

MATERIAL SUPPORTING THE AGENDA

VOLUME XLVIa

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

November 11-12, 1998

December 17, 1998

February 10-11, 1999

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.: 919

Date: February 10-11, 1999

Location: Austin, Texas

BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

CALENDAR

Date: Wednesday, February 10, 1999

Time: 9:30 a.m.

Place: Regents' Meeting Room, Ninth Floor, Ashbel Smith Hall
201 West Seventh Street
Austin, 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, February 11, 1999

Time: 9:30 a.m.

Place: Frank C. Erwin, Jr. Atrium, Eighth Floor, Lyndon Baines
Johnson Library and Museum
The University of Texas at Austin
2313 Red River Street
Austin, Texas

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

See Pages B of R 2 - 70,
Items E - P

Telephone Numbers

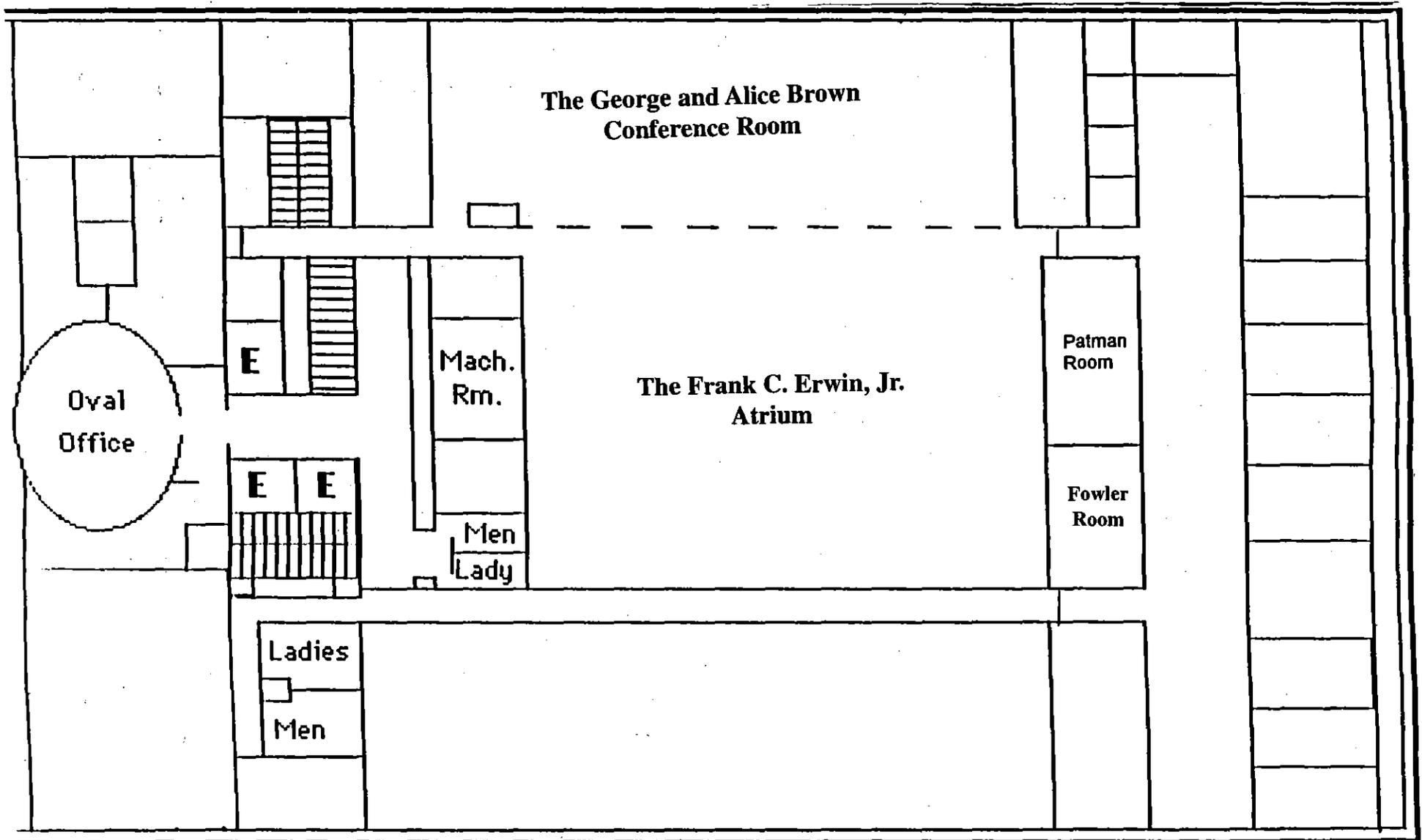
Office of the Board of Regents (512) 499-4402

President Faulkner's Office (512) 471-1232
(for calls during February 11 meeting)

Four Seasons Hotel (512) 478-4500
98 San Jacinto Boulevard

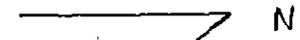
The LBJ Library and Museum

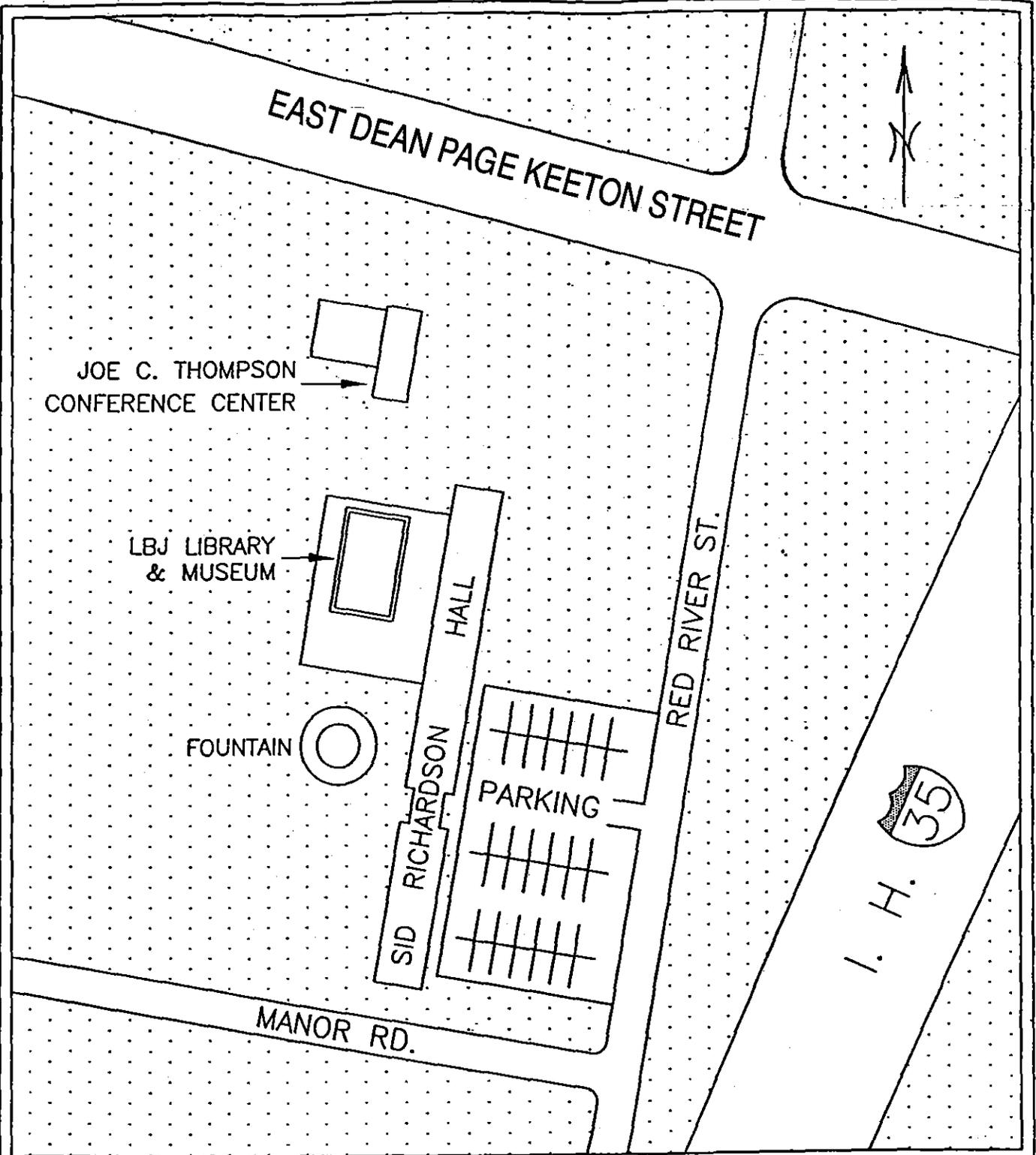
8th Floor



Frank C. Erwin, Jr. Atrium
Patman Room
Fowler Room

Open Meeting
Regents' Secretarial Office
Telephones for Press/Staff





UNIVERSITY OF TEXAS
EAST CAMPUS

Meeting of the Board

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

Date: Wednesday, February 10, 1999

Time: 9:30 a.m.

Place: Regents' Meeting Room, Ninth Floor, Ashbel Smith Hall
201 West Seventh Street, Austin, Texas

A. CALL TO ORDER

B. RECESS TO EXECUTIVE SESSION (TEXAS GOVERNMENT CODE, CHAPTER 551)

1. Consultation with Attorney Regarding Pending and/or Contemplated Litigation or Settlement Offers - Section 551.071

U. T. Austin: Pending and Potential Contemplated Litigation

2. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Section 551.074

- a. U. T. Austin: Evaluation and Deliberation of Terms of Reappointment of Head Football Coach and Assistant Coaches

- b. U. T. San Antonio: Consideration of Personnel Matters Related to the Possible Selection and Employment of a President

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, February 11, 1999

Time: 9:30 a.m. Reconvene in Open Session to Continue
Until Completion of Business

Place: Frank C. Erwin, Jr. Atrium, Eighth Floor, Lyndon Baines Johnson
Library and Museum, 2313 Red River Street, U. T. Austin

- E. RECONVENE IN OPEN SESSION
- F. WELCOME BY PRESIDENT FAULKNER
- G. APPROVAL OF MINUTES OF REGULAR MEETING HELD
NOVEMBER 11-12, 1998, AND SPECIAL MEETING HELD
DECEMBER 17, 1998
- H. SPECIAL ITEMS
- 1. U. T. System: Report of Summary of Gift Acceptance and Related
Administrative Actions Conforming to Board Policy for September 1, 1998
Through November 30, 1998.--

(See Pages B of R 3 - 7.)

ACCEPTANCE OF GIFTS HELD BY BOARD

# ALL ITEMS	COMPONENT INSTITUTION	ASSET TYPES							MATCHING FUNDS	TOTAL VALUE
		CASH	SECURITIES	REAL ESTATE	PLEDGES	OTHER	TRANSFERS			
3	U. T. System	\$ 60,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 60,000
3	U. T. Arlington	\$ 11,386	\$ -	\$ -	\$ -	\$ -	\$ 20,000	\$ -	\$ -	\$ 31,386
25	U. T. Austin	\$ 1,064,833	\$ 39,513	\$ -	\$ 61,822	\$ -	\$ 2,041,013	\$ -	\$ -	\$ 1,166,167 *
1	U. T. Dallas	\$ 1,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,000,000
9	U. T. El Paso	\$ 751,530	\$ 24,739	\$ 800,000	\$ -	\$ -	\$ 33,282	\$ -	\$ -	\$ 1,597,047 *
1	U. T. Permian Basin	\$ 6,666	\$ -	\$ -	\$ 3,334	\$ -	\$ -	\$ -	\$ -	\$ 10,000
4	U. T. San Antonio	\$ 53,600	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 53,600
8	U. T. SWMC-Dallas	\$ 1,492,000	\$ -	\$ -	\$ 850,000	\$ -	\$ -	\$ 751,000	\$ -	\$ 2,342,000 *
5	U. T. M.B.-Galveston	\$ 55,990	\$ -	\$ -	\$ 85,000	\$ -	\$ 23,303	\$ -	\$ -	\$ 164,293
16	UTHSC-Houston	\$ 417,931	\$ -	\$ -	\$ 1,077,600	\$ -	\$ 764,092	\$ -	\$ -	\$ 2,259,623
1	UTHSC-San Antonio	\$ 1,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,000,000
11	UTMDACC	\$ 162,831	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 162,831
3	UTHC-Tyler	\$ 227,933	\$ -	\$ -	\$ 375,000	\$ -	\$ -	\$ -	\$ -	\$ 602,933
90	TOTAL	\$ 6,304,701	\$ 64,252	\$ 800,000	\$ 2,452,756	\$ -	\$ 2,881,689	\$ 751,000	\$ -	\$ 10,449,881 *

* Not included in total: U. T. Austin- \$2,041,013 of previously accepted gifts;
 U. T. El Paso - \$12,504 of transfers of endowment funds;
 U. T. SWMC-Dallas - \$751,000 of Board-held matching funds.

NOTE: Compiled by Office of Development and External Relations

BoR - 3

CLASSIFICATION OF GIFTS AND OTHER ACTIONS

COMPONENT INSTITUTION	ENDOWMENTS	CHARITABLE REMAINDER TRUSTS	POOLED INCOME FUND	REMAINDER INTERESTS	HELD IN TRUST BY OTHERS	CURRENT PURPOSE	OTHER
U. T. System	3	--	--	--	--	--	--
U. T. Arlington	3	--	--	--	--	--	--
U. T. Austin	20	--	--	--	5	--	--
U. T. Dallas	1	--	--	--	--	--	--
U. T. El Paso	9	--	--	--	--	--	--
U. T. Permian Basin	1	--	--	--	--	--	--
U. T. San Antonio	4	--	--	--	--	--	--
U. T. SWMC-Dallas	6	--	--	--	3	1	--
U. T. M.B.-Galveston	5	--	--	--	--	--	--
UTHSC-Houston	13	--	--	--	4	--	--
UTHSC-San Antonio	1	--	--	--	--	--	--
UTMDACC	1	--	--	--	4	6	--
UTHC-Tyler	2	--	--	--	--	1	--
TOTAL	69	0	0	0	16	8	0

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PURPOSES OF GIFTS HELD BY BOARD AND OTHERS

COMPONENT INSTITUTION	ENDOWMENT								CURRENT PURPOSE	OTHER PURPOSE
	DIST. CHAIR	CHAIR	DIST. PROFSHIP	PROFSHIP	FACULTY FELLOWSHIP	GRADUATE FELLOWSHIP	SCHOLARSHIP	OTHER		
U.T. System	--	--	--	--	--	--	--	3	--	--
U. T. Arlington	--	--	--	--	--	--	3	--	--	--
U. T. Austin	--	1	--	1	--	--	9	9	--	--
U. T. Dallas	--	1	--	--	--	--	--	--	--	--
U. T. El Paso	--	1	--	1	--	--	4	3	--	--
U. T. Permian Basin	--	--	--	--	--	--	1	--	--	--
U. T. San Antonio	--	--	--	--	--	--	3	--	--	--
U. T. SWMC-Dallas	2	1	--	1	--	--	--	2	1	--
U. T. M.B.-Galveston	--	--	--	--	--	--	3	2	--	--
UTHSC-Houston	2 *	1	1	4	--	--	4	2	--	--
UTHSC-San Antonio	1	--	--	--	--	--	--	--	--	--
UTMDACC	--	--	--	--	--	--	--	--	10	--
UTHC-Tyler	--	--	--	1	--	--	--	1	1	--
TOTAL	5	5	1	8	0	0	27	22	12	0

* Includes 1 Distinguished University Chair.

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

OTHER ADMINISTRATIVE ACTIONS

COMPONENT INSTITUTION	ESTABLISH ENDOWMENT	REDESIGNATE ENDOWMENT LEVEL	OTHER REDESIGNATION	DISSOLVE ENDOWMENT	APPROVE/ALLOCATE MATCHING	ACCEPT TRUSTEESHIP	OTHER
U.T. System	3	---	---	---	---	---	---
U. T. Arlington	3	---	---	---	---	---	---
U. T. Austin	18	1	3	1	---	---	1
U. T. Dallas	1	---	---	---	---	---	---
U. T. El Paso	9	---	---	---	---	---	---
U. T. Permian Basin	1	---	---	---	---	---	---
U. T. San Antonio	3	---	1	---	---	---	---
U. T. SWMC-Dallas	6	1	---	---	5	---	---
U. T. M.B.-Galveston	5	---	---	---	---	---	---
UTHSC-Houston	13	2	2	---	4	---	---
UTHSC-San Antonio	1	---	---	---	1	---	---
UTMDACC	---	1	---	---	---	---	---
UTHC-Tyler	1	---	---	---	1	---	---
TOTAL	64	5	6	1	11	0	1

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COMPARATIVE SUMMARY OF GIFTS ACCEPTED VIA THE OFFICIAL ADMINISTRATIVE PROCESS

COMPONENT INSTITUTION	FY 1998 FULL YEAR	FISCAL YEAR 1999		
		9/1/98 - 11/30/98	12/1/98 - 2/28/99	3/1/99 - 5/31/99
	FULL YEAR			FULL YEAR
U. T. System	\$ --	\$ 60,000		
U. T. Arlington	\$ 1,633,567	\$ 31,386		
U. T. Austin	\$ 16,888,581	\$ 1,166,167		
U. T. Brownsville	\$ 10,000	\$ --		
U. T. Dallas	\$ 411,126	\$ 1,000,000		
U. T. El Paso	\$ 4,064,288	\$ 1,597,047		
U. T. Pan American	\$ 1,142,022	\$ --		
U. T. Permian Basin	\$ 272,770	\$ 10,000		
U. T. San Antonio	\$ 236,907	\$ 53,600		
U. T. Tyler	\$ 554,169	\$ ---		
U. T. SWMC-Dallas	\$ 35,511,381	\$ 2,342,000		
U. T. M.B.-Galveston	\$ 4,135,559	\$ 164,293		
UTHSC-Houston	\$ 5,595,404	\$ 2,259,623		
UTHSC-San Antonio	\$ 2,330,175	\$ 1,000,000		
UTMDACC	\$ 13,780,273	\$ 162,831		
UTHC-Tyler	\$ 476,000	\$ 602,933		
TOTAL	\$ 87,042,222	\$ 10,449,881		

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2. U. T. Board of Regents: Proposed Amendment to the Regents' Rules and Regulations, Part One, Chapter I, Section 3, Subsection 3.1 (Chairman of the Board).--

RECOMMENDATION

It is recommended that the Regents' Rules and Regulations, Part One, Chapter I, Section 3, Subsection 3.1, regarding the election of the Chairman, be amended as set forth below in congressional style:

Sec. 3. Chairman of the Board.

- 3.1 Election of Chairman.--The Chairman of the Board shall be elected by the Board from its number, shall serve at the pleasure of the Board, and shall report and be responsible to the Board. In case of the death, resignation, disability, removal, or disqualification of the Chairman, the Board shall elect a successor Chairman as soon as practicable. Election of the Chairman shall take place during the February meeting held in odd-numbered years or, if new members of the Board have not been appointed and received the consent of the Senate, at the next available opportunity. [~~In no event shall a Board member serve as Chairman for more than 24 consecutive months without submitting his or her resignation as Chairman, but such member shall be eligible for re-election as Chairman.~~]

BACKGROUND INFORMATION

Subsection 3.1 of Chapter I, Part One of the Regents' Rules and Regulations currently requires the Chairman of the Board to resign after 24 months of service, and Section 4 and Subsection 5.1 of this Chapter require the election of the Vice-Chairmen and Executive Secretary of the Board to be held at the time the Chairman is elected. Subsection 3.1 is not sufficiently flexible to allow slightly longer or slightly shorter terms of office dependent upon the actual date of reorganization of the Board following appointment of new members of the Board by the Governor and evidence of the Texas Senate's consent to the appointments. The proposed revision makes the timing of the Board's election of officers more consistent with variations in appointment dates.

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

1. U. T. System: Report on Investments for the Fiscal Quarter Ended November 30, 1998.--

REPORT

Pages B of R 10 - 13 contain the Summary Reports on Investments for the fiscal quarter ended November 30, 1998.

Item a on Page B of R - 10 presents the summary report for Permanent University Fund (PUF) Investments. PUF Investments began the quarter with a market value of \$6.52 billion. During the quarter, contributions of mineral income from PUF Lands equaled \$15.1 million, down 41% versus receipts for the first quarter of the prior fiscal year. In addition, total investment return was \$722.2 million of which \$65.5 million was income return distributed to the Available University Fund (AUF) and \$656.7 million was price return. PUF market value ended the year at \$7.19 billion.

Quarter-end asset allocation was 64% broadly defined equities and 36% fixed income versus an unconstrained neutral allocation of 80% equities and 20% fixed income. Within equities, quarter-end allocation was 45% U. S. large and mid cap stocks, 4% U. S. small cap stocks, 7% non-U. S. equities and 8% alternative equities.

The PUF's accrued investment income of \$65.5 million increased by a nominal rate of 3.8% versus \$63.1 million for the first quarter of the prior fiscal year and by 2.3% on an inflation adjusted basis. Distributed investment income for the quarter of \$65.5 million was \$2.7 million over budget but \$2.1 million under investment income earned during the fourth quarter of 1998.

PUF investment income continued to suffer from declining interest rates and the resulting negative reinvestment spreads. The reinvestment spread on maturing and redeemed bonds was a negative 3.80% as bonds ran off at an average yield of 9.33% and were replaced by bonds yielding 5.53%. As of quarter-end, the distributable book yield on the \$2.5 billion fixed income portfolio declined to 7.69% versus 7.75% at the beginning of the quarter.

