendment.

(c) Notice. If at any time the Board shall desire to amend this Sixth Supplement other than pursuant to (a) above, the Board shall cause notice of the proposed amendment to be published in a financial newspaper or journal of general circulation in The City of New York, New York once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of the Paying Agent/Registrar for inspection by all owners of Bonds. Such publication is not required, however, if the Board gives or causes to be given such notice in writing to each owner of Bonds.

(d) Receipt of Consents. Whenever at any time not less than thirty days, and within one year, from the date of the first publication of said notice or other service of written notice of the proposed amendment the Board shall receive an instrument or instruments executed by all of the owners or the owners of at least 51 percent in Outstanding Principal Amount of Bonds, as appropriate, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the Board may adopt the amendatory resolution in substantially the same form.

(e) Effect of Amendments. Upon the adoption by the Board of any resolution to amend this Sixth Supplement pursuant to the provisions of this Section, this Sixth Supplement shall be deemed to be amended in accordance with the amendatory resolution, and the respective rights, duties, and obligations of the Board and all the owners of then Outstanding Bonds and all future Bonds shall thereafter be determined, exercised, and enforced under the Resolution and this Sixth Supplement, as amended.

(f) Consent Irrevocable. Any consent given by any owner of Bonds pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication or other service of the notice provided for in this Section, and shall be conclusive and binding upon all future owners of the same Bonds during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the owner who gave such consent, or by a successor in title, by filing notice thereof with the Paying Agent/Registrar and the Board, but such revocation shall not be effective if the owners of 51 percent in Outstanding Principal Amount of Bonds, prior to the attempted revocation, consented to and approved the amendment.

(g) Ownership. For the purpose of this Section, the ownership and other matters relating to all Bonds registered as to ownership shall be determined from the registration books kept by the Paying Agent/Registrar therefor. The Paying Agent/Registrar may conclusively assume that such ownership continues until written notice to the contrary is served upon the Paying Agent/Registrar.

Section 12. COVENANTS REGARDING TAX-EXEMPTION. The Board covenants to refrain from any action which would adversely affect, or to take such action to assure, the treatment of the Bonds as obligations described in section 103 of the Code, the interest on which is not includable in the "gross income" of the holder for purposes of federal income taxation. In furtherance thereof, the Board covenants as follows:

(a) to take any action to assure that no more than 10 percent of the proceeds of the Bonds (less amounts deposited to a reserve fund, if any) are used for any "private business use," as defined in section 141(b)(6) of the Code or, if more than 10 percent of the proceeds are so used, that amounts, whether or not received by the Board, with respect to such private business use, do not, under the terms of this Sixth Supplement or any underlying arrangement, directly or indirectly, secure or provide for the payment of more than 10 percent of the debt service on the Bonds, in contravention of section 141(b)(2) of the Code;

(b) to take any action to assure that in the event that the "private business use" described in subsection (a) hereof exceeds 5 percent of the proceeds of the Bonds (less amounts deposited into a reserve fund, if any) then the amount in excess of 5 percent is used for a "private business use" which is "related" and not "disproportionate," within the meaning of section 141(b)(3) of the Code, to the governmental use;

(c) to take any action to assure that no amount which is greater than the lesser of \$5,000,000, or 5 percent of the proceeds of the Bonds (less amounts deposited into a reserve fund, if any) is directly or indirectly used to finance loans to persons, other than state or local governmental units, in contravention of section 141(c) of the Code;

(d) to refrain from taking any action which would otherwise result in the Bonds being treated as "private activity bonds" within the meaning of section 141(b) of the Code;

(e) to refrain from taking any action that would result in the Bonds being "federally guaranteed" within the meaning of section 149(b) of the Code;

(f) to refrain from using any portion of the proceeds of the Bonds, directly or indirectly, to acquire or to replace funds which were used, directly or indirectly, to acquire investment property (as defined in section 148(b)(2) of the Code) which produces a materially higher yield over the term of the Bonds, other than investment property acquired with --

(1) proceeds of the Bonds invested for a reasonable temporary period of 3 years or less or, in the case of a refunding bond, for a period of 30 days or less until such proceeds are needed for the purpose for which the bonds are issued,

(2) amounts invested in a bona fide debt service fund, within the meaning of section 1.148-1(b) of the Treasury Regulations, and

(3) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10 percent of the proceeds of the Bonds;

(g) to otherwise restrict the use of the proceeds of the Bonds or amounts treated as proceeds of the Bonds, as may be necessary, so that the Bonds do not otherwise contravene the requirements of section 148 of the Code (relating to arbitrage) and, to the extent applicable, section 149(d) of the Code (relating to advance refundings); and

(h) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the Bonds) an amount that is at least equal to 90 percent of the "Excess Earnings," within the meaning of section 148(f) of the Code and to pay to the United States of America, not later than 60 days after the Bonds have been paid in full, 100 percent of the amount then required to be paid as a result of Excess Earnings under section 148(f) of the Code.

For purposes of the foregoing (a) and (b), the Board understands that the term "proceeds" includes "disposition proceeds" as defined in the Treasury regulations and, in the case of refunding bonds, transferred proceeds (if any) and proceeds of the refunded bonds expended prior to the date of issuance of the Bonds.) It is the understanding of the Board that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated which modify, or expand provisions of the Code, as applicable to the Bonds, the Board will not be required to comply with any covenant contained herein to the extent that such failure to comply, in the opinion of nationally-recognized bond counsel, will not adversely affect the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In the event that regulations or rulings are hereafter promulgated which impose additional requirements which are applicable to the Bonds, the Board agrees to comply with the additional requirements to the extent necessary, in the opinion of nationally-recognized bond counsel, to preserve the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In furtherance of such intention, the Board hereby authorizes and directs the U.T. System Representative to execute any documents, certificates or reports required by the Code and to make such elections, on behalf of the Board, which may be permitted by the Code as are consistent with the purpose for the issuance of the Bonds.

In order to facilitate compliance with the above covenant (h), a "Rebate Fund" is hereby established by the Board for the sole benefit of the United States of America, and such Fund shall not be subject to the claim of any other person, including without limitation the bondholders. The Rebate Fund is established for the additional purpose of compliance with section 148 of the Code.

The Board covenants that the property financed with the proceeds of the Refunded Obligations will not be sold or otherwise disposed in a transaction resulting in the receipt by the Board of cash or other compensation, unless the Board obtains an opinion of nationally-recognized bond counsel that such sale or other disposition will not adversely affect the tax-exempt status of the Bonds. For purposes of the foregoing, the portion of the property comprising personal property

and disposed in the ordinary course shall not be treated as a transaction resulting in the receipt of cash or other compensation. For purposes hereof, the Board shall not be obligated to comply with this covenant if it obtains an opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

Section 13. **SIXTH SUPPLEMENT TO CONSTITUTE A CONTRACT; EQUAL SECURITY.** In consideration of the acceptance of the Bonds, the issuance of which is authorized hereunder, by those who shall hold the same from time to time, this Sixth Supplement shall be deemed to be and shall constitute a contract between the Board and the Holders from time to time of the Bonds and the pledge made in this Sixth Supplement by the Board and the covenants and agreements set forth in this Sixth Supplement to be performed by the Board shall be for the equal and proportionate benefit, security, and protection of all Holders, without preference, priority, or distinction as to security or otherwise of any of the Bonds authorized hereunder over any of the others by reason of time of issuance, sale, or maturity thereof or otherwise for any cause whatsoever, except as expressly provided in or permitted by this Sixth Supplement.

Section 14. **SEVERABILITY OF INVALID PROVISIONS.** If any one or more of the covenants, agreements, or provisions herein contained shall be held contrary to any express provisions of law or contrary to the policy of express law, though not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such covenants, agreements, or provisions shall be null and void and shall be deemed separable from the remaining covenants, agreements, or provisions and shall in no way affect the validity of any of the other provisions hereof or of the Bonds issued hereunder.

Section 15. **PAYMENT AND PERFORMANCE ON BUSINESS DAYS.** Except as provided to the contrary in the Form of Bonds, whenever under the terms of this Sixth Supplement or the Bonds, the performance date of any provision hereof or thereof, including the payment of principal of or interest on the Bonds, shall occur on a day other than a Business Day, then the performance thereof, including the payment of principal of and interest on the Bonds, need not be made on such day but may be performed or paid, as the case may be, on the next succeeding Business Day with the same force and effect as if made on the date of performance or payment.

Section 16. **LIMITATION OF BENEFITS WITH RESPECT TO THE SIXTH SUPPLEMENT.** With the exception of the rights or benefits herein expressly conferred, nothing expressed or contained herein or implied from the provisions of this Sixth Supplement or the Bonds is intended or should be construed to confer upon or give to any person other than the Board, the Holders, the Paying Agent/Registrar, any legal or equitable right, remedy, or claim under or by reason of or in respect to this Sixth Supplement or any covenant, condition, stipulation, promise, agreement, or provision herein contained. This Sixth Supplement and all of the covenants, conditions, stipulations, promises, agreements, and provisions hereof are intended to be and shall be for and inure to the sole and exclusive benefit of the Board, the Holders, the Paying Agent/Registrar as herein and therein provided.

Section 17. **CUSTODY, APPROVAL, BOND COUNSEL'S OPINION, CUSIP NUMBERS, PREAMBLE, AND INSURANCE.** The Director of Finance is hereby authorized to

have control of each Series of Bonds issued hereunder and all necessary records and proceedings pertaining to such Series of Bonds pending their delivery and approval by the Attorney General of the State of Texas and registration by the Comptroller of Public Accounts and to cause an appropriate legend reflecting such approval and registration to appear on the Bonds of such Series and the substitute Bonds of such Series. The approving legal opinion of the Board's Bond Counsel and the assigned CUSIP numbers may, at the option of the Director of Finance, be printed on the Bonds and on any Bonds issued and delivered in exchange or replacement of any Bond, but neither shall have any legal effect, and shall be solely for the convenience and information of the registered owners of the Bonds. The preamble to the Sixth Supplement is hereby adopted and made a part of this Sixth Supplement for all purposes. If insurance is obtained on any of the Bonds, the Bonds shall bear, as appropriate and applicable, a legend concerning insurance as provided by the Insurer.

Section 18. REFUNDING OF REFUNDED OBLIGATIONS; ESCROW AGREEMENT.

That concurrently with the delivery of each Series of Bonds, the U.T. System Representative shall cause to be deposited an amount from the proceeds from the sale of such Series of Bonds with Bankers Trust Company, as Escrow Agent, sufficient, together with other legally available funds of the Board, to provide for the refunding and defeasance of the respective Refunded Obligations in accordance with Section 7A of Vernon's Ann. Tex. Civ. St. Article 717k, as amended. The U.T. System Representative is hereby authorized, for and on behalf of the Board, to execute an Escrow Agreement to accomplish such purpose, in substantially the form and substance submitted to the Board at the meeting at which this Sixth Supplement is adopted. The U.T. System Representative is further authorized and directed to apply and there is hereby appropriated such moneys of the Board as are necessary to fund the Escrow Fund to be established by the Escrow Agreement with amounts sufficient to provide for the defeasance of the Refunded Obligations on the date of delivery of the Bonds.

Section 19. APPLICATION OF BOND PROCEEDS. (a) Proceeds from the sale of the Bonds shall, promptly upon receipt thereof, be applied by the U.T. System Representative as follows:

- (i) accrued interest for the Bonds shall be deposited as provided in Section 9;
- (ii) an amount sufficient to accomplish the purposes of Section 18 shall be so applied;
- (iii) any proceeds from the sale of Bonds remaining after the deposits provided for in clauses (i) or (ii) above, shall be applied to pay expenses arising in connection with the issuance of the Bonds and the refunding of the Refunded Obligations.

Any sale proceeds of the Bonds remaining after making all deposits and payments provided for above shall be applied to the payment of principal of and interest on the Bonds.

Section 20. FURTHER PROCEDURES. The Executive Committee, each member of the Executive Committee, each U.T. System Representative, and all other officers, employees, and

agents of the Board, and each of them, shall be and they are hereby expressly authorized, empowered, and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge, and deliver in the name and under the corporate seal and on behalf of the Board all such instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Sixth Supplement, the Escrow Agreement, the Bonds, the sale and delivery of each Series of Bonds and fixing all details in connection therewith, the Paying Agent/Registrar Agreement, to approve any Official Statement, or supplements thereto, in connection with either Series of Bonds, and to affect the amendment of the Swap Agreement and the execution and delivery of confirmations thereunder. In case any officer whose signature shall appear on the Bonds shall cease to be such officer before the delivery of the Bonds, such signature shall nevertheless be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery. Notwithstanding anything to the contrary contained herein, while the Bonds are subject to DTC's Book-Entry-Only System and to the extent permitted by law, the Letter of Representation is hereby incorporated herein and its provisions shall prevail over any other provisions of this Sixth Supplement in the event of conflict. In addition, the U.T. System Representative is authorized to submit an application to the Texas Bond Review Board requesting the approval of the issuance of the Bonds. In addition, the U.T. System Representative, General Counsel, and Bond Counsel are hereby authorized to approve, subsequent to the date of the adoption of this Sixth Supplement, any amendments to the above named documents, and any technical amendments to this Sixth Supplement as may be required by Fitch Investors Services, L.P., Moody's Investors Service, Inc., or Standard & Poor's Ratings Group, a Division of McGraw-Hill, Inc. as a condition to the granting of a rating on the Bonds or as required by the office of the Texas Attorney General as a condition to the approval of the Bonds.

Section 21. DTC LETTER OF REPRESENTATIONS. The U.T. System Representative is authorized and directed to enter into any amendments necessary to the Blanket Letter of Representations with DTC to implement the Book-Entry-Only System of Bond Registration with respect to each Series of Bonds.

Section 22. REPEAL OF CONFLICTING RESOLUTIONS; RATIFICATION OF CONTINUANCE OF COMMERCIAL PAPER NOTE PROGRAM. All resolutions and all parts of any resolutions which are in conflict or are inconsistent with this Sixth Supplement are hereby repealed and shall be of no further force or effect to the extent of such conflict or inconsistency. The Amended and Restated First Supplemental Resolution to the Master Resolution, authorizing the Revenue Financing System Commercial Paper Notes, Series A (the "First Supplement"), provided that the notes issued thereunder could be issued from time to time in an aggregate principal amount not to exceed \$250,000,000, at any one time outstanding and further contemplated that the notes originally issued might be retired and additional notes issued by the U.T. System Representative, as defined in the First Supplement. Simultaneously with the adoption of this Sixth Supplement, the Board adopted the First Amendment to the First Supplement. The provisions of the First Supplement, as so amended, are hereby ratified and reaffirmed and it is recognized that notes will be issued thereunder in the future pursuant to, in accordance with, and subject to the conditions contained in the First Supplement.

Section 23. OFFICIAL STATEMENT. The draft Official Statement relating to the Bonds submitted to the Board at the meeting at which this Sixth Supplement is adopted is hereby approved and the U.T. System Representative is authorized and directed to provide for and oversee the preparation of a preliminary and final official statement in connection with the issuance of the Bonds, and to approve such official statement and deem it final in compliance with the Rule and to provide it to the purchasers of the Bonds in compliance with such Rule.

Section 24. CREDIT AGREEMENT. (a) Pursuant to the Interest Rate Swap Agreement dated as of April 1, 1994, between the Board and Goldman Sachs Capital Markets, L.P. (the "Swap Agreement"), the U.T. System Representative may accept and execute confirmations under and as defined in the Swap Agreement when, in his or her judgment, the execution of such confirmation (i) would reduce the net interest to be paid by the Board with respect to the Bonds or any other Parity Debt over the term of the confirmation or (ii) given the market conditions at the time, is in the best interest of the Board. When such confirmations are executed on behalf of the Board, the costs thereof and the amounts payable thereunder shall be paid out of Pledged Revenues. The Swap Agreements constitutes a "Credit Agreement" as defined in the Master Resolution and Article 717q, Vernon's Texas Civil Statutes and constitutes Parity Debt under the Master Resolution.

(b) The U.T. System Representative is hereby authorized to enter into an amendment to the Swap Agreement to allow confirmations thereunder to be issued and entered into with respect the Bonds or to any other Parity Debt and to make such other amendments as in the judgment of the U.T. System Representative and Bond Counsel are necessary to allow the Board to achieve the benefits of the Swap Agreement.

Section 25. PUBLIC NOTICE. It is hereby found and determined that each of the officers and members of the Board was duly and sufficiently notified officially and personally, in advance, of the time, place, and purpose of the Meeting at which this Sixth Supplement was adopted; that this Sixth Supplement would be introduced and considered for adoption at said meeting; that said meeting was open to the public, and public notice of the time, place, and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code.

ADOPTED AND APPROVED this _____.

Chairman, Board of Regents of
The University of Texas System

ATTEST:

Executive Secretary, Board of Regents of
The University of Texas System

EXHIBIT A DEFINITIONS

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

The term "Acts" shall mean, collectively, Articles 717k and 717q, Vernon's Texas Civil Statutes, as amended, and Chapter 55, Texas Education Code, as amended.

The term "Authorized Denominations" shall mean Authorized Denominations as defined in Section 2 of this Sixth Supplement.

The term "Award Certificate" shall mean the certificate executed by the U.T. System Representative in connection with each Series of Bonds which establishes the terms of the Series of Bonds pursuant to Section 3 of this Sixth Supplement.

The terms "Board" and "Issuer" shall mean the Board of Regents of The University of Texas System or any successor thereto.

The term "Bonds" shall mean collectively each Series of Bonds issued pursuant to this Sixth Supplement, and all substitute bonds exchanged therefor, and all other substitute and replacement bonds issued pursuant to this Sixth Supplement; and the term "Bond" means any of the Bonds.

The term "Business Day" shall mean any day which is not a Saturday, Sunday, legal holiday, or a day on which banking institutions in The City of New York, New York or in the city where the corporate trust office of the Paying Agent/Registrar is located are authorized by law or executive order to close.

The term "Capital Appreciation Bonds" shall mean the Bonds of each Series of the Bonds on which no interest is paid prior to maturity, maturing variously in each of the years and in the aggregate principal amount as set forth in the Award Certificate.

The term "Code" means the Internal Revenue Code of 1986, as amended.

The term "Compounded Amount" shall mean, with respect to a Capital Appreciation Bond, as of any particular date of calculation, the original principal amount thereof, plus all interest accrued and compounded to the particular date of calculation, as determined in accordance with Section 4 of this Sixth Supplement and the Compounded Amount Table relating to such Bonds.

The term "Compounded Amount Table" shall mean, with respect to the Capital Appreciation Bonds of a Series of Bonds, the table attached as an Exhibit to the Award Certificate relating to such Series of Bonds which shows the Compounded Amounts per \$5,000 Maturity Amount on the Compounding Dates for each maturity to its Stated Maturity.

The term "Compounding Dates" shall mean Compounding Dates as defined in Section 4 of this Sixth Supplement.

The term "Current Interest Bonds" shall mean the Bonds of each Series of the Bonds paying current interest and maturing in each of the years and in the aggregate principal amounts set forth in the Award Certificate.

The term "DTC" shall mean The Depository Trust Company, New York, New York, or any successor securities depository.

The term "DTC Participant" shall mean securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

The term "Sixth Supplement" shall mean this Sixth Supplement Resolution to the Master Resolution authorizing the Bonds.

The term "Issuance Date" shall mean the date of delivery of each Series of Bonds to the initial purchaser or purchasers thereof against payment therefor.

The term "MSRB" shall mean the Municipal Securities Rulemaking Board.

The term "Master Resolution" shall mean the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System adopted by the Board on February 14, 1991, as amended on October 8, 1993, and August 14, 1997.

The term "Maturity" shall mean the date on which the principal of a Bond becomes due and payable as therein and herein provided, whether at Stated Maturity, by redemption, declaration of acceleration, or otherwise.

The term "Maturity Amount" shall mean the Compounded Amount of a Capital Appreciation Bond due on its Stated Maturity.

The term "NRMSIR" shall mean each person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the Rule from time to time.

The term "Paying Agent/Registrar" shall mean the paying agent and registrar appointed pursuant to Section 5 of this Sixth Supplement, or any successor to such agent.

The term "Record Date" shall mean, with respect to the Bonds, the last calendar day of each month preceding an interest payment date.

The term "Refunded Obligations" shall mean the Board of Regents of The University of Texas System Revenue Financing Commercial Paper Notes, Series A to be refunded with the proceeds of the Bonds.

The term "Registration Books" shall mean the books or records relating to the registration, payment, and transfer or exchange of the Bonds maintained by the Paying Agent/Registrar pursuant to Section 5 of this Sixth Supplement.

The term "SEC" shall mean the United States Securities and Exchange Commission.

The term "SID" shall mean any person designated by the State of Texas or an authorized department, officer, or agency thereof as, and determined by the SEC or its staff to be, a state information depository within the meaning of the Rule from time to time.

The term "Stated Maturity", shall mean, when used with respect to the Bonds, the scheduled maturity or mandatory sinking fund redemption of the Bonds.

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

EXHIBIT B
FORM OF BONDS

UNITED STATES OF AMERICA
STATE OF TEXAS
BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
REVENUE FINANCING SYSTEM BONDS
SERIES 1997_

[FORM OF FIRST TWO PARAGRAPHS OF CURRENT INTEREST BONDS]

NO. R-____ PRINCIPAL
AMOUNT
\$ _____

INTEREST RATE MATURITY DATE BOND DATE CUSIP NO.
_____% _____ _____ _____

REGISTERED OWNER: _____

PRINCIPAL AMOUNT: _____ DOLLARS

ON THE MATURITY DATE specified above, the BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM (the "Issuer"), being an agency and political subdivision of the State of Texas, hereby promises to pay to the Registered Owner specified above or the registered assignee hereof (either being hereinafter called the "registered owner") the principal amount specified above and to pay interest thereon, calculated on the basis of a 360-day year composed of twelve 30-day months, from the Bond Date specified above, to the Maturity Date specified above, or the date of redemption prior to maturity, at the interest rate per annum specified above; with interest being payable on _____, 199_, and semi-annually on each _____ and _____ thereafter, except that if the date of authentication of this Bond is later than the first Record Date (hereinafter defined), such principal amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such principal amount shall bear interest from such next following interest payment date.

THE PRINCIPAL OF AND INTEREST ON this Bond are payable in lawful money of the United States of America, without exchange or collection charges, solely from funds of the Issuer required by the resolution authorizing the issuance of the Bonds to be on deposit with the Paying

Agent/Registrar for such purpose as hereinafter provided. The principal of this Bond shall be paid to the registered owner hereof upon presentation and surrender of this Bond at maturity or upon the date fixed for its redemption prior to maturity, at the corporate trust office of Norwest Bank Texas, N.A. in Dallas, Texas, which is the "Paying Agent/Registrar" for this Bond. The payment of interest on this Bond shall be made by the Paying Agent to the registered owner hereof on each interest payment date by check, dated as of such interest payment date, and such check shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the registered owner hereof, at the address of the registered owner, as it appeared on the last day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described; provided, that upon the written request of any owner of not less than \$1,000,000 in principal amount of Bonds provided to the Paying Agent/Registrar not later than the Record Date immediately preceding an interest payment date, interest due on such interest payment date shall be made by wire transfer to any designated account within the United States of America. In addition, interest may be paid by such other method acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner hereof. Any accrued interest due upon the redemption of this Bond prior to maturity as provided herein shall be paid to the registered owner upon presentation and surrender of this Bond for redemption and payment at the principal office of the Paying Agent/Registrar. The Issuer covenants with the registered owner of this Bond that on or before each principal payment date and interest payment date for this Bond it will make available to the Paying Agent/Registrar, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Bonds, when due. Notwithstanding the foregoing, during any period in which ownership of the Bonds is determined by a book entry at a securities depository for the Bonds, payments made to the securities depository, or its nominee, shall be made in accordance with arrangements between the Issuer and the securities depository. Terms used herein and not otherwise defined have the meaning given in the Bond Resolution.

UNITED STATES OF AMERICA
STATE OF TEXAS
BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
REVENUE FINANCING SYSTEM BONDS
SERIES 1997_

[FORM OF FIRST TWO PARAGRAPHS OF CAPITAL APPRECIATION BONDS]

NO. CR-_____ MATURITY AMOUNT \$_____

INTEREST RATE MATURITY DATE ISSUANCE DATE CUSIP NO.
_____ % _____ _____ _____

REGISTERED OWNER: _____

PRINCIPAL AMOUNT: _____ DOLLARS

ON THE MATURITY DATE specified above, the BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM (the "Issuer"), being an agency and political subdivision of the State of Texas, hereby promises to pay to the Registered Owner specified above or the registered assignee hereof (either being hereinafter called the "registered owner") the Maturity Amount specified above representing the original principal amount specified above and accrued and compounded interest thereon. Interest shall accrue on the original principal amount hereof from the Issuance Date at the interest rate per annum specified above (subject to rounding to the Compounded Amounts as provided in the Bond Resolution), compounded semi-annually on _____ and _____ of each year, commencing _____, 199_. For convenience of reference, a table appears on the back of this Bond showing the "Compounded Amount" of the original principal amount per \$5,000 Maturity Amount compounded semiannually at the yield shown on such table.

THE MATURITY AMOUNT OF this Bond is payable in lawful money of the United States of America, without exchange or collection charges, solely from funds of the Issuer required by the Bond Resolution to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided. The Maturity Amount or Compounded Amount of this Bond shall be paid to the registered owner hereof upon presentation and surrender of this Bond at maturity or upon the date fixed for its redemption prior to maturity, as the case may be, at the corporate trust office of Norwest Bank Texas, N.A. in Dallas, Texas, which is the "Paying Agent/Registrar" for this Bond. The Issuer covenants with the registered owner of this Bond that on or before the Maturity Date for this Bond it will make available to the Paying Agent/Registrar, the amount required to provide for the payment, in immediately available funds, of the Maturity Amount when due. Notwithstanding

the foregoing, during any period in which ownership of the Bonds is determined by a book entry at a securities depository for the Bonds, payments made to the securities depository, or its nominee, shall be made in accordance with arrangements between the Issuer and the securities depository. Terms used herein and not otherwise defined have the meaning given in the Bond Resolution.

**[FORM OF REMAINDER OF CURRENT INTEREST BONDS
AND CAPITAL APPRECIATION BONDS]**

*This Bond is one of a Series of bonds authorized in the aggregate principal amount of \$ _____ pursuant to a Sixth Supplemental Resolution to the Master Resolution adopted _____, 1997, and pursuant to the Master Resolution referred therein (collectively, the "Bond Resolution") for the purpose of (i) refunding \$ _____, in aggregate principal amount of the Board of Regents of The University of Texas System Revenue Financing System Commercial Paper Notes, Series A issued for the purpose of acquiring, purchasing, constructing, improving, enlarging, and equipping the property and facilities of the Members of the Revenue Financing System pursuant to Section 55.1714 of the Texas Education Code and (ii) paying the costs related thereto, [and comprised of (i) Bonds in the aggregate principal amount of \$ _____ that pay interest only at maturity (the "Capital Appreciation Bonds") and (ii) Bonds in the aggregate principal amount of \$ _____ that pay interest semiannually until maturity (the "Current Interest Bonds").]

**This Bond is one of a Series of bonds authorized in the aggregate principal amount of \$ _____ pursuant to a Sixth Supplemental Resolution to the Master Resolution adopted _____, 1997, and pursuant to the Master Resolution referred therein (collectively, the "Bond Resolution") for the purpose of (i) refunding \$ _____, in aggregate principal amount of the Board of Regents of The University of Texas System Revenue Financing System Commercial Paper Notes, Series A ¹and (ii) paying the costs related thereto, [and comprised of (i) Bonds in the aggregate principal amount of \$ _____ that pay interest only at maturity (the "Capital Appreciation Bonds") and (ii) Bonds in the aggregate principal amount of \$ _____ that pay interest semiannually until maturity (the "Current Interest Bonds").]

ON _____, _____, or on any date thereafter, the Bonds of this Series scheduled to mature on _____ in each of the years _____ through _____ and on _____, _____, may be redeemed prior to their scheduled maturities, at the option of the Issuer, with funds derived from any available and lawful source, as a whole, or in part, and, if in part, the particular Bonds, or portion thereof, to be redeemed shall be selected and designated by the Issuer (provided that a portion of a Bond may be redeemed only in an integral multiple of \$5,000), at a redemption price equal to _____ and accrued interest to the date fixed for redemption; provided that during any period in which ownership of the Bonds is determined by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Issuer and the securities depository.

The Bonds of this issue scheduled to mature on _____, _____, are subject to mandatory sinking fund redemption prior to their scheduled maturity and shall be redeemed by the Issuer, in part, prior to their scheduled maturity, with the particular Bonds or portions thereof to be redeemed

¹* For inclusion in the Series 1997A Bonds

**For inclusion in the Series 1997B Bonds

to be selected and designated by the Issuer (provided that a portion of a Bond may be redeemed only in an integral multiple of \$5,000), at a redemption price equal to the par or principal amount thereof and accrued interest to the date of redemption, on the dates, and in the principal amounts, respectively, as set forth in the following schedule:

<u>Bonds Maturing</u>	<u>principal</u>
<u>Redemption Date</u>	<u>Amount</u>

The principal amount of the Bonds required to be redeemed on each such redemption date pursuant to the foregoing operation of the mandatory sinking fund shall be reduced, at the option of the Issuer, by the principal amount of any Bonds, which, at least 45 days prior to the mandatory sinking fund redemption date, (1) shall have been acquired by the Issuer and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been acquired and cancelled by the Paying Agent/Registrar at the direction of the Issuer, in either case of (1) or (2) at a price not exceeding the par or principal amount of such Bonds, or (3) have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory sinking fund redemption. During any period in which ownership of the Bonds is determined by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Issuer and the securities depository.

AT LEAST 30 days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity a written notice of such redemption shall be published once in a financial publication, journal, or report of general circulation among securities dealers in The City of New York, New York (including, but not limited to, The Bond Buyer and The Wall Street Journal), or in the State of Texas (including, but not limited to, The Texas Bond Reporter). Such notice also shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, not less than 30 days prior to the date fixed for any such redemption, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th day prior to such redemption date; provided, however, that the failure to send, mail, or receive such notice, or any defect therein or in the sending or mailing thereof, shall not affect the validity or effectiveness of the proceedings for the redemption of any Bond, and it is hereby specifically provided that the publication of such notice as required above shall be the only notice actually required in connection with or as a prerequisite to the redemption of any Bonds or portions thereof. By the date fixed for any such redemption due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or portions thereof which are to be so redeemed. If such written notice of redemption is published and if due provision for such payment is made, all as provided above, the Bonds or portions thereof which are to be so redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for

redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment. If a portion of any Bond shall be redeemed, a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, payable in the same manner, in any authorized denomination at the written request of the registered owner, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon the surrender thereof for cancellation, at the expense of the Issuer, all as provided in the Bond Resolution.

IF THE DATE for the payment of the principal of or interest on this Bond shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in The City of New York, New York, or in the city where the principal office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

THIS BOND OR ANY PORTION OR PORTIONS HEREOF IN ANY AUTHORIZED DENOMINATION may be assigned and shall be transferred only in the Registration Books of the Issuer kept by the Paying Agent/Registrar acting in the capacity of registrar for the Bonds, upon the terms and conditions set forth in the Bond Resolution. Among other requirements for such assignment and transfer, this Bond must be presented and surrendered to the Paying Agent/Registrar, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing assignment of this Bond or any portion or portions hereof in any authorized denomination to the assignee or assignees in whose name or names this Bond or any such portion or portions hereof is or are to be transferred and registered. The form of Assignment printed or endorsed on this Bond shall be executed by the registered owner or its duly authorized attorney or representative, to evidence the assignment hereof. A new Bond or Bonds payable to such assignee or assignees (which then will be the new registered owner or owners of such new Bond or Bonds), or to the previous registered owner in the case of the assignment and transfer of only a portion of this Bond, may be delivered by the Paying Agent/Registrar in exchange for this Bond, all in the form and manner as provided in the next paragraph hereof for the exchange of other Bonds. The Issuer shall pay the Paying Agent/Registrar's fees and charges, if any, for making such transfer or exchange as provided below, but the one requesting such transfer or exchange shall pay any taxes or other governmental charges required to be paid with respect thereto. The Paying Agent/Registrar shall not be required to make transfers of registration or exchange of this Bond or any portion hereof (i) [with respect to Current Interest Bonds,] during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date. The registered owner of this Bond shall be deemed and treated by the Issuer, the Paying Agent/Registrar as the absolute owner hereof for all purposes, including payment and discharge of liability upon this Bond to the extent of such payment, and, to the extent permitted by law, the Issuer, the Paying Agent/Registrar shall not be affected by any notice to the contrary.