Total investment return for the quarter was 11.1%. The fixed income portfolio posted a total return of 2.4% for the quarter versus 2.4% for the Lehman Aggregate Bond Index. Equities, as an asset class, posted higher relative returns with the S&P 500 Index and Russell 3000 Index both posting returns of 22.0%. The PUF's equity portfolios (including non-U. S. portfolios) produced a lower return of 19.1% largely due to exposure to high yielding REIT and non-U. S. portfolios. Finally, alternative equities produced a 2.2% return for the quarter.

Item b on Page B of R - 11 reports summary activity for the Long Term Fund (LTF). During the quarter, net contributions totaled \$31.6 million representing a 54% increase over the first quarter of the prior fiscal year. Investment return was \$237.2 million. Distributions to the 4,880 endowment and other accounts underlying the LTF totaled \$25.1 million, an increase of 21% versus the first quarter of the prior year. The Fund's market value closed the quarter at \$2.39 billion.

Asset allocation at quarter-end was 21% fixed income and 79% broadly defined equities. Within equities, U. S. small cap and non-U. S. equities were slightly overweighted at 11% and 16%, respectively, of total assets. U. S. large and mid cap equities were also overweighted at 34% while alternative equities were underweighted at 18% versus a neutral weighting of 25%. Total investment return for the quarter was 10.9% versus the neutral policy portfolio return of 16.0%.

Item c on Page B of R - 12 presents quarterly activity for the Short/Intermediate Term Fund. During the quarter, the Fund received net contributions of \$29.8 million. It earned \$32.5 million in total return and incurred expenses of \$100 thousand. Distributions to the U. T. System component institutions equaled \$25.9 million, resulting in a quarter-end Fund value of \$1.845 billion vs. \$1.809 billion at the beginning of the quarter. Total return on the Fund was 1.8% for the quarter versus the Fund's performance benchmark of 1.6%.

Item d on Page B of R - 13 presents book and market value of cash, fixed income, equity and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of component operating funds held in the Dreyfus money market fund, decreased by \$66 million to \$628 million during the first quarter. Asset values for the remaining asset classes were fixed income securities: \$70 million versus \$71 million at previous quarter-end; equities: \$43 million versus \$35 million at previous quarter-end; and other investments of \$6.7 million versus \$13 million at previous quarter-end.

a. PERMANENT UNIVERSITY FUND

Summary Investment Report at November 30, 1998.--

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

	<u>FY97-98</u>	<u>FY98-99</u>
	<u>Full Year</u>	<u>1st Qtr</u>
Beginning Market Value	6,368.3	6,517.1
PUF Lands Receipts (2)	79.5	15.1
Investment Income (3)	260.0	65.5
Investment Income Distributed	(260.0)	(65.5)
Realized Gains	467.6	113.4
Change in Unrealized Gains	(398.3)	543.3
Ending Market Value	<u>6,517.1</u>	<u>7,188.9</u>
AUF income:		
Investment Income	260.0	65.5
Surface Income	6.6	2.3
Total	<u>266.6</u>	<u>67.8</u>

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

- (1) Excludes PUF Lands mineral and surface interests with estimated August 31, 1998 values of \$385.6 million and \$154.9 million, respectively.
- (2) As of November 30, 1998: 1,335,921 acres under lease; 527,693 producing acres; 3,544 active leases; and 2,069 producing leases.
- (3) Investment income includes amortization of discount and premium bonds in accordance with statutory requirements.

b. LONG TERM FUND

Summary Investment Report at November 30, 1998.--

LONG TERM FUND
SUMMARY REPORT
(\$ millions)

	<u>FY97-98</u>	<u>FY98-99</u>
	<u>Full Year</u>	<u>1st Qtr</u>
Beginning Net Assets	2,125.0	2,147.7
Net Contributions	80.5	31.6
Investment Return (1)	42.6	237.2
Receipt of Funds from System for UTIMCO Fee	2.0	0.6
Expenses	(7.2)	(1.6)
Distributions (Payout)	(90.9)	(25.1)
Distribution of Gain on Participant Withdrawals	(4.3)	(0.2)
Ending Net Assets	2,147.7	2,390.2
Net Asset Value per Unit	4.568	5.010
No. of Units (End of Period)	470,190,284	477,070,872
Distribution Rate per Unit	0.195	0.0525

BoR-11

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

(1) Investment return for FY 97-98 was adjusted downward \$.1 million from previous report to correct rounding difference between other annual reports.

c. SHORT/INTERMEDIATE TERM FUND

Summary Investment Report at November 30, 1998.--

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

	<u>FY97-98</u> <u>Full Year</u>	<u>FY98-99</u> <u>1st Qtr</u>
Beginning Net Assets	1,631.4	1,809.6
Contributions (Net of Withdrawals)	126.9	29.8
Investment Return	152.8	32.5
Expenses	(0.5)	(0.1)
Distributions of Income	<u>(101.0)</u>	<u>(25.9)</u>
Ending Net Assets	1,809.6	1,845.9

B of R - 12

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

d. SEPARATELY INVESTED ASSETS

Summary Investment Report at November 30, 1998. --

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

ASSET TYPES	FUND TYPE													
	CURRENT PURPOSE				ENDOWMENT &		ANNUITY & LIFE		AGENCY FUNDS		OPERATING FUNDS		TOTAL	
	DESIGNATED		RESTRICTED		SIMILAR FUNDS		INCOME FUNDS							
	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
Cash & Equivalents:														
Beginning value 9/1/98	3,176	3,176	2,310	2,310	32,824	32,824	399	399	30	30	655,753	655,753	694,492	694,492
Increase/(Decrease)	495	495	(967)	(967)	(17,143)	(17,143)	(69)	(69)	1	1	(48,397)	(48,397)	(66,080)	(66,080)
Ending value 11/30/98	3,671	3,671	1,343	1,343	15,681	15,681	330	330	31	31	607,356	607,356	628,412	628,412
Debt Securities:														
Beginning value 9/1/98	-	-	7	5	57,578	59,578	10,535	11,307	-	-	-	-	68,120	70,890
Increase/(Decrease)	-	-	-	-	(315)	744	(1,735)	(1,726)	-	-	-	-	(2,050)	(982)
Ending value 11/30/98	-	-	7	5	57,263	60,322	8,800	9,581	-	-	-	-	66,070	69,908
Equity Securities:														
Beginning value 9/1/98	42	1,927	204	199	18,231	26,382	6,209	6,295	-	-	-	-	24,686	34,803
Increase/(Decrease)	-	2,163	1,487	1,515	(19)	3,617	223	953	-	-	-	-	1,691	8,248
Ending value 11/30/98	42	4,090	1,691	1,714	18,212	29,999	6,432	7,248	-	-	-	-	26,377	43,051
Other:														
Beginning value 9/1/98	6,300	6,300	367	367	369	369	6,221	5,917	-	-	-	-	13,257	12,953
Increase/(Decrease)	(6,300)	(6,300)	(338)	(338)	168	168	(522)	224	-	-	-	-	(6,992)	(6,246)
Ending value 11/30/98	-	-	29	29	537	537	5,699	6,141	-	-	-	-	6,265	6,707

B of R - 13

Report prepared in accordance with Sec. 51.0032 of the Texas Education Code.
Details of individual assets by account furnished upon request.

2. U. T. Board of Regents: Proposed Amendments to the Investment Policy Statements for the Permanent University Fund, Long Term Fund, Short/Intermediate Term Fund, Short Term Fund, and Separately Invested Endowment, Trust, and Other Accounts.--

RECOMMENDATION

The Board of Directors of The University of Texas Investment Management Company recommends that the U. T. Board of Regents approve amendments as shown in congressional style to the following Investment Policy Statements:

- a. Permanent University Fund Investment Policy Statement as set out on Pages B of R 16 - 27
- b. Long Term Fund Investment Policy Statement as set out on Pages B of R 28 - 40
- c. Short/Intermediate Term Fund Investment Policy Statement as set out on Pages B of R 41 - 48
- d. Short Term Fund Investment Policy Statement as set out on Pages B of R 49 - 56
- e. Separately Invested Endowment, Trust, and Other Accounts Investment Policy Statement as set out on Pages B of R 57 - 66.

BACKGROUND INFORMATION

Section 3 (a) of the Investment Management Services Agreement dated March 1, 1996, between the Board of Regents of The University of Texas System and The University of Texas Investment Management Company ("UTIMCO") provides that UTIMCO shall review the investment policies of the assets under its management and recommend any changes of such policies for approval by the U. T. Board of Regents. The proposed amendments are the result of an annual

policy review and were approved by the UTIMCO Board of Directors on December 10, 1998. General amendments include language in the general investment guidelines for index and other commingled funds managed externally, and states that these funds shall be governed by the terms and conditions of the Investment Management Contract. The language regarding the use of Repurchase and Reverse Repurchase Agreements has been expanded and the guidelines regarding the holdings of eligible fixed income derivative securities has been further defined. Specific amendments expand the holdings of fixed income securities for the PUF to include U. S. government agencies, and U. S. government sponsored entities.

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

Purpose

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

Fund Organization

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

The 2.1 million acres comprising the PUF Lands produce two streams of income: a) mineral income, primarily in the form of oil and gas royalties and b) surface income, in the form of surface leases and easements. Under the Texas Constitution, mineral income, as a non-renewable source of income, remains a non-distributable part of PUF corpus, and is invested in securities. Surface income, as a renewable source of income, is distributed to the Available University Fund, (the "AUF") as received.

The Constitution prohibits the distribution and expenditure of mineral income contributed to the Fund and the realized and unrealized gains earned from Fund investments. The Constitution also requires the distribution of all PUF investment income to the AUF to be expended for certain authorized purposes.

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

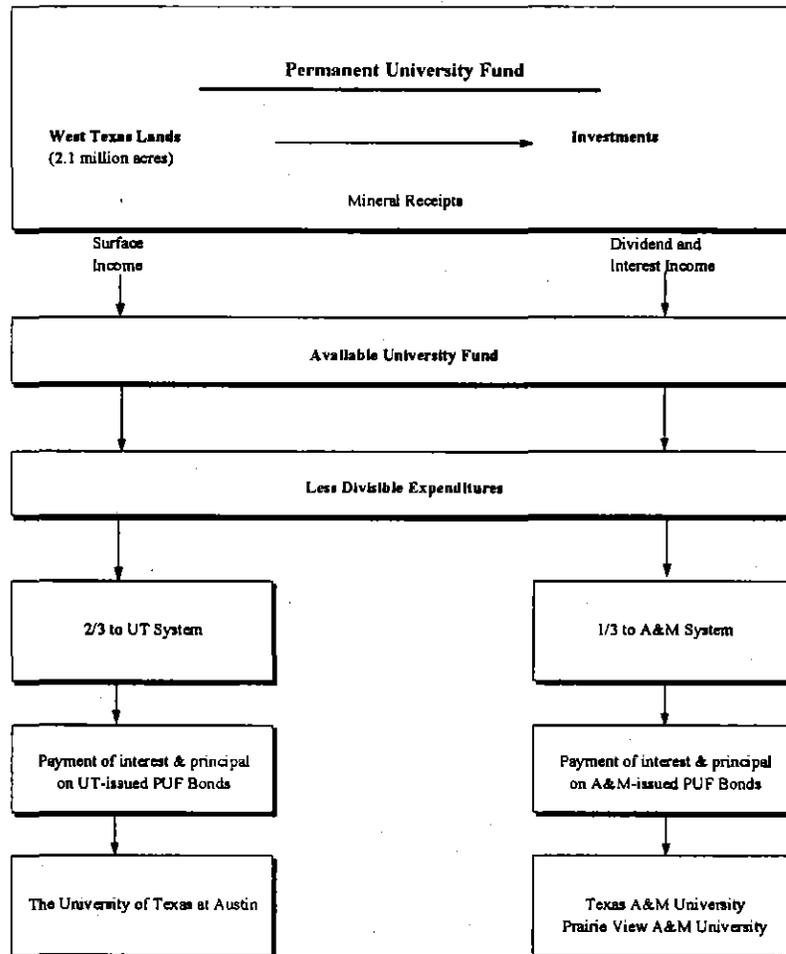
First, expenses incurred in the administration of PUF Lands and Investments. Resolutions adopted by the U. T. Board of Regents (the "U. T. Board") require that administrative expenses of the PUF be restricted to a minimum consistent with prudent business judgment. Second, following a 2/3rds and 1/3rd allocation of distributed PUF income (net of administrative expenses) to the U. T. System and Texas A&M University System, respectively, expenditures for debt service on PUF bonds. Article VII of the Texas

Constitution authorizes the U. T. Board and the Texas A&M University System (the "TAMUS Board") to issue bonds payable from their respective interests in distributed PUF income to finance permanent improvements and to refinance outstanding PUF obligations. The Constitution limits the amount of bonds and notes secured by each System's interest in divisible PUF income to 20% and 10% of the book value of PUF investment securities, respectively. Bond resolutions adopted by both Boards also prohibit the issuance of additional PUF parity obligations unless the projected interest in PUF net income for each System covers projected debt service at least 1.5 times.

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

The distribution of income and expenditures from the PUF to the AUF is depicted below in Exhibit 1:

Exhibit 1



Fund Management

Article VII of the Texas Constitution assigns fiduciary responsibility for managing and investing the Fund to the U. T. Board. Article VII authorizes the U. T. Board, subject to procedures and restrictions it establishes, to invest the Fund in any kind of investments and in amounts it considers appropriate, provided that it adheres to the prudent person investment standard. This standard requires that the U. T. Board, in making investments, 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.

Ultimate fiduciary responsibility for the Fund rests with the Board. Section 66.08 of the Texas Education Code authorizes the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in investment of the PUF. The Fund shall be managed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the Fund, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with Fund objectives, and c) monitor Fund performance against Fund objectives. UTIMCO shall invest the Fund's assets in conformity with investment policy.

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

Fund Administration

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

Fund Investment Objectives

The primary investment objective shall be 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. The Fund's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objective is to generate a fund return in excess of the Policy Portfolio benchmark over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect Fund asset allocation policy targets.

The U. T. Board recognizes that achievement of Fund investment objectives is substantially hindered by the inability to make distributions on a total return basis and current distribution rates in excess of long-term equilibrium levels.

Asset Allocation

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

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

1. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.
2. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of Fund income. Such bonds should be high quality, and intermediate to long-term maturity with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction.
3. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation of the Fund. Historically, returns for equities have been higher than for bonds over all extended periods. As such, equities represent the best chance of preserving the purchasing power of the Fund.
4. Alternative Equities - generally consist of alternative marketable investments and alternative non-marketable investments. Alternative equity investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative equity investments are that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund asset values through their characteristics of low correlation with listed equities and fixed income instruments. The disadvantages of this asset class are that they may be illiquid, require higher and more complex fees, and are frequently dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative equity investments shall be controlled with extensive due diligence and diversification.

Alternative Marketable Equities -

These investments are broadly defined to include hedge funds, arbitrage and special situation funds, high yield bonds, distressed debt, market neutral, commodities and other non-traditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. As such, they offer faster drawdown of committed capital and earlier realization potential than alternative non-marketable investments. Alternative marketable investments may be made through partnerships, but they will generally provide investors with liquidity at least annually.

Alternative Non-Marketable Investments -

These investments are held either through limited partnership or as direct ownership interests. They include special equity, mezzanine venture capital, oil and gas, real estate and other investments that are privately held and which are not registered for sale on public exchanges. In partnership form, these investments require a commitment of capital for extended periods of time with no liquidity.

Asset Allocation Policy

The asset allocation policy and ranges herein recognize that the Fund's return/risk profile can be enhanced by diversifying the Fund's investments across different types of assets whose returns are not closely correlated. The targets and ranges seek to protect the Fund against both routine illiquidity in normal markets and extraordinary illiquidity during a period of extended deflation.

The long-term asset allocation policy for the Fund must recognize that the 5.5% real return objective requires a high allocation to broadly defined equities, including domestic, international stocks, and alternative equity investments of 50% to 90%. The allocation to Fixed Income should therefore not exceed 50% of the Fund.

The Board delegates authority to UTIMCO to establish specific neutral asset allocations and ranges within the broad policy guidelines described above. UTIMCO may establish specific asset allocation targets and ranges for large and small capitalization U. S. stocks, established and emerging market international stocks, marketable and non-marketable alternative equity investments, and other asset classes as well as the specific performance objectives for each asset class. Specific asset allocation policies shall be decided by UTIMCO and reported to the U. T. Board.

Performance Measurement

The investment performance of the Fund will be measured by an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the Fund. Such measurement will

occur at least annually, and evaluate the results of the total Fund, major classes of investment assets, and individual portfolios.

Investment Guidelines

The Fund must be invested at all times in strict compliance with applicable law. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment guidelines include the following:

General

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.
- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of Fund assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the Fund's tax-exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The Fund may utilize Derivative Securities with the approval of the UTIMCO Board to; a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) to facilitate trading; c) to reduce transaction costs; d) to seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) to index or to hedge risks associated with Fund investments; or f) to adjust the market exposure of the asset allocation, including long and short strategies; provided that: i) no leverage is employed in the implementation of such Derivative purchases or sales, ii) no more than 5% of Fund assets are required as an initial margin deposit for such contracts; iii) the Fund's investments in warrants shall not exceed more than 5% of the Fund's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges. Notwithstanding the above, leverage strategies are permissible within the alternative equities investment class with the approval of the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, the strategy implements systematic risk control techniques, value at risk measures, and pre-defined risk parameters.
- Such Derivative Securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or

index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.

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

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

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

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

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include internal short term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds must be approved by the chief investment officer.
- Deposits of the Texas State Treasury.
- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.

- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- Repurchase Agreements and Reverse Repurchase Agreements must be with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- ~~Repurchase Agreements shall be collateralized to 102% of their market value marked to market on a daily basis.~~
- ~~Reverse Repurchase Agreements and their coincident re-investment will be entered into on a matched book basis. The re-investment vehicles for the matched book transactions shall be the same Cash and Cash Equivalent instruments listed above. The rules for trading Repurchase Agreements and Reverse Repurchase Agreements shall follow the Public Securities Association standard industry terms.]~~
- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.
- Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
- Eligible Collateral Securities for Repurchase Agreements are limited to U. S. Treasury securities and U. S. Government Agency securities with a maturity of not more than 10 years.
- The maturity for a Repurchase Agreement may be from one day to two weeks.
- The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.
- All collateral shall be delivered to the PUF custodian bank. Tri-party collateral arrangements are not permitted.
- The aggregate amount of Repurchase Agreements with maturities greater than seven calendar days may not exceed 10% of the Fund's fixed income assets.
- Overnight Repurchase Agreements may not exceed 25% of the Fund's fixed income assets.

- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

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

- Not less than 50% of the market value of domestic fixed income securities shall be invested in direct obligations of the U. S. Treasury, U. S. government agencies, and U. S. government sponsored entities.
- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.
- The weighted average maturity of the domestic fixed income portfolio shall be not less than ten years unless approved in advance by the UTIMCO Board.

These guidelines shall not require the sale of any fixed income investments prior to their scheduled maturities unless the credit quality of the fixed income portfolio shall decline below Aa2.

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

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

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

Such derivatives shall be priced daily.

Market risk shall be measured in dollar duration equivalent values or in the case of options in delta or percentage of equivalent futures contracts.
For the purpose of this policy, Collateralized Mortgage Obligations (“CMOs”) are considered to be MBS, not derivatives.

Equities

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

Alternative Equities

Investments in alternative equities may be made through management contracts with unaffiliated organizations (including but not limited to limited partnerships, trusts, and joint ventures) so long as such organizations:

- possess specialized investment skills
- possess full investment discretion subject to the management agreement
- are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken
- align the interests of the investor group with the management as closely as possible
- charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated.

Investments in alternative equities also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the Fund has invested prior to the co-investment or in transactions sponsored by investment firms well-known to UTIMCO management, provided that such direct investments shall not exceed 25% of the market value of the alternative assets portfolio at the time of the direct investment.

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

Fund Distributions

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

- a) provide a predictable, stable stream of distributions over time
- b) ensure that the inflation adjusted value of distributions is maintained over the long-term
- c) ensure that the inflation adjusted value of Fund assets after distributions is maintained over the long-term.

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

The Texas Constitution requires that all dividends, interest and other income earned from Fund investments be distributed to the AUF. At the same time, the Constitution prohibits the distribution of mineral income contributed to the Fund and any realized and unrealized gains earned on such contributions.

UTIMCO shall be responsible for the establishment of the Fund's asset allocation so as to produce an annual income distribution that balances the needs of current beneficiaries with those of future beneficiaries. The Board explicitly recognizes that the generation of income under the Constitutional provisions governing the Fund is highly dependent upon the level of interest rates over which the UTIMCO Board has no control. It also recognizes that the distribution rate as a percentage of the Fund's assets is above average and that the maintenance of current levels of distributed income reduces the UTIMCO Board's ability to grow income over time.

Fund Accounting

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

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all Fund net assets. Such valuation of Fund assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

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

Securities Lending

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be February 11[+2], 1999[8].

**THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND
INVESTMENT POLICY STATEMENT**

Purpose

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

Fund Organization

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

Fund Management

Ultimate fiduciary responsibility for the Fund rests with the Board. Section 163 of the Property Code authorizes the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in the investment of the Fund. The Fund shall be governed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the Fund, b) determine specific asset allocation targets, ranges, and performance benchmarks consistent with Fund objectives, and c) monitor Fund performance against Fund objectives. UTIMCO shall invest the Fund assets in conformity with investment policy.

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

Fund Administration

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

Funds Eligible to Purchase Fund Units

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

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

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

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

Fund Investment Objectives

The primary investment objective shall be 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. The Fund's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objectives are 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 NACUBO over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect Fund's asset allocation policy targets.

Asset Allocation

Asset allocation is the primary determinant of investment performance and, subject to the asset allocation ranges specified herein, is the responsibility of UTIMCO. Specific asset allocation targets may be changed from time to time based on the economic and investment outlook. Fund assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

1. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.
2. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of Fund income. Such bonds should be high quality, and intermediate to long-term duration with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction.
3. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation of the Fund. Historically, returns for equities have been higher than for bonds over all extended periods. Therefore, equities represent the best chance of preserving the purchasing power of the Fund.
4. Alternative Equities - generally consist of alternative marketable investments and alternative non-marketable investments. Alternative equity investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative equity investments are that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund asset values through their characteristics of low correlation with listed equities and fixed income instruments. The disadvantages of this asset class are that they may be illiquid, require higher and more complex fees, and are frequently dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative equity investments shall be controlled with extensive due diligence and diversification.

Alternative Marketable Equities -

These investments are broadly defined to include hedge funds, arbitrage and special situation funds, high yield bonds, distressed debt, market neutral, commodities and other non-traditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. As such, they offer faster drawdown of committed capital and earlier realization potential than alternative non-marketable investments. Alternative marketable investments may be made through partnerships, but they will generally provide investors with liquidity at least annually.

Alternative Non-Marketable Investments -

These investments are held through either limited partnership or as direct ownership interests. They include special equity, mezzanine venture capital, oil and gas, real estate and other investments that are privately held and which are not registered for sale on public exchanges. In partnership form, these investments require a commitment of capital for extended periods of time with no liquidity. They also generally require an extended period of time to achieve targeted investment levels.

Asset Allocation Policy

The asset allocation policy and ranges herein recognize that the Fund's return/risk profile can be enhanced by diversifying the Fund's investments across different types of assets whose returns are not closely correlated. The targets and ranges seek to protect the Fund against both routine illiquidity in normal markets and extraordinary illiquidity during a period of extended deflation.

The long-term asset allocation policy for the Fund must recognize that the 5.5% real return objective requires a high allocation to broadly defined equities, including domestic, international stocks, and alternative equity investments, of 68% to 90%. The allocation to fixed income investments should therefore not exceed 32% of the Fund.

The Board delegates authority to UTIMCO to establish specific neutral asset allocations and ranges within the broad policy guidelines described above. UTIMCO may establish specific asset allocation targets and ranges for large and small capitalization U. S. stocks, established and emerging market international stocks, marketable and non-marketable alternative equity investments, and other asset classes as well as the specific performance objectives for each asset class. Specific asset allocation policies shall be decided by UTIMCO and reported to the U. T. Board.

Performance Measurement

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

Investment Guidelines

The Fund must be invested at all times in strict compliance with applicable law. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment guidelines include the following:

General

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

UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the Fund and the prices of Derivative Security investments by investing in only those contracts whose behavior is expected to resemble that of the Fund's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a Derivative Security contract and

the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of Derivative Securities purchased or sold over the counter may not represent more than 15% of the net assets of the Fund.

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

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

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

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include internal short term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds must be approved by the chief investment officer.
- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.
- Repurchase Agreements and Reverse Repurchase Agreements must be with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.

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

Fixed Income

Domestic Fixed Income

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

- Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed

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

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

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

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

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

Such derivatives shall be priced daily.

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

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

Non-U.S. Fixed Income

- Not more than 35% of the Fund's fixed income portfolio may be invested in non-U. S. dollar bonds. Not more than 15% of the Fund's fixed income portfolio may be invested in bonds denominated in any one currency.
- Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio.
- Not more than 7.5% of the Fund's fixed income portfolio may be invested in Emerging Market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

I. The Fund shall:

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

Alternative Assets

Investments in alternative assets may be made through management contracts with unaffiliated organizations (including but not limited to limited partnerships, trusts, and joint ventures) so long as such organizations:

- II. possess specialized investment skills
- III. possess full investment discretion subject to the management agreement
- IV. are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken
- V. align the interests of the investor group with the management as closely as possible
- VI. charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated.

Investments in alternative assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the Fund has invested prior to the co-investment or in transactions sponsored by investment firms well known to UTIMCO management, provided that such direct investments shall not exceed 25% of the market value of the alternative assets portfolio at the time of the direct investment.

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Fund assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and applied against UTIMCO management fees. Furthermore,

UTIMCO Board approval of UTIMCO management's service as a director of an investee company shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's service as a director of an investee company.

Fund Distributions

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

- a) provide a predictable, stable stream of distributions over time
- b) ensure that the inflation adjusted value of distributions is maintained over the long-term
- c) ensure that the inflation adjusted value of Fund assets after distributions is maintained over the long-term.

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

Pursuant to the Uniform Management of Institutional Funds Act, a governing board may distribute, for the uses and purposes for which the fund is established, the net realized appreciation in the fair market value of the assets of an endowment fund over the historic dollar value of the fund to the extent prudent under the standard provided by the Act. In addition, income may be distributed for the purposes associated with the endowments/foundations.

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

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

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

- B. If the inflationary increase in Step A. results in a distribution rate below 3.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit) the UTIMCO Board, at its sole discretion, may grant an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 4.5%.
- C. If the distribution rate exceeds 5.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit) the UTIMCO Board at its sole discretion, may reduce the per unit distribution amount.

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

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

Fund Accounting

The fiscal year of the Fund shall begin on September 1st and end on August 31st. Market value of the Fund shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, or industry guidelines, whichever is applicable. Significant asset write-offs or write-downs shall be approved by the chief investment officer and reported to the UTIMCO Board.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all Fund net assets and the net asset value per unit of the Fund. Such valuation of Fund assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

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

Purchase of Fund Units

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

In order to permit complete investment of funds and to avoid fractional units, any purchase amount will be assigned a whole number of units in the Fund based on the appropriate per unit value of the Fund. Any fractional amount of purchase funds which exceeds the market value of the units assigned will be transferred to the Fund but no units shall be issued. Each fund whose monies are invested in the Fund shall own an undivided interest in the Fund in the proportion that the number of units invested therein bears to the total number of all units comprising the Fund.

Redemption of Fund Units

Redemption of Units shall be paid in cash as soon as practicable after the quarterly valuation date of the Fund. If the withdrawal is greater than \$10 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than \$10 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the Fund's net asset value, the Board may redeem the requested units in installments and on a pro-rata basis over a reasonable period of time that takes into consideration the best interests of all Fund unitholders. Withdrawals from the Fund shall be at the market value price per unit determined for the period of the withdrawal except as follows: withdrawals to correct administrative errors shall be calculated at the per unit value at the time the error occurred. To be considered an administrative error, the contribution shall have been invested in the Fund for a period less than or equal to one year determined from the date of the contribution to the Fund. This provision does not apply to transfer of units between endowment unitholders.

Securities Lending

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

Investor Responsibility

As a shareholder, the Fund has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the Fund. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Fund solely in the interest of Fund unitholders and shall not invest the

Fund so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be February 11[12], 1999[8].

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

Purpose

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

Fund Organization

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

Fund Management

Ultimate fiduciary responsibility for the Fund rests with the Board. Section 163 of the Property Code authorizes the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in the investment of the Fund. The Fund shall be governed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the Fund, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with Fund objectives, and c) monitor Fund performance against Fund objectives. UTIMCO shall invest the Fund assets in conformity with investment policy.

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

Fund Administration

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

Funds Eligible to Purchase Fund Units

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

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

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

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

Fund Investment Objectives

The primary investment objective shall be to provide both income through investment in high grade fixed income and floating rate obligations and capital appreciation when consistent with income generation, reasonable preservation of capital and maintenance of adequate Fund liquidity. In seeking to achieve its objectives, the Fund shall attempt to minimize the probability of a negative total return over a one-year period. Within the exposure limits contained herein, investments shall be diversified among authorized asset classes and issuers (excluding the U. S. Government) in order to minimize portfolio risk for a given level of expected return.

Achievement of this objective shall be defined by a fund return in excess of the Policy Portfolio benchmark and the average return of the median manager of the MorningStar universe of government bond funds restricted to an average maturity of less than or equal to three years. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect Fund asset allocation policy targets.

Asset Allocation

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

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

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

Asset Allocation Policy

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

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

Performance Measurement

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

Investment Guidelines

The Fund must be invested at all times in strict compliance with applicable law. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment guidelines include the following:

General

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

UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the Fund and the prices of Derivative Security investments by investing in only those contracts whose behavior is expected to resemble that of the Fund's underlying securities.

UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a Derivative Security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of Derivative Securities purchased or sold over the counter may not represent more than 15% of the net assets of the Fund.

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

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

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

- ~~• The option adjusted duration of the portfolio shall be not less than one and not more than four years unless approved in advance by the UTIMCO Board.]~~
- The duration of any eligible investment shall not exceed 10 years.

Risk Management

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

Eligible Investments~~[Cash and Cash Equivalents]~~

Holdings of cash and cash equivalents may include the following.~~[internal short term pooled investment funds managed by UTIMCO.]~~

- Unaffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation.~~[must be approved by the chief investment officer.]~~

- Internal short term pooled investment fund managed by UTIMCO.
- Commercial paper, negotiable certificates of deposit, and Bankers' Acceptances must be rated at least A-1 by [in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or] Standard & Poor's Corporation and P-1 by Moody's Investors Service, Inc. [(A1 or A2).]
- Floating rate securities, if they meet the single security duration criteria and are based on a spread over or under a well known index such as LIBOR or a Constant Maturity Treasury index. No internally leveraged floating rate securities are permitted (i.e. a coupon equivalent to a formula that creates a multiplier of an index value). The following types of floating rate securities are not eligible for investment: inverse floaters, non-money market based floaters, interest only or principal only floaters, non-dollar based floaters, and range note floaters.
- ~~Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.~~
- ~~Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.]~~
- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a [domestic] dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a P[p]rimary D[d]ealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent. [or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.]
- Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
- Eligible Collateral Securities for Repurchase Agreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
- The maturity for a Repurchase Agreement may be from one day to two weeks.
- The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.
- All collateral shall be delivered to the SITF custodian bank. Tri-party collateral arrangements are not permitted.
- Reverse Repurchase Agreements shall be used to fund the liquidity facility for the University of Texas System revenue financing notes.
- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the Fund's total assets.
- Overnight repurchase agreements may not exceed 25% of the Fund's total assets.

[Fixed Income]

Holdings of eligible~~[domestic]~~ fixed income securities shall be limited to the following:

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

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

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

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

Such derivatives shall be priced daily.

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

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

Fund Distributions

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

Fund Accounting

The fiscal year of the Fund shall begin on September 1st and end on August 31st. Market value of the Fund shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, or industry guidelines, whichever is applicable. Significant asset write-offs or write-downs shall be approved by the chief investment officer and reported to the UTIMCO Board.

Valuation of Assets

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

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

Purchase of Fund Units

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

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

Redemption of Fund Units

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

Securities Lending

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be February 11[12], 1999[8].

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

Purpose

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

Fund Organization

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

Fund Management

Ultimate fiduciary responsibility for the Fund rests with the Board. Section 163 of the Property Code authorizes the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in the investment of the Fund. The Fund shall be governed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the Fund, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with Fund objectives, and c) monitor Fund performance against Fund objectives. UTIMCO shall invest the Fund assets in conformity with investment policy.

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

Fund Administration

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

Funds Eligible to Purchase Fund Units

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

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

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

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

Fund Investment Objectives

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

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

Asset Allocation

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

Fund assets shall be allocated among the following broad asset class:

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

Performance Measurement

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

Investment Guidelines

The Fund must be invested at all times in strict compliance with applicable law. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment guidelines include the following:

General

- All investments will be U. S. dollar denominated assets.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of Fund assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the Fund's tax-exempt status.
- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The Fund may utilize Derivative Securities with the approval of the UTIMCO Board to; a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) to facilitate trading; c) to reduce transaction costs; d) to seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) to index or to hedge risks associated with Fund investments; or f) to adjust the market exposure of the asset allocation, including long and short strategies; provided that; i) no leverage is employed in the implementation of such Derivative purchases or sales; ii) no more than 5% of Fund assets are required as an initial margin deposit for such contacts; iii) the Fund's investments in

- warrants shall not exceed more than 5% of the Fund's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- Such Derivative Securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.

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

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

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

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

- [• ~~The weighted average maturity of the portfolio shall not be more than 90 days. Individual securities shall have a remaining maturity not longer than 397 days.]~~

Eligible Investments[Cash and Cash Equivalents]

- ~~Unaffiliated liquid investment funds must be approved by the chief investment officer.~~
- ~~Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).~~
- ~~Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.~~
- ~~Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.~~
- ~~Repurchase Agreements and Reverse Repurchase Agreements must be with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.]~~
- The weighted average maturity of the portfolio shall not be more than 60[90] days. Individual securities shall have a remaining maturity not longer than 397 days. The maturity of a portfolio security shall be deemed to be the period remaining (calculated from the trade date or such other date on which the Fund's interest in the security is subject to market action) until the date noted on the face of the security as the date on which the principal amount must be paid, or in the case of a security called for redemption, the date on which the redemption payment must be made, except that a) a variable rate security, the principal amount of which is scheduled on the face of the security to be paid in 397 days or less, shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate; b) a variable rate security that is subject to a demand feature shall be deemed to have a maturity equal to the longer of the period remaining until the next readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand; c) a floating rate security that is subject to a demand feature shall be deemed to have a maturity equal to the period remaining until the principal amount can be recovered through demand; d) a repurchase agreement shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur, or, where no date is specified, but the agreement is subject to a demand, the notice period applicable to a demand for the repurchase of the securities. A demand feature shall mean a put that entitles the holder to receive the principal amount of the underlying security or securities and that may be exercised either at any time on no more than 30 days notice or at specified intervals not exceeding 397 days and upon no more than 30 days notice.

Holdings of cash and cash equivalents may include the following:

- Unaffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation.
- Commercial paper, negotiable certificates of deposit, and Bankers' Acceptances must be rated at least A-1 by Standard & Poor's Corporation and P-1 by Moody's Investors Service, Inc.
- Floating rate securities, if they meet the single security duration criteria and are based on a spread over or under a well known index such as LIBOR or a Constant Maturity Treasury index. No internally leveraged floating rate securities are permitted (i.e. a coupon equivalent to a formula that creates a multiplier of an index value). The following types of floating rate securities are not eligible for investment: inverse floaters, non-money market based floaters, interest only or principal only floaters, non-dollar based floaters, and range note floaters.
- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.
 - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
 - Eligible Collateral Securities for Repurchase Agreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
 - The maturity for a Repurchase Agreement may be from one day to two weeks.
 - The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.
 - All collateral shall be delivered to the STF custodian bank. Tri-party collateral arrangements are not permitted.
 - The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the Fund's total assets.
 - Overnight repurchase agreements may not exceed 50% of the Fund's total assets.

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

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

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

Such derivatives shall be priced daily.

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

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

Fund Distributions

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

Fund Accounting

The fiscal year of the Fund shall begin on September 1st and end on August 31st. Market value of the Fund shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, or industry guidelines, whichever is applicable. Significant asset write-offs or write-downs shall be approved by the chief investment officer and reported to the UTIMCO Board.

Valuation of Assets

As of the close of business on each business day, UTIMCO shall determine the fair market value of all Fund net assets. Such valuation of Fund assets shall be based on the bank trust custody agreement in effect at the date of valuation.

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

Purchase of Fund Units

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

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

Redemption of Fund Units

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

Securities Lending

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be February 11[12], 1999[8].

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

Purpose

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

Investment Management

Ultimate fiduciary responsibility for the assets of the Accounts rests with the Board. Section 163 of the Property Code authorizes the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in the investment of the institutional assets for the Account (endowment and operating accounts). The applicable trust instrument will apply to the management of trust investments. The assets for the Account shall be governed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the Accounts, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with the Account objectives, and if appropriate c) monitor the Account's performance against Account objectives. UTIMCO shall invest the Account's assets in conformity with investment policy.

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

Account Administration

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

Investment Objectives

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

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

Operating Accounts-These are separate operating accounts of the Component institutions which invest in the Equity Index Fund B and the U. S. Debt Index Fund B. The amount of component operating funds invested in the index funds is governed by the U. T. System Financial Policy. [~~These are separately invested securities of component institutions' operating funds that were purchased prior to the creation of the S/TF. These securities are guaranteed by the government or federally sponsored agencies. Once these securities mature, the component institutions have the option to invest them in one of the pooled investment fund vehicles.~~]

Asset Allocation

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

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

1. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.
2. Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of income

for the Account. Such bonds should be high quality, with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction. This classification shall include fixed income mutual funds.

3. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation for the Account. Historically, returns for equities have been higher than for bonds over all extended periods. Therefore, equities represent the best chance of preserving the purchasing power of the Account. This classification shall include equity mutual funds.

Variable Annuities- These are insurance contracts purchased on the life or lives of the income beneficiaries and for which the funds underlying the contract are invested in various mutual funds which offer diversification of the Account's assets. These contracts offer some downside market risk protection in case of the income beneficiary's death in the early years of the contract. These investment assets are only appropriate for the charitable remainder trusts.

Asset Allocation Policy

The asset allocation policy and ranges for each trust or endowment herein is dependent on the terms and conditions of the endowment or trust document. With respect to the operating accounts, the U. T. System financial policies shall govern. If possible, the Account's assets shall be diversified among different types of assets whose returns are not closely correlated in order to enhance the return/risk profile of the Account.

The Board delegates authority to UTIMCO to establish specific asset allocation targets and ranges for each trust or endowment Account.

Performance Measurement

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

Investment Guidelines

The Accounts must be invested at all times in strict compliance with applicable law. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment guidelines include the following:

General

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.

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

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

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

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

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

Risk Management

- Credit risk shall be controlled by UTIMCO who is responsible for the development and maintenance of credit quality standards for the Account.
- Not more than 5% of the total value of the securities in the Account shall be placed with any one issuer (i.e., Commercial Paper, Certificates of Deposit, or Bankers Acceptances) other than the U. S. Treasury, U. S. Agency or Government Sponsored entities.
- Counterparty exposure in the area of Repurchase Agreements and Reverse Repurchase Agreements shall not be more than 5% of the total value of the securities in the Account shall be placed with any one counterparty.

Eligible Investments[Cash and Cash Equivalents]

Holdings of cash and cash equivalents may include the following:~~[internal short term pooled investment funds managed by UTIMCO.]~~

- Unaffiliated liquid (Money Market Funds) investment funds rated AAA_M by Standard & Poor's Corporation.~~[must be approved by the chief investment officer.]~~
- Internal short term pooled investment fund managed by UTIMCO.

- Commercial paper, negotiable certificates of deposit, and Bankers' Acceptances must be rated at least A-1 by [in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or] Standard & Poor's Corporation and P-1 by Moody's Investors Service, Inc. [(A1 or A2).]
- Floating rate securities, if they are based on a spread over or under a well known index such as LIBOR or a Constant Maturity Treasury index. No internally leveraged floating rate securities are permitted (i.e., a coupon equivalent to a formula that creates a multiplier of an index value). The following types of floating rate securities are not eligible for investment: inverse floaters, non-money market based floaters, interest only or principal only floaters, non-dollar based floaters, and range note floaters.
- [• ~~Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.~~
- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.]
- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a [domestic] dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a P[p]rimary D[d]ealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent. [; or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.]
 - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
 - Eligible Collateral Securities for Repurchase Agreements are limited to U. S. Treasury securities and U. S. Government Agency securities with a maturity of not more than 10 years.
 - The maturity for a Repurchase Agreement may be from one day to two weeks.
 - The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.
 - All collateral shall be delivered to the Account's custodian bank. Tri-party collateral arrangements are not permitted
 - The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the Account's total assets.
 - Overnight repurchase agreements may not exceed 10% of the Account's total assets.
- [• ~~Repurchase Agreements shall be collateralized to 102% of their market value marked to market on a daily basis.~~

- ~~Reverse Repurchase Agreements and their coincident re-investment will be entered into on a matched book basis. The re-investment vehicles for the matched book transactions shall be the same Cash and Cash Equivalent instruments listed above. The rules for trading Repurchase Agreements and Reverse Repurchase Agreements shall follow the Public Securities Association standard industry terms.]~~
- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

[Fixed Income

Domestic Fixed Income]

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

- Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-indices; 1) Government: Treasury and Agency; 2) Corporate: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; and 4) Asset-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.
- U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition.
- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa or BBB, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, Fitch Investors Service.

[Non-U.S. Fixed Income]

- Not more than 35% of the Account's [Fund's] fixed income portfolio may be invested in non-U. S. dollar bonds. Not more than 15% of the Account's [Fund's] fixed income portfolio may be invested in bonds denominated in any one currency.
- Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio.
- Not more than 7.5% of the Account's [Fund's] fixed income portfolio may be invested in Emerging Market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.
- Permissible securities for investment include Fixed Income Mutual Funds as approved by the Chief Investment Officer.
- Permissible securities for investment include Fixed Income Variable Annuity Contracts as approved by the Chief Investment Officer.