ALL BONDS OF THIS SERIES are issuable solely as fully registered bonds, without interest coupons, [with respect to Current Interest Bonds,] in the denomination of any integral multiple of \$5,000, [and with respect to Capital Appreciation Bonds, in the denomination of \$5,000 Maturity Amounts or any integral multiple thereof.] As provided in the Bond Resolution, this Bond, or any unredeemed portion hereof, may, at the request of the registered owner or the assignee or assignees hereof, be exchanged for a like aggregate principal amount of fully registered bonds, without interest coupons, payable to the appropriate registered owner, assignee, or assignees, as the case may be, having the same maturity date, in the same form, and bearing interest at the same rate, in any authorized denomination as requested in writing by the appropriate registered owner, assignee, or assignees, as the case may be, upon surrender of this Bond to the Paying Agent/Registrar for cancellation, all in accordance with the form and procedures set forth in the Bond Resolution.

WHENEVER the beneficial ownership of this Bond is determined by a book entry at a securities depository for the Bonds, the foregoing requirements of holding, delivering, or transferring this Bond shall be modified to require the appropriate person or entity to meet the requirements of the securities depository as to registering or transferring the book entry to produce the same effect.

IN THE EVENT any Paying Agent/Registrar for the Bonds is changed by the Issuer, resigns, or otherwise ceases to act as such, the Issuer has covenanted in the Bond Resolution that it promptly will appoint a competent and legally qualified substitute therefor, and promptly will cause written notice thereof to be mailed to the registered owners of the Bonds.

IT IS HEREBY certified, recited, and covenanted that this Bond has been duly and validly authorized, issued, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance, and delivery of this Bond have been performed, existed, and been done in accordance with law; that the Series of Bonds of which this Bond is one constitute Parity Debt under the Master Resolution; and that the interest on and principal of this Bond, together with the other Bonds of this Series and the other outstanding Parity Debt are equally and ratably secured by and payable from a lien on and pledge of the Pledged Revenues, subject only to the provisions of the Prior Encumbered Obligations.

THE ISSUER has reserved the right, subject to the restrictions referred to in the Bond Resolution, (i) to issue additional Parity Debt which also may be secured by and made payable from a lien on and pledge of the aforesaid Pledged Revenues, in the same manner and to the same extent as this Bond, and (ii) to amend the provisions of the Bond Resolution under the conditions provided in the Bond Resolution.

THE REGISTERED OWNER hereof shall never have the right to demand payment of this Bond or the interest hereon out of any funds raised or to be raised by taxation or from any source whatsoever other than specified in the Bond Resolution.

BY BECOMING the registered owner of this Bond, the registered owner thereby acknowledges all of the terms and provisions of the Bond Resolution, agrees to be bound by such terms and provisions, acknowledges that the Bond Resolution is duly recorded and available for

inspection in the official minutes and records of the Issuer, and agrees that the terms and provisions of this Bond and the Bond Resolution constitute a contract between each registered owner hereof and the Issuer.

IN WITNESS WHEREOF, the Issuer has caused this Bond to be signed with the manual or facsimile signature of the Chairman of the Issuer and countersigned with the manual or facsimile signature of the Executive Secretary of the Issuer, and has caused the official seal of the Issuer to be duly impressed, or placed in facsimile, on this Bond.

Executive Secretary, Board of Regents
of The University of Texas System

Chairman, Board of Regents
of The University of Texas System

(BOARD SEAL)

FORM OF PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

It is hereby certified that this Bond has been issued under the provisions of the Bond Resolution described in this Bond; and that this Bond has been issued in conversion of and exchange for or replacement of a bond, bonds, or a portion of a bond or bonds of an issue which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

**NORWEST BANK TEXAS, N.A.,
Dallas, Texas
Paying Agent/Registrar**

Dated

Authorized Representative

FORM OF ASSIGNMENT:

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned registered owner of this Bond, or duly authorized representative or attorney thereof, hereby assigns this Bond to

/ _____ /

(Assignee's Social Security or
Taxpayer Identification Number)

(print or typewrite Assignee's name
and address, including zip code)

and hereby irrevocably constitutes and appoints

attorney to transfer the registration of this Bond on the Paying Agent/Registrar's Registration Books
with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

NOTICE: This signature must be
guaranteed by a member of the New
York Stock Exchange or a commercial
bank or trust company

Registered Owner
NOTICE: This signature must
correspond with the name of the
Registered Owner appearing on the
face of this Bond.

**[FORM OF REGISTRATION CERTIFICATE OF
COMPTROLLER OF PUBLIC ACCOUNTS TO BE USED IF
THE BONDS ARE TO BE SO REGISTERED]**

COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO.

I hereby certify that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

Witness my signature and seal this

Comptroller of Public Accounts
of the State of Texas

(COMPTROLLER'S SEAL)

Provisions of Bonds related to redemption are to be deleted if the Series of Bonds is not subject to redemption. Bracketed information relates to Capital Appreciation Bonds and its use will depend on whether any Bonds of a Series are Capital Appreciation Bonds.

EXHIBIT C

CONTINUING DISCLOSURE OF INFORMATION

Accounting Principles

The financial statements of The University of Texas System will be prepared in accordance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements, and follow to the extent practical, the AICPA Industry Audit Guide Audits of Colleges and Universities, 1973, as amended by AICPA Statement of Position (SOP) 74-8, Financial Accounting and Reporting by Colleges and Universities, or such other accounting principles as the Board may be required to employ from time to time pursuant to state law or regulation.

OFFICIAL STATEMENT DATED _____, 1997

NEW ISSUE—BOOK-ENTRY-ONLY

RATINGS: (See "RATINGS")

Delivery of the Bonds is subject to the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, that under statutes, regulations, published rulings and court decisions existing on the date thereof, interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds will not be private activity bonds the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986. See "TAX MATTERS" for a discussion of certain collateral federal tax consequences, including the alternative minimum tax on corporations.

\$ _____
BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
Revenue Financing System Bonds
 \$ _____ Series 1997A
 \$ _____ Series 1997B

Dated: _____, 1997

Due: August 15, as shown on the inside cover

The Bonds of each series (collectively, the "Bonds") are special obligations of the Board of Regents (the "Board") of The University of Texas System (the "University System"), payable from and secured by a lien on "Pledged Revenues" (as defined herein) of the University System's Revenue Financing System on a parity with the Board's outstanding "Parity Debt" (as defined herein). The Bonds are issued pursuant to a Master Resolution of the Board which established the Revenue Financing System and a Sixth Supplemental Resolution of the Board which provides for issuance of the Bonds (collectively, the "Resolution"). **THE BOARD HAS NO TAXING POWER, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF IS PLEDGED AS SECURITY FOR THE BONDS. THE OWNERS OF THE BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF THE BONDS FROM ANY SOURCE OTHER THAN PLEDGED REVENUES.** See "DESCRIPTION OF THE BONDS—Security for the Bonds".

Proceeds from the sale of the Bonds, together with other available moneys of the Board, if any, will be used for the purpose of refunding certain outstanding obligations of the Board and paying the costs of issuing the Bonds. See "PLAN OF FINANCING".

Interest on the Bonds will accrue from _____, and is payable on August 15 and February 15 of each year, commencing February 15, 1998, calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds are issuable only as fully registered bonds, without coupons, and, when issued, will be initially registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which initially will act as securities depository for all of the Bonds pursuant to a book entry only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof. Beneficial owners of the Bonds will not receive physical delivery of bond certificates except as described herein. For so long as Cede & Co., as nominee of DTC, is the exclusive registered owner of the Bonds, principal of and redemption premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar, initially Norwest Bank Texas, N.A., Dallas, Texas, to DTC on each applicable payment date. DTC will be responsible for distributing the amounts so paid to the beneficial owners of the Bonds. See "DESCRIPTION OF THE BONDS—Book-Entry-Only System".

The Bonds are subject to redemption prior to maturity as described herein. See "DESCRIPTION OF THE BONDS—Redemption".

MATURITY SCHEDULE
 See Inside of Cover

In the Resolution, the Board has made an agreement for the benefit of the holders and beneficial owners of the Bonds. Under the agreement, the Board will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. See "CONTINUING DISCLOSURE OF INFORMATION".

The Bonds are offered for delivery when, as and if issued and received by the purchaser(s) and subject to the approving opinion of the Attorney General of the State of Texas and of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas. The legal opinion of Bond Counsel will be printed on or attached to the Bonds (see Appendix D, "Form of Bond Counsel Opinion"). It is expected that the Bonds will be tendered for delivery to the initial purchaser(s) through DTC on December __, 1998.

MATURITY SCHEDULE

Series 1997A Bonds

\$ _____ Serial Bonds

<u>Due</u> <u>August 15</u>	<u>Amount</u>	<u>Rate</u>	<u>Price</u> <u>or Yield</u>
1998	\$		
1999			
2000			
2001			
2002			
2003			
2004			
2005			
2006			
2007			
2008			
2009			
2010			
2011			
2012			
2013			
2014			

Series 1997B Bonds

\$ _____ Serial Bonds

<u>Due</u> <u>August 15</u>	<u>Amount</u>	<u>Rate</u>	<u>Price</u> <u>or Yield</u>
1998	\$		
1999			
2000			
2001			
2002			
2003			
2004			
2005			
2006			
2007			
2008			
2009			
2010			
2011			
2012			
2013			
2014			

\$ _____ % Series 1997B Term Bond Due August 15, _____
Yield _____%

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

OFFICERS

Donald L. Evans, Chairman
Arthur H. Dilly, Executive Secretary
Tom Loeffler, Vice-Chairman
Rita Crocker Clements, Vice-Chairman

MEMBERS

Terms Expire February 1, 1999

Thomas O. Hicks	Dallas
Lowell H. Lebermann, Jr.	Austin
Martha E. Smiley	Austin

Terms Expire February 1, 2001

Rita Crocker Clements	Dallas
Donald L. Evans	Midland
Tom Loeffler	San Antonio

Terms Expire February 1, 2003

Patrick C. Oxford	Houston
A.W. "Dub" Riter	Tyler
A.R. (Tony) Sanchez, Jr.	Laredo

SYSTEM ADMINISTRATION

Dr. William H. Cunningham, Chancellor
Charles B. Mullins, M.D., Executive Vice Chancellor for Health Affairs
R.D. Burck, Executive Vice Chancellor for Business Affairs
Francie A. Frederick, Acting Vice Chancellor for Academic Affairs
Ray Farabee, Vice Chancellor and General Counsel
Michael Millsap, Vice Chancellor for Governmental Relations
Shirley Bird Perry, Vice Chancellor for Development and External Relations
Pamela K. Clayton, Interim Assistant Vice Chancellor for Finance

**CHIEF ADMINISTRATIVE OFFICERS OF
UNIVERSITY SYSTEM COMPONENT INSTITUTIONS**

Dr. Robert E. Witt, President, The University of Texas at Arlington
Dr. Peter Flawn, Interim President, The University of Texas at Austin
Dr. Juliet V. Garcia, President, The University of Texas at Brownsville
Dr. Franklyn G. Jenifer, President, The University of Texas at Dallas
Dr. Diana S. Natalicio, President, The University of Texas at El Paso
Dr. Miguel A. Nevarez, President, The University of Texas-Pan American
Dr. Charles A. Sorber, President, The University of Texas of the Permian Basin
Dr. Samuel A. Kirkpatrick, President, The University of Texas at San Antonio
Dr. George F. Hamm, President, The University of Texas at Tyler
Kern Wildenthal, M.D., Ph.D., President, The University of Texas Southwestern Medical Center at Dallas
John D. Stobo, M.D., President, The University of Texas Medical Branch at Galveston
M. David Low, M.D., Ph.D., President, The University of Texas Health Science Center at Houston
John P. Howe III, M.D., President, The University of Texas Health Science Center at San Antonio
John Mendelsohn, M.D., President, The University of Texas
M.D. Anderson Cancer Center at Houston
George A. Hurst, M.D., Director, The University of Texas Health Center at Tyler

This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesman or other person has been authorized to give any information or make any representation, other than those contained herein, in connection with the offering of these Bonds, and if given or made, such information or representation must not be relied upon. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Board since the date hereof.

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OFFICIAL STATEMENT
relating to

§ _____

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

Revenue Financing System Bonds

§ _____ Series 1997A

§ _____ Series 1997B

INTRODUCTION

This Official Statement, which includes the cover page and the Appendices hereto, provides certain information regarding the issuance by the Board of Regents of The University of Texas System (the "Board") of its Revenue Financing System Bonds, Series 1997A (the "Series 1997A Bonds") and Series 1997B (the "Series 1997B Bonds" and together with the Series 1997A Bonds, the "Bonds"), in the aggregate principal amount set forth above.

The University of Texas System (the "University System") currently consists of The University of Texas at Austin and the fourteen other state-supported institutions included in the University System by operation of State law. For the 1997 Fall Semester, the University System had preliminary total enrollment of 140,822 students. See "GENERAL DESCRIPTION OF THE UNIVERSITY OF TEXAS SYSTEM". The University of Texas System Revenue Financing System (the "Revenue Financing System") was established by the Master Resolution of the Board for the purpose of providing a system-wide financing structure for revenue-supported indebtedness of University System components included as Members of the Revenue Financing System. See "APPENDIX B, SUMMARY OF THE MASTER RESOLUTION". All of the institutions currently constituting University System components have been included as Members of the Revenue Financing System. See "DESCRIPTION OF THE REVENUE FINANCING SYSTEM". Pursuant to the Master Resolution, the Board has, with certain exceptions, combined all revenues, funds and balances attributable to any Member of the Revenue Financing System that may lawfully be pledged to secure the payment of revenue-supported debt obligations and pledged those sources as Pledged Revenues to secure payment of all revenue-supported debt obligations of the Board incurred as Parity Debt under the Master Resolution. The Board has covenanted that it will not incur any additional debt secured by Pledged Revenues unless such debt constitutes Parity Debt or is junior and subordinate to Parity Debt. See "APPENDIX B, SUMMARY OF THE MASTER RESOLUTION". The Board intends to issue most of its revenue-supported debt obligations that benefit components of the University System as Parity Debt under the Master Resolution.

This Official Statement contains summaries and descriptions of the Plan of Financing, the Bonds, the Revenue Financing System, the Board, the University System, the Master Resolution and the Supplemental Resolution, among other things. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to complete copies of such documents, which may be obtained from the Office of Finance of The University of Texas System, 201 West 7th Street, Austin, Texas 78701. Unless otherwise defined herein, capitalized terms used in this Official Statement have the meanings assigned to such terms in "APPENDIX A, GLOSSARY OF TERMS".

PLAN OF FINANCING

Authority for Issuance of the Bonds

The Bonds are being issued in accordance with the general laws of the State of Texas, including particularly Chapter 55, Texas Education Code, as amended, and Articles 717k and 717q, Vernon's Annotated Texas Civil Statutes, as amended. The Bonds are issued as Parity Debt pursuant to the Master Resolution and a Sixth Supplemental Resolution to the Master Resolution (also referred to herein as the "Supplemental Resolution") adopted by the Board on November 13, 1997. The Board has previously issued its Revenue

Financing System Refunding Bonds, Series 1991A, 1991B and 1991C, its Revenue Financing System Bonds, Series 1995A, and its Revenue Financing System Bonds, Series 1996A and 1996B, which are currently outstanding in the aggregate principal amount of \$698,208,000, as Parity Debt pursuant to previous supplements to the Master Resolution. In addition, the Board has previously authorized a commercial paper program pursuant to which Parity Debt in the form of commercial paper notes may be issued, from time to time, under the Master Resolution; provided, that the aggregate principal amount of commercial paper notes at any time outstanding is limited by the Board's authorization to \$350,000,000 (the "Notes"). As of September 30, 1997, \$172,953,000 in aggregate principal amount of such commercial paper notes were outstanding. A portion of the currently outstanding Notes will be refunded by the Bonds. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY SYSTEM OF TEXAS—Debt Management and Anticipated Financing—Financing Programs—Revenue Financing System".

Purpose for Issuance of Bonds

The Series 1997A Bonds and the Series 1997B Bonds are each being issued for the purpose of (i) currently refunding a portion of the Board's Revenue Financing System Commercial Paper Notes, Series A in the aggregate principal amount of \$119,959,000 (the "Refunded Notes"), and (ii) paying the costs of issuance of the Bonds.

Refunded Notes

The Refunded Notes and interest due thereon are to be paid on their scheduled maturity dates from funds to be deposited with Bankers Trust Company of New York, as Escrow Agent, pursuant to an Escrow Agent Agreement between the Board and the Escrow Agent.

The Supplemental Resolution provides that, concurrently with delivery of the Bonds, a portion of the proceeds from the sale of the Bonds, together with other available funds, if any, will be deposited with the Escrow Agent into a separate Escrow Fund to pay the principal of and interest on the Refunded Notes. The amounts deposited into the Escrow Fund will be in the form of cash and noncallable, nonprepayable, direct obligations of the United States of America (the "Federal Securities") and will be sufficient to provide for payment of the principal of and interest on the Refunded Notes when due. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Obligations. The Escrow Fund will not be available to pay principal of and interest on the Bonds.

Issuance of the Bonds will be subject to delivery by _____, independent certified public accountants, of a report of the mathematical accuracy of certain computations relating to the adequacy of the maturing principal amounts of the Federal Securities held in the Escrow Fund, together with a portion of the interest income thereon and uninvested cash, if any, to pay, when due, the principal of and interest on the Refunded Obligations.

By the deposit of the Federal Securities and cash, if any, with the Escrow Agent, the Board will have effected the defeasance of the Refunded Notes in accordance with applicable laws and the terms of the authorizing resolution pursuant to which the Refunded Notes were issued. It is the opinion of Bond Counsel that, as a result of such defeasance, the Refunded Notes will be regarded as being outstanding only for the purpose of receiving payment from proceeds of the Federal Securities and cash held for such purpose in the Escrow Fund and will no longer be payable from or secured by a lien on any portion of the Pledged Revenues.

SOURCES AND APPLICATIONS OF FUNDS

The proceeds from the sale of the Bonds will be applied as follows:

Sources of Funds	Series 1997A	Series 1997B	Total
Par Amount of Bonds	\$	\$	\$
Net Original Issue Discount	\$	\$	\$
System Contribution	\$	\$	\$
Accrued Interest	\$ _____	\$ _____	\$ _____
Total Sources of Funds	\$ _____	\$ _____	\$ _____
Applications of Funds			
Deposit to Escrow Fund	\$	\$	\$
Deposit to Debt Service Fund	\$	\$	\$
Total Underwriters' Discount	\$	\$	\$
Costs of Issuance	\$ _____	\$ _____	\$ _____
Total Uses of Funds	\$ _____	\$ _____	\$ _____

DESCRIPTION OF THE BONDS

General

The Bonds of each Series will be dated _____, 1997, and will bear interest from the later of such date or the most recent interest payment date to which interest has been paid or duly provided for at the rates shown on the cover page of this Official Statement calculated on the basis of a 360-day year composed of twelve 30-day months. Interest on the Bonds is payable August 15 and February 15 of each year, commencing February 15, 1998. Principal of and redemption premium, if any, and interest on the Bonds are payable by the Paying Agent/Registrar for the Bonds, initially Norwest Bank Texas, N.A. in Dallas, Texas, at the times and places and in the manner specified on the cover and inside front cover page of this Official Statement.

The Bonds are initially issuable in book-entry-only form. Initially, Cede & Co., as nominee of DTC (hereinafter defined), will be the registered owner and references herein to the Bondholders, holders, holders of the Bonds or registered owners of the Bonds shall mean Cede & Co., and not the beneficial owners of the Bonds. See "DESCRIPTION OF THE BONDS—Book-Entry-Only System".

In the event that the date for payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday or day on which banking institutions located in The City of New York, New York or in the city where the Principal Office for Payment of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or day on which banking institutions are so authorized to close. Payment on such later date will not increase the amount of interest due and will have the same force and effect as if made on the original date payment was due.

If any Bond is not presented for payment when the principal or the redemption price therefor becomes due, or any check representing payment of interest on Bonds is not presented for payment, and if money sufficient to pay such Bond (or the portion thereof called for redemption) or such interest, as applicable, has been deposited under the Supplemental Resolution, all liability of the Board to the owner thereof for the payment of such Bonds (or portion thereof) or such interest, as applicable, will be completely discharged, and thereupon it shall be the duty of the Paying Agent/Registrar to hold such money, without liability for interest thereupon, for the benefit of the owner of the applicable Bond, who will thereafter be restricted exclusively to such money, for any claim on his part under the Supplemental Resolution or on or with respect to, such principal, redemption price and/or interest. Money not claimed within two years will, upon request of the Board, be repaid to the

Board.

Redemption

Optional Redemption. On _____ or on any date thereafter, the Bonds of each Series scheduled to mature on August 15, _____, and thereafter may be redeemed prior to their scheduled maturities, at the option of the Board, with funds derived from any available and lawful source, as a whole, or in part, and, if in part, the particular Bonds, or portion thereof, to be redeemed shall be selected and designated by the Board (provided that a portion of a Bond may be redeemed only in an integral multiple of \$5,000), at a redemption price (expressed as a percentage of principal amount as of the date of redemption) applicable to the date of redemption falling within the applicable redemption period, as set forth in the following redemption schedule, plus accrued interest to the date fixed for redemption; provided, that during any period in which ownership of the Series of Bonds to be redeemed is determined by a book entry at a securities depository for such Series of Bonds, if fewer than all of such Series of Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such Series and maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository (see "DESCRIPTION OF THE BONDS—Book-Entry-Only System"):

<u>Redemption Period</u>	<u>Redemption Price</u>
August 15, ____ through August 14, ____	____%
August 15, ____ through August 14, ____	____%
August 15, ____ and thereafter	____%

Mandatory Sinking Fund Redemption. The Series 1997A Bonds scheduled to mature on August 15, _____ and the Series 1997B Bonds scheduled to mature on August 15, ____ are subject to mandatory sinking fund redemption prior to their scheduled maturity and shall be redeemed by the Board, in part, prior to their scheduled maturity, with the particular Bonds of each Series or portions thereof to be redeemed to be selected and designated by the Board (provided that a portion of a Bond may be redeemed only in an integral multiple of \$5,000), at a redemption price equal to the par or principal amount thereof plus accrued interest to the date of redemption, on the dates, and in the principal amounts set forth in the following schedule:

<u>Series 1997A Bonds</u> <u>Maturing August 15, _____</u>		<u>Series 1997B Bonds</u> <u>Maturing August 15, _____</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
August 15, ____	\$	August 15, ____	\$
August 15, ____*	\$	August 15, ____*	\$

*Final maturity.

The principal amount of each Series of Bonds required to be redeemed on each such redemption date pursuant to the foregoing operation of the mandatory sinking fund shall be reduced, at the option of the Board, by the principal amount of any Bonds of such Series and maturity, which, at least 45 days prior to the mandatory sinking fund redemption date, (1) shall have been acquired by the Board and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been acquired and canceled by the Paying Agent/Registrar at the direction of the Board, in either case of (1) or (2) at a price not exceeding the par or principal amount of such Bonds or (3) have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory sinking fund redemption. During any period in which ownership of the Series of Bonds to be redeemed is determined by a book entry at a securities depository for such Series of Bonds, if fewer than all of such Series of Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such Series and maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository. See "DESCRIPTION OF THE BONDS—Book-Entry-Only System".

Notice of Redemption. Not less than 30 days prior to a redemption date, a notice of redemption will

be published once in a financial publication, journal or report of general circulation among securities dealers in The City of New York, New York, or in the State of Texas, in accordance with the Supplemental Resolution. Additional notice will be sent by the Paying Agent/Registrar by United States mail, first-class, postage prepaid, to each registered owner of a Bond to be redeemed in whole or in part at the address of each such owner appearing on the registration books of the Paying Agent/Registrar on the 45th day prior to such redemption date, to each registered securities depository and to any national information service that disseminates redemption notices. Failure to mail or receive such notice will not affect the proceedings for redemption and publication of notice of redemption in the manner set forth above shall be the only notice actually required as a prerequisite for redemption. In addition, in the event of a redemption caused by an advance refunding of either Series of Bonds, the Paying Agent/Registrar shall send a second notice of redemption to registered owners of Bonds subject to redemption at least 30 days but not more than 90 days prior to the actual redemption date. Any notice sent to registered securities depositories or national information services shall be sent so that they are received at least two days prior to the general mailing or publication date of such notice. The Paying Agent/Registrar shall also send a notice of prepayment or redemption to the registered owner of any Bond who has not sent his Bonds in for redemption 60 days after the redemption date.

All redemption notices shall contain a description of the Bonds to be redeemed including the complete name of the Bonds, the Series, the dates of issue, the interest rates, the maturity dates, the CUSIP numbers, the certificate numbers, the amounts of each certificate called, the publication and mailing dates for the notices, the dates of redemption, the redemption prices, the name of the Paying Agent/Registrar and the address at which such Bonds may be redeemed including a contact person and telephone number.

The Paying Agent/Registrar

In the Supplemental Resolution, the Board reserves the right to replace the Paying Agent/Registrar. The Board covenants to maintain and provide a Paying Agent/Registrar at all times while the Bonds are outstanding, and any successor Paying Agent/Registrar shall be a competent and legally qualified bank, trust company, financial institution or other agency. In the event that the entity at any time acting as Paying Agent/Registrar should resign or otherwise cease to act as such, the Board covenants promptly to appoint a competent and legally qualified bank, trust company, financial institution or other agency to act as Paying Agent/Registrar, as applicable. Upon any change in the Paying Agent/Registrar for the Bonds, the Board agrees promptly to cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar, as applicable.

Book-Entry-Only System

Book-Entry-Only System. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered bond will be issued for each maturity of each Series of Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Board, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Board. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Board will either appoint a successor securities depository or Bond certificates will be printed and delivered.

The information concerning DTC and the book-entry system has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Board.

In reading this Official Statement it should be understood that while the Bonds are in the book-entry only system, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry system, and (ii) except as described above, notices that are to be

given to registered owners under the Master Resolution and Supplemental Resolution will be given only to DTC.

Effect of Termination of Book-Entry-Only System. In the event that the book-entry only system is discontinued by DTC or the Board, the following provisions will be applicable to the Bonds: Bonds may be exchanged for an equal aggregate principal amount of Bonds in authorized denominations and of the same Series and maturity upon surrender thereof at the Principal Office for Payment of the Paying Agent/Registrar. The transfer of any Bond may be registered on the books maintained by the Paying Agent/Registrar for such purpose only upon the surrender of such Bond to the Paying Agent/Registrar with a duly executed assignment in form satisfactory to the Paying Agent/Registrar. For every exchange or transfer of registration of Bonds, the Paying Agent/Registrar and the Board may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer. The Board shall pay the fee, if any, charged by the Paying Agent/Registrar for the transfer or exchange. The Paying Agent/Registrar will not be required to transfer or exchange any Bond after its selection for redemption. The Board and the Paying Agent/Registrar may treat the person in whose name a Bond is registered as the absolute owner thereof for all purposes, whether such Bond is overdue or not, including for the purpose of receiving payment of, or on account of, the principal of, and interest on, such Bond.

Security for the Bonds

The Bonds are Parity Debt under the Master Resolution and constitute special obligations of the Board payable from and secured by a lien on and pledge of Pledged Revenues, subject only to the provisions of the Prior Encumbered Obligations. The Master Resolution provides that the obligation of the Board to pay or cause to be paid the amounts payable under the Master Resolution and any supplement thereto is absolute, irrevocable, complete and unconditional, and the amount, manner and time of payment shall not be modified in any way regardless of any contingency. THE BOARD HAS NO TAXING POWER, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF IS PLEDGED AS SECURITY FOR THE BONDS. THE OWNERS OF THE BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF THE BONDS FROM ANY SOURCE OTHER THAN PLEDGED REVENUES. See "APPENDIX B, SUMMARY OF THE MASTER RESOLUTION".

Supplemental Resolution

The issuance, sale and delivery of the Bonds are authorized by the Supplemental Resolution. The Supplemental Resolution also contains the written determination by the Board, as required by the Master Resolution as a condition to the issuance of Parity Debt, that it will have sufficient funds to meet the financial obligations of the University System, including sufficient Pledged Revenues to satisfy the annual debt service requirements of the Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System and that the Members on whose behalf the Bonds are issued possess the financial capacity to satisfy their Direct Obligations after taking the Bonds into account.

The Supplemental Resolution permits amendment, without the consent of the Bondholders, for the same purposes for which amendment may be made to the Master Resolution without the consent of the owners of outstanding Parity Debt. See "APPENDIX B, SUMMARY OF THE MASTER RESOLUTION—Amendments of Master Resolution". The Supplemental Resolution also permits amendment, with the consent of the owners of 51% in aggregate principal amount of the outstanding Bonds, other than amendments which: change the maturity of the outstanding Bonds; reduce the rate of interest borne by the outstanding Bonds; reduce the amount of principal payable on the outstanding Bonds; modify the payment of principal of or interest on the outstanding Bonds, or impose any conditions with respect to such payment; affect the rights of the owners of less than all Bonds then outstanding; or change the minimum percentage of outstanding principal amount of Bonds necessary for consent to an amendment.

DESCRIPTION OF THE REVENUE FINANCING SYSTEM

On February 14, 1991, the Board adopted the First Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System and amended such resolution on October 8, 1993, and August 14, 1997. The Board adopted the Master Resolution for the purpose of assembling the University System's revenue-supported debt capacity into a single financing program in order to provide a cost-effective debt program to component institutions of the University System and to maximize the financing options available to the Board. The Master Resolution provides for the establishment of the Revenue Financing System and permits the Board to make additions to or deletions from the membership of the Revenue Financing System subject to the satisfaction of certain conditions specified therein. All of the institutions currently constituting components of the University System have been included as Members of the Revenue Financing System. See "APPENDIX B, SUMMARY OF THE MASTER RESOLUTION—Changes in Membership of the Revenue Financing System".

The amendments to the Master Resolution approved by the Board on August 14, 1997, were made to conform the Revenue Financing System to the amendments made to the Texas Education Code by Senate Bill 1907 which was enacted by the Texas Legislature in the summer of 1997. The amendments are reflected in the descriptions of the provisions of the Master Resolution contained in this Official Statement. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Sources of Revenues—Tuition and Fees".

Under the Master Resolution, the Board has, with certain exceptions, combined all of the revenues, funds and balances attributable to Members of the Revenue Financing System and lawfully available to secure revenue-supported indebtedness into a system-wide pledge to secure the payment of Parity Debt from time to time issued under the Master Resolution. Pledged Revenues do not include (a) the interest of the University System in the Available University Fund (see "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Fund Balances—Available University Fund"); (b) amounts appropriated to any Member from the Higher Education Assistance Fund (see "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Debt Management and Anticipated Financing—Financing Programs—Higher Education Assistance Fund (H.E.A.F.) Bonds"); (c) except to the extent so appropriated, general revenue funds appropriated to the Board by the State (see "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Current Funds—Unrestricted Current Funds Revenues—State Appropriations"); and (d) Practice Plan Funds of any Member, including the income therefrom and any fund balances related thereto not included in Pledged Practice Plan Funds.

As shown on the Combined Statement of Current Funds Revenues and Expenditures, included in "APPENDIX C, FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM", the total unrestricted current funds revenues of the University System for the fiscal year ended August 31, 1997, were \$3,767 million. The University System has calculated that at least \$1,855 million of the unrestricted current funds revenues for the fiscal year ended August 31, 1997, constituted Pledged Revenues. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM Current Funds—Unrestricted Current Funds Revenues". Accumulated fund balances available to the Board and attributable to any Member of the Revenue Financing System also constitute Pledged Revenues to the extent such fund balances are lawfully available to the Board for payments on Parity Debt. The Board has not attempted to calculate the amount of fund balances included in Pledged Revenues.

Pledged Revenues not required to pay debt service on Parity Debt are available to pay other costs of operating the University System. Continued operation of the University System at current levels is substantially dependent upon general revenue appropriations. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Current Funds—Unrestricted Current Funds Revenues—State Appropriations".

The Board has covenanted in the Master Resolution that in each fiscal year it will use its reasonable efforts to collect revenues sufficient to meet all financial obligations of the Board relating to the Revenue Financing System including all deposits or payments due on or with respect to outstanding Parity Debt for such fiscal year. The Board has also covenanted in the Master Resolution that it will not incur any debt secured by

Pledged Revenues unless such debt constitutes Parity Debt or is junior and subordinate to Parity Debt. The Board intends to issue most of its revenue-supported debt obligations which benefit components of the University System as Parity Debt under the Master Resolution.

ANNUAL DEBT SERVICE REQUIREMENTS

The following schedule shows the combined debt service requirements on all Parity Debt outstanding following issuance of the Bonds.

Combined Annual Debt Service Requirements⁽¹⁾

Fiscal Year Ending	<u>Series 1997A Bonds</u>		<u>Series 1997B Bonds</u>		Total Principal and Interest on the Bonds	Principal and Interest on Outstanding Bonds	Total Annual Debt Service
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>			
8/15/98	\$	\$	\$	\$	\$	\$	\$
8/15/99							
8/15/00							
8/15/01							
8/15/02							
8/15/03							
8/15/04							
8/15/05							
8/15/06							
8/15/07							
8/15/08							
8/15/09							
8/15/10							
8/15/11							
8/15/12							
8/15/13							
8/15/14							
8/15/15							
8/15/16							
8/15/17	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
TOTAL	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>

⁽¹⁾ Does not include debt service on (A) the Refunded Notes or the remaining Parity Debt obligations currently outstanding in the form of Revenue Financing System Commercial Paper Notes, Series A, or (B) the Board of Regents of The University of Texas System General Tuition Revenue Refunding Bonds, New Series 1992. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Debt Management and Anticipated Financing—Financing Programs—Revenue Financing System."