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

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

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

Such derivatives shall be priced daily.

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

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

Equities

- I. The Account may purchase equity securities as long as it
 - A. holds no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market.

B. holds no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the Chief Investment Officer.

These provisions do not apply to an endowment in which the agreement prohibits the sale of an equity security.

II. The Account may purchase Equity Mutual Funds and Equity Variables Annuity Contracts as approved by the Chief Investment Officer.

Distributions

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

Accounting

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

Valuation of Assets

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

Securities Lending

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

Investor Responsibility

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

Amendment of Policy Statement

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

Effective Date

The effective date of this policy shall be February 11[12], 19998.

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. ITEM FOR THE RECORD

U. T. System: Report Related to the Formula for Component Assessment for Support of Information Technology Services.--

REPORT

At the February 1998 meeting, the U. T. Board of Regents authorized the Executive Vice Chancellor for Business Affairs to establish partial cost recovery procedures effective for Fiscal Year 1999 for three U. T. System Information Technology Initiatives [Enterprise Telecommunications Infrastructure, Knowledge Management Services, and Distance Education Leading to a Virtual University (UT TeleCampus)]. The authorization noted that the procedures to be established may include proportional assessments to the U. T. System component institutions. Although action taken by the Board in February 1998 delegated the establishment of the assessment structure to the Executive Vice Chancellor for Business Affairs, the Minutes for that meeting included statements that the institutional share of the Enterprise Telecommunications Infrastructure would be prorated on the basis of an institution's total expenditures and that the costs for operating the Digital Library (formerly known as the Knowledge Management Center) would be recovered through assessment based on full-time equivalent (FTE) student enrollment and FTE faculty positions (50%) and total budget expenditures (50%).

Following additional review and consultation with the component institutions, Executive Vice Chancellor Burck has approved a modified assessment formula recommended by the Vice Chancellor for Telecommunications and Information Technology, with assessment determined as follows:

- a. Enterprise Telecommunications Infrastructure: proportional, based on instruction and research expenditures
- b. Digital Library Services: proportional, based on instruction and research expenditures (50%) and on FTE faculty and students (50%).

While the Cost Recovery Goals presented to the U. T. Board of Regents are unchanged, this report clarifies the assessment structure currently in use.

M. REPORT OF BOARD FOR LEASE OF UNIVERSITY LANDS

REPORT

The Board for Lease of University Lands met on Wednesday, November 18, 1998, in the Regents' Meeting Room on the ninth floor of Ashbel Smith Hall in Austin, Texas, for a general business meeting and to award leases for Regular Oil and Gas Lease Sale No. 94 and Frontier Oil and Gas Lease Sale No. 94-A. Bids were opened at the Center for Energy and Economic Diversification in Midland, Texas, on Tuesday, November 17, 1998.

Following is a report on the results of the Regular Oil and Gas Lease Sale No. 94:

Total bonuses received in the amount of \$577,821.48 for 8,947.586 acres (31 tracts) leased; single highest bid was \$97,742.30 (\$302/acre) for a 323.65 acre tract in Andrews County; 20,438.172 acres (65 tracts) nominated for lease.

Following is a report on the results of Frontier Oil and Gas Lease Sale No. 94-A:

No bids received; 11,056.800 acres in El Paso County were offered for lease.

Following is a report on the November 18, 1998, general business meeting:

- a. Approved the Minutes of the September 28, 1998, meeting of the Board for Lease
- b. Approved lease procedures and terms for Regular Oil and Gas Lease Sale No. 95 to be held in May 1999
- c. Approved management of the royalty-in-kind programs as presented by the staff
- d. Staff made a presentation to the Board members in appreciation for their leadership and guidance during the members' service on the Board for Lease of University Lands.

The next meeting of the Board for Lease of University Lands and lease awards for Regular Oil and Gas Lease Sale No. 95 is scheduled at the Center for Energy and Economic Diversification in Midland, Texas, on Wednesday, May 19, 1999.

N. OTHER MATTERS

U. T. Board of Regents: Certificate of Appreciation.--

O. SCHEDULED EVENTS

1. Board of Regents' Meetings

<u>Dates</u>	<u>Locations/Hosts</u>
May 12-13, 1999	U. T. Pan American
August 11-12, 1999	U. T. Medical Branch - Galveston
November 10-11, 1999	U. T. Southwestern Medical Center - Dallas

2. Official Commencements - 1999

May 8	U. T. Brownsville U. T. Permian Basin U. T. Tyler
May 15	U. T. El Paso U. T. Pan American U. T. San Antonio
May 15-16	U. T. Arlington
May 22	U. T. Austin U. T. Dallas U. T. Medical School - San Antonio
June 5	U. T. Southwestern Medical School - Dallas and U. T. Southwestern G.S.B.S. - Dallas U. T. Medical School - Houston
August 13	U. T. Allied Health Sciences School - Galveston

3. Other Events

September 9, 1999	U. T. M.D. Anderson Cancer Center: Faculty Honors Convocation
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P. ADJOURNMENT

1999

JANUARY

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Executive Committee

EXECUTIVE COMMITTEE
Committee Chairman Evans

Date: February 11, 1999

Time: Following the Reconvening of the Board of Regents at 9:30 a.m.

Place: Frank C. Erwin, Jr. Atrium, Eighth Floor, Lyndon Baines Johnson
Library and Museum, 2313 Red River Street, U. T. Austin

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: February 11, 1999
Time: Following the Meeting of the Executive Committee
Place: Frank C. Erwin, Jr. Atrium, Eighth Floor, Lyndon Baines Johnson
Library and Museum, 2313 Red River Street, U. T. Austin

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3. U. T. Board of Regents: Proposed Adoption of the Eighth Supplemental Resolution to the Master Resolution Authorizing the Issuance of Board of Regents of The University of Texas System Revenue Financing System Refunding Bonds, Series 2001, in an Aggregate Amount Not to Exceed \$85,000,000; Appointment of Bankers Trust Company, New York, New York, as Paying Agent/Registrar; Appointment of Chase Bank of Texas, N.A., Dallas, Texas, as Escrow Agent; Appointment of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, as Bond Counsel; Appointment of Dain Rauscher Incorporated, Dallas, Texas, as Financial Advisor; Authorization for Officers of U. T. System to Enter into Master Interest Rate Swap Agreements with Goldman Sachs Mitsui Marine Derivative Products, L.P., Lehman Brothers Financial Products Inc., and Morgan Guaranty Trust Company of New York and 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 5
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4. U. T. System: Progress Report on the Institutional Compliance Initiative 260

1. U. T. System: Recommendation to Approve Chancellor's Docket No. 96.--

RECOMMENDATION

It is recommended that Chancellor's Docket No. 96 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 One, Chapter I, Section 9, Subsection 9.2, Subdivision 9.29 (Delegation of Authority to Execute and Deliver Contracts, Agreements, and Documents).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor for Academic Affairs that the Regents' Rules and Regulations, Part One, Chapter I, Section 9, Subsection 9.2, Subdivision 9.29, regarding delegation of authority to execute and deliver contracts, agreements, and documents, be amended as set forth below in congressional style:

9.2 ...

- 9.29 The following [All] contracts and agreements must be approved by the Board via the docket or the agenda, regardless of the contract amount:
 - 9.291 Contracts and agreements of any kind or nature with a foreign government or agency thereof, except affiliation agreements prepared on the standard form approved by the Office of General Counsel.

9.292 [~~and all e~~]Contracts and agreements for sponsored research with a corporation or other entity organized and operating under the laws of a foreign state [~~must be approved by the Board via the docket or the agenda~~].

BACKGROUND INFORMATION

The proposed amendments to the Regents' Rules and Regulations, Part One, Chapter I, Section 9, Subsection 9.2, Subdivision 9.29, regarding delegation of authority to execute and deliver contracts, agreements, and documents, will streamline the process for approval of standard foreign affiliation agreements by eliminating the need for approval by the Executive Vice Chancellor for Health Affairs or the Vice Chancellor for Academic Affairs and subsequent approval by the U. T. Board of Regents. The chief administrative officer or his or her designate will have approval authority for affiliation agreements prepared on the standard form approved by the Office of General Counsel.

3. U. T. Board of Regents: Proposed Adoption of the Eighth Supplemental Resolution to the Master Resolution Authorizing the Issuance of Board of Regents of The University of Texas System Revenue Financing System Refunding Bonds, Series 2001, in an Aggregate Amount Not to Exceed \$85,000,000; Appointment of Bankers Trust Company, New York, New York, as Paying Agent/Registrar; Appointment of Chase Bank of Texas, N.A., Dallas, Texas, as Escrow Agent; Appointment of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, as Bond Counsel; Appointment of Dain Rauscher Incorporated, Dallas, Texas, as Financial Advisor; Authorization for Officers of U. T. System to Enter into Master Interest Rate Swap Agreements with Goldman Sachs Mitsui Marine Derivative Products, L.P., Lehman Brothers Financial Products Inc., and Morgan Guaranty Trust Company of New York and 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 Eighth Supplemental Resolution to the Master Resolution substantially in the form set out on Pages BAAC 10 - 255 to authorize the issuance of Board of Regents of The University of Texas System Revenue Financing System Refunding Bonds, Series 2001, in an aggregate principal amount not to exceed \$85,000,000 and maturing not later than 2013, to be used to refund Revenue Financing System Bonds, Series 1991A and Series 1991B, and to pay the cost of issuance
- b. Appoint Bankers Trust Company, New York, New York, as Paying Agent/Registrar
- c. Appoint Chase Bank of Texas, N. A., Dallas, Texas, as Escrow Agent

- d. Appoint McCall, Parkhurst & Horton L.L.P., Dallas, Texas, as Bond Counsel
- e. Appoint Dain Rauscher Incorporated, Dallas, Texas, as Financial Advisor
- f. Authorize appropriate officers and employees of the U. T. System as set forth in the Eighth Supplemental Resolution to enter into master interest rate swap agreements with Goldman Sachs Mitsui Marine Derivative Products, L.P., Lehman Brothers Financial Products Inc., and Morgan Guaranty Trust Company of New York and to execute confirmations under such agreements in connection with the issuance of the Series 2001 Bonds as contemplated in the Eighth Supplemental Resolution
- 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, including the selection of the underwriters and remarketing agent for the Series 2001 Bonds.

The Chancellor also concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, that, in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System (the "Master Resolution"), 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 - 256, the U. T. Board of Regents resolves that:

- a. Parity Debt shall be issued to refund outstanding revenue financing system debt and the financial obligations of the Board under the interest rate swap agreements will constitute parity debt

- 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, including the obligation to pay the purchase price of tendered Bonds and the obligations under the interest rate swap agreements, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System
- c. U. T. component institutions, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance and incurrence by the U. T. Board of Regents of Parity Debt.

BACKGROUND INFORMATION

The Internal Revenue Code allows outstanding bonds to be advance refunded (refunded prior to the bond's call date) once if the original bonds were issued after 1986. In 1991, Revenue Financing System Bonds, Series 1991A and 1991B, were issued to advance refund Series 1986 outstanding bonds, which resulted in a lower interest cost. The Series 1991A and 1991B bonds have interest rates ranging from 6.6% to 7% and are callable August 15, 2001. On the call date, new bonds can be issued to refund the outstanding debt. With the historically low interest rate environment, locking in today's rates is more desirable than waiting until 2001 and bearing the risk that interest rates may be higher. It is understood that rates could decline by the Year 2001. However, based on most economic projections and the current historically low interest rate environment, the U. T. System Office of Finance projects that there is a greater possibility that rates will be equal to or higher by Year 2001.

The ability to lock into a rate now can be achieved through a forward delivery contract wherein bonds are sold at today's market rates and delivered in 2001. The Board could also lock into today's market rates through a forward floating to fixed interest rate swap. In today's market, the forward floating to fixed interest rate swap is more cost effective.

Procedurally, the Eighth Supplemental Resolution authorizes the staff to enter into interest rate swap agreements with Goldman Sachs Mitsui Marine Derivative Products L.P., Lehman Brothers Financial Products Inc., and Morgan Guaranty Trust Company of New York. A fourth firm, Societe Generale, was also considered, but it withdrew after conversations about ratings and collateral. The actual swap provider(s) (also known as the counterparty) will be selected through a competitive bid process with the bids to be reviewed by the Office of Finance, Dain Rauscher Incorporated, the financial advisor, and McCall, Parkhurst & Horton L.L.P., bond counsel. Once the counterparty is selected, the forward floating to fixed interest rate swap will be executed by entering into a confirmation with the counterparty, under which rates are agreed upon in today's market to be effective ninety days prior to the call date. Following the February 1999 Board meeting, any final issues between the parties will be negotiated and the agreements will be executed. At about the same time, the Bond Review Board will approve the bond issue and a transcript of proceedings will be filed with the Attorney General's Office for their review and approval. Following receipt of these approvals, and assuming that market conditions are relatively unchanged, the staff will solicit bids from each of the counterparties for a floating to fixed interest rate swap with a notional amount equal to the principal amount of the bonds. The bids will be solicited upon the assumption that the Series 2001 Bonds will be issued as variable rate instruments. As set forth in the Eighth Supplemental Resolution, upon receipt of the bids, the staff will accept the lowest rate bid. Upon acceptance of the bid, a confirmation will be executed. The confirmation establishes the terms of that particular swap transaction under the respective master swap agreements. The effect of the swap transaction will be to establish a fixed rate for the Series 2001 Bonds upon delivery in 2001.

Prior to the call date of August 15, 2001, the Office of Finance will review the then current interest rates to determine if it is economically advantageous to leave the swap outstanding and issue the Series 2001 Bonds at variable rates or to terminate the swap and issue the Series 2001 Bonds with fixed rates. Proceeds from the variable rate or the fixed rate Series 2001 Bonds would be used to refund the outstanding Revenue Financing System Bonds, Series 1991A and 1991B.

If tax-exempt interest rates in 2001 are lower than the rate established in the swap confirmation, the swap may be terminated by The University of Texas System ("System") with the payment of a termination fee. This fee is calculated by comparing the value of the swap at the Year 2001 level of interest rates with the value of the swap using the swap interest rates. The present value of the difference is the amount of the termination fee plus the forward premium associated with the swap. If the swap was terminated and the System was to pay a termination fee, the System

would offset the fee by issuing fixed rate bonds in a lower interest rate environment. If tax-exempt interest rates in 2001 are higher than the rate established in the swap agreement, the swap may be terminated by the System with receipt of a termination fee from the counterparty. The termination fee would reduce the debt service on long term bonds that would be issued in the higher interest rate environment.

If the U. T. System decides to issue variable rate rather than fixed rate Series 2001 Bonds to refund the Series 1991A and 1991B Bonds, the swap will remain outstanding. The Board will pay a fixed rate to the counterparty and receive a floating rate based on a percent of either the London Interbank Offer Rate (LIBOR), the Bond Market Association Swap index, or the actual bond rate swap. The selection of the floating rate will be determined with the execution of the confirmation to the swap agreement.

Three major risks have been considered in the evaluation of the forward floating to fixed rate swap. The risks include failure of the counterparty to be able to perform its financial obligation, a change in federal law regarding tax-exempt debt which would reduce or eliminate the tax advantage of tax-exempt debt, and the risk that the rate the System pays to its variable rate Bondholders will not match the variable rate received from the counterparty. The risk of failure to make a payment by the counterparty is mitigated by a requirement to post collateral if the long-term credit rating of the counterparty falls to or below AA- by Standard & Poor's or Aa3 by Moody's Investors Service. At the same time, if the System rating falls to these levels, it must post collateral. The second risk involves a change in federal law that would affect the tax advantage of tax-exempt debt. This is a risk that the System assumes with all of its current outstanding short-term debt and therefore must be evaluated on an ongoing basis. The third risk involves a mismatch of the variable rate that the System receives versus payment by the System of a variable rate to the holders of Series 2001 Bonds. This risk can be reduced by selecting a swap index that closely matches the System's variable rate debt.

**EIGHTH 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**

January 11, 1999

EIGHTH 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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EIGHTH 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 Seventh 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 variable rate demand bonds or long term fixed rate bonds to refund the outstanding Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1991A and Series 1991B maturing on August 15, 2002 through August 15, 2013 in the aggregate principal amount of \$80,530,000 (the "Refunded Obligations"); and

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

WHEREAS, the bonds (the "Bonds") authorized to be issued by this Eighth 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 AND CONSTRUCTION OF TERMS (a) Definitions. In addition to the definitions set forth in the preamble of this Eighth Supplement, the terms used in this Eighth Supplement and not otherwise defined shall have the meanings given in the Master Resolution or in Exhibit "A" to this Eighth Supplement attached hereto and made a part hereof.

(b) Construction of Terms. If appropriate in the context of this Eighth Supplement, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine, or neuter gender shall be considered to include the other genders.

Section 2. THE BONDS. (a) Amount, Purpose, and Designation. The Board's "BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM REVENUE FINANCING SYSTEM REFUNDING BONDS, SERIES 2001", are hereby authorized to be issued and delivered in the maximum aggregate principal amount of \$85,000,000, FOR THE PURPOSE OF REFUNDING \$80,530,000 IN AGGREGATE PRINCIPAL AMOUNT OF THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM REVENUE FINANCING SYSTEM BONDS, SERIES 1991A AND SERIES 1991B AND PAYING THE COSTS RELATED THERETO.

(b) Terms of Bonds. The Bonds shall initially be issued, sold, and delivered hereunder in the form of fully registered bonds, without interest coupons, numbered consecutively from R-1 upward, 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 Authorized Denominations, maturing not later than August 15, 2013, 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.

(c) 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 and carrying out the other procedures specified in this Eighth Supplement, including determining and fixing the initial Mode, the date of the Bonds, any additional or different designation or title by which the Bonds shall be known, the price at which the Bonds will be sold, the year or years in which the Bonds will mature, the principal amount to mature in each of such years, the aggregate principal amount of the Bonds, the dates, price, and terms upon and at which the Bonds 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, delivery and remarketing of the Bonds, 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 the price to be paid for the Bonds shall not be less than 95% of the aggregate original principal amount thereof plus accrued interest thereon, if any, from its date to its delivery. It is further provided, however, that, notwithstanding the foregoing provisions, the Bonds shall not be delivered unless prior to delivery, the Bonds have been rated by a nationally recognized rating agency for municipal securities in one of the four highest rating categories for long term obligations, if the Bonds are initially issued in the Fixed Rate Mode, or one of the three highest rating categories of short term obligations, if the Bonds are initially issued in the Weekly Mode, 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 Eighth Supplement and shall be filed in the minutes of the Board as a part of this Eighth Supplement.

(d) Sale of Bonds. It is hereby found and determined to be in the best interests of the Financing System for the Bonds to be issued under this Eighth Supplement to be sold through a negotiated sale pursuant to the procedures set forth herein. The U.T. System Representative shall select the senior managing underwriter for the Bonds and such additional investment banking firms as he or she deems appropriate to assure that the Bonds are sold on the most advantageous terms to the Financing System. The U.T. System Representative, acting for and on behalf of the Board, is authorized to enter into and carry out a Bond Purchase Contract with the Underwriter for the Bonds at such price, with and subject to such terms as determined by the U.T. System Representative pursuant to Section 2(c) above.

(e) Payment of the Bonds. Subject to the provisions related to the book-entry only system of Section 6 hereof, principal of, and premium, if any, on the Bonds shall be payable to the Registered Owners thereof by wire or bank transfer of immediately available funds upon presentation and surrender of the Bonds as the same become due at the Principal Office of the Paying Agent/Registrar. Interest on the Bonds shall be paid at the times, places, and in the manner as provided in the Form of Bonds. Such interest shall be paid notwithstanding the cancellation of any Bonds upon any exchange or registration of transfer thereof subsequent to the Record Date and prior to such Interest Payment Date, except that, if and to the extent there shall be a default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the Bondholders in whose names any such Bonds (or any Bond or Bonds issued upon registration of transfer or exchange thereof) are registered at the close of business on any Special Record Date determined by the Paying Agent/Registrar as provided in the Form of Bond. Payment of principal of, premium, if any, and interest on the Bonds and the Purchase Price of the Bonds shall be made in such lawful money of the United States of America as, at the respective times of payment, shall be legal tender for the payment of public and private debts.

The Bonds shall initially bear interest from the Issue Date. Thereafter, the Bonds shall bear interest from the Interest Payment Date to which interest has been paid or duly provided for, or unless no interest has been paid or duly provided for on the Bonds, in which case from the Issue Date until paid, in each case at the rates provided for in Section 3 hereof and as provided in the Bonds. If, as shown by the records of the Paying Agent/Registrar, interest on the Bonds is in default, Bonds issued in exchange for Bonds surrendered for registration of transfer or exchange shall note such default and shall bear interest from the date to which interest has been paid in full on the Bonds, or, if no interest has been paid on the Bonds, from the Issue Date. Each Bond shall bear interest on overdue principal and, to the extent permitted by law, on overdue interest at the interest rate in effect on the date which such principal and interest became due and payable.