GENERAL DESCRIPTION OF THE UNIVERSITY OF TEXAS SYSTEM

Background and History

The University of Texas System was established pursuant to the Texas Constitution of 1876. In 1881, Austin was designated the site of the main academic campus and Galveston as the location of the medical branch. The University of Texas at Austin first opened in 1883, and eight years later, John Sealy Hospital in Galveston (now a part of the University System's Medical Branch at Galveston) established a program for university-trained medical professionals.

In addition to the original academic campus located in Austin, the University System now includes additional academic campuses in El Paso, Dallas, Arlington, San Antonio, the Permian Basin (Odessa), Tyler and the Rio Grande Valley (Brownsville and Edinburg). Health Institutions for medical education and research have expanded beyond the original Galveston medical campus to include the University System's M.D. Anderson Cancer Center (Houston), the Southwestern Medical Center at Dallas, the Health Science Centers at Houston and San Antonio, and the Health Center at Tyler. The fifteen component institutions of the University System have emerged among the nation's premier educational enterprises.

Many of the University System programs in science, engineering, liberal arts and humanities rank among the very best in the country. Library facilities on The University of Texas at Austin campus, long considered among the finest libraries in the world, are available to other component institutions through a sophisticated statewide computerized telecommunications network.

Coordinating Board

The University System is subject to the supervisory powers of the Texas Higher Education Coordinating Board (the "Coordinating Board"). The Coordinating Board is an agency of the State established to promote the efficient use of State resources by providing coordination and leadership for the State's higher education systems, institutions and governing boards. The Coordinating Board is the highest authority in the State in matters of public higher education and prescribes the scope and role of each institution of higher education. The Coordinating Board periodically reviews all degree and certificate programs offered by the State's institutions of higher education and annually reviews the academic courses offered by such institutions. The Coordinating Board also determines space utilization formulas designed to promote the efficient use of construction funds and the development of physical plants to meet projected growth estimates. These space utilization formulas directly impact the allocation of appropriated funds among the State's institutions of higher education. As required by law, the Coordinating Board must approve all new construction projects for components of the University System, other than those approved by the State Legislature and construction projects at The University of Texas at Austin financed with the proceeds of Permanent University Fund bonds. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Debt Management and Anticipated Financing—Financing Programs—Permanent University Fund Bonds".

Board of Regents

The Board is the governing body of the University System, and its members are officers of the State, appointed by the Governor with the advice and consent of the State Senate. The nine regents constituting the Board serve without pay and are appointed to staggered six-year terms. The Board members, their cities of residence and term expirations are listed on page (i) of this Official Statement.

Administration

The University System is managed through administrative officers in the System Administration Office, including the Chancellor, the Executive Vice Chancellors for Health Affairs, the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for Academic Affairs, and other officers concerned with asset management, legal, governmental relations and public affairs. The chief administrative officers at all of the component institutions report to either the Chancellor or the Executive Vice Chancellor for Health Affairs and meet on a quarterly basis in Austin. The Executive Vice Chancellor for Business Affairs and the chief business officers at each component meet bi-monthly to consider topics of mutual concern.

At each component institution, a president, or a director in the case of the Health Center at Tyler, serves as the chief administrative officer. The president prepares biennial budgets for submission to the State Legislature, capital expenditure budgets, reports and requests to the Coordinating Board and conducts the ongoing affairs of his or her institution.

The principal administrative officers of the University System, along with the officers of the University System responsible for investment and finance, are listed below. All of such officers reside in Austin, the headquarters for the University System.

Dr. William H. Cunningham
Charles B. Mullins, M.D.
R.D. Burck
Francie A. Frederick
Pamela K. Clayton

Chancellor
Executive Vice Chancellor for Health Affairs
Executive Vice Chancellor for Business Affairs
Acting Vice Chancellor for Academic Affairs
Interim Assistant Vice Chancellor for Finance

Summary biographical information relating to each of the administrative officers identified above is set forth as follows:

Dr. William H. Cunningham became the Chancellor of the University System on September 1, 1992. Prior to assuming the Chancellorship, he served as President of The University of Texas at Austin for seven years and as Dean of the College and Graduate School of Business Administration for the three preceding years. Dr. Cunningham joined The University of Texas at Austin faculty in January 1971 from Michigan State University, where he earned his B.A., M.B.A., and Ph.D. degrees. He is a nationally known marketing scholar, former editor of the Journal of Marketing and an experienced author having written several books.

Charles P. Mullins, M.D. was named Executive Vice Chancellor for Health Affairs of the University System on September 1, 1981. Dr. Mullins received an M.D. in 1958 from The University of Texas Southwestern Medical Center at Dallas. Since that time, Dr. Mullins has held the positions of flight surgeon for the United States Air Force, professor of medicine at The University of Texas Southwestern Medical Center at Dallas, Director of Medical Affairs at Parkland Memorial Hospital in Dallas and Chief Executive Officer for Dallas County Hospital District, among others. Dr. Mullins has written numerous published medical and administrative reviews, editorials and books.

R.D. Burck was appointed Vice Chancellor for Business Affairs for the University System in 1988 and was promoted in 1992 to Executive Vice Chancellor for Business Affairs. He received his Bachelor of Business Administration degree from The University of Texas in 1955, and attended South Texas Law School, after which he began a 29-year career with Getty Oil. In 1974, he assumed the duties of diversified operations manager for Getty Oil, and in this role was responsible for managing the company's worldwide holdings in real estate, agriculture, television, forest products and construction.

Francie A. Frederick was named Acting Vice Chancellor for Academic Affairs effective September 1, 1997, after having served as Associate Executive Vice Chancellor for Academic Affairs since 1998. She came to the U.T. System in 1979 as a University Attorney and was later promoted to Senior Attorney. She received a J.D. Degree from the University of Houston in 1975. Ms. Frederick is a former Texas Assistant Attorney General and served as an Assistant Criminal District Attorney in Jefferson County, Texas.

Pamela K. Clayton joined the University System in 1982 and was named Interim Assistant Vice Chancellor for Finance in 1997. As the Interim Assistant Vice Chancellor for Finance, she is responsible for the administration of the debt financing programs for the University System. Ms. Clayton earned a B.B.A. degree from The University of Texas at Austin and an M.B.A. degree from Southwest Texas State University. She achieved the Charter Financial Analyst designation in 1994.

Component Institutions

A summary description of the University System's component institutions, which includes nine general academic institutions and six Health Institutions, each of which is a Member of the Revenue Financing System, is set forth as follows:

General Academic Institutions.

The University of Texas at Arlington is a major comprehensive teaching, research and public service institution located in the heart of the Dallas-Fort Worth Metroplex. As the University System's second largest academic component, this institution offers 58 baccalaureate, 59 master's and 23 doctoral degrees within nine academic units including Architecture, Business, Engineering, Liberal Arts, Nursing, Science, Social Work, Teacher Education and Urban and Public Affairs. A high priority on graduate education has stimulated the growth of the Graduate School to nearly 20 percent of the total student population. The largest graduate enrollment is in the engineering disciplines.

The University of Texas at Austin, which opened in 1883, is the oldest and largest component

of the University System and third largest university in the nation. It is a major comprehensive research university with a broad mission of undergraduate education, graduate education and research and public service. Serving approximately 48,000 students, the institution offers 303 degree programs in virtually every field, except most health-related professions and agriculture. Numerous academic programs are ranked among the top 20 nationally. Because of its relatively low tuition and high academic standing, The University of Texas at Austin is consistently ranked among the best values in higher education in the nation.

It's academic resources include a library system that is ranked fifth among the nation's university research libraries and which has approximately 7.5 million volumes. The library not only serves the campus community but also is a major source of information for scholars, professionals, businesses, government agencies and the general public across the state.

The University of Texas at Brownsville, formerly a part of the University of Texas-Pan American, became a separate institution of the University System as of September 1, 1991. Located one block from the Texas-Mexico border, The University of Texas at Brownsville's efforts are directed toward enhancing educational opportunities for a bilingual, bicultural population. The institution, through a partnership with Texas Southmost College, offers certificate, associate, baccalaureate and graduate programs within six academic units including Liberal Arts, Science and Mathematics, Business and Industry, Education, Health Sciences and the Division of Continuing Education. The partnership with Texas Southmost College operates with a consolidated administrative and academic structure under the direction of the University. The combined faculty and shared teaching mission provide continuity in curriculum, efficient use of physical, fiscal and human resources and high-quality instructional programs. The Texas Legislature has also authorized the University to begin offering limited lower division programs.

The University of Texas at Dallas, developed from a private graduate research center established in 1961, joined the University System in 1969. It offered only upper-level and graduate studies until the addition of freshman and sophomore classes in 1990. The institution is located approximately 18 miles north of downtown Dallas, adjacent to Synergy Park, a 400 acre high-technology industrial park developed by the institution. There are also two off-campus components of the institution—the Callier Center for Communication Disorders (a nationally prominent speech and hearing clinic), and The University of Texas at Dallas Geological Information Library.

The Schools of the institution, which include Arts and Humanities, General Studies, Engineering and Computer Science, Human Development, Management, Natural Sciences and Mathematics, and Social Sciences, provide public service as well as study and research opportunities. When measured by research funding per faculty member, the University consistently ranks among the top three academic research-oriented universities in the State.

The University of Texas at El Paso was established by the State Legislature in 1914 as the Texas School of Mines and Metallurgy. It was renamed the College of Mines after becoming a branch of the University System in 1919, redesignated as Texas Western College in 1949 and since 1967, has been named The University of Texas at El Paso.

The institution is nationally recognized as a center for high-technology research and as a leader in border studies and bilingual education. The University of Texas at El Paso ranks fourth among the University System's general academic universities in total annual research expenditures, with a four-fold increase in external funding during the past five years. As a regional university, The University of Texas at El Paso serves a largely commuting student population of over 15,000, 85% of whom are from El Paso County. Additionally, over 1,100 Mexican nationals, approximately 14% of all Mexican citizens enrolled in higher education in the United States, attend the institution.

Degrees are offered at the baccalaureate, master's and doctoral levels through six colleges including Business Administration, Education, Engineering, Liberal Arts, Nursing and Allied Health and Science. Doctorates are offered in Psychology, Geological Sciences, Computer Engineering, Materials Science and Engineering and Environmental Engineering. Planning for additional doctoral

programs is currently underway.

The University of Texas-Pan American, located in Edinburg, was founded in 1927 and joined the University System in 1989. Nearly all of the institution's students come from the immediate region, the four southern-most counties of Texas known as the Rio Grande Valley. About 87% of its 13,400 students are Hispanic, reflecting the demography of the region.

The University of Texas-Pan American offers one associate's degree, 47 baccalaureate degrees and 34 master's degrees through six academic colleges including Business Administration, Education, Health Sciences and Human Services, Arts & Humanities, Science and Engineering and Social and Behavioral Sciences. The institution also offers a doctorate in Business Administration with a concentration in international business and, jointly with The University of Texas at Austin, offers a doctorate in educational leadership. Additionally, several other degree programs are in various stages of planning and approval for implementation during the next several years.

The University of Texas of the Permian Basin in Odessa, was established in 1969 by the Texas Legislature as an upper-level institution. Its mission was expanded in 1991 to include freshman and sophomore courses. It is the only four-year university serving the surrounding 17-county region. The institution with 23 undergraduate and 10 graduate programs, currently serves more than 2,100 students. Its academic structure consists of Arts and Sciences, Business, and Education. Special programs include premedical and prelegal studies and teacher certification. The University has also developed a regional telecommunications network with area public schools and junior colleges.

The University of Texas of the Permian Basin provides a strong foundation for the region's future with special programs that assist surrounding communities and local industry. One such program is the Petroleum Industry Alliance (PIA) located at the Center for Energy and Economic Diversification. PIA serves the region's most vital industry—oil and gas. It connects the oil and gas industry with State and Federal agencies, laboratories and the institution.

The University of Texas at San Antonio was authorized by the Texas Legislature in 1969, and first offered classes in 1973. The institution's primary strength at the undergraduate level lies in the breadth and depth of its academic programs. Its four colleges—Business, Fine Arts and Humanities, Sciences and Engineering, and Social and Behavioral Sciences—offer 49 undergraduate and 30 graduate degree programs. Graduate degree programs include 8 master's concentrations in the College of Business. Doctoral programs in neurobiology and computer science have been implemented, and additional doctoral programs in engineering and educational leadership are planned. A new downtown campus, which opened beginning with the fall 1997 semester, offers a wide range of both undergraduate and graduate courses, with an approximate enrollment of 1,980, some of whom also take classes at the main campus.

The Institute of Texan Cultures at San Antonio is part of The University of Texas at San Antonio. Since its completion in 1968, the Institute has grown from a world's fair exhibit into a statewide resource and information center and is the learning and communication center for the history, culture and folklore of Texas. The exhibit floor, containing displays, artifacts, historic photographs and vignettes on Texas history, has been expanded to a teaching laboratory with trained volunteers and staff members providing living history demonstrations of folk customs and crafts.

The University of Texas at Tyler, established in 1971 as Tyler State College, became Texas Eastern University in 1976. By action of the State Legislature, it became a part of the University System in 1979. The University of Texas at Tyler is the only public degree-granting university located in the East Texas Planning Region, an area of 700,000 population which includes the Tyler and Longview/Marshall metropolitan area. The Texas Legislature has authorized development of an engineering program which has admitted its first students in the fall 1997 semester, has approved the addition of limited lower division programs, and has funded development of an academic center in Longview, Texas.

As an upper-level university, The University of Texas at Tyler addresses the needs of students

from community and junior colleges and transfer students from other institutions. The institution has established joint baccalaureate programs with several community and junior colleges in the region, as well as a partnership agreement with Tyler Junior College. Baccalaureate and master's degrees are offered through four major academic colleges including Business Administration, Education and Psychology, Liberal Arts and Sciences and Mathematics.

Health Institutions.

The University of Texas Southwestern Medical Center at Dallas is by many measures among the top academic medical centers in the United States, counting among its faculty four active Nobel Laureates. Established as Southwestern Medical College in 1943, it became a part of the University System in 1949. In 1972, its scope was expanded to that of a health science center and the current name was adopted in 1987. Today, the Medical Center consists of Southwestern Medical School, Southwestern Graduate School of Biomedical Sciences and Southwestern Allied Health Sciences School. The three schools enroll over 1,600 students and train more than 1,400 postdoctoral resident physicians and research fellows and provide continuing education for approximately 15,000 practicing health professionals.

The Medical Center's Faculty has nearly 1,300 full-time members. In addition to the four active Nobel Laureates, the faculty includes 11 members of the National Academy of Sciences and 3 members of Britain's Royal Society. The faculty and residents provide patient care at the Zale Lipshy University Hospital, Parkland Memorial Hospital, The Children's Medical Center of Dallas and a host of other military veteran and civilian hospitals. Faculty physicians provide more than \$179 million in unreimbursed professional services annually.

Faculty conduct research programs of over \$150 million a year in such areas as arthritis, cancer, cholesterol, chronic pain, developmental biology, heart disease and stroke, molecular genetics, neurosurgery, a variety of central nervous system, neuromuscular and psychiatric disorders; and on many other clinical and basic science fronts.

The University of Texas Medical Branch at Galveston is the oldest academic health science center in Texas and the second oldest component of the University System. Over the past 105 years, the Medical Branch has become firmly established as a leader in patient care, medical education and research.

More than 2,800 students, including housestaff, are enrolled in the degree programs and graduate medical training offered through the School of Medicine, the School of Nursing, the School of Allied Health Sciences, the Graduate School of Biomedical Sciences, the Institute for the Medical Humanities and the Marine Biomedical Institute.

Composed of four schools, two institutes and seven hospitals, the Medical Branch is the only statewide referral center. The Medical Branch treats over 35,000 inpatients and more than 465,300 outpatients annually, including over 68,975 emergency room patients. The John Sealy Hospital, a 12-story, 528-bed tower, is the central patient care facility. Other Medical Branch hospitals include the Jennie Sealy Hospital, R. Waverley Smith Pavilion, Mary Moody Northern Pavilion, Children's Hospital and the Texas Department of Criminal Justice Hospital. The Shriners Burns Institute provides treatment free of charge to pediatric burn patients from around the world.

The University of Texas Health-Science Center at Houston, which was established in 1972, has become the largest educational component of the Texas Medical Center, and it is among the country's top 10 free-standing medical/health research institutions in research expenditures. Over 3,000 students are enrolled in six schools consisting of Medicine, Dentistry, Nursing, Public Health, Biomedical Sciences and Allied Health Sciences.

The Health Science Center's focus on prevention recognizes that most diseases result from three factors: genetics, environmental and lifestyle. Prevention is the key in a number of Federally funded projects including finding genes responsible for diabetes and the prevention of AIDS among

adolescents. A full range of medical specialties continues to be available through the Medical School's physicians, who provide care for more than 1,000,000 outpatients annually. The institution also operates the Harris County Psychiatric Center, the only public psychiatric hospital in the Houston area, where patient admissions total more than 5,162 annually. The Dental Branch provides care to more than 186,000 outpatients, and Nursing Services, which provides primary care for students, employees and private patients, treats nearly 7,000 outpatients annually.

The University of Texas Health Science Center at San Antonio was established in 1968, and has gained an international reputation as a leading university research center. Located on a 100-acre campus in the heart of the South Texas Medical Center, the Health Science Center has more than a \$800 million impact each year on the Texas economy and provides more than \$70 million each year to the community in indigent care. Degree programs are offered in six schools including Medical, Dental, Nursing, Allied Health Sciences, Graduate School of Biomedical Sciences, Public Health and Doctor of Pharmacy Degree Program. The Dental School consistently ranks as one of the nation's top dental programs and in the number of research projects funded by the National Institutes of Health.

Research and patient care in areas such as diabetes, orthopedics, pediatric surgery, organ transplantation and a host of rehabilitative medicines attract patients from across the nation and from throughout the world. The faculty and residents provide patient care at the University Hospital, the Audie L. Murphy Memorial Veterans Hospital, the University Health Center and a host of other military and civilian hospitals and institutions.

The University of Texas M.D. Anderson Cancer Center at Houston ranks as one of the world's most respected and productive centers devoted exclusively to cancer patient care, research, education and prevention. M.D. Anderson was one of the first three such centers and remains the only comprehensive cancer center within a university system.

Since the institution was established by the Texas Legislature in 1941, M.D. Anderson has made major contributions that have enhanced cancer care throughout the world. Additionally, M.D. Anderson offers one of the largest bone marrow transplantation programs in the world and an extensive program of clinical trials that seek to improve therapies for all types of cancer. More than 330,000 people have turned to M.D. Anderson for cancer care since the first patient was registered in 1944. The main complex of M.D. Anderson is located in Houston's Texas Medical Center and is composed of a 518-bed hospital, a 10-story outpatient clinical building, that last year accommodated more than 935 hospital and outpatient visits per day, and 350 research laboratories.

The University of Texas Health Center at Tyler is an academic health care institution with a mission of patient care, medical education and biomedical research. The institution joined the University System in 1977, after 30 years as a State tuberculosis and pulmonary hospital. Patients come to the Health Center for primary care and for further diagnosis and treatment by specialists, particularly in the areas of heart and lung diseases. Outpatient services include family practice, sleep evaluation, occupational medicine, oncology, internal medicine, urgent care, adult asthma and many other clinical science fronts. In 1996, the Health Center served patients from 142 of the State's 254 counties and recorded approximately 3,300 admissions and more than 85,753 outpatient visits. The Center for Pulmonary Infectious Disease Control is a focus for research, media protocols and immediate information regarding infectious diseases. Through education, the Health Center includes postgraduate residency programs in family practice and in occupational and environmental medicine, clinical rotations for Texas medical school students and clinical training for nursing and allied health students from nearby colleges.

Enrollment

The following are the historical headcount enrollment figures at the teaching institutions of the University System during the past five Fall Semesters:

	Fall Enrollment ⁽¹⁾				
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997⁽⁴⁾</u>
The University of Texas at Arlington	23,749	23,202	22,121	20,544	19,779
The University of Texas at Austin ⁽²⁾	48,555	47,957	47,905	48,008	48,866
The University of Texas at Brownsville ⁽³⁾	1,911	2,205	2,473	2,648	2,615
The University of Texas at Dallas	8,640	8,487	9,008	9,378	9,372
The University of Texas at El Paso	16,999	17,188	16,275	15,386	15,166
The University of Texas-Pan American	13,702	13,750	13,368	12,682	12,489
The University of Texas of the Permian Basin	2,219	2,315	2,217	2,193	2,140
The University of Texas at San Antonio	17,097	17,579	17,389	17,547	17,494
The University of Texas at Tyler	3,936	3,987	3,783	3,459	3,393
The University of Texas Southwestern Medical Center at Dallas	1,680	1,700	1,687	1,714	1,603
The University of Texas Medical Branch at Galveston	2,251	2,327	2,249	2,204	2,127
The University of Texas Health Science Center at Houston	3,279	3,183	3,097	3,111	3,089
The University of Texas Health Science Center at San Antonio	<u>2,662</u>	<u>2,790</u>	<u>2,828</u>	<u>2,721</u>	<u>2,689</u>
Total	<u>146,680</u>	<u>146,670</u>	<u>144,400</u>	<u>141,595</u>	<u>140,822</u>

⁽¹⁾ The University of Texas M.D. Anderson Cancer Center and The University of Texas Health Center at Tyler do not have enrolled students.

⁽²⁾ In order to prevent overcrowding of facilities and an unacceptable student-to-faculty ratio, The University of Texas at Austin initiated an enrollment management program in the Fall 1987 aimed at achieving a target enrollment of 48,000 by the Fall 1994.

⁽³⁾ The University of Texas at Brownsville shares an educational partnership with Texas Southmost College. Enrollment data consists of upper-level undergraduate students (above the sophomore level) and graduate students at The University of Texas at Brownsville only and does not include students enrolled at Texas Southmost College.

⁽⁴⁾ Enrollment figures for the Fall 1997 Semester represent preliminary twelfth class day numbers and are subject to change.

The following are the historical headcount undergraduate admissions figures for the teaching institutions of the University System for the five Fall Semesters beginning in 1992:

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Freshman:					
Applications	30,524	34,750	30,834	31,486	31,897
Acceptances	22,215	23,620	23,074	23,493	22,869
Matriculants	13,093	13,788	13,441	14,195	13,541
Transfers:					
Applications	24,935	25,428	28,817	24,448	24,305
Acceptances	14,984	15,827	18,958	16,645	17,311
Matriculants	12,082	12,231	13,408	11,215	12,138

The following table sets forth, by percentage, a breakdown of the University System's enrollment by residency classification for the five Fall Semesters beginning in 1992:

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
In-State Students	88.5%	88.1%	87.9%	87.2%	87.9%
Out-of-State Students	5.7%	6.0%	6.1%	6.5%	5.7%
Foreign Students	<u>5.8%</u>	<u>5.9%</u>	<u>6.0%</u>	<u>6.3%</u>	<u>6.4%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Faculty and Employees

The numbers of faculty and employees employed by the component institutions of the University System as of April 30, 1997, the most recent date for which such information is available, are set forth in the following table:

Faculty and Employees

April 30, 1997

General Academic Institutions

Faculty	6,992
All Other Employees	<u>29,715</u>
Subtotal	<u>36,707</u>

Health Institutions

Faculty	5,780
All Other Employees	<u>31,945</u>
Subtotal	<u>37,725</u>

University System Administration

444

Total	<u>74,876</u>
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The quality of the faculty in the University System is evidenced by a wide range of honors, awards and grants. As of December 1, 1995, the faculty of the component institutions within the University System includes: six Nobel Prize Laureates; two Pulitzer Prize Winners; 32 Members of the National Academy of Sciences; 34 Members of the National Academy of Engineering; 31 Members of the American Academy of Arts and Sciences; 21 Members of the American Law Institute; and 33 members of the American Academy of Nursing.

Each year, faculty members throughout the University System conduct research funded by competitive grants from agencies such as the National Science Foundation, the National Institutes of Health, the American Cancer Society, the National Endowment for the Humanities, the National Endowment for the Arts and the Coordinating Board. Research expenditures from these and other grants have increased 22.81% during the fiscal years 1992 through 1996 from \$636 million to \$781 million.

University System faculty members have received such prestigious awards as the Field Medal in mathematics, Presidential Young Investigator Awards, and numerous fellowships from such organizations as the McArthur, Guggenheim, Mellon, Rockefeller, Ford, Sid Richardson, Welch and Meadows Foundations.

FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM

Financial management of the University System is the responsibility of the Executive Vice Chancellor for Business Affairs. The Office of Business Affairs includes the Office of Finance, which reports to Pamela K. Clayton, Interim Assistant Vice Chancellor for Finance. The Office of Business Affairs has debt administration responsibility, as well as offices which coordinate the operational activities of the University System, including budget matters. The Assistant Vice Chancellor and Controller of the University System, reporting to the Executive Vice Chancellor for Business Affairs, prepares for the Board an annual budget for the University System, monthly financial reports and the annual unaudited primary financial statements of the University System. In February 1996, the Board approved a contract for the investment management of all funds under the Board's control and management with The University of Texas Investment Management Company ("UTIMCO"), a non-profit corporation organized under the laws of the State of Texas. In April 1996, UTIMCO received a determination from the Internal Revenue Service that it constitutes a tax-exempt organization described in Section 501(c)(3) of the Code. In taking such action, the Board dissolved the advisory committees which advised it on investments and dissolved its Office of Asset Management which had investment responsibilities. The Board will pay UTIMCO an annual fee for investment management services.

Financial Statements

Annually, not later than December 31st of each year, the unaudited primary financial statements of the University System dated as of August 31st, prepared from the books of the University System, must be delivered to the Governor and the State Comptroller of Public Accounts. Each year, the State Auditor must certify the financial statements of the State as a whole, inclusive of the University System, and in so doing examines the financial records at each of the University System's component institutions. No outside audit in support of this detailed review is required or obtained by the University System.

The University System's combined primary financial statements include the System Administration and all component institutions of the University System. Amounts due between component institutions in the same fund category, amounts held for component institutions by the System Administration and other duplications in reporting are eliminated in combining the individual financial statements.

The University System is an agency of the State of Texas and its financial records reflect compliance with applicable State statutes and regulations. The significant accounting policies followed by the University System in maintaining accounts and in the preparation of the combined primary financial statements are in accordance with Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements. These requirements follow, as near as practicable, the AICPA Industry Audit Guide Audits of Colleges and Universities, 1973, as amended by AICPA Statement of Position (SOP) 74-8, Financial Accounting and Reporting by Colleges and Universities.

Attached to this document as "APPENDIX A, FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM", is the most recent unaudited Combined Primary Financial Statements of The University of Texas System (with the relevant portion of the Notes to the Combined Primary Financial Statements), for the University System's fiscal year ended August 31, 1996, excerpted from the 1996 Annual Report of The University of Texas System. The University System's unaudited Primary Financial Statements set forth as APPENDIX A consist of the Combined Balance Sheet as of August 31, 1996, the Combined Statement of Changes in Fund Balances for the Year Ended August 31, 1996, and the Combined Statement of Current Funds Revenues and Expenditures for the Year Ended August 31, 1996. While listed as an asset on the Combined Balance Sheets included in the University System's unaudited primary financial statements, the Permanent University Fund is a public endowment the corpus of which must be forever kept intact.

Following is a summary of the revenues, expenditures and fund balances derived from the unaudited primary financial statements of the University System for each of the most recent five fiscal years.

Current Funds

Current funds are funds expendable for current operating purposes. Within the current funds group, funds are segregated between unrestricted and restricted. The current funds revenues and expenditures described below are derived from the Combined Statement of Current Funds Revenues and Expenditures included in the University System's unaudited primary financial statements for each of the fiscal years indicated. This statement, prepared under the principles of fund accounting, presents the financial activities of current funds related to the applicable reporting period and does not purport to present the results of operations or the net income or loss for the period. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Financial Statements".

Unrestricted Current Funds Revenues. Unrestricted funds are funds over which the Board retains full control in achieving institutional purposes. Not all unrestricted funds constitute Pledged Revenues. See "DESCRIPTION OF THE REVENUE FINANCING SYSTEM". The unrestricted current funds revenues described below are derived from the unaudited primary financial statements of the University System for each of the fiscal years in the five year period ended August 31, 1996. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Financial Statements". Unrestricted current funds revenues are categorized by source. Each category of unrestricted current funds revenues presented below as a percent of total sources of such revenues is as follows:

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
<u>Sources of Revenues</u>					
Tuition and Fees	7.51%	8.39%	8.77%	8.73%	9.67%
State Appropriations	41.68	38.92	39.56	36.68	35.01
Gifts, Grants and Contracts	3.85	4.63	5.46	8.22	12.45
Available University Fund Income ...	3.08	2.95	2.60	2.46	2.27
Endowment/Investment Income	0.09	0.07	0.56	0.41	0.50
Sales and Services	28.48	29.70	26.81	25.95	24.80
Professional Fees	11.00	11.55	13.08	14.21	11.69
Other Interest Income	1.91	1.35	1.24	1.62	1.65
Other Sources	2.40	2.44	1.92	1.72	1.96
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Tuition and Fees. Each component institution granting degrees charges tuition and fees as set by the State Legislature and the Board under Chapters 54 and 55 of the Texas Education Code which permits (i) undergraduate tuition applicable to state residents to be charged up to \$68 per semester credit hour for the 1997-98 academic year, up to \$72 per semester credit hour for the 1998-99 academic year, up to \$76 per semester credit hour for the 1999-2000 academic year, and up to \$80 per semester credit hour for the 2000-01 academic year; and (ii) tuition of a nonresident student at a general academic teaching institution or medical and dental unit to be increased to an amount equal to the average of the nonresident undergraduate tuition charged to a resident of Texas at a public state university in each of the five most populous states other than Texas (the amount of which would be computed by the Coordinating Board for each academic year). For the academic year 197-1998, the Coordinating Board has computed \$248 per semester credit hour for nonresident undergraduate tuition. As stated above, unless it is necessary to meet a debt service obligation, the amount of the Pledged General Tuition charged in any academic year may not exceed the amount of tuition to be charged in that academic year.

Effective August 1, 1997, S.B. 1907 redesignated the building use fees which make up the

Pledged General Fees as tuition. The students will no longer be charged a general use fee, and the tuition charges may be increased by the Board by an amount equal to what the general use fee would have been under prior law. The net effect is that the total student charges will not be increased by S.B. 1907.

S.B. 1907 also makes the provisions of the Education Code which allow the Board to set fees, rentals, rates, or other revenue funds of the Board at the level necessary, without limit, to enable the Board to meet its obligations with respect to the payment of debt service on the Parity Debt applicable to the Pledged General Tuition. Thus, notwithstanding the limitations outlined above, for any Parity Debt issued after the effective date of S.B. 1907, the rate of the Pledged General Tuition actually imposed to secure the Parity Debt will not be limited by law or the Resolution.

At the August 14, 1997 meeting, the Board adopted a resolution amending the Master Resolution to take into account the amendments to the Education Code made by S.B. 1907. Among the changes made by such resolution the Board altered the definition of Pledged Revenues for the purpose of supplementing the security for Parity Debt by adding the additional Revenue Funds which S.B. 1907 permits the Board to pledge and altered the rate covenant to have it apply to the increased Pledged General Tuition and the expanded Pledged Revenues defined terms instead of the Pledged General Fee. Notwithstanding the enactment of S.B. 1907 or the amendment of the Master Resolution, the Board will continue to be obligated to comply with the existing covenants of the Master Resolution and the Supplements as long as the Outstanding Parity Debt is outstanding in the event that the amendments do not produce sufficient Pledged Revenues to meet all of the Board's obligations.

The following table sets forth the total of tuition and fees (net of refunds) collected during each of the five fiscal years commencing in 1992 at all component institutions of the University System:

Tuition and Fees (in Million)				
<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$212.3	\$256.5	\$290.4	\$307.9	\$364.3

State Appropriations. The University System receives support annually from the State through general revenue fund appropriations made by the State Legislature. For the fiscal year ended August 31, 1996, 35.01% of unrestricted current funds revenues were from State general revenue fund appropriations. The Board has adopted a budget for fiscal year 1997 that includes appropriations from the State general revenue fund of \$1.181 billion, which amount constitutes 32.2% of 1997 budgeted unrestricted current funds revenues.

Levels of continued State support to the University System are dependent on results of biennial legislative sessions. The State Legislature adopted a budget for the State for the 1996-1997 biennium beginning September 1, 1995, which appropriates approximately \$1.173 billion for the University System from the general revenue fund for fiscal year 1996 and approximately \$1.181 billion for fiscal year 1997. These budget and appropriation amounts do not include certain employee benefits which are included in the total state appropriations shown below.