With respect to Bonds in the Weekly Mode, on the Business Day before each Interest Payment Date and for Bonds in the Fixed Rate Mode, on the last day of the calendar month prior to each Interest Payment Date, the Paying Agent/Registrar shall calculate the amount of interest to be paid on the next succeeding Interest Payment Date and shall, not later than 2:00 p.m., New York City time, on such date the calculation is made, notify the Board and, while the Bonds are in a Weekly Mode, the Remarketing Agent of the amount of interest to be paid. Any contest by the Board of the amount calculated by the Paying Agent/Registrar to be due on an Interest Payment Date shall not

relieve the Board of its obligation to pay such amount to enable the Paying Agent/Registrar to pay the interest payable on the Bonds on such Interest Payment Date.

(f) In General. The Bonds (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, (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 Eighth 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 the Bonds.

(g) 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 initially issued and delivered pursuant to this Eighth 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 Eighth Supplement and the Award Certificate.

Section 3. INTEREST; TENDERS AND REMARKETING; AND CONVERSION. (a) Interest. The interest rate on the Bonds, as provided in the Bonds, will be the lesser of (i) the Maximum Rate or (ii) the rate determined as provided in this Section 3. In no event shall the Interest Rate exceed the Maximum Rate. Initially, the Bonds shall bear interest determined by the Remarketing Agent if the Bonds are initially issued in the Weekly Mode and by the U.T. System Representative if the Bonds are initially issued in the Fixed Rate Mode in accordance with the Award Certificate. Interest on the Bonds in a Weekly Mode shall be payable on the applicable Interest Payment Date as herein described, computed on the basis of a 365 or 366-day year, as applicable for the number of days actually elapsed based upon the calendar year in which the Rate Period for that Bond commences. The interest on the Bonds in a Fixed Rate Mode shall be payable on the applicable Interest Payment Date as herein described, computed on the basis of a 360-day year of twelve 30-day months. The amount of interest due on any Interest Payment Date shall be the amount of unpaid interest accrued on the Bonds through the day preceding such Interest Payment Date and if any payment, redemption or maturity date is not a Business Day, then the payment may be made on the next succeeding Business Day with the same force and effect as if made on the specified payment date and no interest shall accrue for the period after the specified payment date. Any Bondowner may ascertain the applicable interest rate and Rate Period at any time by contacting the Paying Agent/Registrar or the Remarketing Agent. Each determination and redetermination of the applicable interest rate and Rate Period shall be conclusive and binding on the Paying Agent/Registrar, the Board, and the Bondowners.

(A) **Weekly Mode.**

(1) Determination of Weekly Rates. The Weekly Rate shall be the rate of interest determined by the Remarketing Agent for each Interest Rate Period, to be the lowest rate which in its judgment, on the basis of prevailing financial market conditions, would permit the sale of the Bonds in the Weekly Mode at par plus accrued interest on and as of the

Effective Date, as defined below, but not in excess of the Maximum Rate. The Remarketing Agent shall determine the initial Weekly Rate on or before the Issue Date if the Bonds are initially issued in the Weekly Mode. Thereafter, the Remarketing Agent shall redetermine the Weekly Rate for each subsequent Interest Rate Period. The Weekly Rate in effect for each Interest Rate Period shall be determined not later than the Effective Date which shall be a Wednesday. The Remarketing Agent shall notify the Paying Agent/Registrar and the Board of the Weekly Rate by Electronic Notice not later than 10:00 a.m., New York City time, on the Effective Date. Each determination and redetermination of the Weekly Rate shall be conclusive and binding on the Board, the Paying Agent/Registrar, and the Bondowners. If for any reason the Remarketing Agent fails to determine the Weekly Rate or if for any reason such manner of determination shall be determined to be invalid or unenforceable, the Weekly Rate to take effect on the Effective Date shall be the Weekly Rate in effect on the day preceding such date.

(2) Conversion from the Weekly Mode. The Bonds in the Weekly Mode may be converted to the Fixed Rate on any Interest Payment Date as provided in the Form of Bonds and upon the delivery of a certificate of the U.T. System Representative electing such conversion (the "Conversion Certificate") to the Paying Agent/Registrar, the Remarketing Agent, and the Board. In addition to electing the conversion, the Conversion Certificate shall include a certification to the effect that the Board is not in default of any of the provisions of this Eighth Supplement. The Conversion Certificate shall be given by the Board to the Paying Agent/Registrar, the Remarketing Agent, and the Rating Agencies not fewer than 30 days prior to the proposed Conversion Date, which date shall be specified in the Conversion Certificate. Notice of a conversion of Bonds from the Weekly Mode and the mandatory tender of Bonds for purchase on such Conversion Date shall be given to the owners of such Bonds as provided in Section 3(a)(A)(4) hereof and the Form of the Bonds. Conversions to the Fixed Rate Mode shall also be governed by Section 3(a)(B) hereof.

Notwithstanding the foregoing, if the preconditions to conversion to the Fixed Rate Mode established by the preceding paragraph and Section 3(c) are not met by 10:30 a.m., New York City time, on the Conversion Date, the Paying Agent/Registrar shall deem the proposed conversion to have failed and shall immediately notify the Board and the Remarketing Agent, and the Bonds to have been converted shall be subject to mandatory tender as provided in Section 3(a)(A)(4) hereof. In such event, the Board shall comply with the requirements of Section 5(c)(A), as necessary to provide for the payment of the Purchase Price on such date. In no event shall the failure of Bonds to be converted for any reason be deemed to be, in and of itself, a default under this Eighth Supplement, so long as the Purchase Price of all Bonds required to be purchased is made available as provided above.

(3) Bondowners' Option to Tender Bonds in Weekly Mode. Bonds in the Weekly Mode are subject to tender, at the election of the owner thereof, on the dates, for the prices, in the manner and subject to the limitations described in the Form of Bonds. The owners of Tendered Bonds shall receive on the Delivery Date 100% of the principal amount of the Tendered Bonds plus accrued interest to the Purchase Date, provided that if the Purchase

Date is an Interest Payment Date, accrued interest shall be paid separately, and not as part of the Purchase Price on such date. The purchase of Tendered Bonds shall not extinguish the debt represented by such Bonds which shall remain Outstanding and unpaid under this Eighth Supplement.

The Paying Agent/Registrar shall accept all Tendered Bonds properly delivered to it for purchase as provided in the Form of Bonds and in this subsection (3).

As soon as practicable after receiving notice of a tender of Bonds under this Section, the Paying Agent/Registrar shall notify the Remarketing Agent, the Board and the Paying Agent/Registrar by telephone promptly confirmed in writing of the amount of Tendered Bonds and the specified Purchase Date. Bonds not delivered to the Paying Agent shall constitute Undelivered Bonds and shall not be considered Outstanding under the Eighth Supplement on the Purchase Date.

(4) Mandatory Tender of Weekly Bonds upon Change in Mode. In the event that Bonds in the Weekly Mode are converted to the Fixed Rate Mode, such Bonds are subject to mandatory tender for purchase on the date of conversion or proposed conversion upon not less than 30 days' prior written notice from the Paying Agent/Registrar to the Bondowners as provided in the Form of Bonds, which notice shall state that the Bonds are subject to mandatory tender for purchase; provided that if such Purchase Date is an Interest Payment Date, accrued interest shall be paid separately and not as a part of the Purchase Price on such date. From and after the Effective Date of the new Mode, no further interest shall be payable to the registered owner for the preceding Interest Rate Period, provided that there are sufficient funds available on the Effective Date to pay the Purchase Price. Bonds not delivered to the Paying Agent/Registrar shall constitute Undelivered Bonds and shall not be considered Outstanding on the Purchase Date.

(B) Fixed Rate Mode.

Determination of Fixed Rate and Conversion to Fixed Rate Mode. The Bonds may be initially issued bearing interest at a Fixed Rate as set forth in the Award Certificate. If initially issued in a Weekly Rate Mode, the interest rate on all of the Bonds may be converted by the Board to the Fixed Rate as provided in the Form of Bonds and Section 3(a) hereof. Written notice of conversion to the Fixed Rate Mode shall be given by the U.T. System representative to the Board, the Paying Agent/Registrar, the Remarketing Agent, and the Rating Agencies not fewer than 30 days prior to the proposed Conversion Date. Upon receipt of the Conversion Certificate giving notice of conversion to the Fixed Rate Mode, the Remarketing Agent shall determine the Fixed Rate not later than noon, New York City time, one (1) Business Day before the Conversion Date. The Fixed Rate shall be the lowest rate which in the judgment of the Remarketing Agent, on the basis of prevailing financial market conditions, would permit the sale of the Bonds being so converted at par plus accrued interest on the Effective Date, but not in excess of the Maximum Rate. The Fixed Rate will be in effect until the Final Maturity Date and no conversions to another Mode may be effected.

On the date of determination thereof, the Remarketing Agent shall notify the Board and the Paying Agent/Registrar by Electronic Notice of the Fixed Rate. The Paying Agent/Registrar shall promptly notify the Board in writing of the Fixed Rate. The determination of the Fixed Rate shall be conclusive and binding on the Board, the Paying Agent/Registrar, the Paying Agent, and the Bondowners. The first Interest Payment Date of Bonds converted to the Fixed Rate shall be the next February 15 or August 15 after the Conversion Date. The Fixed Rate shall become effective on the Conversion Date and shall remain in effect for the remaining term of the Bonds so converted.

Notwithstanding the foregoing, if the preconditions to conversion to the Fixed Rate Mode established by this subsection and Section 3(a) are not met by 10:30 a.m., New York City time, on the Conversion Date, the Paying Agent shall immediately notify the Paying Agent/Registrar by telephone promptly confirmed in writing. Upon such notice, the Paying Agent/Registrar shall deem the proposed conversion to have failed and shall proceed as such under Section 3(a)(A)(2) hereof.

(b) Notice to Registered Owners of Change in Mode. When a change from the Weekly Mode to the Fixed Rate Mode is to be made, the Paying Agent/Registrar will notify the registered owners of Bonds at least 15 days before the Conversion Date of the change. The notice will state

- (1) that the Mode will be changed to the Fixed Rate Mode,
- (2) the Effective Date of the new rate, and
- (3) that a mandatory tender will result on the Effective Date of the change as provided in the Eighth Supplement.

(c) Change In Interest Rate Mode - Opinion of Counsel: Board Veto Right. No conversion to the Fixed Rate Mode shall be effective unless on or prior to the Conversion Date the Board shall provide the Paying Agent/Registrar with a Favorable Opinion.

Section 4. CREATION AND USE OF BOND PURCHASE FUND. There is hereby created by the Board and established a "Board of Regents of The University of Texas System Revenue Financing System Refunding Bonds, Series 2001 Bond Purchase Fund" (the "Bond Purchase Fund") with respect to the Bonds to be held as a separate escrow fund, in trust and administered and distributed by the Paying Agent/Registrar as provided in this Section. All moneys deposited in the Bond Purchase Fund shall be used solely for the purposes set forth herein.

The Paying Agent/Registrar shall deposit into the Bond Purchase Fund (i) all Remarketing Proceeds received by the Paying Agent/Registrar from the Remarketing Agent and (ii) funds paid by the Board pursuant to Section 9. The Paying Agent/Registrar shall apply moneys on deposit in the Bond Purchase Fund to pay the Purchase Price of Bonds purchased hereunder; provided, however, that any amounts received by the Paying Agent/Registrar from the Remarketing Agent that are not needed to pay the Purchase Price of Bonds because such Bonds have been called for redemption shall be returned to the Remarketing Agent.

Section 5. REDEMPTION OF AND REMARKETING OF BONDS. (a) Redemption of Bonds. Subject to the notice provisions set forth below and in the Form of Bonds, the Bonds shall be subject to optional redemption by the Board prior to maturity as follows:

(A) During the Weekly Mode, the Bonds shall be subject to redemption prior to maturity at the option of the Board and upon written notice to the Paying Agent/Registrar by the Board at least 15 days prior to the redemption date, which notice shall specify the principal amount of Bonds to be redeemed and the redemption date, in whole on any Business Day or in part (and if in part in an Authorized Denomination) on any Interest Payment Date, at a redemption price equal to the principal amount of the Bonds to be redeemed plus accrued interest thereon to the redemption date.

(B) During the Fixed Rate Mode, the Bonds shall be subject to redemption prior to maturity at the option of the Board and upon written notice to the Paying Agent/Registrar by the Board at least 45 days prior to the redemption date, which notice shall specify the principal amount of Bonds to be redeemed and the redemption date, in whole or in part on any Business Day (and if in part in an Authorized Denomination) after the Commencement of Redemption Period described below, at the redemption price equal to the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date:

LENGTH OF TIME FROM CONVERSION DATE TO MATURITY DATE	COMMENCEMENT OF REDEMPTION PERIOD	REDEMPTION PRICES
greater than or equal to 10 years	10 years from the commencement of Interest Rate Period	100%
less than 10 years	No call	N/A

Notwithstanding the foregoing, if the Bonds initially bear interest at a Fixed Rate, the redemption schedule shall be as set forth in the Award Certificate. In connection with a Conversion, the Remarketing Agent, upon the request of the Board and in order to achieve the lowest interest rate which, in the judgment of the Remarketing Agent, on the basis of current financial market conditions as to interest rates and redemption periods, would permit the sale of the Bonds so converted at par plus accrued interest, may deliver to the Board and the Paying Agent/Registrar an alternative redemption schedule to that shown above, provided that the Board delivers the Remarketing Agent and the Paying Agent/Registrar a Favorable Opinion with respect to such alternative schedule of redemption. Prior to such Conversion, the Paying Agent/Registrar shall insert the appropriate optional redemption as described above in the Form of Bonds. After the Conversion Date succeeding the delivery of such alternative schedule and Favorable Opinion, the Bonds shall be subject to redemption in accordance with the provisions of such alternative schedule.

(b) Notices of Redemption. (i) In addition to the Notice of Redemption set forth in the Form of Bonds, the Board shall give notice of redemption to the Paying Agent/Registrar at least fifteen (15) days prior to a redemption date in the case of a redemption of Bonds in the Weekly Mode and at least forty five (45) days prior to a redemption date in the case of a redemption of Bonds in the Fixed Rate Mode and the Paying Agent/Registrar shall give notice of redemption of Bonds by mail, first-class postage prepaid at least ten (10) days prior to a redemption date in the case of a redemption of Bonds in the Weekly Mode and at least thirty (30) days prior to a redemption date in the case of a redemption of Bonds in the Fixed Rate Mode 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, whether required in the Form of Bonds or in this Section, shall contain a description of the Bonds to be redeemed including the complete name of the Bonds, the Series, the date of issue, the Mode, the interest rate in the case of Bonds in the Fixed Rate Mode, 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, the redemption price, 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.

(c) Remarketing of Bonds. (A) Upon the tender of Bonds in accordance with Section 3(a)(A)(3) hereof, the Remarketing Agent shall, subject to the terms of the Remarketing Agreement, offer for sale and use its best efforts to sell such Bonds (or portions thereof) on any Purchase Date for such Bonds at the Purchase Price of 100% of the principal amount thereof, plus accrued interest, pursuant to the provisions hereof and of the Remarketing Agreement. If the Bonds are not remarketed, the Board shall provide immediately available funds to purchase the Bonds, by 1:30 p.m. New York City time on the Purchase Date, and such Bonds shall constitute Board-Held Bonds. Such purchase of Bonds with moneys provided by the Board shall not extinguish the debt represented by such Bonds, which shall remain Outstanding and unpaid under this Eighth Supplement. Thereafter, the Remarketing Agent shall continue to use its best efforts to remarket the Bonds unless otherwise directed by the Board. If the Purchase Price of any Bond has been provided by the Board, the Remarketing Agent will solicit the purchase of such Board-Held Bond for a period of up to ninety (90) days. In the event that any such Board-Held Bond has not been remarketed at the end of such ninety-day period, the Remarketing Agent will further attempt to solicit the purchase of such Board-Held Bond upon request of the Board.

(B) The Remarketing Agent shall not remarket any Bonds pursuant to this Section if the Board is in default of any of the provisions of this Eighth Supplement.

(C) The Remarketing Agent shall give notice to the Paying Agent/Registrar and the Board by Electronic Notice, specifying the principal amount of Tendered Bonds as to which the Remarketing Agent has found purchasers, the amounts the Remarketing Agent has received for the purchase of Tendered Bonds, and any deficiency in amounts available to pay the Purchase Price of Tendered Bonds at or before (i) 1:00 p.m., New York City time, on each Purchase Date for Tendered Bonds that are to be in the Weekly Mode immediately after the Purchase Date, or (ii) 2:00 p.m., New York City time, on the second Business Day immediately preceding each Purchase Date for tendered Bonds that are to be in the Fixed Rate Mode immediately after the Purchase Date. The Remarketing Agent shall give Electronic Notice or written notice to the Paying Agent/Registrar of the names, addresses and taxpayer identification numbers of the purchasers and the number and denominations of Bonds to be delivered to each purchaser, at or before 2:00 p.m., New York City time, on each Purchase Date

(D) The Remarketing Agent shall deliver to the Paying Agent/Registrar all amounts received by the Remarketing Agent as proceeds of the remarketing of such Bonds at or before (i) 2:00 p.m., New York City time, on the Purchase Date for Tendered Bonds that are to be in the Weekly Mode immediately after the Purchase Date, or (ii) 2:00 p.m., New York City time, on the Purchase Date for Tendered Bonds that are to be in the Fixed Rate Mode immediately after the Purchase Date.

(E) Payment of Purchase Price to Owners; Delivery of Bonds. Any purchase of Tendered Bonds shall be made by payment of the Purchase Price by wire or bank transfer in immediately available funds by the Paying Agent/Registrar upon receipt of remarketing proceeds at the time specified in Section 5(b)(D) above. The Purchase Price shall be paid in the manner specified in the Form of Bond. By 4:00 p.m., New York City time, Bonds remarketed under this section shall be made available by the Paying Agent/Registrar to the purchasers thereof and shall be registered in the manner directed by the recipient thereof, provided that such Bonds shall not be delivered unless and until the Paying Agent has received the Purchase Price therefor.

(F) Remarketing of Bonds Between Notice and Redemption or Conversion Date. No Bonds scheduled to be redeemed or converted may be remarketed after receipt by the Remarketing Agent of notice of redemption or conversion of such Bonds from the Board unless the Remarketing Agent, on or before the Purchase Date, gives notice to the purchaser that the Bonds will be redeemed or converted, and such purchaser will be required to surrender its Bonds for payment on the applicable redemption date or to tender its Bonds for mandatory purchase on the applicable Conversion Date, as the case may be.

(G) During Book-Entry System. Notwithstanding anything herein to the contrary, so long as the Bonds are held under the book-entry system in accordance with Section 6 hereof, Bonds will not be delivered as set forth in Section 5(E) above; rather, transfers of beneficial ownership of the Bonds to the person indicated above will be effected on the books of DTC pursuant to its rules and procedures.

Section 6. REGISTRATION, TRANSFER, AND EXCHANGE; AUTHENTICATION; BOOK-ENTRY-ONLY SYSTEM; AND TENDER AGENT. (a) Paying Agent/Registrar. Bankers Trust Company, in New York, New York, is hereby appointed the Paying Agent/Registrar for the 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.

(b) Registration Books. The Board shall keep books or records for the registration of the transfer, exchange, and replacement of the 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 Eighth 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, interest on, and Purchase Price of 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 Eighth 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 initially issued and delivered pursuant to this Eighth 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 Eighth 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 Eighth Supplement, to the extent of the unpaid or unredeemed principal 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 Eighth 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 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 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 shall bear a letter and/or number to distinguish it from each other Bond. 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 Eighth Supplement shall constitute one of the Bonds for all purposes of this Eighth 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 Eighth Supplement there shall be printed an Authentication Certificate, in the form set forth in Exhibit B to this Eighth 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 Eighth 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 after it is selected for redemption prior to maturity. 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 Eighth 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 Eighth 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 Eighth Supplement, and a certified copy of this Eighth Supplement shall be delivered to each Paying Agent/Registrar.

(h) Book-Entry-Only System. The Bonds 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 Board, 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 and 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 and 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, tender, or conversion, 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, interest on, or Purchase Price of the Bonds. Notwithstanding any other provision of this Eighth Supplement to the contrary but to the extent permitted by law, the Board and 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, interest, and Purchase Price with respect to such Bond, for the purpose of giving notices of redemption, tender, or conversion, 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, interest, and Purchase Price on the Bonds only to or upon the order of the respective owners, as shown in the Registration Books as provided in this Eighth 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 and Purchase Price of 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 of, premium, if any, interest on, and Purchase Price of the Bonds pursuant to this Eighth 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 Eighth 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 Eighth 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 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 to DTC Participants having Bonds credited to their DTC accounts. In such event, the Bonds 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 Eighth Supplement.

(j) Payments to Cede & Co. Notwithstanding any other provision of this Eighth 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, interest on, and Purchase Price of 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) Duties as Tender Agent. (i) The Paying Agent/Registrar shall also be the tender agent with respect to the tender and purchase of the Bonds pursuant to Sections 3 and 5 of the Eighth Supplement. In such capacity, the Paying Agent/Registrar shall perform the duties and obligations set forth in this Eighth Supplement and in particular shall:

(A) hold all Bonds delivered to it for purchase hereunder in trust as bailee of, and for the benefit of, the respective Owners which have so delivered such Bonds, until moneys representing the Purchase Price of such Bonds shall have been delivered to or for the account of or to the order of such Owners;

(B) hold all moneys (other than moneys delivered to it by the Board for the purchase of Bonds) in trust as bailee of, and for the benefit of, the person or entity which shall have delivered such moneys, until the Bonds purchased with such moneys shall have been delivered to or for the account of such person or entity;

(C) hold all Board-Held Bonds on behalf of the Board and transfer such Board-Held Bonds as directed by the Board.