The University System has no assurance that the State Legislature will continue to appropriate to it the general revenue funds of the State at the same levels as in previous years. Future levels of State support are dependent upon the ability and willingness of the State Legislature to make appropriations to the University System taking into consideration the availability of financial resources and other potential uses of such resources. The table below sets forth the State general revenue fund appropriations to the University System included in unrestricted current funds revenues during each of the five most recent fiscal years:

**State Appropriations
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$1,178.9	\$1,189.2	\$1,310.5	\$1,293.3	\$1,319.1

Gifts, Grants and Contracts. The University System receives federal, state and local grants and contracts for research which incorporate an overhead component for use in defraying operating expenses. This overhead component is treated as unrestricted current funds revenues while the balance of the grant or contract is treated as restricted current funds revenues. Indirect cost recovery rates used in calculating the overhead component are negotiated annually with the appropriate governmental agency for each component institution. In addition, unrestricted gifts are received by each institution. The following table sets forth the total of the overhead component received on governmental research grants and contracts, the portion of restricted gifts or grants from nongovernmental sources expended for current operations and the amount of unrestricted gifts received during each of the five most recent fiscal years by the University System:

**Gifts, Grants and Contracts
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995⁽¹⁾</u>	<u>1996⁽¹⁾</u>
\$108.8	\$141.3	\$180.9	\$289.8	\$469.0

⁽¹⁾ The increase for fiscal year 1995 and 1996 were primarily due to contracts between The University of Texas Medical Branch at Galveston and the Texas Department of Criminal Justice for medical treatment of inmates. The contracts were for \$126.6 million and \$213.8 million for fiscal years 1995 and 1996, respectively.

Available University Fund Income. The Available University Fund is established by the State Constitution and consists of all dividends, interest and other income of the Permanent University Fund (net of Permanent University Fund administrative expenses) including the net income attributable to the surface of Permanent University Fund lands. Two-thirds of the total amounts comprising the Available University Fund (after administrative expenses) are constitutionally appropriated to the University System first, for the payment of annual debt service on Permanent University Fund bonds and notes issued by the Board, and second, for the support and maintenance of The University of Texas at Austin and System Administration. The following table sets forth the amounts so appropriated for The University of Texas at Austin and System Administration during each of the five most recent fiscal years:

**Available University Fund Income
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$87.2	\$90.0	\$86.3	\$86.7	\$85.4

Endowment/Investment Income. In fiscal year 1994, the University System combined endowment income with investment income for financial statement reporting. While endowment income is comprised of both restricted and unrestricted earnings, most of the endowment income is restricted. Investment income represents the income earned on funds of the institutions that are invested in securities with a maturity greater than one year. For funds of the institutions that are invested in securities with a maturity less than a year, the income is reflected as other interest income (See "Other Interest Income" below). The following table sets forth the amount of unrestricted endowment income for the fiscal years 1991 through 1993, and endowment income and investment income for fiscal years 1994 and 1996.

**Endowment/Investment Income
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$2.6	\$2.0	\$18.4	\$14.5	\$19.0

Sales and Services. The University System operates hospitals in Galveston, Houston and Tyler. Revenue generated at the hospitals from private, public and third-party payers represents a significant form of income to the University System. Other educational activities and auxiliary enterprises also generate revenue which is unrestricted. The following table sets forth the amount of such revenue received during each of the five most recent fiscal years:

**Sales and Services
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$805.6	\$907.4	\$888.2	\$915.2	\$934.2

Professional Fees. At each Health Institution of the University System, a medical Practice Plan has been adopted by the Board covering professional revenues generated by the faculty. Practice Plan revenues are spent for the operational costs of clinical services, including salaries of the medical staff and constitutes Practice Plan Funds. The following table sets forth the Practice Plan revenues received from professional fees during each of the five most recent fiscal years:

**Professional Fees
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$311.3	\$353.0	\$43.2	\$501.1	\$440.6

Other Interest Income. Each University System component institution generates interest from the investment of cash under an investment policy adopted by the Board in accordance with State law. (See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Investment Policy and Procedures—Investment Programs—The Short/Intermediate Term Fund"). Other Interest Income represents the income earned on funds of the institutions that have a maturity of less than one year. The following table sets forth such interest income received by the University System during each of the five most recent fiscal years:

**Other Interest Income
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995⁽¹⁾</u>	<u>1996</u>
\$53.9	\$41.2	\$41.1	\$57.2	\$62.0

⁽¹⁾ The increase for fiscal year 1995 was due to a change in the maturity structure of the investments from fiscal year 1994. This change in maturity structure is reflected by more income to the Other Interest Income category and less income to the Endowment/Investment Income category.

Other Sources. All miscellaneous revenues including rents, fees, fines, sales and other receipts not categorized above have been grouped together as "other sources". The following table sets forth the amount of such miscellaneous revenues received by the University System during each of the five

most recent fiscal years:

**Other Sources
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$68.0	\$74.7	\$63.7	\$60.6	\$73.9

Total Unrestricted Current Funds Revenues. The following table sets forth the total of all unrestricted current funds revenues received by the University System during each of the five most recent fiscal years:

**Total Unrestricted Current Funds Revenues
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$2,828.5	\$3,055.2	\$3,312.7	\$3,526.4	\$3,767.5

Total Pledged Unrestricted Current Funds Revenues. The following table sets forth the amount of unrestricted current funds revenues that constituted Pledged Revenues received by the University System during each of the five most recent fiscal years:

**Total Pledged Unrestricted Current Funds Revenues⁽¹⁾
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994⁽²⁾</u>	<u>1995⁽³⁾</u>	<u>1996</u>
\$698.5	\$784.8	\$1,024.2	\$1,512.6	\$1,854.8

- (1) Does not include \$4.5 million in Pledged Practice Plan Funds which also constitute Pledged Revenues.
- (2) Includes the Pledged General Tuition, which became a component of Pledged Revenues on October 8, 1993.
- (3) The increase in fiscal year 1995 is the result of the accounting for hospital revenues of the M.D. Anderson Cancer Center as Unrestricted Current Funds Revenues upon the retirement of certain Prior Encumbered Obligations relating to the Cancer Center.

Unrestricted Current Funds Expenditures. Unrestricted current funds expenditures represent the cost incurred for goods and services used in the conduct of the University System's operations. Such expenditures include the acquisition cost of capital assets, such as equipment and library books, to the extent unrestricted current funds are budgeted for and used by operating departments for such purposes. The unrestricted current funds expenditures are derived from the unaudited primary financial statements of the University System for each of the fiscal years in the five-year period ended August 31, 1996. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Financial Statements". Unrestricted current fund expenditures are categorized by function. Each category of unrestricted current funds expenditures and mandatory transfers, which are presented below as a percent of total expenditures by function and mandatory transfers, is as follows:

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
<u>Expenditures</u>					
Education and General Instruction . . .	34.64%	33.46%	34.33%	33.42%	33.20%
Research	5.40	5.00	4.58	4.16	3.87
Public Service	1.20	1.33	1.63	1.56	1.62
Academic Support	4.48	4.35	4.11	4.06	4.05
Student Services	1.26	1.33	1.39	1.40	1.60
Institutional Support	7.46	8.43	8.90	9.00	8.99
Operations and Maintenance of Plant .	9.39	9.86	8.61	8.12	7.72
Scholarships and Fellowships	1.75	1.77	1.84	1.86	2.11
Hospitals	26.01	26.39	27.05	29.27	29.19
Auxiliary Enterprises	6.76	6.45	6.04	5.60	5.50
Mandatory Transfers ⁽¹⁾	1.65	1.63	1.52	1.55	2.15
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

⁽¹⁾ Includes debt service payments on Parity Debt and Prior Encumbered Obligations. See "Mandatory Transfers" below.

Instruction. This category includes expenditures for all activities that are part of the University System's instructional programs. Expenditures are included for credit and non-credit courses, for academic, vocational and technical instruction, for remedial and tutorial instruction and for regular, special and extension sessions. The following table presents a history of these expenditures for each of the five most recent fiscal years:

Instruction (in Millions)				
<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$924.3	\$1,004.0	\$1,085.7	\$1,126.0	\$1,165.9

Research. This category includes all expenditures for research. Expenditures may be either internally or externally sponsored. The following table presents a history of these expenditures by the University System for each of the five most recent fiscal years:

Research (in Millions)				
<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$144.2	\$150.1	\$144.8	\$140.2	\$136.0

Public Service. This category includes funds expended primarily for non-instructional services beneficial to individuals and groups which are not part of the University System. The following table presents a history of these expenditures for each of the five most recent fiscal years:

Public Service (in Millions)				
<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$32.0	\$40.1	\$51.5	\$52.6	\$57.0

Academic Support. This category includes funds expended primarily to provide support services for instruction, research and public service. Expenditures included in this category are those supporting the operation of libraries, museums and galleries, as well as those for academic administration, technical support and curriculum development. The following table presents a history of these expenditures for each of the five most recent fiscal years:

Academic Support (in Millions)				
<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$119.5	\$130.5	\$130.0	\$136.6	\$142.2

Student Services. This category includes funds expended for those activities whose primary purpose is to contribute to the student's emotional and physical well-being and intellectual, cultural and social development outside the context of the formal instructional program. The following table presents a history of these expenditures for each of the five most recent fiscal years:

Student Services (in Millions)				
<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$33.7	\$39.9	\$44.0	\$47.3	\$56.2

Institutional Support. This category includes expenditures of the offices of admissions and registrar, and for administration, planning, fiscal operations, data processing, personnel and records and logistical activities. The following table presents a history of these expenditures for each of the five most recent fiscal years:

Institutional Support (in Millions)				
<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$199.1	\$253.0	\$281.4	\$303.1	\$315.6

Operations and Maintenance of Plant. This category includes all expenditures of unrestricted current funds for the operation and maintenance of physical plant, net of amounts charged to auxiliary enterprises, hospitals and independent operations. The following table presents a history of these expenditures for each of the five most recent fiscal years:

Operations and Maintenance of Plant (in Millions)				
<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$250.7	\$295.9	\$272.3	\$273.6	\$271.2

Scholarships and Fellowships. This category includes expenditures for scholarships and fellowships, including tuition remissions and exemptions in the forms of grants to students resulting either from selection by component institutions of the University System or from an entitlement program. The following table presents a history of these expenditures for each of the five most recent fiscal years:

Scholarships and Fellowships
(in Millions)

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$46.7	\$53.0	\$58.2	\$62.8	\$74.1

Hospitals. This category includes all expenditures associated with patient care operations of the University System's hospitals as well as expenditures for health clinics that are part of the hospitals, including nursing and other professional services, fiscal services, physical plant operations and institutional support, both direct and indirect. The following table presents a history of these expenditures for each of five most recent fiscal years:

Hospitals
(in Millions)

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995⁽¹⁾</u>	<u>1996</u>
\$694.2	\$791.9	\$855.5	\$986.1	\$1,024.9

⁽¹⁾ The increase for fiscal year 1995 was primarily due to increased expenditures at The University of Texas Medical Branch at Galveston resulting from a \$126 million one-year contract with the Texas Department of Criminal Justice for medical treatment of inmates.

Auxiliary Enterprises. This category includes all expenditures relating to the operation of auxiliary enterprises, including expenditures for operation and maintenance of plant and institutional support. The following table presents a history of these expenditures for each of the five most recent fiscal years:

Auxiliary Enterprises
(in Millions)

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$180.3	\$193.5	\$191.2	\$188.6	\$193.0

Mandatory Transfers. This category includes transfers from the unrestricted current funds group to other fund groups primarily for the payment of debt service on Parity Debt and Prior Encumbered Obligations, as well as required provisions for renewals and replacements of plant. The following table presents a history of these transfers for each of the five most recent fiscal years:

Mandatory Transfers
(in Millions)

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996⁽¹⁾</u>
\$44.1	\$49.0	\$48.1	\$52.2	\$75.4

⁽¹⁾ Fiscal year 1996 includes \$16.1 million of mandatory transfers for the early redemption of the Austin Building Revenue Bonds, Series 1986.

Total Unrestricted Current Funds Expenditures and Mandatory Transfers. The following table presents a history of the total of all categories of unrestricted current funds expenditures and mandatory transfers for each of the five most recent fiscal years:

**Total Unrestricted Current Funds
Expenditures and Mandatory Transfers
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$2,668.7	\$3,001.0	\$3,162.7	\$3,369.1	\$3,511.5

Restricted Current Funds Revenues and Expenditures. Restricted current funds revenues refer to resources that have been externally restricted and may only be utilized in accordance with the purposes stipulated by the source of such funds. Such revenues include, among others, grants and contracts from governmental and private sources (other than the overhead component which is treated as unrestricted current funds revenue), restricted gifts and income on restricted endowment funds. Receipts from these resources are reported as revenues only when expended. The following table presents a history of total restricted current funds revenues and expenditures for each of the five most recent fiscal years:

**Total Restricted Current Funds
Revenues and Expenditures
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$604.4	\$689.0	\$717.6	\$773.8	\$858.0

Fund Balances

Fund balances represent the difference between total assets and total liabilities and are reported by fund group. The fund balances described below are derived from the Combined Balance Sheet included in the University System's unaudited primary financial statements for each of the fiscal years indicated. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Financial Statements". The Combined Statement of Changes in Fund Balances for the fiscal year ended August 31, 1996, included in "APPENDIX A, FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM", is essentially a statement of changes in financial position between reporting dates and is presented for all fund groups.

Unrestricted Current Funds. Unrestricted current funds balances represent the accumulation of the excess of unrestricted current funds revenues over unrestricted current funds expenditures and transfers. This amount is available for future operating purposes or other use as determined by the Board to the extent that such amount exceeds the amount reported as Unrestricted-Reserves. See the Combined Balance Sheet included in "APPENDIX A, FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM" for details for the year ended August 31, 1996. The total fund balance of all categories of unrestricted current funds (which relates to the revenues and expenditures presented above) as of the end of each of the five most recent fiscal years was as follows:

**Unrestricted Current Funds Balance
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$355.7	\$388.5	\$426.8	\$437.4	\$494.9

Restricted Current Funds. Restricted current funds represent unexpended balances of funds

externally restricted to specific operating purposes. Such funds originate from income on restricted endowment funds, gifts whose donors have placed limitations on their we and grants and contracts from private or governmental sources for research, training and other sponsored programs (other than the overhead component which is treated as unrestricted current funds). The total fund balance of restricted current funds (which relates to the revenues and expenditures presented above) as of the end of each of the five most recent fiscal years was as follows:

**Restricted Current Funds Balances
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$355.7	\$388.5	\$426.8	\$437.4	\$494.9

Loan Funds. Loan funds balances represent student loans or funds available for loans to students administered by the University System pursuant to federal and private programs. The majority of such loans are federally funded primarily through the Perkins Loan Program which succeeded the National Direct Student Loan Program. The balance of such loans is funded by the University System either through private sources or from student tuition as authorized by State law. The loan funds balance as of the end of each of the five most recent fiscal years was as follows:

**Loan Funds
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$95.7	\$100.9	\$108.7	\$114.7	\$119.6

Endowment and Similar Funds (State—Permanent University Fund). While listed as an asset on the Combined Balance Sheets included in the University System's unaudited primary financial statements, the Permanent University Fund is a public endowment the corpus of which must be forever kept intact. Only certain revenues derived from the investment of the corpus of the Permanent University Fund comprise the Available University Fund and are appropriated for use by the University System. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Fund Balances—Available University Fund". For more information regarding the Permanent University Fund, see "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Permanent University Fund" and "—Investment Policy and Procedures—Investment of Permanent University Fund".

Endowment and Similar Funds (Other than State). The Other than State category of endowment funds consist primarily of the Long Term Fund (formerly known as the Common Trust Fund) and other private endowments. The Long Term Fund is a pooled fund for the investment of private endowments donated to benefit various programs and purposes at the fifteen institutions comprising the University System. The fund was established by the Board in 1948 and provides for diversification of security holdings and enhancement of investment management. It encompasses the investment of approximately 90% of the University System's private endowment. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Investment Policy and Procedures—Investment Programs—The Long Term Fund".

Other private endowments consist primarily of (a) approximately 220 separately invested accounts where the endowment asset donated is unique, such as a real estate interest, or where the donor has placed investment restrictions on the asset so as to preclude its inclusion in the Long Term Fund, and (b) the Special Fund for John Sealy Hospital which has been jointly controlled by the Board and the Sealy and Smith Foundation since 1927. The endowment and similar funds (other than State) balances as of the end of each of the five most recent fiscal years was as follows:

**Endowment and Similar Funds
(Other than State)
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$1,024.8	\$1,163.2	\$1,295.3	\$1,378.7	\$1,494.8

Of the \$1,494.8 shown for 1996, \$374.4 million is classified as "Funds Functioning as Endowment", which means that such funds have been designated as endowments by the Board and are subject to being redesignated by the Board and made available for other lawful purposes.

Annuity and Life Income Funds. Annuity funds and life income funds are separate fund groups which are combined for reporting purposes. Annuity funds are those funds donated to the University System on the condition that the University System pay certain amounts periodically to the donor or other designated individuals for a specific period of time. At the end of the payment period, the principal amount of the annuity fund is transferred to the fund group specified by the donor or, in the absence of restrictions, to unrestricted funds. Life income funds consist mainly of charitable remainder trusts for which the University System is trustee and/or remainderman and pays distributions in agreed upon amounts to beneficiaries. Annuity and life income balances as of the end of each of the five most recent fiscal years were as follows:

**Annuity and Life Income Funds
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$13.1	\$12.6	\$13.6	\$17.0	\$19.2

Available University Fund. The Available University Fund is established by the State Constitution and consists of all dividends, interest and other income of the Permanent University Fund (net of Permanent University Fund administrative expenses) including the net income attributable to the surface of Permanent University Fund lands. Two-thirds of the total amounts comprising the Available University Fund (after administrative expenses) are constitutionally appropriated to the University System first, for the payment of annual debt service on Permanent University Fund bonds and notes issued by the Board, and second, for the support and maintenance of The University of Texas at Austin and System Administration.

The Available University Fund balances appropriated to the University System as of the end of each of the five most recent fiscal years were as follows:

**Available University Fund
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$95.2	\$88.5	\$92.1	\$100.0	\$113.3

A portion of the fund balance for each year shown above represented accrued income attributable to The Texas A&M University System. Of the \$113.3 million balance of the Available University Fund on August 31, 1996, approximately \$16.7 million represented accrued income attributable to The Texas A&M University System.

Plant Funds. The University System reports its Plant Funds in the following four categories: Unexpended Plant Funds; Renewals and Replacements Funds; Retirement of Indebtedness Funds; and Investment in Plant Funds.

Unexpended Plant Funds. Unexpended plant funds are unexpended funds derived from

various sources to finance the acquisition of long-term plant assets and the associated liabilities. This category does not include construction in progress which is included under "Plant Funds—Investment in Plant Funds" below. The unexpended plant fund balance as of the end of each of the five most recent fiscal years was as follows:

**Unexpended Plant Funds
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995⁽¹⁾</u>	<u>1996</u>
\$232.2	\$256.3	\$256.5	\$384.4	\$268.3

⁽¹⁾ The increase for fiscal year 1995 was primarily due to the issuance of Parity Debt during such fiscal year. In June, 1995, approximately \$35 million of new money proceeds were generated pursuant to the issuance of the Board's Revenue Financing System Bonds, Series 1995A and only \$2.1 million of the proceeds were spent by August 31, 1995. In addition, Commercial Paper Notes in the amount of \$55 million were issued during the last two months of fiscal year 1995 with only \$5.2 million of the proceeds spent by year end. The private gifts, grants and contracts also were higher for fiscal year 1995 (\$83.3 million) than 1994 (\$39.9 million).

Renewals and Replacements Funds. These funds provide for the renewal and replacement of plant fund assets and their associated liabilities as distinguished from additions and improvements to plant. The renewals and replacements fund balance as of the end of each of the five most recent fiscal years was as follows:

**Renewals and Replacements Funds
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$6.1	\$3.2	\$5.6	\$4.4	\$5.5

Retirement of Indebtedness Funds. Funds for the retirement of indebtedness represent those funds held by the University System in interest and sinking funds and reserve funds for other than Permanent University Fund bonds. The retirement of indebtedness fund balance as of the end of each of the five most recent fiscal years was as follows:

**Retirement of Indebtedness Funds
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994⁽¹⁾</u>	<u>1995</u>	<u>1996⁽²⁾</u>
\$43.4	\$40.7	\$5.2	\$5.2	\$3.7

⁽¹⁾ The significant decline in the fund balance between fiscal year 1993 and fiscal year 1994 is the result of the release of certain reserve funds in connection with the retirement of Prior Encumbered Obligations relating to the M.D. Anderson cancer Center.

⁽²⁾ The decline in fiscal year 1996 is the result of the release of certain reserve funds in connection with retirement of the Austin Building Revenue Bonds, Series 1986.

Investment in Plant Funds. Investment in plant represents the long-term plant and equipment assets of the University System and their associated liabilities. The investment in plant fund balance as of the end of each of the five most recent fiscal years was as follows:

Investment in Plant Funds (in Millions)				
1992	1993	1994	1995	1996
\$3,480.8	\$3,758.5	\$3,951.8	\$4,017.5	\$4,379.1

At August 31, 1996, gross plant assets totaled \$5,656.9 million. Of this total, 49.3% was in the form of buildings, 28.1% in equipment, 5.8% in library books, 7.8% in construction in progress and 9.0% in land and other. Deferred maintenance requirements at the University System are currently estimated to be less than 1.0% of the replacement cost of plant assets.

Agency Funds. Agency funds represent funds held by the University System as custodian or agent for individual students, faculty, staff members and organizations. The total agency funds assets as of the end of each of the five most recent fiscal years was as follows:

Agency Funds (in Millions)				
1992	1993	1994	1995 ⁽¹⁾	1996
\$24.6	\$27.8	\$44.6	\$192.3	\$225.9

⁽¹⁾ The increase in fiscal year 1995 is the result of changes in applicable accounting standards which required the university system to include in its financial statements the assets of a defined contribution retirement plan for the physicians at the M.D. Anderson cancer center.

Agency fund assets are offset by liabilities (recognizing that funds are held in custody for others) and miscellaneous payables, with the result that agency funds balances are zero in any given fiscal year.

Permanent University Fund

The Permanent University Fund is a public endowment contributing to the support of the University System (other than The University of Texas-Pan American and The University of Texas at Brownsville) and The Texas A&M University System. The State Constitution of 1876 established the Permanent University Fund through the appropriation of land grants previously given to The University of Texas plus an additional one million acres. The land grants to the Permanent University Fund were completed in 1883. As of August 31, 1996, the Permanent University Fund contained 2,109,190 acres located in 24 counties in North and West Texas.

As interpreted by the State Supreme Court and by the State Attorney General, the Permanent University Fund must be forever kept intact, and the proceeds from oil, gas, sulphur and water royalties, together with realized gains on investments, rentals on mineral leases, lease bonuses and all amounts received from the sale of land must be added to the corpus of the Permanent University Fund. All other dividends, interest and other income of the Permanent University Fund (net of Permanent University Fund administration expenses) represent the Available University Fund. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Fund Balances—Available University Fund". For information regarding the investment policy relating to the Permanent University Fund, see "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Investment Policy and Procedures—Management of the Permanent University Fund". The funds held in the Permanent University Fund are not available to pay debt service on the Bonds.

The Permanent University Fund's balance as of the end of each of the five most recent fiscal years was as follows:

**Endowment and Similar Funds
(State—Permanent University Fund)
(in Millions)**

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
\$3,666.9	\$4,053.4	\$4,222.5	\$4,385.9	\$4,654.3

Investment Policy and Procedures

Management of Investments. The Board is responsible for investment of University System funds held outside the State Treasury. In order to enhance the process by which the various Funds' investments are governed and managed, the Board on March 1, 1996 contracted with The University of Texas Investment Management Company ("UTIMCO") to invest more than \$9 billion of funds under its fiduciary control. UTIMCO is a 501(c)(3) corporation modeled after investment management companies organized by Harvard, Princeton, Stanford and Duke Universities to invest their respective assets. It is the first investment corporation formed by a public university system and oversees investments in the Permanent University Fund, the Long Term Fund, the Short/Intermediate Fund and other assets. UTIMCO is required to 1) recommend investment policy for the Funds, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with each individual Funds' objectives, and c) monitor each Funds' performance against its objectives. UTIMCO must invest the Funds' assets in conformity with investment policy.

At its February 6, 1997 meeting, the Board approved new Investment Policy Statements for the Permanent University Fund, Long Term Fund, Short/Intermediate Term Fund and the Short Term Fund. The new Investment Policy Statements allow the Board to unify all policy elements regarding approved asset classes into a standard fund investment policy statement. The standardization of the statements will increase consistency of policy across funds and improve the monitoring of compliance with each fund's investment policy.

The Policy Statements provide that the primary investment objective of the Permanent University Fund and the Long Term Fund is to preserve the purchasing power of Fund assets and annual distributions by earning an average annual total return after inflation of 5.5% over rolling ten-year periods or longer. Secondary fund objectives are to generate a Fund return in excess of (a) the Policy Portfolio benchmarks and (b) in the case of the Long Term Fund, the average median return of the universe of college and university endowments as reported annually by Cambridge Associates and NACUBO over rolling five-year periods or longer. The Policy Portfolio benchmarks are established by UTIMCO and are comprised of a blend of asset class indices weighted to reflect Fund asset allocation targets.

The Policy Statements recognize that asset allocations the primary determinant of investment performance. Fund assets may be allocated among cash and cash equivalents, fixed income investments, and broadly defined equities (including alternative assets) in order to achieve the Funds' primary investment objective. The Policy Statements also recognize that the Funds 5.5% real return objective for long-term funds imply a high allocation to broadly defined equities as high as 85%. Fixed income investments are limited to 50% and 25% for the Permanent University Fund and Long Term Fund, respectively. The Policy Statements for the Short/Intermediate Term Fund and Short Term Fund restrict asset allocation to fixed income investments only and attempt to control risk through restrictions on maturities and credit quality.

Each Policy Statement delegated authority to UTIMCO to establish specific asset allocation targets, ranges and performance objectives for each asset class within the broad asset allocation or other guidelines established by the Board.

The Long Term Fund. The Long Term Fund ("LTF") serves as a pooled fund for the collective investment of private endowments and other long term funds of the 15 component institutions comprising The University of Texas System. The LTF is structured as a mutual fund in which each

endowment or account purchases units at the LTF's market value per unit. Cash distributions are paid quarterly, on a per unit basis, directly to each component institution. The primary investment objectives of the LTF are to preserve the purchasing power of LTF's assets, and its annual distributions by earning an average total return over inflation of 5.5% over rolling ten year periods or longer. Growth of the LTF is required to preserve its purchasing power and is essential for providing growth in the distributions remitted to the component institutions. The LTF's secondary objectives are to generate a fund return in excess of the Policy Portfolio benchmark, and the average median return of the universe of the college and university endowments as reported annually by Cambridge Associates and the National Association of College and University Business Officers over five-year periods or longer. The Policy Portfolio is comprised of a blend of asset class indices weighted to reflect the LTF's asset allocation policy targets.

Asset allocation within the LTF is the responsibility of UTIMCO and neutral policy allocations are subject to change from time to time based on the economic and investment outlook. The asset classes within the LTF, the long term neutral policy allocation percentage for each asset class and the actual asset allocation percentages as of August 31, 1997 are set forth below.

<u>Asset Class</u>	<u>Neutral Policy Allocation</u>	<u>Percentage Allocation (as of 8/31/97)</u>
Cash and Cash Equivalents	0.0%	(.5)%
Fixed Income	20.0%	23.2%
Equities	55.0%	72.5%
Alternative Equities ⁽¹⁾	<u>25.0%</u>	<u>4.8%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

⁽¹⁾ The term "Alternative Assets" encompasses the following: (i) alternative marketable investments, which include hedge funds, arbitrage and special situation funds, high yield bonds, distressed obligations and emerging markets whose underlying securities are traded on public exchanges or otherwise readily marketable; (ii) alternative illiquid investments are generally held through limited partnership interests and include private equity, buyout mezzanine debt, and venture capital investments that are privately held and which are not registered for sale on public exchanges; and (iii) inflation hedging assets, which include oil and gas interests, real estate, commodities, and other assets whose current incomes and principal values generally increase as inflation accelerates.

As of August 31, 1997, approximately 37.8% of the investment of LTF funds was managed internally and approximately 62.2% was managed externally by unaffiliated investment managers. The book value of the LTF as of August 31, 1997 was \$1,654.9 million and the market value was \$2,125.0 million, indicating an unrealized gain on that date of \$470.1 million.

The Short/Intermediate Term Fund. The Short/Intermediate Term Fund ("S/ITF") serves as a pooled investment value for operating funds of The University of Texas System component institutions and System Administration. Operating funds are defined as those with an investment horizon of one to five years. The S/ITF also serves as the source of a \$350 million self-liquidity facility for The University of Texas System Board of Regents' Revenue Financing System Notes. The S/ITF is structured as a mutual fund where participants can transact in units at market value weekly on Wednesdays and the first business day of each month. Its income is either reinvested or distributed to the unitholders monthly at their election. The S/ITF's structure allows for greater economies of scale, enhanced flexibility, and centralized, full-time professional management. The S/ITF's primary investment objective is to generate both income and capital appreciation when consistent with the reasonable preservation of capital and the maintenance of adequate liquidity.

The Board's policy does not specify asset allocation targets for the investment of funds in the S/ITF. Set forth in the table below, however, is a quarterly breakdown of the composition of the S/ITF since August 31, 1997.

<u>Qtr Ending</u>	<u>Cash</u>	<u>Commercial Paper</u>	<u>Govt. & Agencies</u>	<u>Mortgage Backed</u>
8/31/96	7.9%	0.0%	74.9%	17.2%
11/30/96	15.2%	0.0%	68.7%	16.1%
2/28/97	13.5%	0.0%	72.4%	14.1%
5/31/97	13.5%	9.6%	64.8%	12.1%
8/31/97	17.2%	0.0%	73.1%	9.7%

As of August 31, 1997, 100% of the investment of S/ITF funds was managed internally. The book value of the total portfolio of investments held in the S/ITF as of August 31, 1997 was \$1,622.9 million and the market value was \$1,631.4 million, indicating an unrealized gain on that date of \$8.5 million. The Board does not anticipate the need to sell any investments in the S/ITF prior to their maturity to meet the liquidity needs of the component institutions of the University System or the Commercial Paper Notes.

The Short Term Fund. The Short Term Fund ("STF") is the designation given by the University System administration to the money market mutual fund known as the Dreyfus Institutional Preferred Money Market Fund which the Board has approved as an investment for University System funds. The Dreyfus Institutional Preferred Money Market Fund (the "Dreyfus Fund") is an open-end, diversified, management investment company, known as a money market mutual fund. The Dreyfus Corporation serves as the Dreyfus Fund's investment advisor. The Dreyfus Fund is organized as an unincorporated business trust under the laws of the Commonwealth of Massachusetts. The component institutions of the University System and University System administration utilize the STF as an investment option when overnight liquidity is the primary investment objective. As of August 31, 1997, the amount of University System funds invested in the STF was \$569.3 million (Amount excludes endowment, trust and other funds invested in the Dreyfus Fund.). As of August 31, 1997, the Dreyfus Fund had a net asset value at amortized cost of \$1,001.3 million.

Permanent University Fund. The Permanent University Fund ("PUF") is a public endowment contributing to the support of eligible institutions of The University of Texas System and the Texas A&M University System. The Constitution of 1876 established the PUF through the appropriation of land grants previously given to The University of Texas plus one million acres. Additional land grants to the PUF were completed in 1883 with the contribution of another one million acres. Today the PUF contains 2,109,190 acres located in 24 counties primarily in West Texas. The primary investment objective of the PUF is to preserve the purchasing power of the PUF's assets and annual distributions by earning an average annual total return after inflation of 5.5% over rolling ten-year periods or longer. The secondary objective is to generate a fund return in excess of the Policy Portfolio benchmark over rolling five-year periods or longer. The Policy Portfolio benchmark is established by UTIMCO and is comprised of a blend of asset class indices weighted to reflect PUF asset allocation policy targets. The Board recognizes that achievement of the PUF's investment rates in excess of long-term equilibrium levels.

Asset allocation within the PUF is the responsibility of UTIMCO, and neutral policy allocations are subject to change from time to time based on the economic and security market outlook as well as income requirements. The asset classes within the PUF, the neutral policy allocation percentages for each asset class and the actual allocation percentages as of August 31, 1997 are set forth below.

<u>Asset Class</u>	<u>Neutral Policy Allocation</u>	<u>Percentage Allocation (as of 8/31/97)</u>
Cash & Cash Equivalents	0.0%	.3%
Fixed Income Securities	20.0%	37.0%
Equity Securities	55.0%	56.6%
Alternative Equities	25.0%	6.1%
Total Assets	100.0%	100.0%

As of August 31, 1997, approximately 50.5% of the investment of PUF funds was managed internally and approximately 49.5% was managed externally by unaffiliated investment managers. The book value of the total portfolio of investments held in the PUF as of August 31, 1997 was \$4,974.5 million and the market value was \$6,368.3 million, indicating an unrealized gain on that date of \$1,393.8 million.

Amendment of Investment Policies and Procedures. The Board has the right to amend its policies and procedures relating to the management of investments, at its discretion and at any time, subject to applicable State law.

Management of Funds Held in the State Treasury. The Texas Education Code requires that the University System deposit into the State Treasury all funds except those derived from auxiliary enterprises and noninstructional services, agency funds, designated and restricted funds, endowment and other gift funds, and student loan funds. All such funds held in the State Treasury, including the Available University Fund and certain cash balances of the Permanent University Fund, are administered by the State Treasurer. The State Treasurer invests money in the State Treasury in authorized investments consistent with applicable law and the Texas State Treasury Investment Policy, dated August 1993. The State Treasurer pools funds within the State Treasury for investment purposes and allocates investment earnings on pooled funds proportionately among the various State agencies whose funds are so pooled. Currently, most pooled funds are invested in the following instruments: repurchase agreements; reverse repurchase agreements; obligations of the United States and its agencies and instrumentalities; commercial paper having the highest credit rating; and fully-collateralized deposits in authorized State depositories. Less than 3% of the State Treasury pool is invested in derivative investments. All State Treasury investments are marked to market daily using an external financial service. The Board utilizes the State Treasury primarily as a depository and anticipates that all funds deposited in the State Treasury will be available upon request and will earn interest equal to an allocated share of investment earnings on pooled funds in the State Treasury. As of January 31, 1997, the amount of University System funds held by the State Treasury was \$149.3 million.

The State Treasurer, acting primarily through a special purpose trust company, also holds approximately 20 separate accounts outside of the State Treasury. The largest such account is a local government investment pool, known as TexPool, which was established in 1989 as an investment alternative for local governments in the State. The Board is not (and has never been) a participant in TexPool and none of the funds of the University System are invested by the State Treasury in TexPool.

Capital Improvements Planning and Authorization

Planning and authorization of University System capital improvements is governed by a six-year capital improvements program approved by the Board and administered by System Administration. The program approves in principle the expenditure of funds from all sources for capital projects at all component institutions for construction, repair and rehabilitation, land acquisition, equipment and library materials. The program is based on requests for capital projects identified in component institution strategic plans which are reviewed by System Administration. In selecting proposed projects for approval under the program, first priority is given to projects correcting major deficiencies in physical assets supporting on-going programs or correcting deficiencies anticipated to exist as a result of estimated growth in student enrollment, patient care or research activity. Selection of projects for new programs is guided by each component institution's strategic plan and is further based upon a demonstration of overall institutional need for additional space as well as the need for the specific project proposed. The capital improvements program is revised biennially by the Board. It was last revised in August 1997 to apply through fiscal year 2003.

New construction projects in excess of \$300,000 and all major repair and rehabilitation projects in excess of \$600,000 approved in principle under the program require further approval during project development. Board approval is required for preliminary design plans and total project costs. Responsibility for the completion of plans is delegated by the Board to the Chancellor. In addition, approval from the Coordinating Board is also required (except for projects for The University of Texas at Austin that are predominantly funded with Permanent University Fund bond proceeds and projects excluded by law) prior

to the award of any contracts. See "GENERAL DESCRIPTION OF THE UNIVERSITY OF TEXAS SYSTEM—Coordinating Board". Construction contracts for approved projects are awarded by the Board to the lowest responsible bidder. Construction is monitored by the Office of Facilities Planning and Construction at System Administration together with building committees at component institutions to insure completion of the project as approved.

Debt Management and Anticipated Financing

Responsibility for the management of University System debt obligations is centralized in the Office of Finance within the Office of Business Affairs. Debt is issued pursuant to University System debt capacity analyses and annual funding requirements in accordance with the capital improvements program. Issuance of debt requires approval of the Board and (except for Permanent University Fund bonds and notes) approval by the Texas Bond Review Board. As a general rule, the University System issues debt in large increments to finance system-wide capital improvement cash flow requirements in aggregate as opposed to financing on a project-by-project basis. In addition, the University System generally finances capital improvements initially with short-term debt to minimize debt service costs during construction periods. Such short-term debt is refinanced with long-term fixed rate debt when short-term facilities are fully utilized or during periods of low interest rates.

The University System anticipates that it will have additional borrowing needs to supplement funding for its capital improvements program. During the balance of fiscal year 1998, the University System anticipates borrowing \$50,000,000 under the Permanent University Fund bond program for capital expenditures. No other long term Parity Debt is anticipated to be issued in fiscal year 1998. Additional issuances of Parity Debt will continue to be made under the Revenue Financing System commercial paper program for equipment and construction needs. See "Financing Programs—Revenue Financing System" below. Under the H.E.A.F. bond program, the Board is authorized to issue bonds for The University of Texas-Pan American and The University of Texas at Brownsville. On January 10, 1996, \$26,000,000 of such bonds were issued and delivered for The University of Texas-Pan American. No additional H.E.A.F. bonds are anticipated to be sold through fiscal year 2005. See "Financing Programs—Higher Education Assistance Fund (H.E.A.F.) Bonds" below.

Financial Programs. Article VII, Section 18 of the State Constitution provides that, except for cases of demonstrated need and upon a vote of two-thirds of each house of the State Legislature, and except in cases of fire or natural disaster, component institutions of the University System (except The University of Texas-Pan American and The University of Texas at Brownsville) may not receive any funds from the general revenues of the State for acquiring, constructing or equipping permanent improvements, or for major repairs or rehabilitations of permanent improvements. The Board, pursuant to constitutional and statutory provisions, is authorized to issue debt in a number of distinct forms with which to finance capital improvements.

Revenue Financing System. Chapter 55 of the Texas Education Code authorizes the Board to issue bonds to acquire or equip facilities (including auxiliary enterprise facilities) for or on behalf of University System component institutions and to pledge all or any part of its revenues, income, fees or other resources to the payment of the bonds. Historically, the Board issued bonds under this authority on an institution-by-institution basis secured exclusively by an individual fee or revenue source or combination thereof. In April, 1990, the Board restructured its debt program by establishing the Revenue Financing System pursuant to the Master Resolution. See "APPENDIX B, SUMMARY OF THE MASTER RESOLUTION". The Revenue Financing System was fully implemented in 1991. The purpose of the Revenue Financing System is to assemble University System revenue bond debt capacity into a single financing program, to provide a cost-effective debt program to the Members and to maximize the financing options available to the Board. Under the Master Resolution, the Board has, with certain exceptions, combined all of the revenues, funds and balances attributable to Members of the Revenue Financing System and lawfully available to secure revenue bonds and pledged the combined revenues, funds and balances as Pledged Revenue to secure payment of Parity Debt issued under the Master Resolution. The revenues, funds and balances excluded from Pledged Revenues are described within the definition of "Pledged Revenues" contained in "APPENDIX A, GLOSSARY OF TERMS".

All of the institutions currently constituting components of the University System have been included as Members of the Revenue Financing System. The Master Resolution permits the Board to make additions to or deletions from the membership of the Revenue Financing System subject to the satisfaction of certain conditions specified therein.

Under Board regulations, administration of the Revenue Financing System is the shared responsibility of the Office of Business Affairs and each Member of the Revenue Financing System. The guiding principle underlying the administration of the Revenue Financing System is that allocations of Parity Debt proceeds for capital improvements at a Member shall be contingent upon a Board determination that the Member can prudently satisfy its proportionate share of the outstanding Parity Debt attributable to such Member with such Member's financial resources. All capital improvement projects proposed to be funded in part or in whole with Parity Debt must receive a recommendation for allocation of Parity Debt from the Office of Business Affairs prior to being approved by the Board for inclusion in the capital improvements program. Such recommendations are given upon the completion of a financial evaluation concluding that such Member can prudently satisfy its Direct Obligation.

In establishing the annual budget of each Member of the Revenue Financing System, the Board includes as the Annual Obligation of the Member the amount necessary to provide for the satisfaction by the Member of its proportionate share of debt service due by the Board in such budget year on outstanding Parity Debt, plus the amount budgeted by the Board for such fiscal year to allow the Member to retire its obligation for any intra-system advances made to it to satisfy part or all of a previous Annual Direct Obligation payment. Each Member's proportionate share of outstanding Parity Debt and its Annual Obligation is evidenced by a financing agreement between the Board and each Member. See "DESCRIPTION OF THE REVENUE FINANCING SYSTEM".

In 1991, pursuant to the Second Supplemental Resolution to the Master Resolution, the Board issued its Revenue Financing System Refunding Bonds, Series 1991A, 1991B and 1991C in the aggregate principal amount of \$282,725,000, now outstanding in the aggregate principal amount of \$152,495,000, to refund most of its then outstanding debt as a part of implementing the Revenue Financing System. In 1995 pursuant to the Third Supplemental Resolution to the Master Resolution, the Board issued its Revenue Financing System Bonds, Series 1995A, in the aggregate principal amount of \$74,945,000 to refund certain outstanding obligations of the Board and to provide funds to pay the cost of improvements at certain component institutions of the University System. In 1996 pursuant to the Fourth Supplemental Resolution to the Master Resolution, the Board issued its Revenue Financing System Bonds, Series 1996A, in the aggregate principal amount of \$72,600,000 for the purpose of financing the cost of acquiring, purchasing, constructing, improving, enlarging and equipping the property and facilities of certain Members of the Revenue Financing System. And its Series 1996B Bonds in the aggregate principal amount of \$232,135,000 to refund certain outstanding obligations of the Board and to provide funds to pay the cost of improvements at certain component institutions of the University System. Under the Amended and Restated First Supplemental Resolution to the Master Resolution (the "First Supplement"), the Board has authorized its Revenue Financing System Commercial Paper Notes, Series A (the "Commercial Paper Notes"), to provide interim financing for capital improvements and to finance equipment purchases for Members of the Revenue Financing System. The Commercial Paper Notes constitute Parity Debt under the Master Resolution. The First Supplement authorizes the Board to issue Commercial Paper Notes in a maximum aggregate principal amount outstanding at any one time of \$350,000,000. The Commercial Paper Notes must mature on or before April 1, 2020 and have a term of 270 days or less. There is no external bank liquidity support for the University System's obligation to pay the Commercial Paper Notes upon their maturities. The liquidity support is provided by funds of the component institutions of the University System pooled to create a short/intermediate term investment fund (previously defined as the "S/ITF"). See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Investment Policy and Procedures—Investment Programs—The Short/Intermediate Term Fund".

The Board has agreed to limit the maximum amount of Commercial Paper Notes which may mature on any business day to \$25 million. In addition, in the event that the net asset value of the S/ITF shall decline to an amount less than \$1,225,000 million and be expected to remain below that amount for a period of 30 days, a liquidity agreement will be acquired from a third party for an amount that will

limit the S/ITF's purchase commitment to \$250 million. In the event that the net asset value of the S/ITF shall decline subsequently to an amount less than \$875 million and be expected to remain below that amount for a period of 30 days, a liquidity agreement will be acquired from a third party for an amount that will limit the S/ITF's purchase commitment to \$150 million. The First Supplement authorizes the University System's obligations under any such liquidity agreement with a third party to constitute Parity Debt.

Permanent University Fund Bonds. Article VII, Section 18 of the State Constitution authorizes the Board to issue bonds and notes, payable from all or part of its interest in the Available University Fund in an aggregate amount not exceeding, at the time of issuance, 20% of the cost value of Permanent University Fund assets, excluding real estate. Proceeds may be used for the purpose of (i) acquiring land with or without permanent improvements, (ii) constructing and equipping buildings or other permanent improvements, (iii) making major repairs and rehabilitations and other permanent improvements, (iv) acquiring capital equipment, library books and library materials, and (v) refunding bonds or notes issued under said section or prior law, at or for System Administration and the component institutions of the University System (except The University of Texas-Pan American and The University of Texas at Brownsville). Proceeds may not be used to finance permanent improvements of auxiliary enterprises.

As of August 31, 1997, the Board's constitutionally authorized Permanent University Fund bond capacity was \$994,903,153 and bonds and notes issued and outstanding under this limit were \$669,200,000.

Higher Education Assistance Fund (H.E.A.F.) Bonds. The University of Texas-Pan American and The University of Texas at Brownsville are ineligible to receive proceeds from Permanent University Fund bonds until such time as the State Constitution is amended to provide otherwise. Pursuant to the Higher Education Assistance Fund Program, The University of Texas-Pan American and The University of Texas at Brownsville are qualified to receive an annual allocation from amounts constitutionally appropriated to institutions of higher education that are not entitled to participate in Permanent University Fund bond financing in order to fund permanent improvements (except those for auxiliary enterprises). Under this constitutional provision, the Board is authorized to issue bonds and notes to finance permanent improvements at The University of Texas-Pan American and The University of Texas at Brownsville, and to pledge up to 50% of its allocation to secure the payment of principal of and interest on the bonds and notes. On January 10, 1996, the Board issued and delivered \$26,000,000 of the H.E.A.F. Bonds for The University of Texas-Pan American. The Board does not anticipate selling any additional H.E.A.F. Bonds through fiscal year 2005.

Outstanding Indebtedness. As of August 31, 1997, the Board had the following outstanding indebtedness under all of its financing programs:

Revenue Financing System Bonds ⁽¹⁾ :		
Refunding Bonds, Series 1991A ⁽²⁾		\$ 94,095,000
Refunding Bonds, Series 1991B ⁽²⁾		56,450,000
Refunding Bonds, Series 1991C		1,950,000
Series 1995A		72,035,000
Series 1996A		70,515,000
Series 1996B		<u>226,335,000</u>
Subtotal		\$ 521,380,000
Revenue Financing System Commercial Paper Notes ⁽³⁾ :		
Series A		\$ <u>172,953,000</u>
Subtotal		\$ 172,953,000
Tuition Bonds ⁽¹⁾ :		
General Tuition Revenue Refunding Bonds, Series 1992		\$ <u>32,925,000</u>
Subtotal		\$ 32,925,000
Permanent University Fund Bonds:		
Refunding Bonds, Series 1988		\$ 8,500,000
Refunding Bonds, Series 1991		41,405,000
Refunding Bonds, Series 1992A		192,360,000
Refunding Bonds, Series 1992B		15,400,000
Refunding Bonds, Series 1996		261,535,000
Variable Rate Notes, Series A		<u>150,000,000</u>
Subtotal		\$ 669,200,000
H.E.A.F. Bonds:		
The University of Texas-Pan American, Series 1995		\$ <u>21,550,000</u>
Subtotal		\$ 21,550,000
Total		<u>\$ 1,418,008,000</u>

(1) These Bonds constitute Prior Encumbered Obligations.

(2) The Board is authorized to issue the Commercial Paper Notes in a maximum aggregate principal amount outstanding at any one time of \$350,000,000. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Debt Management and Anticipated Financing—Financing Programs—Revenue Financing System". \$119,959,000 of the Board's outstanding Commercial Paper Notes are being refunded by the Bonds.

Insurance

Effective November 1995, the Board adopted a University System-wide Comprehensive Property Protection Plan (the "Comprehensive Property Protection Plan") to insure against catastrophic property losses. The Comprehensive Property Protection Plan provides coverage for aggregate losses exceeding \$5.0 million to a maximum of \$1.0 billion per occurrence. The Board has established a loss reserve, funded by an initial \$5.0 million allotment from the Available University Fund and other unallocated reserves held by the University System. Additionally, \$850,000 will be annually contributed to the fund on a pro-rata and risk-class basis by the institutional components of the University System. Bi-annual actuarial reviews will be conducted on the loss reserve fund to determine sufficient funding levels. Premiums for the coverage will be paid out of the loss reserve fund.

It is the stated policy of the State and the Board not to acquire commercial general liability insurance

for torts committed by employees of the State who are acting within the scope of their employment. One exception to this policy authorizes the Board to acquire commercial automobile insurance for the use and benefit of its employees who operate State-owned motorized vehicles and special equipment. Also, the Board has established a Medical Liability Self-Insurance Fund to provide malpractice insurance coverage for staff physicians, students, residents and fellows at the Health Institutions.

Employees of the University System are provided worker's and unemployment compensation coverage under self-insuring, self-managed programs as authorized by State law.

Retirement Plans

Employees of the University System participate in one of two retirement plans. The first retirement plan is a multi-employer public employee retirement system administered by the Teacher Retirement System of Texas ("TRS"). The risks and costs of the TRS retirement plan are not shared by the University System but are a liability of the State. For fiscal year _____, the University System's total payroll for employees paid from State funds and from funds other than State funds was \$____ billion, and \$____ billion of such amount related to employees covered by the TRS retirement plan. For employees paid from State funds, the State made contributions of \$____ million to the TRS retirement plan. For employees not paid from State funds, the University System made contributions of \$____ million. Employees made total contributions of \$67.05 million. According to an independent actuarial evaluation completed February, 1995 for the fiscal year 1994, the total pension benefit obligation was \$____ billion and the net assets available for benefit obligation of \$____ billion. The actuary projected that such assets, augmented by projected future contributions and earnings, would be sufficient to amortize the unfunded pension benefit obligation over a period of 18 years. Additional information may be obtained from a separately issued Teacher Retirement System of Texas Comprehensive Annual Financial Report.

The State has also established an optional retirement program for institutions of higher education. This program, now known as the Optional Retirement Program (the "Optional Retirement Program"), is a defined contribution plan authorized under section 403(b) of the Code. Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. Of the University System's total payroll of \$____ billion for fiscal year _____, \$____ million related to employees covered by the optional retirement plan. During the year contributions of approximately \$____ million were made by the State and contributions of \$____ million were made by the University System. Employees made contributions of \$____ million to the plan. The Optional Retirement Program provides for the purchase of annuity contracts and mutual funds. Because the Optional Retirement Program is a defined contribution plan, the State and the University System have no additional or unfunded liability for this program.

ABSENCE OF LITIGATION

Neither the Board nor the University System is a party to any litigation, investigation, inquiry or proceeding (whether or not purportedly on behalf of the Board) pending or threatened, in any court, governmental agency, public board or body or before any arbitrator or before any governmental body which, if decided adversely to such parties, would have a material adverse effect on the Pledged Revenues or on the business, properties or assets or the condition, financial or otherwise, of the University System, and no litigation of any nature has been filed or threatened which seeks to restrain or enjoin the establishment of the Revenue Financing System, the issuance or delivery of the Bonds or the collection or application of Pledged Revenues to pay the principal of and interest on the Bonds, or in any manner questioning the validity of the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

Continuing Disclosure Undertaking of the Board

In the Supplemental Resolution the Board has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The Board has agreed that, so long as the Board is an "obligated

person" under the Rule hereinafter referred to, it will provide certain updated financial information and operating data about the University System annually, and timely notice of specified material events, to certain information vendors described below. This information is to be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports. The Board is to provide certain updated financial information and operating data to certain information vendors annually. The information to be updated by the Board includes all quantitative financial information and operating data with respect to the University System of the general type included herein under the captions "ANNUAL DEBT SERVICE REQUIREMENTS", "GENERAL DESCRIPTION OF THE UNIVERSITY OF TEXAS SYSTEM—Enrollment" and "—Faculty and Employees" and "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM" and in "APPENDIX C, FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM". The Board is to update and provide this information within six months after the end of each of its fiscal years in or after 1998.

The Board will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

The Board may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the Board commissions an audit and it is completed by the time required. If audited financial statements are not available by the required time, the Board will provide such statements when and if they become available. Any such financial statements are to be prepared in accordance with generally accepted accounting principles.

The Board's current fiscal year is August 31. Annually, not later than December 31 of each year, the unaudited primary financial statements of the University System dated as of August 31, prepared from the books of the University System, must be delivered to the Governor and the State Comptroller of Public Accounts. If the Board changes its fiscal year, it is required to notify each NRMSIR and any SID of the change.

Material Event Notices. The Board will provide timely notices of certain events to certain information vendors. The Board will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancement reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. (Neither the Bonds nor the Supplemental Resolution make any provision for debt service reserves, credit enhancement, or liquidity enhancement.)

In addition, the Board will provide timely notice of any failure by it to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports".

The Board will provide each notice described in the preceding paragraphs to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

The Board has agreed to provide the foregoing information only to NRMSIRs and any SID. The Board has not undertaken any other continuing disclosure obligation. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State of Texas as a SID and

recognized by the SEC as a qualified SID. The address of the Municipal Advisory Council of Texas is 600 W. Eighth Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

Limitations and Amendments

The Board has agreed to update information and to provide notices of material events only as described above. It has not agreed to provide other information that may be relevant or material to a complete presentation of the University System's financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Board does not make any representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Board disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the Board to comply with its agreement.

The Board may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identify, nature, status or type of operations of the Board if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the Board (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. If the Board so needs its agreement, it will provide notice of such amendment to any SID and to either each NRMSIR or the MSRB, in a timely manner, including an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the notices to be so provided. The Board may also amend or repeal the provisions of this continuing disclosure requirement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

The Board has not failed to comply in any material respect with any continuing disclosure agreement made by it in accordance with the Rule.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of each Series of Bonds are subject to approval of legality by the Attorney General of the State and of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin and Dallas, Texas, Bond Counsel to the Board, whose opinion will be printed on the Bonds. Attached hereto as APPENDIX D is the form of opinion that Bond Counsel will render in connection with the issuance of each Series of Bonds. In its capacity as Bond Counsel, such firm has reviewed the information relating to the Revenue Financing System, the Bonds and the Resolution contained in the Official Statement under the captions "INTRODUCTION", "PLAN OF FINANCING", "SOURCES AND APPLICATIONS OF FUNDS", "DESCRIPTION OF THE BOND", "DESCRIPTION OF THE REVENUE FINANCING SYSTEM", "CONTINUING DISCLOSURE OF INFORMATION", "LEGAL MATTER", "TAX MATTERS", "LEGAL INVESTMENTS IN TEXAS", and APPENDICES A and B (except for financial and statistical data under such captions), and such firm is of the opinion that the information contained under such captions and in such appendices is a fair and accurate summary of the information purported to be shown. The payment of legal fees to Bond Counsel in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds.

TAX MATTERS

Opinion

On the date of the initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Austin and Dallas, Texas, Bond Counsel, will render their opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof, (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Code. Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See "APPENDIX D, FORM OF BOND COUNSEL OPINION".

In rendering their opinion, Bond Counsel will rely upon (a) the Board's federal tax certificate and (b) covenants of the Board with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure of the Board to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The law upon which Bond Counsel have based their opinion is subject to change by Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

Federal Income Tax Accounting Treatment of the Original Issue Discount

The underwriters have represented that the initial public offering price to be paid for certain of the Bonds, as stated on the cover of the Official Statement (the "Original Issue Discount Bonds"), is less than the principal amount thereof. The difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased any Original Issue Discount Bond in the initial public offering of the Bonds. Under existing law, such initial owner is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. For a discussion of certain collateral federal tax consequences, see "Collateral Federal Income Tax Consequences" below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences

of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with Subchapter C earnings and profits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax exempt obligations.

INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bond will be included as an adjustment for "adjusted earnings and profits" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for noncorporate taxpayers (28 percent of taxable income exceeding \$175,000), of the taxpayer's "alternative minimum taxable income", if the amount of such alternative minimum tax is greater than the taxpayer's regular income tax for the taxable year.

Interest on the Bonds may be subject to the "branch profits tax" imposed by section 884 of the Code on the effectively-connected earnings and profits of a foreign corporations doing business in the United States.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issue at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

LEGAL INVESTMENTS IN TEXAS

Pursuant to Article 717k-6, Vernon's Annotated Texas Civil Statutes, as amended, the Bonds are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries and trustees, and for the sinking funds of cities, towns,

villages, school districts and other political subdivisions or public agencies of the State. The Bonds are eligible to secure deposits of public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. The Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "Investment Act") provides that any "local government" and "state agency" (as those terms are defined in the Investment Act) may invest in the Bonds, provided the Bonds have received a rating of not less than "A" from a nationally recognized investment rating firm. No investigation has been made of other laws, regulations or investment criteria which might limit the ability of such institutions or entities to invest in the Bonds, or which might limit the suitability of the Bonds to secure the funds of such entities. No review by the Board has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The Board assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE

The Board will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Bonds and to the effect that the Bonds are valid and legally binding obligations of the Board, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System.

RATINGS

Fitch Investors Service, L.P., Moody's Investors Service, Inc. and Standard & Poor's Ratings Group, a Division of McGraw-Hill, Inc. have assigned ratings of AAA, Aa1 and AA+, respectively, to the Bonds. An explanation of the significance of each such rating may be obtained from the company furnishing the rating. The ratings will reflect only the views of such organizations at the time such ratings are given, and the Board makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of such rating companies, circumstances so warrant. Any such downward revision or withdrawal of either rating may have an adverse effect on the market price of the Bonds.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the Board will furnish a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief:

(a) the descriptions and statements of or pertaining to the Board contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the Board and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the Board, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the Board believes to be reliable and the Board has not reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the Board or the University System since the date of the last financial statement of the University System set forth in APPENDIX C.

The Supplement Resolution authorizing the issuance of the Bonds will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Purchaser.

OTHER MATTERS

The financial data and other information contained herein have been obtained from the Board's records, unaudited primary financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes and documents contained in this Official Statement are made subject to all of the provisions of such statutes and documents. The summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The University of Texas System
201 West 7th Street
Austin, Texas 78701

/s/ Pamela K. Clayton
Interim Assistant Vice Chancellor for Finance
The University of Texas System

APPENDIX A
GLOSSARY OF TERMS

GLOSSARY OF TERMS

As used in this Official Statement, the following terms and expressions have the meanings set forth below:

Annual Direct Obligation means the amount budgeted each fiscal year by the Board with respect to each Member of the Revenue Financing System to satisfy the Member's proportion of debt service (calculated based on the Member's Direct Obligation) due by the Board in such fiscal year on outstanding Parity Debt.

Annual Obligation means, with respect to each Member of the Revenue Financing System and for each fiscal year, the Member's Annual Direct Obligation plus the amount budgeted by the Board for such fiscal year to allow the Member to retire its obligation for any intra-system advances made to it to satisfy part or all of a previous Annual Direct Obligation payment.

Board means the Board of Regents of The University of Texas System.

Credit Agreement means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity Debt, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the Board as a Credit Agreement in connection with the authorization, issuance, security, or payment of Parity Debt and on a parity therewith.

Direct Obligation means the proportionate share of outstanding Parity Debt attributable to and the responsibility of each respective Financing System Member of the Revenue Financing System.

Health Institutions means 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, and any other health institutions which become part of the University System and are hereafter made a Member of the Revenue Financing System.

Master Resolution means the Amended and Restated Master Resolution of the Board adopted on February 14, 1991 establishing the Revenue Financing System, as amended by the Board on October 8, 1993, and August 14, 1997.

Member means each of the institutions currently constituting components of the University System and such institutions hereafter designated by the Board to be Members of the Revenue Financing System.

Parity Debt means all indebtedness of the Board which may be issued or assumed in accordance with the terms of the Master Resolution and a Supplement, secured by a pledge of the Pledged Revenues subject only to the liens securing Prior Encumbered Obligations.

Paying Agent/Registrar shall mean the entity designated in accordance with the Supplemental Resolution as the Paying Agent/Registrar for the Bonds, initially Norwest Bank Texas, N.A.

Pledged General Fee means the gross collections of a student use fee to be fixed, charged, and collected pursuant to Section 55.16, Texas Education Code as it existed prior to the effective date of S.B. 1907, from the students (excepting, with respect to each series or issue of Parity Debt issued prior to such date, any student in a category which, at the time of the adoption of the Supplement relating to such Parity Debt, was exempt by law from paying fees) regularly enrolled at the institutions and branches thereof now or hereafter constituting a Member of the Revenue Financing System, respectively, for the general use and availability of the such institutions or branches thereof, respectively, in the manner and amounts, at the times, and to the extent provided in the Master Resolution, and including, subject to the provisions of the Prior Encumbered Obligations, the Prior Encumbered General Fee.

Pledged General Tuition means all of the aggregate amount of student tuition charges now or hereafter required or authorized by law to be imposed on students enrolled at each and every institution, branch, and

school, now or hereafter constituting a Member of the Revenue Financing System, but specifically excluding and excepting, with respect to each series or issue of Parity Debt, any student in a category which, at the time of the adoption of the Supplement relating to such Parity Debt (1) was exempt by law from paying such tuition, (2) the amount of tuition scholarships provided for by law at the time of the adoption of each Supplement, and (3) the Prior Encumbered Tuition Fees; and it is provided by law and hereby represented and covenanted that the aggregate amount of student tuition charges which are now required or authorized by law to be imposed, and which are pledged to the payment of the Parity Debt, shall never be reduced or abrogated while such obligations are outstanding; it being further covenanted that the aggregate amount of student tuition charges now required or authorized by law to be imposed on students enrolled at each and every institution, branch, and school operated by or under the jurisdiction of the Board are set forth in the Texas Education Code, as amended, to which Code reference is hereby made for all purposes.

Pledged Practice Plan Funds means that portion of the Practice Plan Funds of a Health Institution now or hereafter constituting a Member of the Revenue Financing System which has been pledged to the payment of Parity Debt by the Board by the adoption of an amendment to the Master Resolution; provided, however, that any such pledge may be limited in amount and in any manner, extent or duration as provided in such amendment. The Board pledged \$4,500,000 from the Practice Plan Funds from The University of Texas Southwestern Medical Center at Dallas commencing in the fiscal year in which Parity Debt was first issued for the project and ending when such Health Institution's Direct Obligation relating to the project for which such pledge was made has been fully paid and satisfied. Except as provided above, Pledged Revenues do not currently include any other Practice Plan Funds.

Pledged Revenues means, subject to the provisions of the Prior Encumbered Obligations, the Revenue Funds, including all of the funds and balances now or hereafter lawfully available to the Board and derived from or attributable to any Member of the Revenue Financing System which are lawfully available to the Board for payments on Parity Debt; provided, however, that the following shall not be included in Pledged Revenues unless and to the extent set forth in a Supplement: (a) the interest of The University of Texas System in the Available University Fund under Article 7, Section 18 of the Constitution of the State of Texas, including the income therefrom and any fund balances relating thereto (see "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Fund Balances—Available University Fund"); (b) amounts received on behalf of any Member under Article 7, Section 17 of the Constitution of the State of Texas, including the income therefrom and any fund balances relating thereto (see "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Debt Management and Anticipated Financings—Financing Programs—Higher Education Assistance Fund (H.E.A.F.) Bonds"); (c) except to the extent so specifically appropriated, general revenue funds appropriated to the Board by the Legislature of the State of Texas (see "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Current Funds—Unrestricted Current Funds Revenues—State Appropriations"); and (d) Practice Plan Funds of any Member, including the income therefrom and any fund balances relating thereto not included in Pledged Practice Plan Funds.

Pledged Tuition Fee means, as authorized by Section 55.17, Texas Education Code as it existed prior to the effective date of S.B. 1907, the following specified amounts out of the tuition charges now or hereafter required or permitted by law to be imposed on each tuition paying student enrolled at each and every institution or branch thereof now or hereafter constituting a Member of the Financing System (excepting the Health Institutions), and including, subject to the provisions of the Prior Encumbered Obligations, the Prior Encumbered Tuition Fees, respectively:

\$5.00 from each enrolled student for each regular semester, and
\$2.50 from each enrolled student for each summer term of each summer session.

Practice Plan means any agreement entered into by and between a Health Institution Member and faculty appointees of that Member that: (a) assigns to the Member patient fees collected for professional services rendered by the appointee and (b) regulates the collection and expenditure of such patient fees. Practice Plan also includes such agreements existing between an institution which becomes a Member after the date of the adoption of the Resolution and such institution's faculty.

Practice Plan Funds means the Practice Plan income and fund balances of a Health Institution Member.

Principal Office for Payment means the principal office of the Paying Agent/Registrar for payment of bonds, initially the office of the Paying Agent/Registrar in _____, Texas.

Prior Encumbered General Fee means the Pledged General Fee securing Prior Encumbered Obligations and that portion of the student use fee charged and collected at an institution which becomes a Member of the Financing System after the date of adoption of the Master Resolution and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a Member of the Financing System.

Prior Encumbered General Tuition means the Pledged General Tuition securing Prior Encumbered Obligations and the tuition charges in the maximum amount permitted in the definition of Pledged General Tuition charged and collected at an institution which becomes a Member of the Financing System after the date of adoption of the Master Resolution and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a Member of the Financing System.

Prior Encumbered Obligations means the Board of Regents of The University of Texas System General Tuition Revenue Refunding Bonds, Series 1986, the Board of Regents of The University of Texas System General Tuition Revenue Refunding Bonds, New Series 1992, and those bonds or other obligations of an institution outstanding on the date it becomes a Member of the Revenue Financing System and which are secured by a lien on and pledge of the Prior Encumbered General Fee, the Prior Encumbered Revenues, the Prior Encumbered Tuition Fee, the Prior Encumbered General Tuition, and/or the Prior Encumbered Practice Plan Funds charged and collected at such institution and all existing obligations of the Board secured by a lien on a portion of the Pledged Revenues which is superior to the lien established by this Resolution on behalf of Parity Debt.