(ii) The Paying Agent/Registrar shall cooperate with the Remarketing Agent to the extent necessary to permit the preparation, execution, issuance and authentication of replacement Bonds in connection with the tender and remarketing of Bonds under the Eight Supplement.

(iii) The Paying Agent/Registrar shall promptly return any Tender Notice (together with any Bonds submitted in connection therewith) that is incomplete or improperly completed or not delivered in a timely fashion to the Owner submitting the notice upon surrender of the receipt, if any, issued therefor.

(iv) The Paying Agent/Registrar's determination of whether a Tender Notice is properly completed or delivered on a timely basis shall be binding on the Board and the Owner of the Bonds submitted therewith.

(v) The Paying Agent/Registrar shall comply fully with the notice and other requirements described in Sections 3 and 5 hereof.

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 Eight Supplement provides for the authorization, issuance, sale, delivery, form, characteristics, provisions of payment and redemption, and security of the Bonds, including the payment of the Purchase Price of the Bonds when due, 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, including the payment of the Purchase Price of the Bonds when due, 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, including the payment of the Purchase Price of the Bonds when due, after taking the Bonds into account.

Section 8. SECURITY AND PAYMENTS. (a) The Bonds are special obligations of the Board payable from and secured solely by the Pledged Revenues pursuant to the Master Resolution and this Eighth 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, interest on and Purchase Price of 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 and to pay the Purchase Price on each Purchase Date.

(b) While the Bonds are in the Weekly Mode, the Board covenants to maintain available funds in an amount equal to the total Purchase Price of the Bonds, including accrued interest on the Bonds for forty-five (45) days at an assumed interest rate of fifteen percent (15%) per annum. To the extent Bonds cannot be remarketed, the Board shall provide funds or shall in good faith endeavor to sell a sufficient principal amount of Parity Debt or other obligations of the Board in order to have funds available, together with other moneys available therefor, to pay the Purchase Price of the Bonds on the Purchase Date.

(c) Notwithstanding anything to the contrary contained herein, to the extent that the Remarketing Agent cannot remarket Bonds on a Tender Date, the Board covenants to use lawfully available funds to purchase Bonds and such purchase is not intended to constitute an extinguishment of the obligation represented by such tendered Bonds and when the Remarketing Agent has thereafter remarketed the Board-Held Bonds the Board shall sell and deliver the Board-Held Bonds so purchased. While such Board-Held Bonds are held by the Board they shall bear interest at the prevailing market rate for alternative taxable investments of similar maturity and credit rating.

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

(b) Monthly, in the case of Bonds in the Weekly Mode, and Semiannually, in the case of Bonds in the Fixed Rate Mode, on or before each principal payment date or Interest Payment Date while any of the Bonds are outstanding and unpaid, commencing on the first Interest Payment Date for the 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 or redemption payment date or Interest Payment Date. The Paying Agent/Registrar shall cancel all paid Bonds and shall furnish the Board with an appropriate certificate of cancellation.

(c) In addition, to the extent that Remarketing Proceeds in the Bond Purchase Fund are insufficient to pay the Purchase Price of any Purchase Date, the Board shall transfer to the Bond Purchase Fund such amounts in immediately available funds from lawfully available Pledged Revenues.

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 Eighth Supplement equally and proportionately with any and all other Bonds duly issued under this Eighth 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 Eighth Supplement for Bonds issued in exchange and replacement for other Bonds.

Section 11. AMENDMENT OF SUPPLEMENT. (a) Amendments Without Consent. This Eighth 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 Eighth 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 Eighth Supplement;

(ii) To cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in this Eighth 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 Eighth 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 Eighth 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 Eighth 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 Eighth 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 Eighth 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 Eighth Supplement pursuant to the provisions of this Section, this Eighth 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 Eighth 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. (a) 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:

(i) 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 Eighth 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;

(ii) 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;

(iii) 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;

(iv) 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;

(v) 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;

(vi) 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;

(vii) 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

(viii) 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 .

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 Obligations 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.

(b) The Board covenants to account for the expenditure of sale proceeds and investment earnings to be used for the purposes described in Section 2 of this Eighth Supplement on its books and records by allocating proceeds to expenditures within 18 months of the later of the date that (1) the expenditure is made, or (2) the purposes for which the Bonds are issued have been accomplished. The foregoing notwithstanding, the Board shall not expend sale proceeds or investment earnings thereon more than 60 days after the earlier of (1) the fifth anniversary of the delivery of the Bonds, or (2) the date the Bonds are retired, unless the Board obtains an opinion of nationally-recognized bond counsel that such expenditure will not adversely affect the tax-exempt status of the Bonds. 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.

(c) The Board covenants that the property financed with the proceeds of the Refunded Obligations or the Bonds 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. EIGHTH 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 Eighth 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 Eighth Supplement by the Board and the covenants and agreements set forth in this Eighth 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 Eighth 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 Eighth 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 EIGHTH SUPPLEMENT. With the exception of the rights or benefits herein expressly conferred, nothing expressed or contained herein or implied from the provisions of this Eighth 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, or the Remarketing Agent any legal or equitable right, remedy, or claim under or by reason of or in respect to this Eighth Supplement or any covenant, condition, stipulation, promise, agreement, or provision herein contained. This Eighth 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 and the Remarketing Agent, as herein and therein provided.

Section 17. CUSTODY, APPROVAL, BOND COUNSEL'S OPINION, CUSIP NUMBERS, PREAMBLE, AND INSURANCE. The U.T. System Representative is hereby authorized to have control of the Bonds issued hereunder and all necessary records and proceedings pertaining to the 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 and the substitute Bonds. The approving legal opinion of the Board's Bond Counsel and the assigned CUSIP numbers may, at the option of the U.T. System Representative, 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 Eighth Supplement is hereby adopted and made a part of this Eighth 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. Concurrently with the delivery of the Bonds, the U.T. System Representative shall cause to be deposited an amount from the proceeds from the sale of the Bonds with Chase Bank of Texas, N.A., as Escrow Agent, sufficient, together with other legally available funds of the Board, to provide for the refunding and defeasance of the 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 Eighth 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, if any, 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) and (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 Eighth Supplement, the Escrow Agreement, the Bonds, the Swap Agreements and the execution and delivery of confirmations thereunder, the Remarketing Agreement, the sale and delivery of the Bonds and fixing all details in connection therewith, and the Paying Agent/Registrar Agreement, and to approve the Official Statement, or supplements thereto, in connection with the Bonds. 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 Blanket Letter of Representation is hereby incorporated herein and its provisions shall prevail over any other provisions of this Eighth Supplement in the event of conflict. 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 Eighth Supplement, any amendments to the above named documents, and any technical amendments to this Eighth Supplement as may be required by Fitch, Moody's, or S&P, 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 to implement the Book-Entry-Only System of Bond registration with respect to the Bonds pursuant to the Blanket Letter of Representation with DTC. The U.T. System Representative is authorized and directed to enter into any amendments to the Blanket Letter of Representation with DTC necessary to implement the Book-Entry-Only System.

Section 22. OFFICIAL STATEMENT. 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. 23 NOTICES OF DEFEASANCE. (a) The Board shall give notice of defeasance of any of the Bonds to the Paying Agent/Registrar on the defeasance date and the Paying Agent/Registrar shall give notice of defeasance of Bonds by mail, first-class postage prepaid within thirty (30) days after a defeasance date to each Registered Owner of a Bond defeased and to each registered securities depository and to any national information service that disseminates such notices. 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 date of such notice.

(ii) Each Notice of Defeasance shall contain a description of the Bonds 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 defeased of each certificate, the mailing date

for the notice, the date of defeasance, the redemption price, if any, the name of the Paying Agent/Registrar and the address at which the Bonds may be paid, including a contact person and telephone number.

Section 24. INTEREST RATE SWAP AGREEMENTS. (a) Approval of Counterparties and Agreements. The U.T. System Representative is hereby authorized to enter into interest rate swap agreements (the "Swap Agreements") with Goldman Sachs Mitsui Marine Derivative Products, L.P., Lehman Brothers Financial Products Inc., and Morgan Guaranty Trust Company of New York (the "Potential Swap Providers") in substantially the forms presented to the Board, including the forms of confirmations attached thereto, with such changes as, in the judgment of the U.T. System Representative with the advice of the General Counsel and the Board's Financial Advisor and Bond Counsel, are necessary to carry out the intent of the Board as expressed in this Eighth Supplement and to receive the approval of the Attorney General of the State of Texas of the Swap Agreements.

(b) Competitive Bidding of Confirmations. In recognition that it is the Board's expectation that the Bonds will be initially issued in the Weekly Mode and that the Board is authorizing the Swap Agreements initially for the purpose of establishing a fixed payment obligation with respect to the payment of interest on the Bonds, the U.T. System Representative is authorized and directed to seek competitive bids from each of the Potential Swap Providers under the respective Swap Agreements for a transaction with the effective date to be on the anticipated Issue Date for the Bonds and a notional amount equal to the anticipated principal amount of the Bonds and calling for the counterparty to pay to the Board the variable rate and the Board to pay to the counterparty a fixed rate. When the competitive bids are solicited, the U.T. System Representative shall specify in the bid documents whether the bids are to be submitted on the basis of the counterparty paying to the Board a variable rate based upon the actual interest rate on the Bonds, the Bond Market Association index, or a percentage of LIBOR as contemplated by the forms of confirmations attached to the Swap Agreements. The U.T. System Representative's determination of which variable rate standard is to be used shall be based upon the advice of the Board's Financial Advisor and the U.T. system Representative's conclusion as to which standard will result in the Board paying the lowest net effective interest rate on the Bonds. In the absence of a material advantage of one of the standards over the other two, the U.T. System Representative shall specify that the actual bond rate shall be used. The U.T. System Representative shall deliver a certificate to the Executive Secretary of the board identifying the standard chosen and the basis of the determination.

Upon determination of the best bid, the U.T. System Representative will inform each of the Potential Swap Providers of the best bid. The Potential Swap Provider with the next to best bid shall have the right to enter into a confirmation under its respective Swap Agreement in a national amount equal to forty percent (40%) of the anticipated principal amount of the Bonds on the same terms as the best bid. The U.T. System Representative shall also accept and execute a confirmation under the Swap Agreement with the Potential Swap Provider submitting the best bid in a notional amount equal to the anticipated principal amount of the Bonds less the notional amount, if any, of the confirmation entered into with the other Potential Swap Provider.

(c) Security. 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 constitute "Credit Agreements" as defined in the Master Resolution and Article 717q, Vernon's Texas Civil Statutes and constitute Parity Debt under the Master Resolution.

Section 25. 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, financial information and operating data with respect to The University of Texas System of the general type included in the Official Statement dated September 15, 1998, relating to the Bonds 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 Eighth 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 Eighth 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 Eighth Supplement for purposes of any other provision of this Eighth 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 Eighth 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.

Section 26. THE REMARKETING AGENT. The U.T. System Representative shall appoint either Goldman Sachs & Co., Lehman Brothers Incorporated, or J.P. Morgan Securities Incorporated as the Remarketing Agent for the Bonds after receiving bids and evaluating the ability of each respondent to perform the duties of Remarketing Agent hereunder. The Remarketing Agent shall act as Remarketing Agent as provided in this Eighth Supplement, and, in accordance with the Remarketing Agreement between the Remarketing Agent and the Board, shall use its best efforts to remarket Bonds required to be purchased pursuant to Sections 3 and 5 hereof. The Board shall appoint any successor Remarketing Agent for the Bonds, subject to the conditions set forth in Section 27 hereof. The Remarketing Agent shall designate its principal office to the Paying Agent/Registrar and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument of acceptance delivered to the Board under which the Remarketing Agent will agree, particularly, to:

- (a) determine the Weekly Rates and the Fixed Rates and give notice of such rates in accordance with Section 3 and the Form of Bonds;
- (b) keep such books and records with respect to its duties as Remarketing Agent as shall be consistent with prudent industry practice; and
- (c) remarket Bonds in accordance with this Eighth Supplement and the Remarketing Agreement.

Section 27. QUALIFICATIONS OF REMARKETING AGENT. The Remarketing Agent shall have a capitalization of at least \$100,000,000 and be authorized by law to perform all the duties imposed upon it by this Eighth Supplement. The Remarketing Agent may at any time resign and be discharged of the duties and obligations created by this Eighth Supplement by giving at least ten (10)

days' written notice to the Board and the Paying Agent/Registrar. The Remarketing Agent may be removed at any time by the Board, upon seven (7) days' notice by an instrument filed with the Remarketing Agent and the Board.

In the event of the resignation or removal of the Remarketing Agent, the Remarketing Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity to its successor or, if there is no successor, to the Paying Agent/Registrar.

In the event that the Board fails to appoint a Remarketing Agent hereunder, or in the event that the Remarketing Agent shall resign or be removed, or be dissolved, or if the property or affairs of the Remarketing Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency or for any other reason, and the Board shall not have appointed its successor as Remarketing Agent, the Paying Agent/Registrar, notwithstanding the provisions of the first paragraph of this Section 27 shall ipso facto be deemed to be the Remarketing Agent for all purposes of this Eighth Supplement until the appointment by the Board of the Remarketing Agent or successor Remarketing Agent, as the case may be; provided, however, that the Paying Agent/Registrar, in its capacity as Remarketing Agent, shall not be required to sell Bonds or determine the interest rates on the Bonds or to perform the duties set forth in Sections 3 hereof.

Section 28. 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 Eighth Supplement was adopted; that this Eighth 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.

PASSED AND ADOPTED, this

ATTEST:

Executive Secretary

Chairman

(SEAL)

Exhibit A - Definitions

Exhibit B - Form of Bonds

Exhibit C - Continuing Disclosure of Information

EXHIBIT A
DEFINITIONS

As used in this Eighth Supplement, the terms below defined shall be construed, are used and are intended to have the following meanings, unless the text hereof specifically indicates otherwise:

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

"Authorized Denominations" - shall mean (i) for Bonds in the Weekly Mode, \$100,000 or any integral multiple thereof, and (ii) for Bonds in the Fixed Rate Mode, \$5,000 or any integral multiple thereof.

"Bank" - shall mean any financial institution executing a Liquidity Agreement.

"Beneficial Owner, Beneficial owner, or beneficial owner" - shall mean any person who acquires beneficial ownership interest in a Bond held by DTC. In determining the Beneficial owner of any Bond, the Paying Agent/Registrar, the Remarketing Agent, and the Paying Agent may rely conclusively upon representations made and written information given to the Paying Agent/Registrar, the Remarketing Agent or the Paying Agent by DTC or its Participants with respect to any Bond held by DTC in which a beneficial interest is claimed.

"Bond Owner, Bondowner, Owner, owner, Holder, bondholder, registered owner, or Registered Owner, or owner of the Bonds" - when used with respect to a Bond, shall mean the person or entity in whose name such Bond shall be registered.

"Bond Purchase Fund" - shall mean the Fund by that name established by Section 4 of this Eighth Supplement.

"Board of Regents", "Board", or "Board" - shall mean the Board of Regents of The University of Texas System, or any successor thereto.

"Business Day" - shall mean any day on which commercial banks located in Austin, Texas and in all of the cities in which the Principal Offices of the Paying Agent/Registrar and, while the Bonds are in the Weekly Mode, the Remarketing Agent are located are not required or authorized by law or regulation to remain closed and on which the New York Stock Exchange is not closed.

"Board-Held Bonds" - shall mean Bonds owned by or held in the name of the Board or its designee or held by the Paying Agent/Registrar for the account of the Board or its designee.

"Code" - shall mean the Internal Revenue Code of 1986, as amended.

"Conversion or conversion" - shall mean a change from the Weekly Mode to the Fixed Rate Mode with respect to the Bonds.

"Conversion Certificate" - shall mean the certificate of the U.T. System Representative given pursuant to Section 3(a)(A)(2) evidencing the exercise by the Board of the option to convert the Bonds from the Weekly Mode to the Fixed Rate Mode.

"Conversion Date" - shall mean the date on which the conversion from the Weekly Mode to the Fixed Rate Mode becomes effective.

"Delivery or deliver" - when used with respect to Bonds held in the book-entry only system pursuant to Section 6 hereof, shall mean the making of or the irrevocable authorization to make appropriate entries on the books of DTC or any DTC Participant or any securities broker or dealer, bank or trust Board that clears through or maintains a custodial relationship with a DTC Participant.

"Delivery Date" - shall mean, with respect to a Bond tendered for purchase, the Purchase Date or any subsequent Business Day on which such Bond is delivered to the Paying Agent as provided in the Form of Bonds.

"DTC" - shall mean The Depository Trust Board or any substitute securities depository appointed pursuant to this Eighth Supplement, or any nominee of either.

"DTC Participant" - shall mean a member of, or the participant in, DTC that will act on behalf of a Holder.

"Effective Date" - shall mean, with respect to a Bond in the Weekly Mode, the date on which a new Interest Rate Period for that Bond takes effect, which for the initial Interest Rate Period shall be the Issue Date and for each subsequent Interest Rate Period shall be the Wednesday on which the subject rate becomes effective.

"Electronic Notice" - shall mean notice transmitted through a time-sharing terminal, by facsimile transmission or by telephone (promptly confirmed in writing or by facsimile transmission).

"Eighth Supplement" - shall mean this Eighth Supplemental Resolution to the Master Resolution authorizing the issuance of the Bonds.

"Final Maturity Date" - shall mean the latest date on which any of the Bonds are scheduled to mature as set forth in the Award Certificate.

"Fiscal Year" - shall mean the 12-month operational period of The University of Texas System commencing on September 1 of each year and ending on the following August 31.

"Fitch" - shall mean Fitch IBCA, Inc. or, if such corporation is dissolved or liquidated or otherwise ceases to perform securities ratings services, such other nationally recognized securities rating agency as may be designated in writing by the Board.

"Fixed Rate" - shall mean a rate of interest on a Bond that is fixed for the remaining term of the Bond.

"Fixed Rate Conversion Date or Conversation Date" - shall mean with respect to the Bonds, the date upon which the Fixed Rate first becomes effective for the Bonds, and shall mean the Issue Date if the Bonds are initially delivered bearing interest at a Fixed Rate.

"Fixed Rate Mode" - shall mean the Mode in which the interest rate on the Bonds is fixed from the Conversion Date until the Final Maturity Date

"Interest Payment Date" - shall mean (i) when used with respect to Bonds accruing interest at Weekly Rates, the first Business day of each calendar month following a month in which interest at such rate has accrued; (ii) when used with respect to Bonds accruing interest at a Fixed Rate, the immediately succeeding February 15 or August 15 after Conversion to such Mode and thereafter each February 15 or August 15; and (iii) the Final Maturity Date.

"Interest Rate Period, Rate Period or Period" - shall mean, when used with respect to any particular rate of interest for a Bond, the period during which such rate of interest determined for such Bond will remain in effect as described herein.

"Issue Date" - shall mean the date on which the Bonds are first delivered to the initial purchasers against payment therefor.

"Master Resolution" - shall mean the Master Resolution establishing the Financing System adopted by the Board on April 12, 1990, and amended and restated on February 14, 1991, and further amended on October 8, 1993 and August 14, 1997.

"Maturity Date" - shall mean the date or dates designated as such in the Award Certificate.

"Maximum Rate" - shall mean a "net effective interest rate" (as defined and calculated in accordance with the provisions of Article 717k-2, Vernon's Texas Civil Statutes) of fifteen percent (15%) per annum.

"Maximum Maturity Date" - shall mean August 15, 2013.

"Mode" - shall mean the period for and the manner in which the interest rates on the Bonds are set and includes the Weekly Mode and the Fixed Rate Mode.

"Moody's" - shall mean Moody's Investors Service, Inc. or, if such corporation is dissolved or liquidated or otherwise ceases to perform securities rating services, such other nationally recognized securities rating agency as may be designated in writing by the Board.

"Paying Agent/Registrar" - shall mean the entity appointed pursuant to Section 6 hereof to perform the duties of Paying Agent/Registrar hereunder.

"Potential Swap Providers" - shall mean the entities identified in Section 24 with which the Board will enter into interest rate swap agreements.

"Premium" - shall mean, with respect to any amount payable on the Bonds, the amount, if any, by which the redemption price thereof (exclusive of interest) exceeds the principal amount thereof at the time such amount is payable

"Purchase Date" - shall mean, while the Bonds are in a Weekly Mode, the date upon which the Bonds are required to be purchased pursuant to a mandatory or optional tender.

"Purchase Price" - shall mean the purchase price of the Bonds pursuant to mandatory or optional tender as set forth in Section 2 hereof and the form of the Bonds.

"Rating Agencies" - shall mean Fitch, S&P and/or Moody's according to which of such rating agencies then rates the Bonds; and provided that if none of such rating agencies then rates the Bonds, the term "Rating Agencies" shall refer to any national rating agency (if any) which provides such rating.

"Rebate Fund" - shall mean the fund by that name established in Section 12 hereof.

"Record Date" - shall mean (i) with respect to the Bonds while in the Weekly Mode, the close of business on the Business Day preceding an Interest Payment Date; and (ii) with respect to the Bonds while in the Fixed Rate Mode, the last Business Day of the calendar month immediately preceding any Interest Payment Date or, in the case of an Interest Payment Date which shall not be at least 15 days after the first day of a Fixed Rate Period, the first day of such Fixed Rate Period.

"Registration Books" or *"Bond Registrar"* - shall mean the books or records relating to the registration, payment, and transfer or exchange of the Bonds maintained by the Paying Agent/Bonds pursuant to Section 6.

"Remarketing Agent" - shall mean the initial and any successor remarketing agent appointed in accordance with Section 26 hereof. Principal Office of the Remarketing Agent shall mean the office thereof designated in writing to the Paying Agent/Registrar.

"Remarketing Agreement" - shall mean any remarketing agreement executed by the Board and the Remarketing Agent pursuant to Section 26 hereof.

"Remarketing Proceeds" - shall mean proceeds from the sale of the Bonds by the Remarketing Agent other than to the Board.

"Standard & Poor's" - shall mean Standard & Poor's Corporation or, if such corporation is dissolved or liquidated or otherwise ceases to perform securities rating services, such other nationally recognized securities rating agency as may be designated in writing by the Board.

"Special Record Date" - shall mean the date designated as such by the Paying Agent/Registrar as provided in the Form of Bond in connection with the payment of defaulted interest on the Bonds.

"Tendered Bond" - shall mean any Bond tendered or deemed tendered for purchase pursuant to the provisions hereof.

"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.

"Undelivered Bonds" - shall mean Bonds which are deemed to have been tendered as provided in the form of the Bonds.

"Underwriter" - shall mean the initial underwriter of the Bonds, named in the Award Certificate.

"Weekly Mode" - shall mean the Mode in which the interest rate on the Bonds is set at the Weekly Rate.

"Weekly Rate" - shall mean the rate of interest that is set on the Bonds while they are in the Weekly Mode.

EXHIBIT B
FORM OF BONDS

THE FOLLOWING TWO BRACKETED PARAGRAPHS ARE TO BE DELETED IF BOND IS NOT BOOK ENTRY ONLY:

[Unless this Bond is presented by an authorized representative of The Depository Trust Board, a New York corporation ("DTC") to the Board or its agent for registration of transfer, exchange, or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

As provided in the Eighth Supplement referred to herein, until the termination of the system of book-entry-only transfers through DTC, and notwithstanding any other provision of the Eighth Supplement to the contrary, this Bond may be transferred, in whole but not in part, only to a nominee of DTC, or by a nominee of DTC to DTC or a nominee of DTC, or by DTC or a nominee of DTC to any successor securities depository or any nominee thereof.]

THIS BOND IS SUBJECT TO MANDATORY TENDER FOR PURCHASE AT THE TIME AND IN THE MANNER HEREINAFTER DESCRIBED AND MUST BE SO TENDERED OR WILL BE DEEMED TO HAVE BEEN SO TENDERED UNDER CERTAIN CIRCUMSTANCES AS DESCRIBED HEREIN.

UNITED STATES OF AMERICA
STATE OF TEXAS
BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
REVENUE FINANCING SYSTEM REFUNDING BONDS
SERIES 2001

Maturity Date: _____

CUSIP _____

Dated Date: _____

Issue Date: _____

Registered Owner:

Principal Amount: \$ _____

Mode: _____

ANY BONDHOLDER WHO FAILS TO DELIVER A BOND FOR PURCHASE AT THE TIMES AND AT THE PLACE REQUIRED HEREIN SHALL HAVE NO FURTHER RIGHTS HEREUNDER EXCEPT THE RIGHT TO RECEIVE THE PURCHASE PRICE HEREOF UPON DELIVERY FOR THIS BOND TO THE PAYING AGENT/REGISTRAR, AND SHALL HOLD THIS BOND AS AGENT FOR THE PAYING AGENT/REGISTRAR.

ON THE MATURITY DATE specified above, the BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM (the "Board"), 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 at the rate determined as herein provided from the most recent Interest Payment Date (hereinafter defined) to which interest has been paid or duly provided for, or if no interest has been paid or duly provided for, from the Issue Date, such payments of interest to be made on each Interest Payment Date until the principal or redemption price hereof has been paid or duly provided for as aforesaid. The principal of, premium, if any, and interest on, and Purchase Price of, this Bond are payable in lawful money of the United States of America.

The principal or redemption price of this Bond (or of a portion of this Bond, in the case of a partial redemption) is payable to the Registered Owner hereof in immediately available funds upon presentation and surrender hereof at the Principal Office of the Paying Agent/Registrar or its successor, as paying agent, under the Eighth Supplemental Resolution to the Master Resolution adopted by Board on February 11, 1999, authorizing the issuance of the Bonds (the "Eighth Supplement"). The Eighth Supplement and the Master Resolution Establishing The University of Texas System Revenue Financing System are hereinafter collectively referred to as the "Bond Resolution". All payments of interest on Bonds accruing interest at Fixed Rates shall be paid to the Registered Owner hereof whose name appears in the Bond Register kept by the Paying Agent/Registrar as of the close of business on the applicable Record Date or Special Record Date (hereinafter defined) by check mailed on the Interest Payment Date, provided that any Registered Owner of \$1,000,000 or more in aggregate principal amount of the Bonds may, upon written request given to the Paying Agent/Registrar at least five Business Days prior to an Interest Payment Date designating an account in a domestic bank, be paid by wire transfer of immediately available funds. All payments of interest on Bonds accruing interest at Weekly Rates shall be paid to the Registered Owner hereof whose name appears in the Registration Books kept by the Paying Agent/Registrar as of the close of business on the applicable Record Date or Special Record Date in immediately available funds by wire transfer to a bank within the continental United States or deposited to a designated account if such account is maintained with the Paying Agent as directed by the Registered Owner in writing or as otherwise directed in writing by the Registered Owner prior to the time of payment with respect to Bonds accruing interest at a Weekly Rate. The Record Date for any Interest Payment Date shall be the close of business on the Business Day immediately preceding the Interest Payment Date, except that, while this Bond accrues interest at the Fixed Rates (as described herein), the Record Date shall be the close of business on the last Business Day of the calendar month immediately preceding such Interest Payment Date.

Any interest on any Bond which is payable, but is not punctually paid or provided for, on any Interest Payment Date and within any applicable grace period (herein called "Defaulted Interest") shall forthwith cease to be payable to the Registered Owner hereof on the relevant Record Date by virtue of having been such Registered Owner, and such Defaulted Interest shall be paid to the person in whose name this Bond is registered at the close of business on a Special Record Date to be fixed by the Paying Agent/Registrar, such date (the "Special Record Date") to be no more than 15 nor fewer than 10 days prior to the date of proposed payment. This Bond shall bear interest on any overdue principal amount and, to the extent permitted by law, on overdue interest at the applicable interest rate in effect on the date which such principal and interest became due and payable. This Bond is registered as to both principal and interest in the Bond Register kept by the Paying Agent/Registrar and may be transferred or exchanged, subject to the further conditions specified in the Bond Resolution, only upon surrender hereof at the office of the Paying Agent/Registrar. This Bond is payable solely from the sources hereinafter mentioned.

The Board covenants with the registered owner of this Bond that on or before each principal payment date, Interest Payment Date, and Purchase 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, interest on, and Purchase Price of 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.

CAPITALIZED TERMS NOT OTHERWISE DEFINED HEREIN SHALL HAVE THE MEANINGS SPECIFIED THEREFOR IN THE BOND RESOLUTION.

FOR SO LONG AS THIS BOND IS HELD IN BOOK-ENTRY FORM REGISTERED IN THE NAME OF CEDE & CO. ON THE REGISTRATION BOOKS OF THE BOARD KEPT BY THE PAYING AGENT/REGISTRAR, AS BOND REGISTRAR, THIS BOND, IF CALLED FOR PARTIAL REDEMPTION IN ACCORDANCE WITH THE BOND RESOLUTION, SHALL BECOME DUE AND PAYABLE ON THE REDEMPTION DATE DESIGNATED IN THE NOTICE OF REDEMPTION GIVEN IN ACCORDANCE WITH THE BOND RESOLUTION AT, AND ONLY TO THE EXTENT OF, THE REDEMPTION PRICE, PLUS ACCRUED INTEREST TO THE SPECIFIED REDEMPTION DATE; AND THIS BOND SHALL BE PAID, TO THE EXTENT SO REDEEMED, (i) UPON PRESENTATION AND SURRENDER THEREOF AT THE OFFICE SPECIFIED IN SUCH NOTICE OR (ii) AT THE WRITTEN REQUEST OF CEDE & CO., BY CHECK OR DRAFT MAILED TO CEDE & CO. BY THE PAYING AGENT/REGISTRAR OR BY WIRE TRANSFER TO CEDE & CO. BY THE PAYING AGENT/REGISTRAR IF CEDE & CO. AS BONDOWNER SO ELECTS. IF, ON THE REDEMPTION DATE, MONEYS FOR THE REDEMPTION OF BONDS TO BE REDEEMED, TOGETHER WITH INTEREST TO THE REDEMPTION DATE, SHALL BE HELD BY THE PAYING AGENT/REGISTRAR SO AS TO BE AVAILABLE THEREFOR ON SUCH DATE, AND AFTER NOTICE OF REDEMPTION SHALL HAVE BEEN GIVEN IN ACCORDANCE WITH THE BOND

RESOLUTION, THEN, FROM AND AFTER THE REDEMPTION DATE, THE AGGREGATE PRINCIPAL AMOUNT OF THIS BOND SHALL BE IMMEDIATELY REDUCED BY AN AMOUNT EQUAL TO THE AGGREGATE PRINCIPAL AMOUNT THEREOF SO REDEEMED, NOTWITHSTANDING WHETHER THIS BOND HAS BEEN SURRENDERED TO THE PAYING AGENT/REGISTRAR FOR CANCELLATION.

Interest on the Bonds

The Bonds shall accrue interest at interest rates and for Interest Rate Periods as determined in accordance with the applicable provisions of the Eighth Supplement. The Bonds will be subject to conversion as herein provided. The amount of interest so payable on any Interest Payment Date shall be computed (i) on the basis of a 365- or 366-day year as applicable for the number of days actually elapsed based upon the calendar year in which the Rate Period commences for Bonds in the Weekly Mode and (ii) on the basis of a 360-day year of twelve 30-day months for Bonds in the Fixed Rate Mode.

At the option of the Board and subject to certain conditions provided for in the Eighth Supplement, all of the Bonds may be converted from the Weekly Mode to the Fixed Rate Mode. If the conditions to conversion are not met as provided in the Eighth Supplement, the Bonds to have been converted shall become subject to mandatory tender as described herein and in the Eighth Supplement and the Mode for such Bonds shall remain in the Weekly Mode.

Each determination and redetermination of interest rates and Interest Rate Periods shall be conclusive and binding on the Board, the Paying Agent/Registrar, and the Bondowners. In the event of the failure by the Remarketing Agent to determine an interest rate, or any such determination is void or unenforceable, the rate borne by the Bonds shall be the interest rate in effect on the immediately preceding day. Any Bondowner may ascertain the rate of interest on its Bond or Bonds, at any time by contacting the Paying Agent/Registrar or the Remarketing Agent.

The following terms are defined as follows:

"Business Day" - shall mean any day on which commercial banks located in Austin, Texas and in all of the cities in which the Principal Offices of the Paying Agent/Registrar and, while the Bonds are in the Weekly Mode, the Remarketing Agent are located are not required or authorized by law or regulation to remain closed and on which the New York Stock Exchange is not closed.

"Conversion Date" - shall mean the date on which the conversion from the Weekly Rate to the Fixed Rate Mode becomes effective.

"Effective Date" - shall mean, with respect to a Bond in the Weekly Mode, the date on which a new Interest Rate Period for that Bond takes effect.

"Electronic Notice" - shall mean notice transmitted through a time-sharing terminal, by facsimile transmission or by telephone (promptly confirmed in writing or by facsimile transmission)

"Interest Payment Date" - shall mean (i) when used with respect to Bonds accruing interest at Weekly Rates, the first Business day of each calendar month following a month in which interest at such rate has accrued; (ii) when used with respect to Bonds accruing interest at a Fixed Rate, the immediately succeeding February 15 or August 15 after Conversion to such Mode and thereafter each February 15 or August 15; and (iii) the Final Maturity Date.

"Interest Rate Period," "Rate Period," or "Period" - shall mean, when used with respect to any particular rate of interest for a Bond in the Weekly Mode, the period during which such rate of interest determined for such Bond will remain in effect as described herein.

"Mode" - shall mean the period for and the manner in which the interest rates on the Bonds are set and includes the Weekly Mode and the Fixed Rate Mode.

"Premium" - shall mean, with respect to any amount payable on the Bonds, the amount, if any, by which the redemption price thereof (exclusive of interest) exceeds the principal amount thereof at the time such amount is payable.

"Principal Office" - shall mean the business address designated as a principal office pursuant to the Eighth Supplement. In the case of the initial Paying Agent/Registrar, "Principal Office" refers to its principal corporate trust office in The City of New York, New York.

"Purchase Date" - shall mean the date on which this Bond shall be required to be purchased pursuant to a mandatory or optional tender in accordance with the provisions hereof.

"Purchase Price" - shall mean the purchase price of the Bonds pursuant to mandatory or optional tender as set forth herein.

"Record Date" - shall mean (i) with respect to the Bonds while in the Weekly Mode, the close of business on the Business Day preceding an Interest Payment Date; and (ii) with respect to the Bonds while in the Fixed Rate Mode, the last Business Day of the calendar month immediately preceding any Interest Payment Date or, in the case of an Interest Payment Date which shall not be at least 15 days after the first day of a Fixed Rate Period, the first day of such Fixed Rate Period.

Weekly Rate

While the Bonds accrue interest at a Weekly Rate, the rate of interest on the Bonds will be determined weekly by the Remarketing Agent in accordance with the Eighth Supplement to be effective for a seven day period commencing on Wednesday of the week of such determination. (The length of the period and the last day of the period may vary in the event of a conversion from a Weekly Rate.)

Fixed Rate

If initially issued at a Fixed Rate, or upon conversion to a Fixed Rate, this Bond shall bear interest to the Maturity Date set forth above at a fixed rate of interest determined by the Remarketing Agent in accordance with the Eighth Supplement.

Authorized Denominations

Bonds which accrue interest a Weekly Rate will be issued in denominations of \$100,000 or any integral multiple thereof. Bonds which accrue interest at a Fixed Rate will be issued in the denomination of \$5,000 or any integral multiple thereof.

Optional Tenders

While this Bond accrues interest at a Weekly Rate, the Registered Owner of this Bond has the right to tender this Bond for purchase at the principal amount hereof plus accrued interest on any Business Day upon written or Electronic Notice to the Paying Agent/Registrar on a Business Day not fewer than seven days prior to the Purchase Date.

As long as the book-entry system is in effect, the Beneficial Owner of a Bond may demand purchase of the Bond (or portion thereof in Authorized Denominations) owned by it by providing notice as provided above through the Beneficial Owner's DTC Participant; provided such notice shall be given by 11:00 a.m., New York City time, on the date such notice is required to be given. If the book-entry system is not in effect, the registered owner of this Bond may demand purchase of this Bond (or portion thereof in Authorized Denominations) by providing notice to the Paying Agent/Registrar as provided above and delivering this Bond to the Paying Agent/Registrar at its Principal Office.

If the Registered Owner of a Bond has elected to tender such Bond for purchase, such Registered Owner shall be deemed to have agreed irrevocably to sell such Bond to any purchaser determined in accordance with the provisions of the Eighth Supplement on the date fixed for purchase at the Purchase Price and any Bond not delivered shall be deemed tendered (an "Undelivered Bond") and shall cease to be outstanding under the Bond Resolution and no further interest shall accrue as of the Purchase Date. Notice of tender of a Bond is irrevocable. All notices of tender of Bonds shall be made to the Paying Agent/Registrar in writing or by Electronic Notice at its Principal Office in substantially the form as provided in the Form of Bondholder's Election Notice for Bonds Subject to Optional Tender attached hereto or such other form of notice satisfactory to the Paying Agent/Registrar which sets forth the principal amount of Bonds to be purchased, the purchase date on which such Bonds shall be purchased, the name, address, and taxpayer identification number of the Registered Owner and the payment instructions for the Purchase Price. All deliveries of tendered Bonds, including deliveries of Bond subject to mandatory tender, shall be made to the Paying Agent/Registrar at its Principal Office.

Mandatory Tenders

This Bond is subject to mandatory tender on the effective date of a change from the Weekly Mode to the Fixed Rate Mode at a Purchase Price equal to the principal amount thereof plus accrued interest; provided that, if the Purchase Date pursuant to such tender is an Interest Payment Date, accrued interest shall be paid separately and not as part of the Purchase Price on such date. From and after the Effective Date of the Fixed Rate Mode, no further interest shall be payable to the registered owner hereof for the preceding Interest Rate Period, provided that there are sufficient funds available on the Effective Date to pay the Purchase Price. Any Bond not delivered to the Paying Agent/Registrar shall constitute an Undelivered Bond and shall not be considered Outstanding under the Bond Resolution on the Purchase Date.

Payment of Purchase Price

The Purchase Price for Bonds is payable by wire or bank transfer within the continental United States in immediately available funds from the Paying Agent/Registrar to the Registered Owner. If on any date this Bond is subject to mandatory tender for purchase or is required to be purchased at the election of the Registered Owner, payment of the Purchase Price of this Bond to such Registered Owner shall be made on the Purchase Date if delivery of this Bond is made prior to 11:00 a.m., New York City time, on the Purchase Date or on such later Business Day upon which delivery of this Bond is made prior to 11:00 a.m., New York City time.

BY ACCEPTANCE OF THIS BOND, THE REGISTERED OWNER HEREOF AGREES THAT THIS BOND WILL BE PURCHASED, WHETHER OR NOT SURRENDERED, ON THE PURCHASE DATE AS DESCRIBED ABOVE. IN SUCH EVENT, THE REGISTERED OWNER OF THIS BOND SHALL NOT BE ENTITLED TO RECEIVE ANY FURTHER INTEREST HEREON, SHALL HAVE NO FURTHER RIGHTS UNDER THIS BOND OR THE BOND RESOLUTION EXCEPT TO RECEIVE PAYMENT OF THE PURCHASE PRICE HELD THEREFOR, AND SHALL THEREAFTER HOLD THIS BOND AS AGENT FOR THE PAYING AGENT/REGISTRAR.

The initial Remarketing Agent under the Eighth Supplement is _____. The Remarketing Agent may be changed at any time in accordance with the Eighth Supplement.

Written Notice of Mode or Interest Rate Period Change

The Paying Agent/Registrar shall give notice, by first class mail, to the Registered Owners of all Bonds of the proposed conversion from the Weekly Mode to the Fixed Rate Mode, at least Fifteen (15) days, before the proposed Conversion Date.

Interest Payment Dates

While this Bond accrues interest at a Weekly Rate, interest is payable on the first Business Day of each calendar month following a month in which interest at such rate has

accrued. While this Bond accrues interest at a Fixed Rate, interest is payable on the immediately succeeding February 15 or August 15 after Conversion to the Fixed Rate Mode and thereafter on each February 15 and August 15.

Optional Redemption

The Bonds are subject to optional redemption as follows:

(A) During the Weekly Mode, the Bonds shall be subject to redemption prior to maturity at the option of the Board upon written notice to the Paying Agent/Registrar at least fifteen (15) days prior to the redemption date, which notice shall specify the principal amount of Bonds to be redeemed and the redemption date, in whole on any Business Day or in part (and if in part in an Authorized Denomination) on any Interest Payment Date, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the redemption date.

(B) During the Fixed Rate Mode, the Bonds shall be subject to redemption prior to maturity at the option of the Board upon written notice to the Paying Agent/Registrar at least 45 days prior to the redemption date, which notice shall specify the principal amount of Bonds to be redeemed and the redemption date, in whole on or in part any Business Day (and if in part in an Authorized Denomination) after the Commencement of Redemption Period described below, at the redemption price equal to the principal amount of the Bonds called for redemption plus accrued interest to the date fixed for redemption:

LENGTH OF INTEREST RATE PERIOD	COMMENCEMENT OF REDEMPTION PERIOD	REDEMPTION PRICES
greater than or equal to 10 years	10 years from the commencement of Interest Rate Period	100%
less than 10 years	No call	N/A

The optional redemption dates and redemption prices set forth above may be changed as provided in the Eighth Supplement, provided that any alternate redemption schedule shall be accompanied by a Favorable Opinion. Notwithstanding the foregoing, if all of the Bonds to be redeemed are subject to mandatory tender on the redemption date, the Board is required to give its written notice to the Paying Agent/Registrar no less than 10 days prior to the redemption date.

AT LEAST ten (10) days prior to the date fixed for the redemption of Bonds or portions thereof in the Weekly Mode and at least thirty (30) days prior to the date fixed for the redemption of Bonds or portions thereof in the Fixed Rate Mode, 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 Board, all as provided in the Bond Resolution.

Notwithstanding the provisions of the foregoing paragraph, no notice of redemption is required to be given to the owner of any Bond which is subject to mandatory tender on the date fixed for redemption.

If at the time of mailing of notice of any optional redemption in connection with a refunding of the Bonds, the Board shall not have deposited with the Paying Agent/Registrar moneys sufficient to redeem all of the Bonds called for redemption, such notice may state that it is conditional in that it is subject to the deposit of the proceeds of refunding bonds with the Paying Agent/Registrar not later than the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

This Bond is one of a Series of bonds authorized in the aggregate principal amount of \$ _____ pursuant to Bond Resolution for the purpose of refunding \$80,530,000, in aggregate principal amount of the Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1991A and Series 1991B and paying the costs related thereto.