Prior Encumbered Revenues means the revenues pledged to the payment of Prior Encumbered Obligations and the revenues of any revenue producing system or facility of an institution which hereafter becomes a Member of the Revenue Financing System and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a Member of the Revenue Financing System.

Prior Encumbered Tuition Fee means the Pledged Tuition Fee securing Prior Encumbered Obligations and that portion of the tuition charges in the maximum amount permitted in the definition of Pledged Tuition Fee charged and collected at an institution which becomes a Member of the Revenue Financing System after the date of adoption of the Master Resolution and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a Member of the Financing System.

Resolution means, collectively, the Master Resolution and the Supplemental Resolution.

Revenue Funds means the 'revenue funds' of the Board (as defined in Section 55.01 of the Texas Education Code to mean the revenues, incomes, receipts, rentals, rates, charges, fees, grants, and tuition levied or collected from any public or private source by an institution of higher education, including interest or other income from those funds) derived by the Board from the operations of each of the Members, including specifically the Pledged General Tuition and, to the extent and subject to the provisions of the Master Resolution, the Pledged General Fee and the Pledged Tuition Fee. Revenue Funds does not include, with respect to each series or issue of Parity Debt, any tuition, rentals, rates, fees, or other charges attributable to any student in a category which, at the time of the adoption of the Supplement relating to such Parity Debt, is exempt by law from paying such tuition, rentals, rates, fees, or other charges.

S.B. 1907 means Senate Bill 1907 passed by the State Legislature in the Seventy-fifth Regular Legislative Session.

State means the State of Texas.

Supplement means a resolution adopted by the Board pursuant to the Master Resolution authorizing the issuance of Parity Debt.

Supplemental Resolution means the Sixth Supplemental Resolution to the Master Resolution adopted by the Board on November 13, 1997, providing for the issuance of the Bonds.

U.T. System Representative means one or more of the following officers or employees of the University System, to-wit: the Chancellor, the Executive Vice Chancellor for Business Affairs, the Assistant Vice Chancellor for Finance, the Director of Finance, or such other officer or employee of the University System authorized by the Board to act as a U.T. System Representative.

APPENDIX B
SUMMARY OF THE MASTER RESOLUTION

SUMMARY OF THE MASTER RESOLUTION

Establishment of the Revenue Financing System

The Board has established the Revenue Financing System for the purpose of providing a system-wide financing structure for revenue-supported indebtedness of component institutions of the University System included as Members of the Revenue Financing System. The Master Resolution establishes a master plan under which revenue-supported indebtedness of the Revenue Financing System can be incurred. Each issue or series of Parity Debt is to be provided for under a Supplement consistent with the provisions of the Master Resolution.

Security and Pledge; Membership in the Financing System

Subject to the provisions of resolutions authorizing Prior Encumbered Obligations, Parity Debt issued under the Master Resolution is payable from and secured by a lien on all Pledged Revenues. The Board has assigned and pledged the Pledged Revenues to the payment of the principal of and interest on Parity Debt and to the establishment and maintenance of any funds that may be created under the Master Resolution or a Supplement to secure the repayment of Parity Debt. The Board may additionally secure Parity Debt with one or more Credit Agreements.

All of the institutions currently constituting components of the University System have been included under the Master Resolution as Members of the Revenue Financing System. If an additional institution hereafter becomes a component of the University System, the Board may include the new component as a Member of the Revenue Financing System. In that event, the lien on and pledge of Pledged Revenues established pursuant to the Master Resolution and effective when such institution becomes a Member of the Revenue Financing System will apply to the revenues, funds and balances of such Member that constitute Pledged Revenues; provided, that, if at the time a new Member is admitted, it has outstanding debt obligations secured by any of such sources, such obligations will constitute Prior Encumbered Obligations of the Board secured by a lien on the portion of the Pledged Revenues providing such security which is superior to the lien established by the Master Resolution on behalf of Parity Debt. The Board has reserved the right to refund Prior Encumbered Obligations with the proceeds of refunding bonds issued as Prior Encumbered Obligations secured by the same sources as the sources securing the refunded Prior Encumbered Obligations. Otherwise, while any Parity Debt is outstanding, the Board has agreed not to issue additional obligations on a parity with any Prior Encumbered Obligations.

Rate Covenant

The Board has covenanted in the Master Resolution that in each fiscal year it will establish, charge and use its reasonable efforts to collect at each Member the Pledged Revenues, which, if collected, would be sufficient to meet all financial obligations of the Board relating to the Revenue Financing System, including all deposits or payments due on or with respect to outstanding Parity Debt for such fiscal year.

Annual and Direct Obligation of Members

The Master Resolution provides that each Member of the Revenue Financing System is responsible for its Direct Obligation. The Board covenants in the Master Resolution that in establishing the annual budget for each Member of the Revenue Financing System, it will provide for the satisfaction by each Member of its Annual Obligation. Each Member's Direct Obligation and Annual Obligation shall be evidenced by a financing agreement between the Board and each Member.

Pledged Revenues

Pledged General Fee Subject to the provisions of the resolutions authorizing Prior Encumbered Obligations and to the other provisions of the Master Resolution and any Supplement, the Board covenants and agrees at all times to fix, levy, charge, and collect at each Member which has students the Pledged General

Fee from each student (excepting, with respect to each series or issue of Parity Debt, any student in a category which, at the time of the adoption of the Supplement relating to such Parity Debt, was exempt by law from paying fees) enrolled at each Member, respectively, at each regular fall and spring semester and at each term of each summer session, for the use and availability of such institution or branch thereof, respectively, in such amounts, without any limitation whatsoever, as will be at least sufficient at all times, together with other legally available funds, including other Pledged Revenues, to provide the money, to make or pay the principal of, interest on, and other payments or deposits with respect to the Parity Debt Outstanding on August 1, 1997, when and as required. The Pledged General Fee shall be adjusted, if and when permitted or required by this Resolution or any Supplement, to provide Pledged Revenues sufficient to make when due all payments and deposits in connection with such Outstanding Parity Debt. The Board may fix, levy, charge, and collect the Pledged General Fee in any manner it may determine within its discretion, and in different amounts from students enrolled in different Members, respectively, and in addition it may totally suspend the collection of the Pledged General Fee from the students enrolled in any Member, so long as total Pledged Revenues are sufficient, together with other legally available funds, to meet all financial obligations of the Board relating to the Financing System including all payments and deposits in connection with such outstanding Parity Debt. All changes in the Pledged General Fee shall be made by a resolution of the Board, but such procedure shall not constitute or be regarded as an amendment of the Master Resolution or any Supplement, but merely the carrying out of the provisions and requirements thereof. Notwithstanding the foregoing, it is recognized that certain Members do not and will not enroll students, and, therefore, the Board will not levy or collect the Pledged General Fee at such Member. Notwithstanding the foregoing provisions, so long as there is no default or anticipated default in the payment of the outstanding Parity Debt referenced above, the Board does not intend to and will not assess and collect the Pledged General Fee.

Pledged General Tuition and Other Pledged Revenues Subject to the provisions of the resolutions authorizing Prior Encumbered Obligations and to the other provisions of the Master Resolution and any Supplement, the Board covenants and agrees at all times to fix, levy, charge, and collect at each Member which has students the Pledged General Tuition and other Pledged Revenues from each student enrolled at each Member, respectively, at each regular fall and spring semester and at each term of each summer session, for the use and availability of such institution or branch thereof, respectively, in such amounts, without any limitation whatsoever, as will be at least sufficient at all times, together with other legally available funds, including other Pledged Revenues, to provide the money to make or pay the principal of, interest on, and other payments or deposits with respect to the Parity Debt then outstanding when and as required. The Pledged General Tuition and the other rentals, rates, fees, and charges included in Pledged Revenues shall be adjusted, if and when permitted or required by the Master Resolution or any Supplement, to provide Pledged Revenues sufficient to make when due all payments and deposits in connection with the Parity Debt then outstanding. The Board may fix, levy, charge, and collect the Pledged Revenues in any manner it may determine within its discretion, and in different amounts from students enrolled in different Members, respectively, and in addition it may totally suspend the collection of any item included in Pledged Revenues from the students enrolled in any Member, so long as total Pledged Revenues are sufficient, together with other legally available funds, to meet all financial obligations of the Board relating to the Revenue Financing System including all payments and deposits in connection with the Parity Debt then outstanding. All changes in the Pledged General Tuition shall be made by a resolution of the Board, but such procedure shall not constitute or be regarded as an amendment of the Master Resolution or any Supplement, but merely the carrying out of the provisions and requirements thereof. Notwithstanding the foregoing, it is recognized that certain Members do not and will not enroll students, and, therefore, the Board will not levy or collect the Pledged General Tuition at such Member.

Annual Obligation If, in the judgment of the Board, any Member has been or will be unable to satisfy its Annual Obligation, the Board shall fix, levy, charge, and collect rentals, rates, fees, and charges for goods and services furnished by such Member and, with respect to Member with enrolled students, the Pledged General Tuition, and, if necessary as discussed above, the Pledged General Fee, effective at the next succeeding regular semester or semesters or summer term or terms, in amounts sufficient, without limit (subject to the provisions discussed below), together with other legally available funds, including other Pledged Revenues attributable to such Member, to enable it to make its Annual Obligation payments.

Anticipated Deficit If the Board determines, for any reason whatsoever, (i) that there are not anticipated to be sufficient legally available funds, including Pledged Revenues, to meet all financial obligations of the

Board relating to the Revenue Financing System, including the deposits and payments due on or with respect to the Parity Debt outstanding at that time as the same mature or come due, or (ii) that any Member will be unable to pay its Annual Direct Obligation in full, then the Board shall fix, levy, charge, and collect the Pledged General Tuition, and, if necessary as discussed above, the Pledged General Fee, at each Member with enrolled students, effective at the next succeeding regular semester or semesters or summer term or terms, in such amounts, without any limitation whatsoever (other than as provided below), as will be at least sufficient to provide, together with other legally available funds, including other Pledged Revenues, the money for making when due all financial obligations of the Board relating to the Revenue Financing System including all payments and deposits due on or with respect to outstanding Parity Debt when and as required by the Master Resolution or any Supplement.

Economic Effect of Adjustments Any adjustments in the rate or manner of charging for any rentals, rates, fees, tuition, or other charges included in Pledged Revenues, including the Pledged General Tuition and the Pledged General Fee, if any, at any of the Members pursuant to the provisions described above will be based upon a certificate and recommendation of a U.T. System Representative, delivered to the Board, as to the rates and anticipated collection of the Pledged Revenues at the various Members (after taking into account the anticipated effect the proposed adjustments in such rentals, rates, fees, tuition, or other charges would have on enrollment and the receipt of Pledged Revenues and other funds at each Member) which will be anticipated to result in (i) Pledged Revenues attributable to each Member being sufficient (to the extent possible) to satisfy the Annual Obligation of such Member and (ii) Pledged Revenues being sufficient, together with other legally available funds, to meet all financial obligations of the Board relating to the Revenue Financing System including all deposits and payments due on or in connection with outstanding Parity Debt when and as required by the Master Resolution and any Supplement.

Under the Master Resolution, the Board has excepted from the Pledged General Fee, with respect to any particular series or issue of Parity Debt, collections from any student permitted by the Texas Education Code to be exempted (currently, any student for whom payment would cause an undue economic hardship, as long as the total number of students exempted does not exceed 5% of the total enrollment at any Member) as of the date on which the issue of Parity Debt is authorized.

General Covenants

In the Master Resolution, the Board has covenanted that it will (a) make available to the Paying Agent or other paying agent, on or before each payment date, money sufficient to pay the principal of and the premium, if any, and interest on all Parity Debt as it becomes due and payable and the fees and expenses related to the Parity Debt, including the fees and expenses of the paying agent and any registrar, trustee, remarketing agent, tender agent or credit provider; (b) faithfully perform all covenants and undertakings under the Master Resolution and each Supplement; (c) cause all Parity Debt to be called for redemption and redeemed prior to maturity, to the extent required under the provisions of the Master Resolution or any Supplement; (d) maintain all real and tangible property of the Revenue Financing System in good condition, repair and working order and not impair or permit any impairment of the Revenue Financing System; (e) not incur additional debt secured by the Pledged Revenues, except as Parity Debt permitted under the Master Resolution or as debt that is junior and subordinate in all respects to the liens, pledges and covenants of the Master Resolution and any Supplement; (f) invest and secure money in all funds and accounts established under the Master Resolution and any Supplement as prescribed by law and the policies of the Board; (g) keep proper books of record and account relating to all dealings, activities and transactions of the Board; (h) permit any owner or owners of at least 25% of the principal amount of the then outstanding and unpaid principal amount of Parity Debt to inspect the records and accounts of the Board relating to the University System; and (i) provide for the satisfaction by each Member of its Annual Obligation. In addition, the Board has warranted that it lawfully owns and has title to or lawfully possesses the lands, buildings and facilities constituting the University System, that it will defend the title to all properties that become a part of the Revenue Financing System and that it is lawfully qualified to pledge the Pledged Revenues in the manner prescribed in the Master Resolution and has exercised such right.

Additional Parity Debt: Non-Recourse Debt and Subordinated Debt

In the Master Resolution, the Board reserves the right to issue or incur additional Parity Debt for any purpose authorized by law. The Board may incur, assume, guarantee or otherwise become liable in respect of additional Parity Debt if the Board determines that it will have sufficient funds to meet the financial obligations of the University System, including sufficient Pledged Revenue to satisfy the annual debt service requirements of the Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System.

In addition, the Board covenants not to issue or incur Parity Debt unless (i) it determines that the Member or Members for whom Parity Debt is being issued or incurred possess the financial capacity to satisfy their respective Direct Obligations after taking into account the then proposed additional Parity Debt, and (ii) a U.T. System Representative delivers to the Board a certificate stating that, to the best of his or her knowledge, the Board is in compliance with all covenants contained in the Master Resolution and any Supplement authorizing outstanding Parity Debt, and is not in default in the performance and observance of any of the terms, provisions and conditions thereof.

The Board has reserved the right to issue, without limit, debt secured by a lien other than a lien on Pledged Revenues and debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Debt.

Waiver of Covenants

The Board may omit in any particular instance to comply with any covenant or condition set forth above as a general covenant or with its rate covenant (see "Rate Covenant" in this APPENDIX B), its covenants relating to issuance of Parity Debt (see "Additional Parity Debt" in this APPENDIX B), its covenants governing disposition of Member assets (see "Disposition of Member Assets" in this APPENDIX B) or its covenants relating to admission and release of Members (see "Changes in Membership of the Revenue Financing System" in this APPENDIX B) if the holders of at least 51% of all Parity Debt outstanding shall waive such compliance.

Disposition of Member Assets

In the Master Resolution, the Board has reserved the rights to convey, sell or otherwise dispose of any properties of the Board attributable to a Member of the Revenue Financing System, provided that:

- (i) such disposition shall occur in the ordinary course of business of the Member of the Revenue Financing System responsible for such properties; or
- (ii) the Board determines that after the disposition, the Board shall have sufficient funds during each fiscal year to meet the financial obligations of the University System, including sufficient Pledged Revenues to satisfy the annual debt service requirements of the Revenue Financing System and to meet all other financial obligations of the Board relating to the Revenue Financing System.

Changes in Membership of the Revenue Financing System

The Master Resolution recognizes that the State may combine or divide Member institutions and provides that so long as the combined or divided institutions continue to be governed by the Board such action shall not violate the Master Resolution or require any amendment thereof. The Master Resolution also provides that a Member institution or portion thereof may be closed and abandoned by law or otherwise removed from the Revenue Financing System (thus deleting the revenues, income, funds and balances attributable to such Member or portion thereof from Pledged Revenues) without violating the Master Resolution upon satisfaction of the following requirements:

- (i) the Board specifically finds (based upon a certificate signed by a U.T. System Representative) that after the release of the Member or portion thereof, the Board will have sufficient funds during each fiscal year in which Parity Debt shall thereafter be outstanding to meet the financial

obligations of the University System, including sufficient Pledged Revenues to satisfy the annual debt service requirements of the Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System; and

(ii) the Board shall have received an opinion of legal counsel acceptable to the Board stating that such release will not affect the status for federal income tax purposes of interest on any outstanding Parity Debt and that all conditions precedent provided in the Master Resolution or any Supplement relating to such release have been complied with; and

(iii) (a) if the Member or portion thereof to be released is to remain under the governance and control of the Board, the Board must either (1) provide from lawfully available funds, including Pledged Revenues attributable to the withdrawing Member, for the payment or discharge of that Member's Direct Obligation; or (2) pledge to the payment of Parity Debt, additional resources not then pledged in an amount sufficient to satisfy the withdrawing Member's Direct Obligation; or

(b) if the Member or portion thereof to be released is no longer to be under the governance and control of the Board, the Board must receive a binding obligation of the new governing body of the withdrawing institution or portion thereof, obligating the new governing body to make payments to the Board at the times and in the amounts equal to the withdrawing Member's Annual Obligation or to pay or discharge that Member's Direct Obligation, or, in the case of a portion of a Member being withdrawn, the portion of the Member's Annual Obligation or Direct Obligation, as the case may be, attributable to the withdrawing portion of the Member.

Special Obligations: Absolute Obligation to Pay Parity Debt

The Master Resolution provides that all Parity Debt and the interest thereon shall constitute special obligations of the Board payable from the Pledged Revenues, and the owners thereof shall never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than specified in the Master Resolution or any Supplement. The obligation of the Board to pay or cause to be paid the amounts payable under the Master Resolution and each Supplement out of the Pledged Revenues shall be absolute, irrevocable, complete, and unconditional, and the amount, manner and time of payment of such amounts shall not be decreased, abated, rebated, setoff, reduced, abrogated, waived, diminished, or otherwise modified in any manner or to any extent whatsoever.

Remedies

Any owner of Parity Debt in the event of default in connection with any covenant contained in the Master Resolution or in any Supplement, or default in the payment of Parity Debt, or of any interest due thereon, or other costs and expenses related thereto, may require the Board, its officials and employees, and any appropriate official of the State, to carry out, respect, or enforce the covenants and obligations of the Master Resolution or any Supplement, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings in any court of competent jurisdiction against the Board, its officials and employees, or any appropriate official of the State.

Defeasance of Parity Debt

Any Parity Debt and the interest thereon shall be deemed to be paid, retired, and no longer outstanding (a "Defeased Debt") within the meaning of the Master Resolution, except that the Board must provide for the services of the Paying Agent or other paying agent, when the payment of all principal and interest payable with respect to such Parity Debt to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption or provision for the giving of same having been made) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the paying agent for such Parity Debt for such payment (I) lawful

money of the United States of America sufficient to make such payment, (2) noncallable Government Obligations (as defined below) which mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the Board with each such paying agent for the payment of its services until after all Defeased Debt shall have become due and payable. At such time as Parity Debt shall be deemed to be Defeased Debt, such Parity Debt and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the Pledged Revenues, and such principal and interest shall be payable solely from such money or Government Obligations, and shall not be regarded as outstanding for any purposes other than payment, transfer, and exchange. Any money deposited with or made available to a paying agent as described in this paragraph may, at the written direction of the Board, also be invested in Government Obligations maturing in the amounts and times as described above, and all income from such Government Obligations received by the paying agent for an issue of Parity Debt which is not required for the payment of the Parity Debt and interest thereon, with respect to which such money has been so deposited, is to be turned over to the Board, or deposited as directed in writing by the Board. As used in this paragraph, the term "Government Obligations" means direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, which may be in book-entry form.

Amendments of Master Resolution

Amendments Without Consent. The Master Resolution and the rights and obligations of the Board and of the owners of the outstanding Parity Debt may be modified or amended at any time without notice to or the consent of any owner of the outstanding Parity Debt, solely for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the Board contained in the Master Resolution, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Board in the Master Resolution;
- (ii) to cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in the Master Resolution, upon receipt by the Board of an approving opinion of bond counsel, that the same is needed for such purpose and will more clearly express the intent of the Master Resolution;
- (iii) to supplement the security for the outstanding Parity Debt, including, but not limited to, amending the definition of Pledged Revenues to add a portion or all of the Practice Plan Funds attributable to any Member (one or more) to Pledged Revenues; provided, however, any amendment to the definition of Pledged Revenues which results in the pledge of Practice Plan Funds may limit the amount of such pledge and the manner, extent and duration of such additional pledge all as set forth in such amendment; or
- (iv) to make such other changes in the provisions of the Master Resolution as the Board may deem necessary or desirable and which shall not, in the judgment of the Board, materially adversely affect the interests of the owners of outstanding Parity Debt; or
- (v) to make any changes or amendments requested by any bond rating agency then rating or requested to rate Parity Debt, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the Board, materially adversely affect the interests of the owners of the outstanding Parity Debt.

Amendments With Consent. Subject to the other provisions of the Master Resolution, the owners of outstanding Parity Debt aggregating 51% in Outstanding Principal Amount shall have the right from time to time to approve any other amendment to the Master Resolution which may be deemed necessary or desirable by the Board; provided, however, that nothing contained in the Master Resolution shall permit or be construed to permit, without the approval of the owners of all of the outstanding Parity Debt, the amendment of the terms and conditions in the Master Resolution so as to:

- (i) grant to the owners of any outstanding Parity Debt a priority over the owners of any other outstanding Parity Debt; or
- (ii) materially adversely affect the rights of the owners of less than all Parity Debt then outstanding; or
- (iii) change the minimum percentage of owners of the Outstanding Principal Amount of Parity Debt necessary for consent to such amendment.

For purposes of determining whether the requisite owners of outstanding Parity Debt have approved a proposed amendment, "Outstanding Principal Amount" means, with respect to all Parity Debt or to a series of Parity Debt, the outstanding and unpaid principal amount of such Parity Debt paying interest on a current basis and the outstanding and unpaid principal and compounded interest on such Parity Debt paying accrued, accreted or compounded interest only at maturity as of any record date established by the Registrar in connection with a proposed amendment or supplement to the Master Resolution.

Notice. If at any time the Board should desire to amend the Master Resolution with the consent of the owners of Parity Debt, the Board is required to cause notice of the proposed amendment to be published in a financial newspaper or journal of general circulation in The City of New York, New York, once during each calendar week for at least two successive calendar weeks. Such notice is required to briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of each registrar for the Parity Debt for inspection by all owners of Parity Debt. Such publication is not required, however, if the Board gives or causes to be given such notice in writing, by certified mail, to each owner of Parity Debt.

Amendments of Supplements. Each Supplement may contain provisions governing the ability of the Board to amend such Supplement; provided, however, that no amendment may be made to any Supplement for the purpose of granting to the owners of outstanding Parity Debt under such Supplement a priority over the owners of any other outstanding Parity Debt.

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PAYING AGENT/REGISTRAR AGREEMENT

THIS AGREEMENT entered into as of _____ (this "Agreement"), by and between Board of Regents of The University of Texas System (the "Issuer"), and Norwest Bank Texas, N.A., Dallas, Texas, a national banking association (the "Bank").

RECITALS

WHEREAS, the Issuer has duly authorized and provided for the issuance of its Board of Regents of The University of Texas System Revenue Financing System, Series _____ (the "Securities") in the aggregate principal amount of \$_____, such Securities to be issued in fully registered form only as to the payment of principal and interest thereon; and

WHEREAS, the Securities are scheduled to be delivered to the initial purchasers thereof on or about _____; and

WHEREAS, the Issuer has selected the Bank to serve as Paying Agent/Registrar in connection with the payment of the principal of, premium, if any, and interest on said Securities and with respect to the registration, transfer and exchange thereof by the registered owners thereof; and

WHEREAS, the Bank has agreed to serve in such capacities for and on behalf of the Issuer and has full power and authority to perform and serve as Paying Agent/Registrar for the Securities;

NOW, THEREFORE, it is mutually agreed as follows:

ARTICLE ONE

APPOINTMENT OF BANK AS PAYING AGENT AND REGISTRAR

Section 1.01. Appointment.

The Issuer hereby appoints the Bank to serve as Paying Agent with respect to the Securities. As Paying Agent for the Securities, the Bank shall be responsible for paying on behalf of the Issuer the principal, premium (if any), and interest on the Securities as the same become due and payable to the registered owners thereof, all in accordance with this Agreement and the "Order" (hereinafter defined).

The Issuer hereby appoints the Bank as Registrar with respect to the Securities. As Registrar for the Securities, the Bank shall keep and maintain for and on behalf of the Issuer books and records as to the ownership of said Securities and with respect to the transfer and exchange thereof as provided herein and in the "Order."

The Bank hereby accepts its appointment, and agrees to serve as the Paying Agent and Registrar for the Securities.

Section 1.02. Compensation.

As compensation for the Bank's services as Paying Agent/Registrar under this Agreement and in full payment of such service, the Issuer hereby agrees to pay the Bank the amount of \$2,145.00

In addition, the Issuer agrees to reimburse the Bank upon its request for all reasonable expenses, disbursements and advances incurred or made by the Bank in accordance with any of the provisions hereof (including the reasonable compensation and the expenses and disbursements of its agents and counsel).

**ARTICLE TWO
DEFINITIONS**

Section 2.01. Definitions.

For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

"Bank Office" means the principal corporate trust office of the Bank as indicated on the signature page hereof. The Bank will notify the Issuer in writing of any change in location of the Bank Office.

"Fiscal Year" means the fiscal year of the Issuer, ending August 31.

"Holder" and "Security Holder" each means the Person in whose name a Security is registered in the Security Register.

"Issuer Request" and "Issuer Order" means a written request or order signed in the name of the Issuer by the Board Representative, as defined in the Order, any one or more of said officials, delivered to the Bank.

"Legal Holiday" means a day on which the Bank is required or authorized to be closed.

"Order" means the order, resolution or ordinance of the governing body of the Issuer pursuant to which the Securities are issued, certified by the Secretary of the Board or any other officer of the Issuer and delivered to the Bank.

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision of a government.

"Predecessor Securities" of any particular Security means every previous Security evidencing all or a portion of the same obligation as that evidenced by such particular Security (and, for the purposes of this definition, any mutilated, lost, destroyed, or stolen Security for which a replacement

Security has been registered and delivered in lieu thereof pursuant to Section 4.06 hereof and the Order).

"Redemption Date" when used with respect to any Bond to be redeemed means the date fixed for such redemption pursuant to the terms of the Order.

"Responsible Officer" when used with respect to the Bank means the Chairman or Vice-Chairman of the Board of Directors, the Chairman or Vice-chairman of the Executive Committee of the Board of Directors, the President, any Vice President, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Cashier, any Assistant Cashier, any Trust Officer or Assistant Trust Officer, or any other officer of the Bank customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Security Register" means a register maintained by the Bank on behalf of the Issuer providing for the registration and transfer of the Securities.

"Stated Maturity" means the date specified in the Order the principal of a Security is scheduled to be due and payable.

Section 2.02. Other Definitions.

The terms "Bank," "Issuer," and "Securities (Security)" have the meanings assigned to them in the recital paragraphs of this Agreement.

The term "Paying Agent/Registrar" refers to the Bank in the performance of the duties and functions of this Agreement.

ARTICLE THREE PAYING AGENT

Section 3.01. Duties of Paying Agent.

As Paying Agent, the Bank shall, provided adequate collected funds have been provided to it for such purpose by or on behalf of the Issuer, pay on behalf of the Issuer the principal of each Security at its Stated Maturity, Redemption Date, or Acceleration Date, to the Holder upon surrender of the Security to the Bank at the Bank Office.

As Paying Agent, the Bank shall, provided adequate collected funds have been provided to it for such purpose by or on behalf of the Issuer, pay on behalf of the Issuer the interest on each Security when due, by computing the amount of interest to be paid each Holder and preparing and sending checks by United States Mail, first class postage prepaid, on each payment date, to the Holders of the Securities (or their Predecessor Securities) on the respective Record Date, to the address appearing on the Security Register or by such other method, acceptable to the Bank, requested in writing by the Holder at the Holder's risk and expense.

Section 3.02. Payment Dates.

The Issuer hereby instructs the Bank to pay the principal of and interest on the Securities on the dates specified in the Order.

**ARTICLE FOUR
REGISTRAR**

Section 4.01. Security Register - Transfers and Exchanges.

The Bank agrees to keep and maintain for and on behalf of the Issuer at the Bank Office books and records (herein sometimes referred to as the "Security Register"), and, if the Bank Office is located outside the State of Texas, a copy of such books and records shall be kept in the State of Texas, for recording the names and addresses of the Holders of the Securities, the transfer, exchange and replacement of the Securities and the payment of the principal of and interest on the Securities to the Holders and containing such other information as may be reasonably required by the Issuer and subject to such reasonable regulations as the Issuer and the Bank may prescribe. All transfers, exchanges and replacement of Securities shall be noted in the Security Register.

Every Security surrendered for transfer or exchange shall be duly endorsed or be accompanied by a written instrument of transfer, the signature on which has been guaranteed by an officer of a federal or state bank or a member of the National Association of Securities Dealers, in form satisfactory to the Bank, duly executed by the Holder thereof or his agent duly authorized in writing.

The Bank may request any supporting documentation it feels necessary to effect a re-registration, transfer or exchange of the Securities.

To the extent possible and under reasonable circumstances, the Bank agrees that, in relation to an exchange or transfer of Securities, the exchange or transfer by the Holders thereof will be completed and new Securities delivered to the Holder or the assignee of the Holder in not more than three (3) business days after the receipt of the Securities to be cancelled in an exchange or transfer and the written instrument of transfer or request for exchange duly executed by the Holder, or his duly authorized agent, in form and manner satisfactory to the Paying Agent/Registrar.

Section 4.02. Certificates.

The Issuer shall provide an adequate inventory of printed Securities to facilitate transfers or exchanges thereof. The Bank covenants that the inventory of printed Securities will be kept in safekeeping pending their use, and reasonable care will be exercised by the Bank in maintaining such Securities in safekeeping, which shall be not less than the care maintained by the Bank for debt securities of other political subdivisions or corporations for which it serves as registrar, or that is maintained for its own securities.

Section 4.03. Form of Security Register.

The Bank, as Registrar, will maintain the Security Register relating to the registration, payment, transfer and exchange of the Securities in accordance with the Bank's general practices and procedures in effect from time to time. The Bank shall not be obligated to maintain such Security Register in any form other than those which the Bank has currently available and currently utilizes at the time.

The Security Register may be maintained in written form or in any other form capable of being converted into written form within a reasonable time.

Section 4.04. List of Security Holders.

The Bank will provide the Issuer at any time requested by the Issuer, upon payment of the required fee, a copy of the information contained in the Security Register. The Issuer may also inspect the information contained in the Security Register at any time the Bank is customarily open for business, provided that reasonable time is allowed the Bank to provide an up-to-date listing or to convert the information into written form.

The Bank will not release or disclose the contents of the Security Register to any person other than to, or at the written request of, an authorized officer or employee of the Issuer, except upon receipt of a court order or as otherwise required by law. Upon receipt of a court order and prior to the release or disclosure of the contents of the Security Register, the Bank will notify the Issuer so that the Issuer may contest the court order or such release or disclosure of the contents of the Security Register.

Section 4.05. Return of Cancelled Certificates.

The Bank will, at such reasonable intervals as it determines, surrender to the Issuer, Securities in lieu of which or in exchange for which other Securities have been issued, or which have been paid.

Section 4.06. Mutilated, Destroyed, Lost or Stolen Securities.

The Issuer hereby instructs the Bank, subject to the applicable provisions of the Order, to deliver and issue Securities in exchange for or in lieu of mutilated, destroyed, lost, or stolen Securities as long as the same does not result in an overissuance.

In case any Security shall be mutilated, or destroyed, lost or stolen, the Bank, in its discretion, may execute and deliver a replacement Security of like form and tenor, and in the same denomination and bearing a number not contemporaneously outstanding, in exchange and substitution for such mutilated Security, or in lieu of and in substitution for such destroyed lost or stolen Security, only after (i) the filing by the Holder thereof with the Bank of evidence satisfactory to the Bank of the destruction, loss or theft of such Security, and of the authenticity of the ownership thereof and (ii) the furnishing to the Bank of indemnification in an amount satisfactory to hold the Issuer and the Bank harmless. All expenses and charges associated with such indemnity and with the preparation,

execution and delivery of a replacement Security shall be borne by the Holder of the Security mutilated, or destroyed, lost or stolen.

Section 4.07. Transaction Information to Issuer.

The Bank will, within a reasonable time after receipt of written request from the Issuer, furnish the Issuer information as to the Securities it has paid pursuant to Section 3.01, Securities it has delivered upon the transfer or exchange of any Securities pursuant to Section 4.01, and Securities it has delivered in exchange for or in lieu of mutilated, destroyed, lost, or stolen Securities pursuant to Section 4.06.

**ARTICLE FIVE
THE BANK**

Section 5.01. Duties of Bank.

The Bank undertakes to perform the duties set forth herein and agrees to use reasonable care in the performance thereof.

Section 5.02. Reliance on Documents, Etc.

(a) The Bank may conclusively rely, as to the truth of the statements and correctness of the opinions expressed therein, on certificates or opinions furnished to the Bank.

(b) The Bank shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Bank was negligent in ascertaining the pertinent facts.

(c) No provisions of this Agreement shall require the Bank to expend or risk its own funds or otherwise incur any financial liability for performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity satisfactory to it against such risks or liability is not assured to it.

(d) The Bank may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note, security, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. Without limiting the generality of the foregoing statement, the Bank need not examine the ownership of any Securities, but is protected in acting upon receipt of Securities containing an endorsement or instruction of transfer or power of transfer which appears on its face to be signed by the Holder or an agent of the Holder. The Bank shall not be bound to make any investigation into the facts or matters stated in a resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note, security, or other paper or document supplied by Issuer.

(e) The Bank may consult with counsel, and the written advice of such counsel or any opinion of counsel shall be full and complete authorization and protection with respect to any action taken, suffered, or omitted by it hereunder in good faith and in reliance thereon.

(f) The Bank may exercise any of the powers hereunder and perform any duties hereunder either directly or by or through agents or attorneys of the Bank.

Section 5.03. Recitals of Issuer.

The recitals contained herein with respect to the Issuer and in the Securities shall be taken as the statements of the Issuer, and the Bank assumes no responsibility for their correctness.

The Bank shall in no event be liable to the Issuer, any Holder or Holders of any Security, or any other Person for any amount due on any Security from its own funds.

Section 5.04. May Hold Securities.

The Bank, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with the Issuer with the same rights it would have if it were not the Paying Agent/Registrar, or any other agent.

Section 5.05. Moneys Held by Bank.

The Bank shall deposit any moneys received from the Issuer into a segregated account to be held by the Bank solely for the benefit of the owners of the Securities to be used solely for the payment of the Securities, with such moneys in the account that exceed the deposit insurance available to the Issuer by the Federal Deposit Insurance Corporation, to be fully collateralized with securities or obligations that are eligible under the laws of the State of Texas to secure and be pledged as collateral for such accounts until the principal and interest on such securities have been presented for payment and paid to the owner thereof. Payments made from such account shall be made by check drawn on such account unless the owner of such Securities shall, at its own expense and risk, request such other medium of payment.

Subject to the Unclaimed Property Law of the State of Texas, any money deposited with the Bank for the payment of the principal, premium (if any), or interest on any Security and remaining unclaimed for three years after the final maturity of the Security has become due and payable will be paid by the Bank to the Issuer if the Issuer so elects, and the Holder of such Security shall hereafter look only to the Issuer for payment thereof, and all liability of the Bank with respect to such monies shall thereupon cease. If the Issuer does not elect, the Bank is directed to report and dispose of the funds in compliance with Title Six of the Texas Property Code, as amended.

Section 5.06. Indemnification.

To the extent permitted by law, the Issuer agrees to indemnify the Bank for, and hold it harmless against, any loss, liability, or expense incurred without negligence or bad faith on its part, arising out of or in connection with its acceptance or administration of its duties hereunder, including

the cost and expense against any claim or liability in connection with the exercise or performance of any of its powers or duties under this Agreement.

Section 5.07. Interpleader.

The Issuer and the Bank agree that the Bank may seek adjudication of any adverse claim, demand, or controversy over its person as well as funds on deposit, in either a Federal or State District Court located in the State and County where either the Bank Office or the administrative offices of the Issuer is located, and agree that service of process by certified or registered mail, return receipt requested, to the address referred to on the signature page of this Agreement shall constitute adequate service. The Issuer and the Bank further agree that the Bank has the right to file a Bill of Interpleader in any court of competent jurisdiction to determine the rights of any Person claiming any interest herein.

Section 5.08. Depository Trust Company Services.

It is hereby represented and warranted that, in the event the Securities are otherwise qualified and accepted for "Depository Trust Company" services or equivalent depository trust services by other organizations, the Bank has the capability and, to the extent within its control, will comply with the "Operational Arrangements," effective August 1, 1987, which establishes requirements for securities to be eligible for such type depository trust services, including, but not limited to, requirements for the timeliness of payments and funds availability, transfer turnaround time, and notification of redemptions and calls.

Attached hereto is a copy of the Letter of Representation between the Issuer and The Depository Trust Company, New York, New York, providing for the Bonds to be issued in a Book-Entry Only System. The Bank and the Issuer hereby confirm their obligations under such Letter of Representation.

**ARTICLE SIX
MISCELLANEOUS PROVISIONS**

Section 6.01. Amendment.

This Agreement may be amended only by an agreement in writing signed by both of the parties hereto.

Section 6.02. Assignment.

This Agreement may not be assigned by either party without the prior written consent of the other.

Section 6.03. Notices.

Any request, demand, authorization, direction, notice, consent, waiver, or other document provided or permitted hereby to be given or furnished to the Issuer or the Bank shall be mailed or

delivered to the Issuer or the Bank, respectively, at the addresses shown on the signature page of this Agreement.

Section 6.04. Effect of Headings.

The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 6.05. Successors and Assigns.

All covenants and agreements herein by the Issuer shall bind its successors and assigns, whether so expressed or not.

Section 6.06. Severability.

In case any provision herein shall be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 6.07. Benefits of Agreement.

Nothing herein, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, any benefit or any legal or equitable right, remedy, or claim hereunder.

Section 6.08. Entire Agreement.

This Agreement and the Order constitute the entire agreement between the parties hereto relative to the Bank acting as Paying Agent/Registrar and if any conflict exists between his Agreement and the Order, the Order shall govern.

Section 6.09. Counterparts.

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which shall constitute one and the same Agreement.

Section 6.10. Termination.

This Agreement will terminate (i) on the date of final payment of the principal of and interest on the Securities to the Holders thereof or (ii) may be earlier terminated by either party upon sixty (60) days written notice; provided, however, an early termination of this Agreement by either party shall not be effective until (a) a successor Paying Agent/Registrar has been appointed by the Issuer and such appointment accepted and (b) notice has been given to the Holders of the Securities of the appointment of a successor Paying Agent/Registrar. Furthermore, the Bank and Issuer mutually agree that the effective date of an early termination of this Agreement shall not occur at any time which would disrupt, delay or otherwise adversely affect the payment of the Securities.

Upon an early termination of this Agreement, the Bank agrees to promptly transfer and deliver the Security Register (or a copy thereof), together with other pertinent books and records relating to the Securities, to the successor Paying Agent/Registrar designated and appointed by the Issuer.

The provisions of Section 1.02 and of Article Five shall survive and remain in full force and effect following the termination of this Agreement.

Section 6.11. Governing Law.

This Agreement shall be construed in accordance with and governed by the laws of the State of Texas.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

NORWEST BANK TEXAS, N.A.
Dallas, Texas

By: _____
Title: _____

ATTEST:

By: _____
Title: _____

(BANK SEAL)

BOARD OF REGENTS OF
THE UNIVERSITY OF TEXAS SYSTEM

By: _____
Title: _____

ATTEST:

By: _____
Title: _____

(SEAL)

SCHEDULE A

**Paying Agent/Registrar Fee Schedule
[To be supplied by the Bank]**

ESCROW AGREEMENT

THIS ESCROW AGREEMENT, dated as of _____ (herein, together with any amendments or supplements hereto, called the "Agreement") is entered into by and between The Board of Regents of The University of Texas System (herein called the "Issuer") and _____, as escrow agent (herein, together with any successor in such capacity, called the "Escrow Agent"). The addresses of the Issuer and the Escrow Agent are shown on Exhibit "A" attached hereto and made a part hereof.

WITNESSETH:

WHEREAS, the Issuer heretofore has issued and there presently remain outstanding the obligations described in Exhibit "B" attached hereto (the "Refunded Obligations"); and

WHEREAS, the Refunded Obligations are scheduled to come due in such years, bear interest at such rates, and be payable at such times and in such amounts as are set forth in Exhibit "C" attached hereto and made a part hereof; and

WHEREAS, when firm banking arrangements have been made for the payment of all principal and interest of the Refunded Obligations when due, then the Refunded Obligations shall no longer be regarded as outstanding except for the purpose of receiving payment from the funds provided for such purpose; and

WHEREAS, Vernon's Ann. Tex. Civ. St. Article 717k, as amended, authorizes the Issuer to issue refunding bonds and to deposit the proceeds from the sale thereof, and any other available funds or resources, directly with any place of payment (paying agent) for any of the Refunded Obligations, and such deposit, if made before such payment dates and in sufficient amounts, shall constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Obligations; and

WHEREAS, Article 717k further authorizes the Issuer to enter into an escrow agreement with any such paying agent for any of the Refunded Obligations with respect to the safekeeping, investment, administration and disposition of any such deposit, upon such terms and conditions as the Issuer and such paying agent may agree, provided that such deposits may be invested only in direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, and which may be in book entry form, and which shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment of principal and interest on the Refunded Obligations when due; and

WHEREAS, the Escrow Agent is a paying agent (the "Paying Agent") for the Refunded Obligations and this Agreement constitutes an escrow agreement of the kind authorized and required by said Article 717k; and

WHEREAS, Article 717k makes it the duty of the Escrow Agent to comply with the terms of this Agreement and as the paying agent to pay the principal of, premium, if any, and interest on the Refunded Obligations when due, and in accordance with their terms, but solely from the funds, in the manner, and to the extent provided in this Agreement; and

WHEREAS, the issuance, sale, and delivery of The Board of Regents of The University of Texas System Revenue Financing System Bonds, Series _____ (the "Refunding Obligations") have been duly authorized to be issued, sold, and delivered for the purpose, among others, of obtaining the funds required to provide for the payment of the principal of, premium, if any, and interest on the Refunded Obligations when due; and

WHEREAS, the Issuer desires that, concurrently with the delivery of the Refunding Obligations to the purchasers thereof, certain proceeds of the Refunding Obligations, together with certain other available funds of the Issuer, shall be applied to purchase certain direct obligations of the United States of America hereinafter defined as the "Escrowed Securities" for deposit to the credit of the Escrow Fund created pursuant to the terms of this Agreement and to establish a beginning cash balance (if needed) in such Escrow Fund; and

WHEREAS, the Escrowed Securities shall mature and the interest thereon shall be payable at such times and in such amounts so as to provide moneys which, together with cash balances from time to time on deposit in the Escrow Fund, will be sufficient to pay interest on the Refunded Obligations as it accrues and becomes payable and the principal of the Refunded Obligations as it becomes due and payable; and

WHEREAS, to facilitate the receipt and transfer of proceeds of the Escrowed Securities, particularly those in book entry form, the Issuer desires to establish the Escrow Fund at the principal corporate trust office of the Escrow Agent in Austin, Texas; and

WHEREAS, the Escrow Agent is a party to this Agreement to acknowledge its acceptance of the terms and provisions hereof;

NOW, THEREFORE, in consideration of the mutual undertakings, promises and agreements herein contained, the sufficiency of which hereby are acknowledged, and to secure the full and timely payment of principal of and the interest on the Refunded Obligations, the Issuer and the Escrow Agent mutually undertake, promise, and agree for themselves and their respective representatives and successors, as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATIONS

Section 1.01. Definitions. Unless the context clearly indicates otherwise, the following terms shall have the meanings assigned to them below when they are used in this Agreement:

"Escrow Fund" means the fund created by this Agreement to be administered by the Escrow Agent pursuant to the provisions of this Agreement.

"Escrowed Securities" means the noncallable and nonprepayable United States Treasury obligations and obligations the due and timely payment of which is unconditionally guaranteed by the United States of America described in Exhibit "D" attached to this Agreement, or cash or other direct obligations of the United States of America or obligations the due and timely payment of which is unconditionally guaranteed by the United States of America substituted therefor pursuant to Article IV of this Agreement.

Section 1.02. Other Definitions. The terms "Agreement", "Issuer", "Escrow Agent", "Refunded Obligations", "Refunding Obligations" and "Paying Agent", when they are used in this Agreement, shall have the meanings assigned to them in the preamble to this Agreement.

Section 1.03. Interpretations. The titles and headings of the articles and sections of this Agreement have been inserted for convenience and reference only and are not to be considered a part hereof and shall not in any way modify or restrict the terms hereof. This Agreement and all of the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to achieve the intended purpose of providing for the refunding of the Refunded Obligations in accordance with applicable law.

ARTICLE II

DEPOSIT OF FUNDS AND ESCROWED SECURITIES

Section 2.01. Deposits in the Escrow Fund. Concurrently with the sale and delivery of the Refunding Obligations the Issuer shall deposit, or cause to be deposited, with the Escrow Agent, for deposit in the Escrow Fund, the funds and Escrowed Securities described herein, and the Escrow Agent shall, upon the receipt thereof, acknowledge such receipt to the Issuer in writing.

Agent; and it shall hold and dispose of the assets of the Escrow Fund only as set forth herein. The Escrowed Securities and other assets of the Escrow Fund shall always be maintained by the Escrow Agent as trust funds for the benefit of the owners of the Refunded Obligations; and a special account thereof shall at all times be maintained on the books of the Escrow Agent. The owners of the Refunded Obligations shall be entitled to the same preferred claim and first lien upon the Escrowed Securities, the proceeds thereof, and all other assets of the Escrow Fund to which they are entitled as owners of the Refunded Obligations. The amounts received by the Escrow Agent under this Agreement shall not be considered as a banking deposit by the Issuer, and the Escrow Agent shall have no right to title with respect thereto except as a constructive trustee and Escrow Agent under the terms of this Agreement. The amounts received by the Escrow Agent under this Agreement shall not be subject to warrants, drafts or checks drawn by the Issuer or, except to the extent expressly herein provided, by the Paying Agent.

Section 3.05. Security for Cash Balances. Cash balances from time to time on deposit in the Escrow Fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a pledge of direct obligations of, or obligations unconditionally guaranteed by, the United States of America, having a market value at least equal to such cash balances.

ARTICLE IV

LIMITATION ON INVESTMENTS

Section 4.01. Investments. Except as provided in Sections 4.02, 4.03 and 4.04 hereof, the Escrow Agent shall not have any power or duty to invest or reinvest any money held hereunder, or to make substitutions of the Escrowed Securities, or to sell, transfer or otherwise dispose of the Escrowed Securities.

Section 4.02. Reinvestment of Certain Cash Balances in Escrow by Escrow Agent. In addition to the Escrowed Securities listed in Exhibit "D" hereto, the Escrow Agent shall reinvest cash balances shown in Exhibit "F" attached hereto in zero (0) interest rate United States Treasury Obligations - State and Local Government Series to the extent such Obligations are available from the Department of the Treasury. All such reinvestments shall be made only from the portion of cash balances derived from the maturing principal of and interest on Escrowed Securities that are United States Treasury Certificates of Indebtedness, Notes or Bonds - State and Local Government Series. All such reinvestments shall be acquired on and shall mature on the dates shown on Exhibit "F" attached hereto.

Section 4.03. Substitutions and Reinvestments. At the discretion of the Issuer, the Escrow Agent shall reinvest cash balances representing receipts from the Escrowed Securities, make substitutions of the Escrowed Securities or redeem the Escrowed Securities and reinvest the proceeds thereof or hold such proceeds as cash, together with other moneys or securities held in the Escrow Fund provided that the Issuer delivers to the Escrow Agent the following:

(1) an opinion by an independent certified public accountant that after such substitution or reinvestment the principal amount of the securities in the Escrow Fund (which shall be noncallable, nonprepayable direct obligations of the United States of America or obligations which are unconditionally guaranteed as to full and timely payment by the United States of America), together with the interest thereon and other available moneys, will be sufficient to pay, without further investment or reinvestment, as the same become due in accordance with Exhibit "C", the principal of, interest on and premium, if any, on the Refunded Obligations which have not previously been paid, and

(2) an unqualified opinion of nationally recognized municipal bond counsel to the effect that (a) such substitution or reinvestment will not cause the Refunded Obligations to be "arbitrage bonds" within the meaning of Section 103 of the Code or the regulations thereunder in effect on the date of such substitution or reinvestment, or otherwise make the interest on the Refunded Obligations subject to federal income taxation, and (b) such substitution or reinvestment complies with the Constitution and laws of the State of Texas and with all relevant documents relating to the issuance of the Refunded Obligations.

The Escrow Agent shall have no responsibility or liability for loss or otherwise with respect to investments made at the direction of the Issuer.

Notwithstanding anything to the contrary contained herein, the Issuer and the Escrow Agent shall not enter into a forward purchase agreement in connection with the Escrowed Securities unless Moody's Investors Service has confirmed in writing the rating on the Refunded Obligations.

Section 4.04. Substitution for Escrowed Securities. Concurrently with the initial deposit by the Issuer with the Escrow Agent, but not thereafter, the Issuer, at its option, may substitute cash or non-interest bearing noncallable, nonprepayable direct obligations of the United States of America including obligations which are unconditionally guaranteed as to full and timely payment by the United States of America (i.e., Treasury obligations which mature and are payable in a stated amount on the maturity date thereof, and for which there are no payments other than the payment made on the maturity date) (the "Substitute Obligations") for non-interest bearing Escrowed Securities, if any, but only if such Substitute Obligations

- (a) are in an amount, and/or mature in an amount, which is equal to or greater than the amount payable on the maturity date of the obligation listed in Exhibit "D" for which such Substitute Obligation is substituted,
- (b) mature on or before the maturity date of the obligation listed in Exhibit "D" for which such Substitute Obligation is substituted, and
- (c) produce the amount necessary to pay the interest on and principal of the Refunded Obligations, as set forth in Exhibit "E" hereto, as verified by a certified public accountant or a firm of certified public accountants.

If, concurrently with the initial deposit by the Issuer with the Escrow Agent, any such Substitute Obligations are so substituted for any Escrowed Securities, the Issuer may, at any time thereafter,

substitute for such Substitute Obligations the same Escrowed Securities for which such Substitute Obligations originally were substituted.

Section 4.05. Arbitrage. The Issuer hereby covenants and agrees that it shall never request the Escrow Agent to exercise any power hereunder or permit any part of the money in the Escrow Fund or proceeds from the sale of Escrowed Securities to be used directly or indirectly to acquire any securities or obligations if the exercise of such power or the acquisition of such securities or obligations would cause any Refunding Obligations or Refunded Obligations to be an "arbitrage bond" within the meaning of Section 148 of the Code or Section 103(c) of the Internal Revenue Code of 1954.

ARTICLE V

APPLICATION OF CASH BALANCES

Section 5.01. In General. Except as provided in Sections 3.02, 4.02, 4.03 and 4.04 hereof, no withdrawals, transfers, or reinvestment shall be made of cash balances in the Escrow Fund.

ARTICLE VI

RECORDS AND REPORTS

Section 6.01. Records. The Escrow Agent will keep books of record and account in which complete and correct entries shall be made of all transactions relating to the receipts, disbursements, allocations and application of the money and Escrowed Securities deposited to the Escrow Fund and all proceeds thereof, and such books shall be available for inspection at reasonable hours and under reasonable conditions by the Issuer and the owners of the Refunded Obligations.

Section 6.02. Reports. While this Agreement remains in effect, the Escrow Agent annually shall prepare and send to the Issuer a written report summarizing all transactions relating to the Escrow Fund during the preceding year, including, without limitation, credits to the Escrow Fund as a result of interest payments on or maturities of the Escrowed Securities and transfers from the Escrow Fund for payments on the Refunded Obligations or otherwise, together with a detailed statement of all Escrowed Securities and the cash balance on deposit in the Escrow Fund as of the end of such period.

ARTICLE VII

CONCERNING THE PAYING AGENTS AND ESCROW AGENT

Section 7.01. Representations. The Escrow Agent hereby represents that it has all necessary power and authority to enter into this Agreement and undertake the obligations and responsibilities imposed upon it herein, and that it will carry out all of its obligations hereunder.

Section 7.02. Limitation on Liability and Indemnification. The liability of the Escrow Agent to transfer funds for the payment of the principal of and interest on the Refunded Obligations shall be limited to the proceeds of the Escrowed Securities and the cash balances from time to time on deposit in the Escrow Fund. Notwithstanding any provision contained herein to the contrary, neither the Escrow Agent nor the Paying Agent shall have any liability whatsoever for the insufficiency of funds from time to time in the Escrow Fund or any failure of the obligors of the Escrowed Securities to make timely payment thereon, except for the obligation to notify the Issuer promptly of any such occurrence.

The recitals herein and in the proceedings authorizing the Refunding Obligations shall be taken as the statements of the Issuer and shall not be considered as made by, or imposing any obligation or liability upon, the Escrow Agent. The Escrow Agent is not a party to the proceedings authorizing the Refunding Obligations or the Refunded Obligations and is not responsible for nor bound by any of the provisions thereof (except as a place of payment and paying agent and/or a Paying Agent/Registrar therefor). In its capacity as Escrow Agent, it is agreed that the Escrow Agent need look only to the terms and provisions of this Agreement.

The Escrow Agent makes no representations as to the value, conditions or sufficiency of the Escrow Fund, or any part thereof, or as to the title of the Issuer thereto, or as to the security afforded thereby or hereby, and the Escrow Agent shall not incur any liability or responsibility in respect to any of such matters.

It is the intention of the parties hereto that the Escrow Agent shall never be required to use or advance its own funds or otherwise incur personal financial liability in the performance of any of its duties or the exercise of any of its rights and powers hereunder.

The Escrow Agent shall not be liable for any action taken or neglected to be taken by it in good faith in any exercise of reasonable care and believed by it to be within the discretion or power conferred upon it by this Agreement, nor shall the Escrow Agent be responsible for the consequences of any error of judgment; and the Escrow Agent shall not be answerable except for its own action, neglect or default, nor for any loss unless the same shall have been through its negligence or want of good faith. In addition, to the extent permitted by law, the Issuer agrees to indemnify the Escrow Agent and its employees, directors, officers and agents and hold each harmless against any and all losses, liabilities, litigation costs and expenses (including reasonable counsel fees and expenses), that

may arise out of any action or inaction of the Escrow Agent under this Agreement other than any action or inaction resulting from the Escrow Agent's negligence or want of good faith.

Unless it is specifically otherwise provided herein, the Escrow Agent has no duty to determine or inquire into the happening or occurrence of any event or contingency or the performance or failure of performance of the Issuer with respect to arrangements or contracts with others, with the Escrow Agent's sole duty hereunder being to safeguard the Escrow Fund, to dispose of and deliver the same in accordance with this Agreement. If, however, the Escrow Agent is called upon by the terms of this Agreement to determine the occurrence of any event or contingency, the Escrow Agent shall be obligated, in making such determination, only to exercise reasonable care and diligence, and in event of error in making such determination the Escrow Agent shall be liable only for its own misconduct or its negligence. In determining the occurrence of any such event or contingency the Escrow Agent may request from the Issuer or any other person such reasonable additional evidence as the Escrow Agent in its discretion may deem necessary to determine any fact relating to the occurrence of such event or contingency, and in this connection may make inquiries of, and consult with, among others, the Issuer at any time.

Section 7.03. Compensation. (a) Concurrently with the sale and delivery of the Refunding Obligations, the Issuer shall pay to the Escrow Agent, as a fee for performing the services hereunder and for all expenses incurred or to be incurred by the Escrow Agent in the administration of this Agreement and as Paying Agent for the Refunded Bonds, the sum of \$1,500, the sufficiency of which is hereby acknowledged by the Escrow Agent for services hereunder and for all future paying agency services for the Refunded Obligations; and the Escrow Agent, on behalf of itself as the Paying Agent for the Refunded Bonds (as described in Exhibit B) and on behalf of Bankers Trust Company the Paying Agent for the Refunded Notes (as described in Exhibit B), warrants that such sum is sufficient for such purpose. In the event that the Escrow Agent is requested to perform any extraordinary services hereunder, the Issuer hereby agrees to pay reasonable fees to the Escrow Agent for such extraordinary services and to reimburse the Escrow Agent for all expenses incurred by the Escrow Agent in performing such extraordinary services, and the Escrow Agent hereby agrees to look only to the Issuer for the payment of such fees and reimbursement of such expenses. The Escrow Agent hereby agrees that in no event shall it ever assert any claim or lien against the Escrow Fund for any fees for its services, whether regular or extraordinary, as Escrow Agent, or in any other capacity, or for reimbursement for any of its expenses.

(b) Upon receipt of the aforesaid specific sum stated in subsections (a) of this Section 7.03 for Escrow Agent and paying agency fees, expenses, and services, the Escrow Agent shall acknowledge such receipt to the Issuer in writing.

Section 7.04. Successor Escrow Agents. If at any time the Escrow Agent or its legal successor or successors should become unable, through operation or law or otherwise, to act as escrow agent hereunder, or if its property and affairs shall be taken under the control of any state or federal court or administrative body because of insolvency or bankruptcy or for any other reason, a vacancy shall forthwith exist in the office of Escrow Agent hereunder. In such event the Issuer, by

appropriate action, promptly shall appoint an Escrow Agent to fill such vacancy. If no successor Escrow Agent shall have been appointed by the Issuer within 60 days, a successor may be appointed by the owners of a majority in principal amount of the Refunded Obligations then outstanding by an instrument or instruments in writing filed with the Issuer, signed by such owners or by their duly authorized attorneys-in-fact. If, in a proper case, no appointment of a successor Escrow Agent shall be made pursuant to the foregoing provisions of this section within three months after a vacancy shall have occurred, the owner of any Refunded Obligation may apply to any court of competent jurisdiction to appoint a successor Escrow Agent. Such court may thereupon, after such notice, if any, as it may deem proper, prescribe and appoint a successor Escrow Agent.

Any successor Escrow Agent shall be a corporation organized and doing business under the laws of the United States or the State of Texas, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$25,000,000, subject to the supervision or examination by Federal or State authority and qualified to act as Escrow Agent under Tex. Rev. Civ. Stat. Ann. Art. 717k.

Any successor Escrow Agent shall execute, acknowledge and deliver to the Issuer and the Escrow Agent an instrument accepting such appointment hereunder, and the Escrow Agent shall execute and deliver an instrument transferring to such successor Escrow Agent, subject to the terms of this Agreement, all the rights, powers and trusts of the Escrow Agent hereunder. Upon the request of any such successor Escrow Agent, the Issuer shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor Escrow Agent all such rights, powers and duties. The Escrow Agent shall pay over to its successor Escrow Agent a proportional part of the Escrow Agent's fee hereunder.

ARTICLE VIII

MISCELLANEOUS

Section 8.01. Notice. Any notice, authorization, request, or demand required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when mailed by registered or certified mail, postage prepaid addressed to the Issuer or the Escrow Agent at the address shown on Exhibit "A" attached hereto. The United States Post Office registered or certified mail receipt showing delivery of the aforesaid shall be conclusive evidence of the date and fact of delivery. Any party hereto may change the address to which notices are to be delivered by giving to the other parties not less than ten (10) days prior notice thereof. Moody's Investors Service is to receive prior written notice and draft legal documents of any contemplated amendment at the address specified in Section 8.04.

Section 8.02. Termination of Responsibilities. Upon the taking of all the actions as described herein by the Escrow Agent, the Escrow Agent shall have no further obligations or responsibilities

hereunder to the Issuer, the owners of the Refunded Obligations or to any other person or persons in connection with this Agreement.

Section 8.03. Binding Agreement. This Agreement shall be binding upon the Issuer and the Escrow Agent and their respective successors and legal representatives, and shall inure solely to the benefit of the owners of the Refunded Obligations, the Issuer, the Escrow Agent and their respective successors and legal representatives.

Section 8.04. Severability. In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement, but this Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. Immediate written notice is to be sent by the Issuer to Moody's Investors Service after any incidence of severance. Such notice should be sent to Moody's Investors Service, Attention: Public Finance Rating Desk/Refunded Bonds, 99 Church Street, New York, New York, 10007.

Section 8.05. Texas Law Governs. This Agreement shall be governed exclusively by the provisions hereof and by the applicable laws of the State of Texas.

Section 8.06. Time of the Essence. Time shall be of the essence in the performance of obligations from time to time imposed upon the Escrow Agent by this Agreement.

Section 8.07. Effective date of Agreement. This Agreement shall be effective upon receipt by the Escrow Agent of the funds described in Exhibit "D" attached hereto and the Escrowed Securities, together with the specific sums stated in subsections (a) and (b) of Section 7.03 for Escrow Agent and paying agency fees, expenses, and services.

Section 8.08. Amendments. This Agreement shall not be amended except to cure any ambiguity or formal defect or omission in this Agreement. No amendment shall be effective unless the same shall be in writing and signed by the parties thereto. No such amendment shall adversely affect the rights of the holders of the Refunded Obligations.

Section 8.09. Changes in Agreement Generally Prohibited. This Agreement is made for the benefit of The Board of Regents of The University of Texas System, the Escrow Agent and the holders or owners from time to time of the Refunded Obligations, and it shall not be repealed, revoked, altered or amended without the written consent of all such holders or owners and the written consent of the Escrow Agent; provided, however, that The Board of Regents of The University of Texas System and the Escrow Agent may, without the consent of, or notice to, such holders or owners and as shall not be inconsistent with the terms and provisions of this Agreement amend this Agreement to cure any ambiguity or formal defect or omission in this Agreement; but provided further that no amendment to or alteration of this Agreement shall conflict with the requirements for firm banking and financial arrangements in accordance with Article 717k, Vernon's Texas Civil

Statutes, as amended. The Escrow Agent shall provide Moody's Investors Service with documents relating to any proposed amendment to this Agreement prior to execution of any such amendment. All notices to Moody's shall be sent at the address set forth in Section 8.04 of this Agreement.

[The remainder of this page is intentionally left blank.]

EXECUTED as of the date first written above.

BOARD OF REGENTS OF
THE UNIVERSITY OF TEXAS SYSTEM

By: _____
Director of Finance

ATTEST:

Secretary

(SEAL)

as Escrow Agent

By: _____
(Title) _____

ATTEST:

Trust Officer
(SEAL)

INDEX TO EXHIBITS

Exhibit "A"	Addresses of the Issuer and the Escrow Agent
Exhibit "B"	Description of the Refunded Obligations
Exhibit "C"	Schedule of Debt Service on Refunded Obligations
Exhibit "D"	Description of Beginning Cash Deposit (if any) and Escrowed Securities
Exhibit "E"	Escrow Fund Cash Flow
Exhibit "F"	Reinvestments in Zero Coupon SLGS

EXHIBIT "A"

ADDRESSES OF THE ISSUER AND
ESCROW AGENT

ISSUER

The University of Texas System
201 W. 7th Street
Austin, TX 78701

Attention: Pamela K. Clayton

ESCROW AGENT

EXHIBIT "B"

**DESCRIPTION OF THE
REFUNDED OBLIGATIONS**

EXHIBIT "C"

SCHEDULE OF DEBT SERVICE
ON REFUNDED OBLIGATIONS

EXHIBIT "D"
ESCROW DEPOSIT

EXHIBIT "E"

ESCROW FUND CASH FLOW

EXHIBIT "F"

REINVESTMENTS IN ZERO COUPON SLGS

5. U. T. System: Proposed Adoption of Resolution Amending the Amended and Restated First Supplemental Resolution to the Master Resolution Establishing the Revenue Financing System Commercial Paper Program, Request to Amend the Guidelines Governing Administration of the Revenue Financing System, and Authorization for Officers of U. T. System to Complete All Transactions.--

RECOMMENDATION

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

- a. Adopt a Resolution Amending the Amended and Restated First Supplemental Resolution to the Master Resolution Establishing the Revenue Financing System Commercial Paper Program substantially in the form set out on Pages BAAC 254 - 255 to increase the maximum amount of the interim financing program to \$350,000,000
- b. Amend the Guidelines Governing Administration of the Revenue Financing System as follows:
 8. Provisions for Issuance of Unenhanced Variable Rate Notes

With regard to procedures relating to Notes purchased by the Board in the case of a failed remarketing of Variable Rate Notes issued by the Revenue Financing System, the following policies shall apply:

. . . .

- b. A credit agreement, as described in the Amended and Restated First Supplemental Resolution to the Master Resolution, shall be obtained should the net asset value of the Short/Intermediate Term Fund decline to an amount less than \$1,225,000,000 and be expected to remain below that amount for a period of 30 days, the Revenue

Financing System will obtain, within 60 days of notification from The University of Texas Investment Management Company (UTIMCO), a substitute note purchase commitment from a third party for an amount that will limit the Short/Intermediate Term Fund's Purchase Commitment to \$250,000,000. In the event that the net asset value of the Short/Intermediate Term Fund declines subsequently to an amount less than \$875,000,000 and be expected to remain below that amount for a period of 30 days, the Revenue Financing System agrees to [will] obtain, within 60 days of notification from The University of Texas Investment Management Company (UTIMCO), a substitute note purchase commitment from a third party for an amount that will limit the Short/Intermediate Term Fund's Purchase Commitment to \$150,000,000.

.

- c. Authorize the officers and employees of the Office of Business Affairs to take any and all actions necessary to carry out the intentions of the U. T. Board of Regents to complete the transactions.

BACKGROUND INFORMATION

An expansion of the commercial paper program from \$250,000,000 to \$350,000,000 is needed to fund the construction cost of projects reflected in the FY 1998-2003 Capital Improvement Program including the projects authorized to be funded with tuition revenue bonds. The current \$250,000,000 limit is expected to be met by January 1998.

Liquidity for the commercial paper is provided by the Short/Intermediate Term Fund. With the increase to \$350,000,000 of commercial paper to be outstanding, the Fund has agreed to increase the liquidity commitment with the covenant that if the Fund's net asset value should decline to an amount less than \$1,225,000,000 and be expected to remain below that amount for a period of 30 days, the Revenue Financing System

will obtain, within 60 days of notification from The University of Texas Investment Management Company (UTIMCO); a substitute note purchase commitment from a third party for the amount that will limit the Short/Intermediate Term Fund's Purchase Commitment to \$250,000,000. In the event that the net asset value of the Short/Intermediate Term Fund shall decline subsequently to an amount less than \$875,000,000 and be expected to remain below that amount for a period of 30 days, the Revenue Financing System agrees to obtain, within 60 days of notification from The University of Texas Investment Management Company, a substitute note purchase commitment from a third party for an amount that will limit the Short/Intermediate Term Fund's Purchase Commitment to \$150,000,000.

**RESOLUTION AMENDING
THE AMENDED AND RESTATED FIRST SUPPLEMENTAL
RESOLUTION TO THE MASTER RESOLUTION
ESTABLISHING THE REVENUE FINANCING SYSTEM
COMMERCIAL PAPER PROGRAM**

WHEREAS, on April 12, 1990, the Board adopted a Master Resolution Establishing The University of Texas System Revenue Financing System, as amended and restated on February 14, 1991 and further amended on October 8, 1993 and August 14, 1997 (referred to herein as the "Master Resolution"); and

WHEREAS, unless otherwise defined herein, terms used herein shall have the meaning given in the Master Resolution; and

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

WHEREAS, the Amended and Restated First Supplemental Resolution to the Master Resolution Establishing The University of Texas System Revenue Financing System was adopted by the Board on February 9, 1995 (the "First Supplement") to establish an interim financing program pursuant to which the Board has issued its Revenue Financing System Commercial Paper Notes, Series A to provide interim financing for capital improvements and to finance equipment purchases; and

WHEREAS, the Board deems it necessary to amend the First Supplemental Resolution to increase the aggregate principal amount of Notes which may be outstanding.

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

Section 1. In addition to the definitions set forth in the preamble of this Resolution, the terms used in this Resolution and not otherwise defined shall have the meanings given in the Master Resolution or in Exhibit "A" to the First Supplement.

Section 2. Sections 2.01 and 4.01 of the First Supplement are hereby amended by substituting the amount "\$350,000,000" in place of "250,000,000" each time that \$250,000,000 currently appears in such sections.

Section 3. The Chairman of the Board, the Vice Chairman of the Board, the Executive Secretary to the Board, the U.T. System Representatives, and the other officers, employees, and agents of the Board are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to effectuate the purposes of this Resolution. In addition, the Chairman of the Board, the Vice Chairman of the Board, the Chancellor, the Executive Vice Chancellor for Business Affairs, and the Assistant Vice Chancellor for Finance, and Bond Counsel are hereby authorized to approve, subsequent to the date of the adoption of this Resolution, any technical amendments to this Resolution as may be required by Fitch Investors Service, L.P., Moody's Investors Service, Inc., or Standard & Poor's Ratings Group, a Division of McGraw-Hill, Inc. as a condition to the granting or maintenance of a rating on the Commercial Paper Notes acceptable to a U.T. System Representative, or as may be required by the Attorney General's office in connection with the approval of this Resolution.

Section 4. The amendment to the First Supplement shall take effect immediately pursuant to Section 5.01(a)(v) of the First Supplement since it increases the amount of Commercial Paper Notes which may be Outstanding pursuant to Section 4.01 of the First Supplement.

Section 5. The recitals set forth in the preamble to this Resolution are hereby incorporated into this Resolution and made a part hereof for all purposes.

Section 6. It is hereby found and determined that each of the officers and members of the Board was duly and sufficiently notified officially and personally, in advance, of the time, place, and purpose of the Meeting at which this Resolution was adopted, and that this Resolution would be introduced and considered for adoption at said meeting; that said meeting was open to the public, and public notice of the time, place, and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code.

PASSED AND ADOPTED, this

ATTEST:

Executive Secretary

Chairman

(SEAL)

6. U. T. System: Recommended Approval of the System-wide Internal Audit Plan for Fiscal Year 1997-98.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Business Affairs and Audit Committee of the U. T. Board of Regents that the proposed U. T. System Internal Audit Plan for Fiscal Year 1997-98 be approved. The development of the Internal Audit Plan is based on a System-wide risk assessment. The implementation of the Plan will be coordinated with the institutional auditors. A copy of the U. T. System Administration and component institution Audit Plans and the Summarized Audit Plans are on file in the Office of the Board of Regents.

BACKGROUND INFORMATION

The individual institution's Audit Plans, which were compiled by the internal audit departments after receiving input and guidance from the institution's management and Internal Audit Committee, were submitted to the Internal Audit Committees and chief administrative officers for review and comments.

The individual Audit Plans were also reviewed by the Chancellor, the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, the Acting Vice Chancellor for Academic Affairs, and the System Audit Director. Each of these individuals was given the opportunity for direct input into the development of the Plans.

After the review process, the Internal Audit Committees at each of the component institutions formally approved its institution's Plan.

The U. T. System Internal Audit Plans adequately address the risks of the U. T. System by planning audits as follows:

	<u>Audit Hours</u>	<u>% of Total Hours</u>
Key Financial and Operating Information	39,710	23%
Risk Based Audits	33,780	19%
EDP Audits	23,382	14%
Departmental Audits	23,895	14%
Other Audits/Projects	<u>52,085</u>	<u>30%</u>
 Total	 <u>172,852</u>	 <u>100%</u>

The Business Affairs and Audit Committee reviewed the individual Plans at its October 9, 1997 meeting and recommends approval.

7. U. T. Health Science Center - San Antonio: Approval to Sell Approximately 1,377.65 Acres of Land in Palo Pinto County, Texas, Received from Mr. Harvey Frost Bowman and the Estate of Barbara Hyde Bowman and Authorization to Execute All Documents Related Thereto.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Howe that authorization be given for the U. T. System Real Estate Office, on behalf of the U. T. Health Science Center - San Antonio, to sell approximately 1,377.65 acres of land in Palo Pinto County, Texas, from Mr. Harvey Frost Bowman and the Estate of Barbara Hyde Bowman. The property will be marketed through a competitive offer process and sold for the best offer at or above the appraised value of \$1,515,000. All the oil, gas, and mineral interests will be retained by the University.

It is further recommended that the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate be authorized to execute all documents, instruments, and other agreements and take all such further actions deemed necessary, advisable, or proper to carry out the purpose and intent of the foregoing recommendation.

BACKGROUND INFORMATION

Acceptance of this property from Mr. Harvey Frost Bowman and the Estate of Barbara Hyde Bowman, deceased, was reported to the U. T. Board of Regents at its May 1997 meeting. The net proceeds from the sale will be used to fund the Bowman-Frost Endowment for Oncology Research at the U. T. Health Science Center - San Antonio.

INFORMATIONAL REPORTS

1. U. T. System: Discussion of the September 1997 Monthly Financial Report.--

REPORT

Mr. R. D. Burck, Executive Vice Chancellor for Business Affairs, will discuss the September 1997 Monthly Financial Report for the U. T. System.

2. U. T. System: Progress Report for Fiscal Year 1997 on the Historically Underutilized Business (HUB) Program.--

REPORT

Mr. Lewis Wright, Associate Vice Chancellor for Business Affairs, will present a progress report for Fiscal Year 1997 on the U. T. System Historically Underutilized Business (HUB) Program.

Academic Affairs Committee

ACADEMIC AFFAIRS COMMITTEE
Committee Chairman Lebermann

Date: November 13, 1997
Time: Following the Meeting of the Business Affairs and
Audit Committee
Place: Gorgas Board Room, Gorgas Hall, U. T. Brownsville

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2. U. T. Arlington: Request for Authorization to Convert the Three Tracks of the Doctor of Philosophy Degree Program in Humanities to Separate Doctor of Philosophy Degree Programs in English, History, and Linguistics and to Submit the Proposed New Programs to the Coordinating Board for Approval (Catalog Change)	3
3. U. T. Austin: Recommendation to Select Artist and Award a Contract for Commissioning of a Commemorative Statue of Dr. Martin Luther King, Jr.	6
 <u>INFORMATIONAL REPORT</u>	
U. T. Board of Regents: Report by Regents Lebermann and Smiley on the Meeting with U. T. Austin Students on October 31, 1997, Regarding Diversity on Campus	6

1. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part One, Chapter VIII, Section 3 (Medical and Hospital Services).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Acting Vice Chancellor for Academic Affairs and the Executive Vice Chancellor for Health Affairs that the Regents' Rules and Regulations, Part One, Chapter VIII, Section 3, regarding medical and hospital services, be amended as set forth below in congressional style:

- Sec. 3. Medical and Hospital Services.--With exceptions as outlined below, no [No] health care services shall be provided by any component institution of the System to any person without compensation or reimbursement to the System. In [7, except that in] the case of health care facilities operated by the System, which under the law are open to the general public, free or partly free health care services may be rendered to persons who are indigent and who are able to offer proof that they are not financially able to pay either all or any part of their health care expenses. In the case of health care services provided by faculty of a general academic component in the conduct of an educational program, persons receiving such services need not be charged for such services.

Health components may accept patients for acute or continuing, or both, care without referral by another physician or agency. The patients are accepted for total and continuing care including the obligation to obtain the services of other physicians when indicated.

This item requires the concurrence of the Health Affairs Committee.

BACKGROUND INFORMATION

The proposed amendments to the Regents' Rules and Regulations, Part One, Chapter VIII, Section 3 clarify that no charge need be made for health care services rendered by faculty in a clinical setting at a general academic institution. The proposed amendments have been reviewed by the chief administrative officers.

2. U. T. Arlington: Request for Authorization to Convert the Three Tracks of the Doctor of Philosophy Degree Program in Humanities to Separate Doctor of Philosophy Degree Programs in English, History, and Linguistics and to Submit the Proposed New Programs to the Coordinating Board for Approval (Catalog Change).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Acting Vice Chancellor for Academic Affairs and President Witt that authorization be granted to convert the three tracks of the Doctor of Philosophy degree program in Humanities at U. T. Arlington into separate Doctor of Philosophy degrees in English, History, and Linguistics and to submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action. The proposed replacements will require a minor modification to U. T. Arlington's approved Table of Programs but are consistent with the institution's plans for offering high quality degree programs to meet student needs. A description of the proposed degree programs is included in the Background Information of this agenda item.

Upon approval by the Coordinating Board, the next appropriate catalog published at U. T. Arlington will be amended to reflect this action.

BACKGROUND INFORMATION

At the regular meeting of the Coordinating Board in July 1997, U. T. Arlington was directed by that Board to close its Ph.D. in Humanities program immediately and was authorized to replace the three tracks in Language, Literature, and Cultural Foundations with Ph.D. programs in Linguistics, English, and History. While U. T. Arlington has authority to operate the programs in the interim as replacements for the Humanities program, approval by the U. T. Board of Regents as part of a normal review and approval process for new degree programs is required for continued operation. The Coordinating Board also directed its staff to carry out a complete review of the three new programs using the same criteria and standards as for new program proposals. Thus, these three proposals are presented together and with the same background as if they were entirely new programs. However, the programs are currently in operation. A majority of the 144 students previously enrolled in the Ph.D. in Humanities program will be "grandfathered" and allowed to graduate with a Ph.D. in Humanities. Program administrators estimate that approximately 20-25 percent of the previously enrolled students will transfer into one of the three new programs and, upon completion of the Coordinating Board's review, a modest enrollment growth is anticipated.

The Texas Higher Education Coordinating Board directed U. T. Arlington to close the Ph.D. in Humanities because it believed that many students were taking concentrations of courses in traditional degree disciplines in a way that constituted de facto Ph.D. degrees in fields that had not been authorized by the Coordinating Board and had not been subjected to the normal procedures for determining need, quality, and cost. The proposed replacement programs are traditional Ph.D. programs in established disciplines. U. T. Arlington has a strong faculty in each of the disciplines and most of the current students in the Humanities program can be accommodated with these proposed programs.

Description of Programs

The Doctoral Program in Linguistics will prepare professional linguists for employment in academia, field work, field program administration, literacy consultation, language planning and similar forms of employment. Students will graduate from the program with knowledge of two or more languages other than their native language, advanced training in field linguistics, linguistic computing skills, and the ability to conduct original research.

The Doctoral Program in English will have tracks in both literature and rhetoric/composition. Both tracks will prepare students for academic positions in teaching composition and literature. Many of the students in this program are likely to be employed already as teachers of English in secondary schools and community colleges throughout north central Texas.

The Doctoral Program in History will focus on the history of the civilizations on either side of the Atlantic after 1492. The program will emphasize how the history of these civilizations have intertwined as migrations have occurred, cultures have mixed, economies have grown, and communication has increased. Most of the graduates of the program are expected to teach history in colleges and universities. A few may be employed in public history positions. A significant percentage of the students enrolled in the program will already be employed as teachers of history in the secondary schools and community colleges of the region.

Program Quality

These three programs build on the quality of an already established and well respected Ph.D. in Humanities program. Faculty associated with these programs have been the core faculty in the Humanities program. They are established scholars with ongoing research programs which will support the new degree programs. The revised curricula will utilize many existing courses and will reorganize the content from other courses to meet more efficiently the objectives of the new programs.

Program Cost

Little, if any, change in cost is expected to result from the shift from a Humanities Ph.D. with three tracks to three separate degree programs. No additional laboratories, special library collections, or other similar resources will be required.

Summary

U. T. Arlington requests authority to replace the three tracks in its Doctoral Program in Humanities with three separate degree programs in Linguistics, English, and History in order to comply with directives from the Texas Higher Education Coordinating Board given at its regular meeting in July 1997. Approximately 144 doctoral students have been enrolled in the Humanities program which must now be replaced by the three proposed programs.

3. U. T. Austin: Recommendation to Select Artist and Award a Contract for Commissioning of a Commemorative Statue of Dr. Martin Luther King, Jr.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Acting Vice Chancellor for Academic Affairs and President ad interim Flawn that the U. T. Board of Regents approve the selection of an artist and the award of a contract for commissioning of a commemorative statue of Dr. Martin Luther King, Jr., to be erected on the U. T. Austin campus. A supplemental agenda item including the specific recommendation on the artist selection will be distributed in advance of the November 1997 U. T. Board of Regents' meeting following the display of models on the U. T. Austin campus.

BACKGROUND INFORMATION

At the December 1990 meeting, the U. T. Board of Regents approved in concept the design and, subject to the raising of funds, a commemorative statue of Dr. Martin Luther King, Jr., to be erected on the U. T. Austin campus. A voluntary student fee of \$1.00 has since been approved to cover the estimated cost of \$400,000 for the statue.

In October 1996, U. T. Austin issued a national call for artists to compete for the development of the statue. Five finalists were recommended and each artist has presented a model or vision of the proposed statue.

INFORMATIONAL REPORT

U. T. Board of Regents: Report by Regents Lebermann and Smiley on the Meeting with U. T. Austin Students on October 31, 1997, Regarding Diversity on Campus.--

ACADEMIC AFFAIRS COMMITTEE

SUPPLEMENTAL MATERIAL

NOVEMBER 13, 1997

3. U. T. Austin: Recommendation to Select Artist and Award a Contract for Commissioning of a Commemorative Statue of Dr. Martin Luther King, Jr.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Acting Vice Chancellor for Academic Affairs and President ad interim Flawn that the U. T. Board of Regents approve the artist selection and the award of a contract to Jeffrey Hanson Varilla and Anna Koh-Varilla, Chicago, Illinois, for commissioning a commemorative statue of Dr. Martin Luther King, Jr., to be erected on the U. T. Austin campus.

BACKGROUND INFORMATION

At the December 1990 meeting, the U. T. Board of Regents approved in concept the design and, subject to the raising of funds, a commemorative statue of Dr. Martin Luther King, Jr., to be erected on the East Mall of the U. T. Austin campus. A voluntary student fee of \$1.00 has since been approved to cover the estimated cost of \$400,000 for the statue.

In October 1996, U. T. Austin issued a national call for artists to compete for the development of the statue. Five finalists were recommended and each artist presented a model of the proposed statue. The Martin Luther King, Jr., Sculpture Committee has recommended that the contract for commissioning of the statue be awarded to artists Jeffrey Hanson Varilla and Anna Koh-Varilla. An earlier, informal poll of U. T. Austin students, faculty, and staff also showed the Varilla proposal as the preferred choice over the other four proposals.

The Varilla proposal is a bronze sculpture which features Dr. King in academic regalia standing on a pedestal which is composed of four bas-relief panels. The panels include scenes showing the Lincoln Memorial where Dr. King made his famous "I Have a Dream" speech, a portrait of supporters, Dr. King in the Birmingham jail, and a grieving Mrs. King and one of their children. The completed sculpture will be 12 feet high and will take about 18 months to complete.





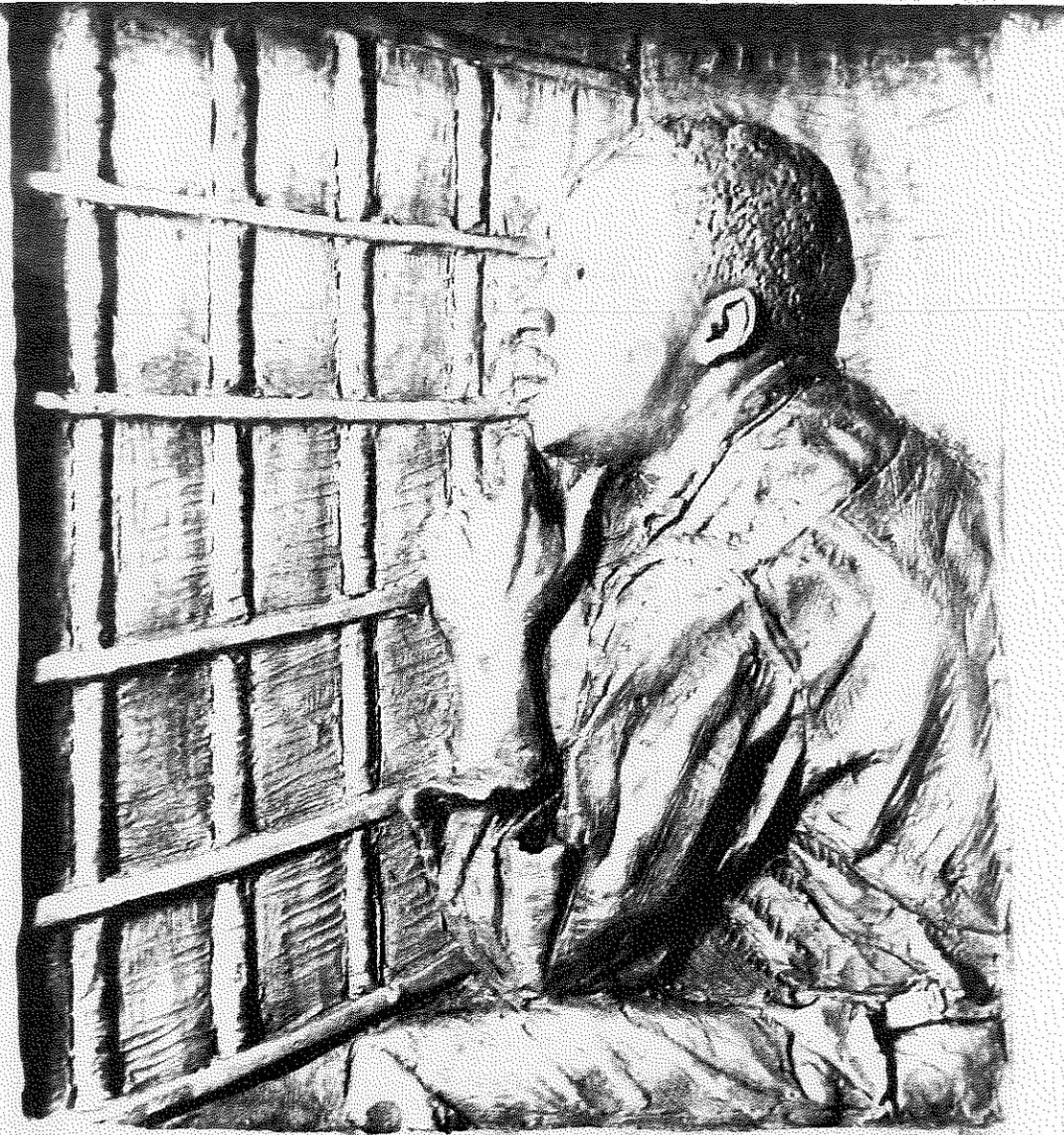
"A MAN WHO WON'T DIE
FOR SOMETHING IS NOT
FIT TO LIVE."



"WE WILL MEET YOUR
PHYSICAL FORCE WITH
SOUL FORCE."



"I HAVE A DREAM"
DR. MARTIN LUTHER KING, JR.
JAN. 15, 1929 — APRIL 4, 1968



"FREEDOM IS NEVER
VOLUNTARILY GIVEN BY
THE OPPRESSOR; IT MUST
BE DEMANDED BY THE
OPPRESSED."

Health Affairs Committee

HEALTH AFFAIRS COMMITTEE
Committee Chairman Loeffler

Date: November 13, 1997

Time: Following the Meeting of the Academic Affairs
Committee

Place: Gorgas Board Room, Gorgas Hall, U. T. Brownsville

Page
HAC

There are no items to be considered by the Health
Affairs Committee for this meeting.

**Facilities, Planning & Construction
Committee**

FACILITIES PLANNING AND CONSTRUCTION COMMITTEE
Committee Chairman Clements

Date: November 13, 1997
Time: Following the Meeting of the Health Affairs
Committee
Place: Gorgas Board Room, Gorgas Hall, U. T. Brownsville

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2. U. T. Austin: Recommendation for Authorization to Complete Negotiations and Execute a Ground Lease and Other Related Agreements with the O'Donnell Foundation, Dallas, Texas, for Construction of an Expanded Taylor Hall Annex and Donation of Those Improvements to the U. T. Board of Regents for the Benefit of U. T. Austin	4
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4. U. T. Pan American - International Trade and Technology Building (Project No. 901-854): Request for Approval of Plaque Inscription	8

5. U. T. Health Science Center - San Antonio:
Request for Authorization to Accept a Gift
of Real Property Consisting of Approximately
53 Acres of Land in Bexar County, Texas, from
the Texas Research Park Foundation, San
Antonio, Texas; Submission of Proposed Gift
to the Coordinating Board for Approval; and
Authorization to Execute All Documents Related
Thereeto

9

1. U. T. Austin - McDonald Observatory Visitor Center (Project No. 102-921): Request for Approval of Design Development Plans; Approval of Total Project Cost; and Authorization of Expenditure of Funds.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Acting Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President ad interim Flawn that the U. T. Board of Regents:

- a. Approve design development plans for the McDonald Observatory Visitor Center at U. T. Austin
- b. Approve an estimated total project cost of \$4,275,000
- c. Authorize expenditure of \$4,275,000 from Gifts and Grants.

BACKGROUND INFORMATION

The McDonald Observatory has one of the strongest astronomy public outreach programs in the country. The existing W. L. Moody, Jr. Visitor Information Center currently serves 130,000 visitors per year and growth to 240,000 visitors per year by the Year 2000 is expected. This expectation is based on past trends and the opening of the Hobby-Eberly Telescope in 1997. The intent of the McDonald Observatory Visitor Center expansion is to welcome visitors and provide a place and an atmosphere that encourages learning about astronomy while protecting the McDonald Observatory research environment. The existing facility is undersized for the present volume of visitors and for the anticipated growth.

This project consists of renovation of 2,150 gross square feet in the existing Visitor Center, a new building of approximately 11,050 gross square feet, and an outdoor Astronomy Park. The existing building is to be converted into staff offices, and the new building will house an auditorium, classroom, exhibit space, additional public rest rooms, office space, and increased storage. The Astronomy Park will be used for amateur astronomy, public education and donor recognition.

This project is included in the FY 1998-2003 Capital Improvement Program and the FY 1998-1999 Capital Budget at a preliminary project cost of \$4,275,000 from Gifts and Grants.

2. U. T. Austin: Recommendation for Authorization to Complete Negotiations and Execute a Ground Lease and Other Related Agreements with the O'Donnell Foundation, Dallas, Texas, for Construction of an Expanded Taylor Hall Annex and Donation of Those Improvements to the U. T. Board of Regents for the Benefit of U. T. Austin.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Acting Vice Chancellor for Academic Affairs, and President ad interim Flawn that the U. T. Board of Regents:

- a. Authorize U. T. Austin and the Office of General Counsel to complete negotiations for a ground lease and all related documents with the O'Donnell Foundation, Dallas, Texas, necessary to (1) authorize the Foundation as lessee to construct an expanded Taylor Hall Annex on an approximately 1.32 acre leasehold tract on the U. T. Austin campus at an estimated cost of \$11.3 million according to plans and specifications acceptable to the Vice President for Business Affairs of U. T. Austin and to the Office of Facilities Planning and Construction and (2) direct the President of U. T. Austin to accept the

Foundation's offer to contribute the completed Annex building and related improvements to the U. T. Board of Regents for the use and benefit of the Department of Computer Sciences, Texas Institute for Computational and Applied Mathematics, Department of Electrical and Computer Engineering, and other related education and research programs at U. T. Austin

- b. Authorize the Executive Vice Chancellor for Business Affairs to execute a ground lease and all other related documents, after review and approval by the Office of Academic Affairs and the Office of General Counsel, and to take any other actions and execute other documents deemed necessary or desirable with respect to this project.

BACKGROUND INFORMATION

The O'Donnell Foundation has offered a gift to satisfy U. T. Austin's need for additional space for its Department of Computer Sciences, the Texas Institute for Computational and Applied Mathematics (TICAM), and Electrical and Computer Engineering programs. U. T. Austin's Development Plan dated April 1997 assigns high priority to construction of a \$50 million, 226,000 square foot Digital Sciences and Computer Engineering (DISC) Building to provide space for these programs. However, at this time, U. T. Austin does not have funding or a location for the planned DISC building.

To resolve these immediate space needs, the O'Donnell Foundation proposes to construct and pay for Phases I and II of a new building containing approximately 112,000 gross square feet of space on a campus tract to be leased from U. T. Austin for the term of construction. The leasehold tract includes a portion of the existing Taylor Hall Annex, comprising approximately 26,000 gross square feet of space, that will be demolished to make room for the new construction. The Foundation estimates that it can construct Phases I and II in thirty months at a cost of approximately \$11.3 million.

The lease agreement between the Foundation and the U. T. Board of Regents would direct the President of U. T. Austin, upon completion of construction in accordance with approved plans and specifications, to accept the Foundation's offer to contribute the completed building to the U. T. Board of Regents for the use and benefit of U. T. Austin for use by the Department of Computer Sciences, TICAM, the Department of Electrical and Computer Engineering, and other related education and research programs. The building to be constructed by the Foundation will be designed so that U. T. Austin will have the option of later completing Phase III of the construction project to efficiently add an additional 40,800 gross square feet of space to the building. A request to acquire by gift the proposed new Taylor Hall Annex is on the agenda for the October 1997 meeting of the Texas Higher Education Coordinating Board.

3. U. T. El Paso - University Commons (Project No. 201-909): Request for Approval to Name Building (Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Naming of Buildings and Other Facilities).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Acting Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Natalicio that the U. T. Board of Regents approve redesignation of the University Commons at U. T. El Paso as The El Paso Energy Conference Center to recognize the contribution of the El Paso Energy Foundation (formerly the El Paso Natural Gas Foundation) to the renovation of this facility and the Foundation's past financial support of U. T. El Paso. The recommendation is pursuant to the Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, relating to naming of buildings and other facilities.

BACKGROUND INFORMATION

The University Commons is a 33,000 square foot dining facility used since the early 1970's by the University's Food Service to provide meals to dormitory residents. Current replacement value of the facility is \$2,944,611. In 1995, U. T. El Paso developed a plan to renovate the University Commons facility to expand its functionality from resident dining hall to a multipurpose dining facility and conference center. With a decline in the resident student population and increased student traffic between the Undergraduate Learning Center and the Library, the renovated facility will provide food services to the general population and serve the needs of U. T. El Paso's Continuing and Professional Education program and a growing number of institutionally sponsored conferences.

The El Paso Natural Gas Foundation (now El Paso Energy Foundation) has agreed to provide \$1,000,000 toward the \$1,500,000 cost of renovating this building. In recognition of this gift and the Foundation's financial support to U. T. El Paso over several decades, the University proposes to name the building The El Paso Energy Conference Center.

The U. T. Board of Regents has been apprised of this naming request on two earlier occasions: (1) when the renovation project was approved and (2) when a list of U. T. El Paso naming possibilities was submitted. The renovation project is scheduled for completion by the end of November 1997. A grand opening event will be scheduled at a time shortly after completion.

The proposed renaming of the University Commons at U. T. El Paso as The El Paso Energy Conference Center is consistent with the Regents' Rules and Regulations on naming of buildings related to recognition of substantial gift contributions.

4. U. T. Pan American - International Trade and Technology Building (Project No. 901-854): Request for Approval of Plaque Inscription.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Acting Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Nevárez that the U. T. Board of Regents approve the inscription set out below for a plaque to be placed on the International Trade and Technology Building at U. T. Pan American:

INTERNATIONAL TRADE AND TECHNOLOGY BUILDING
1997

BOARD OF REGENTS

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President, The University
of Texas - Pan American

Bennett Martin and Solka,
Inc.

Project Architect
BFW Construction Co., Inc.
Contractor

BACKGROUND INFORMATION

On January 16, 1997, the Chancellor approved the award of a construction contract for the International Trade and Technology Building at U. T. Pan American. The plaque is in keeping with the standard pattern approved by the U. T. Board of Regents in June 1979.

5. U. T. Health Science Center - San Antonio: Request for Authorization to Accept a Gift of Real Property Consisting of Approximately 53 Acres of Land in Bexar County, Texas, from the Texas Research Park Foundation, San Antonio, Texas; Submission of Proposed Gift to the Coordinating Board for Approval; and Authorization to Execute All Documents Related Thereto.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Howe that the U. T. Health Science Center - San Antonio be authorized to accept a gift of approximately 53 acres of land in Bexar County, Texas, from the Texas Research Park Foundation, San Antonio, Texas, and to submit the proposed gift to the Texas Higher Education Coordinating Board for approval.

It is further recommended that the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate be authorized to take all steps necessary to acquire the property in Bexar County, Texas, to execute all documents, instruments, and other agreements, and take all such actions as deemed necessary to carry out the purpose and intent of the foregoing recommendations.

BACKGROUND INFORMATION

The proposed gift of land is located in the Texas Research Park and is contiguous to the land owned by the U. T. Health Science Center - San Antonio. The combined acreage will provide a total of 103 acres to meet the current and long-term needs of the U. T. Health Science Center - San Antonio including the U. T. Institute of Biotechnology and the soon to be constructed U. T. South Texas Centers for Biology in Medicine.

An exercise/recreation facility is currently under construction on the land and will be completed prior to the transfer of the property to the U. T. Health Science Center - San Antonio. This will include a multipurpose playing field, a

softball backstop, a jogging track, and a picnic pavilion. The major contributor for the estimated \$245,000 in improvements is the H. B. Zachry Company of San Antonio, Texas, represented by Mr. Bartell Zachry. The recreation area has been named the "George H. Ensley Field" in honor of Col. Ensley, the current Chairman of the Board of Trustees of the Texas Research Park Foundation. It is appropriate to acknowledge the contributions of the H. B. Zachry Company and Mr. Zachry as well as the Texas Research Park Foundation and its Board of Trustees.

Executive Session of the Board

BOARD OF REGENTS
EXECUTIVE SESSION
Pursuant to Texas Government Code
Chapter 551, Section 551.072

Date: November 12, 1997

Time: 3:30 p.m.

Place: Cancun B
Four Points Hotel by Sheraton
3777 North Expressway
Brownsville, Texas

Deliberations Regarding the Purchase, Exchange, Lease or
Value of Real Property - Section 551.072

- a. U. T. Board of Regents: Consideration of Sale to the State of Texas or to a Third Party of Approximately 3.84 Acres of Land and Improvements Located at 1606 Niles Road (Also Commonly Known as #6 Niles Road and/or "Woodlawn"), Austin, Travis County, Texas
- b. U. T. Dallas: Request for Authorization to Sell Approximately 8.0 Acres of Land West of Waterview Parkway and North of Tatum Street, Richardson, Dallas County, Texas, and Authorization to Execute All Documents Related Thereto