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 Board 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 Board 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. While the Bonds are in the Fixed Rate Mode, the Paying Agent/Registrar shall not be required to make transfers of registration or exchange of this Bond or any portion hereof (i) 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 Board and 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 Board and 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, in the denomination of \$100,000 or any integral thereof with respect to bonds in the Weekly Mode and in the denomination of any integral multiple of \$5,000, with respect to bonds in the Fixed Rate Mode. 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 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; that the Series of Bonds of which this Bond is one constitute Parity Debt under the Master Resolution; and that the interest on, principal of, and Purchase Price 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 Board 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 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.

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 BONDOWNER'S ELECTION NOTICE FOR BONDS
SUBJECT TO OPTIONAL TENDER)

(to be used only in connection with Bonds
subject to optional tender)

Board of Regents of the University of Texas System
Revenue Financing System Refunding Bonds,
Series 2001

Principal Amount	Purchase Date	CUSIP	Principal Amount Tendered for Purchase	Bond Numbers
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The undersigned hereby certifies that it is the Registered Owner or the Beneficial Owner (as described below) of the Bonds described above (the "Tendered Bonds"), all of which are in the Weekly Mode, and hereby agrees that the delivery of this instrument of transfer to the Paying Agent/Registrar constitutes an irrevocable offer to sell the Tendered Bonds to the Board or its designee on the Purchase Date, which shall be a Business Day at least _____ () calendar days following delivery of this instrument, at a purchase price equal to the unpaid principal balance thereof plus accrued and unpaid interest thereon to the Purchase Date (the "Purchase Price") provided that if the Purchase Date is an Interest Payment Date, it is recognized that accrued interest will be paid separately and not as part of the Purchase Price on such date. The undersigned acknowledges and agrees that this election notice is irrevocable and that the undersigned will have no further rights with respect to the Tendered Bonds, except payment, upon presentation and surrender, of the Purchase Price by wire or bank transfer within the continental United States from the Paying Agent/Registrar, at its address shown on the registration books of the Paying Agent/Registrar (i) on the Purchase

Date if the Tendered Bonds shall have been delivered to the Paying Agent prior to 11:00 A.M., New York City time, or (ii) on any Delivery Date subsequent to the Purchase Date on which Tendered Bonds are delivered to the Paying Agent by 11:00 A.M., New York time.

Except as otherwise indicated herein and unless the context otherwise requires, the terms used herein shall have the meanings set forth in the Eighth Supplemental Resolution adopted by the Board of Regents of the University of Texas System (the "Board") authorizing the issuance of the Bonds and the Paying Agent/Registrar Agreement Between the Board and _____, as Paying Agent/Registrar, relating to the Bonds.

Date: _____ Signature(s)

(Street City State Zip)

IMPORTANT: The above signature(s) must correspond with the name(s) as set forth on the face of the Tendered Bond(s) with respect to which this Bondowner's Election Notice is being delivered without any change whatsoever. If this notice is signed by a person other than the Registered Owner of any Tendered Bond(s), the Tendered Bond(s) must be either endorsed on the Assignment appearing on each Bond or accompanied by appropriate Bond powers, in each case signed exactly as the name or names of the Registered Owner or owners appear on the Bond Register. The method of presenting this notice to the Paying Agent/Registrar is the choice of the person making such presentation. If it is made by mail, it should be by registered mail with return receipt requested.

(FORM OF AFFIDAVIT)

AFFIDAVIT

State of _____
Parish/County of _____

Before Me, the undersigned authority, duly commissioned and qualified within and for the State and Parish/County aforesaid, personally came and appeared

who being by me first duly sworn, deposed and said that he/she is the owner of the following Board of Regents of The University of Texas System Revenue Financing System Refunding Bonds, Series 2001.

Principal Amount

CUSIP

Maturity Date

Sworn to and subscribed before me this _____ day of _____, _____.

Notary Public

(FORM OF ASSIGNMENT)

ASSIGNMENT

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM -- as tenants in common
TEN ENT -- as tenants by the entireties
JT TEN -- as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT--

(Cust) Custodian (Minor)
under Uniform Gifts to
Minors Act _____
(State)

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto

Please insert Social Security or
Other Identification Number of Assignee

/ _____ /

(Name and Address of Assignee)

the within Bond and does hereby irrevocably constitutes and appoints _____
to transfer said Bond on the books kept for registration thereof with full power of substitution
in the premises.

Dated: _____

Signature Guaranteed: _____

NOTICE: The signature to this assignment must correspond with the name as it appears upon
the face of the within Bond in every particular, without alteration or enlargement or any change
whatever; and

NOTICE: Signature(s) must be guaranteed by the Securities Transfer Association signature
guarantee program.

(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.

Paying Agent/Registrar

Dated:

Authorized Representative

(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)

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.

ESCROW AGREEMENT

Refunding Bonds, Series 2001.

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 Chase Bank of Texas, N.A. 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.

W I T N E S S E T H:

WHEREAS, the Issuer heretofore issued and there presently remain outstanding the obligations (the "Refunded Obligations") described in the Verification Report of _____ (the "Report") relating to the Refunded Obligations, attached hereto as Exhibit "B" and made a part hereof; and

WHEREAS, the Refunded Obligations are scheduled to mature in such years, bear interest at such rates, and be payable at such times and in such amounts as are set forth in the Report; and

WHEREAS, when firm banking arrangements have been made for the payment of principal and interest to the maturity or redemption dates of the Refunded Obligations, 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, Article 717k, V.A.T.C.S. ("Article 717k"), 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 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 timely make available to the other places of payment (paying agents) for the Refunded Obligations the amounts required to provide for the payment of the principal of and interest on such 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 Refunding Bonds, Series 2001 (the "Refunding Obligations") have been issued, sold and delivered for the purpose, among others, of obtaining the funds required to provide for the payment of the principal of the Refunded Obligations at their respective maturity dates or dates of redemption and the interest thereon to such dates; 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, if applicable, 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 on their maturity dates or dates of redemption; 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; and

WHEREAS, the Escrow Agent is herein also referred to as the "Paying Agent," and any paying agent for the Refunded Obligations, acting through the Escrow Agent, is also a party to this Agreement, as a paying agent for the Refunded Obligations to acknowledge their acceptance of the terms and provisions of this Agreement in such capacity.

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:

"**Code**" means the Internal Revenue Code of 1986, as amended, or to the extent applicable the Internal Revenue Code of 1954, together with any other applicable provisions of any successor federal income tax laws.

"**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 direct noncallable, not pre-payable United States Treasury obligations and obligations the due timely payment of which is unconditionally guaranteed by the United States of America described in the Report or cash or other direct obligations of 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," "Report" 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 in the Report, and the Escrow Agent shall, upon the receipt thereof, acknowledge such receipt to the Issuer in writing.

ARTICLE III

CREATION AND OPERATION OF ESCROW FUND

Section 3.01. Escrow Fund. The Escrow Agent has created on its books a special trust fund and irrevocable escrow to be known as the Board of Regents of The University of Texas System Revenue Financing System Refunding Bonds, Series 1991A and Series 1991B Escrow Fund (the "Escrow Fund"). The Escrow Agent hereby agrees that upon receipt thereof it will irrevocably deposit to the credit of the Escrow Fund the funds and the Escrowed Securities described in the Report. Such deposit, all proceeds therefrom, and all cash balances from time to time on deposit therein (a) shall be the property of the Escrow Fund, (b) shall be applied only in strict conformity with the terms and conditions of this Agreement, and (c) are hereby irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations, which payment shall be made by timely transfers of such amounts at such times as are provided for in Section 3.02 hereof. When the final transfers have been made for the payment of such principal of and interest on the Refunded Obligations, any balance then remaining in the Escrow Fund shall be transferred to the Issuer, and the Escrow Agent shall thereupon be discharged from any further duties hereunder.

Section 3.02. Payment of Principal and Interest. The Escrow Agent is hereby irrevocably instructed to transfer from the cash balances from time to time on deposit in the Escrow Fund, the amounts required to pay the principal of the Refunded Obligations at their respective maturity dates and interest thereon to such maturity dates in the amounts and at the times shown in the Report.

Section 3.03. Sufficiency of Escrow Fund. The Issuer 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 moneys for transfer to the Paying Agent at the times and in the amounts required to pay the interest on the Refunded Obligations as such interest comes due and the principal of the Refunded Obligations as the Refunded Obligations mature, all as more fully set forth in the Report. 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 by each place of payment (paying agent) for the Refunded Obligations to make the payments set forth in Section 3.02 hereof, the Issuer shall timely deposit in the Escrow Fund, from any funds that are lawfully available therefor, additional funds in the amounts required to make such payments. Notice of any such insufficiency shall be given as promptly as practicable as hereinafter provided, but the Escrow Agent shall not in any manner be responsible for any insufficiency of funds in the Escrow Fund or the Issuer's failure to make additional deposits thereto.

Section 3.04. Trust Fund. The Escrow Agent shall hold at all times 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 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. Except as provided in Sections 3.02, 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 the Report, the Escrow Agent shall reinvest cash balances shown in the Report in United States Treasury Obligations - State and Local Government Series with an interest rate equal to zero percent(0%) to the extent such Obligations are available from the Department of the Treasury. All such re-investments 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 re-investments shall be acquired on and shall mature on the dates shown on the Report.

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, not pre-payable direct obligations of 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 the Report, 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.

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 direct noncallable and not pre-payable obligations of the United States Treasury (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 the Report for which such Substitute Obligation is substituted,
- (b) mature on or before the maturity date of the obligation listed in the Report 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 the Report, 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 the Code.

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. 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 as promptly as practicable 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 willful misconduct.

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 willful 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, the sum of \$ _____, the sufficiency of which is hereby acknowledged by the Escrow Agent. 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) The Paying Agent is the place of payment (paying agent) for the Refunded Obligations. Concurrently with the sale and delivery of the Refunding Obligations the Issuer shall pay to the Paying Agent the sum of \$ _____, the sufficiency of which is hereby acknowledged by the Paying Agent, for all future paying agency services of the Paying Agent and the places of payment (paying agents) for the Refunded Obligations; and the Paying Agent warrants that such sum is sufficient for such purpose.

(c) Upon receipt of the aforesaid specific sums stated in subsections (a) and (b) 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, authorized under Texas law to act as an escrow agent, having its principal office and place of business in the State of Texas, having a combined capital and surplus of at least \$5,000,000 and subject to the supervision or examination by Federal or State authority.

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 at the time acting hereunder may at any time resign and be discharged from the trust hereby created by giving not less than sixty (60) days' written notice to the Issuer and publishing notice thereof, specifying the date when such resignation will take effect, in a newspaper printed in the English language and with general circulation in New York, New York, such publication to be made once at least three (3) weeks prior to the date when the resignation is to take effect. No such resignation shall take effect unless a successor Escrow Agent shall have been appointed by the owners of the Refunded Obligations or by the Issuer as herein provided and such successor Escrow Agent shall be a paying agent for the Refunded Obligations and shall

have accepted such appointment, in which event such resignation shall take effect immediately upon the appointment and acceptance of a successor Escrow Agent.

Under any circumstances, the Escrow Agent shall pay over to its successor Escrow Agent proportional parts of the Escrow Agent's fee and, if applicable, its Paying 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. Prior written notice of any amendment to this Agreement contemplated pursuant to Section 8.08 and immediate written notice of any incidence of a severance pursuant to Section 8.04 shall be sent to Moody's Investors Service, Attn: Public Finance Rating Desk/Refunded Bonds, 99 Church Street, New York, New York 10007 and Standard & Poor's Corporation, Attn: Municipal Bond Department, 25 Broadway, New York, New York 10004.

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.

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 the Report 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.

EXECUTED as of the date first written above.

The Board of Regents of The University of Texas System

By _____
U.T. System Representative

ATTEST:

Executive Secretary to the Board of Regents

Chase Bank of Texas, N.A.

By _____
Title: _____

ATTEST:

Title:

INDEX TO EXHIBITS

Exhibit "A" Addresses of the Issuer and the Escrow Agent

Exhibit "B" Verification Report of

EXHIBIT "A"

ADDRESSES OF THE ISSUER AND THE
ESCROW AGENT

ISSUER

Attention:

ESCROW AGENT

Attention:

EXHIBIT "B"

Verification Report

Swap Agreement
for
Goldman Sachs Mitsui Marine
Derivative Products, L.P.

MASTER AGREEMENT

dated as of February [], 1999

GOLDMAN SACHS MITSUI MARINE DERIVATIVE PRODUCTS, L.P., a limited partnership organized under the law of the State of Delaware ("GSMMDP") and the Board of Regents of The University of Texas System, the duly appointed governing body of The University of Texas System, a governmental agency of the State of Texas ("Counterparty") have entered and/or anticipate entering into one or more transactions (each a "Transaction") that are or will be governed by this Master Agreement and the documents and other confirming evidence (each a "Confirmation") exchanged between the parties confirming those Transactions.

Accordingly, the parties agree as follows:

1. Interpretation

(a) *Definitions.* The terms defined in Section 12 will have the meanings therein specified for the purpose of this Master Agreement.

(b) *Inconsistency.* In the event of any inconsistency between the provisions of any Confirmation and this Master Agreement, such Confirmation will prevail for the purpose of the relevant Transaction.

(c) *Single Agreement.* All Transactions are entered into in reliance on the fact that this Master Agreement and all Confirmations form a single agreement between the parties (collectively referred to as this "Agreement"), and the parties would not otherwise enter into any Transactions.

2. Obligations

(a) *General Conditions.*

(i) Each party will make each payment specified in each Confirmation to be made by it, subject to the other provisions of this Agreement.

(A) If a party is designated in a Confirmation as a Fixed Rate Payer in respect of the related Transaction, then, subject to the terms and provisions of this Agreement, the Fixed Amount payable by such party on a Payment Date will be:

(1) if an amount is specified for the Transaction as the Fixed Amount payable by that party for that Payment Date or for the related Calculation Period, such amount; or

(2) if an amount is not specified for the Transaction as the Fixed Amount payable by that party for that Payment Date or for the related Calculation Period, an amount calculated on a formula basis for that Payment Date or for the related Calculation Period as follows:

$$\begin{array}{rcccccc} \text{Fixed} & & \text{Notional} & & \text{Fixed} & & \text{Fixed Rate} \\ \text{Amount} & = & \text{Amount} & \times & \text{Rate} & \times & \text{Day Count} \\ & & & & & & \text{Fraction} \end{array}$$

(B) If a party is designated in a Confirmation as a Floating Rate Payer in respect of a Transaction, then, subject to the terms and provisions of this Agreement, the Floating Amount payable by such party on a Payment Date will be an amount calculated on a formula basis for that Payment Date or for the related Calculation Period as follows:

$$\begin{array}{rcccccc} \text{Floating} & & \text{Notional} & & \text{Floating} & & \text{Floating Rate} \\ \text{Amount} & = & \text{Amount} & \times & \text{Rate} & \times & \text{Day Count} \\ & & & & & & \text{Fraction} \end{array}$$

(ii) Payments under this Agreement will be made on the due date for value on that date in the place of the account specified in the relevant Confirmation or otherwise pursuant to this Agreement, in freely transferable funds and in the manner customary for payments in the required currency.

(iii) Each obligation of each party under Section 2(a)(i) is subject to (1) the condition precedent that no Event of Default, Potential Event of Default or Incipient Illegality with respect to the other party has occurred and is continuing, (2) the condition precedent that no Early Termination Date in respect of the relevant Transaction has occurred or been effectively designated and (3) each other applicable condition precedent specified in this Agreement.

(b) *Change of Account.* Either party may change its account for receiving a payment by giving notice to the other party at least five Local Business Days prior to the scheduled date for the payment to which such change applies unless such other party gives timely notice of a reasonable objection to such change.

(c) *Netting.* If on any date amounts would otherwise be payable in the same currency by each party to the other, then, on such date, each party's obligation to make payment of any such amount will be automatically satisfied and discharged and, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party, replaced by an obligation

upon the party by whom the larger aggregate amount would have been payable to pay to the other party the excess of the larger aggregate amount over the smaller aggregate amount.

(d) *Default Interest; Other Amounts.* Prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party that defaults in the performance of any payment obligation will, to the extent permitted by law and subject to Section 6(c), be required to pay interest (before as well as after judgment) on the overdue amount to the other party on demand in the same currency as such overdue amount, for the period from (and including) the original due date for payment to (but excluding) the date of actual payment, at the Default Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

3. Representations

Each party represents to the other party (which representations will be deemed to be repeated by each party on each date on which a Transaction is entered into) that:

(a) *Basic Representations.*

(i) *Status.* It is duly organized and validly existing under the laws of the jurisdiction of its organization or incorporation and, if relevant under such laws, in good standing, and in the case of Counterparty, it is the duly appointed governing body of the University System, a governmental agency of the State of Texas;

(ii) *Powers.* It has the power (in the case of Counterparty, pursuant to the Authorizing Law) to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and any other documentation relating to this Agreement that it is required by this Agreement to deliver and to perform its obligations under this Agreement and any obligations it has under any Credit Support Document to which it is a party and has taken all necessary action and has made all necessary determinations and findings to authorize such execution, delivery and performance, the individual(s) executing and delivering this Agreement and any other documentation (including any Credit Support Document) relating to this Agreement to which it is a party or that it is required to deliver are duly empowered and authorized to do so, and it has duly executed and delivered this Agreement and any Credit Support Document to which it is a party;

(iii) *No Violation or Conflict.* Such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;

(iv) *Consents.* All governmental and other consents that are required to have been obtained by it with respect to this Agreement or any Credit Support Document to which it is a party have been obtained and are in full force and effect and all conditions of any such consents have been complied with; and

(v) *Obligations Binding.* Its obligations under this Agreement and any Credit Support Document to which it is a party constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)).

(b) *Absence of Certain Events.* No Event of Default or Potential Event of Default or, to its knowledge, Termination Event or Incipient Illegality with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement or any Credit Support Document to which it is a party.

(c) *Absence of Litigation.* There is not pending or, to its knowledge, threatened against it or against any Credit Support Provider of the party or any entity designated as a Specified Entity of the party for purposes of Section 5(a)(vii), any action, suit or proceeding at law or in equity or before any court, tribunal, governmental body, agency or official or any arbitrator that is likely to affect the legality, validity or enforceability against it of this Agreement or any Credit Support Document to which it is a party or its ability to perform its obligations under this Agreement or such Credit Support Document.

(d) *Accuracy of Specified Information.* All applicable information that is furnished in writing by or on behalf of it to the other party and is identified for the purpose of this Section 3(d) in Section 4(a) is, as of the date of the information, true, accurate and complete in every material respect or, in the case of audited or unaudited financial statements or balance sheets, a fair presentation of the financial condition of the relevant person.

(e) *No Reliance.* In connection with the negotiation of, the entering into, and the confirming of the execution of, this Agreement, any Credit Support Document to which it is a party, and each Transaction: (i) it has consulted with its own legal, regulatory, tax, business, investment, financial, and accounting advisors to the extent it has deemed necessary, and it has made its own investment, hedging, and trading decisions based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by the other party (other than the representations of such other party expressly set forth in this Agreement and the legal opinions delivered on behalf of such other party pursuant to this Agreement); (ii) it has determined that the rates, prices, or amounts and other terms of each Transaction and the indicative quotations (if any) provided by the other party reflect those in the relevant market for similar transactions, and all trading decisions have been the result of arm's length negotiations between the parties; and (iii) it is entering into this Agreement, such Credit Support Document, and such Transaction with a full understanding of all of the risks hereof and thereof (economic and otherwise), and it is capable of assuming and willing to assume (financially and otherwise) those risks.

(f) *Standardization, Creditworthiness, and Transferability.* The economic terms of this Agreement, any Credit Support Document to which it is a party, and each Transaction

have been individually tailored and negotiated by it; it has received and reviewed financial information concerning the other party and has had a reasonable opportunity to ask questions of and receive answers and information from the other party concerning such other party, this Agreement, such Credit Support Document, and such Transaction; the creditworthiness of the other party was a material consideration in its entering into or determining the terms of this Agreement, such Credit Support Document, and such Transaction; and transferability of this Agreement, such Credit Support Document, and such Transaction is restricted as provided herein and therein.

(g) *No Agency.* It is entering into this Agreement and each Transaction as principal (and not as agent or in any other capacity, fiduciary or otherwise).

(h) *Eligible Swap Participant.* It is an "eligible swap participant" as defined in the Part 35 Regulations of the U.S. Commodity Futures Trading Commission.

(i) *Financial Institution.* In the case of GSMMDP, it is a "financial institution" as defined in the FDIC Improvement Act of 1991 and Regulation EE promulgated thereunder by the U.S Federal Reserve Board.

(j) *Termination Payments.* Each party acknowledges that, in the event an Early Termination Date is designated or deemed to occur due to an Event of Default and it is the Defaulting Party, it will not receive any payments upon early termination in respect of the Settlement Amount. [Subject to Execution of Acknowledgment Certificate]

(k) *Additional Representations of Counterparty.* Counterparty hereby further represents to GSMMDP (which representations will be deemed to be repeated by Counterparty at all times until the termination of this Agreement) that:

(i) *Non-Speculation.* This Agreement has been, and each Transaction has been and will be entered into not for purpose of speculation but solely in connection with the financing activities of Counterparty or converting interest on all or a portion of certain of Counterparty's debt from a fixed rate to a floating rate, or from a floating rate to a fixed rate, and therefore reducing the cost of borrowing on its outstanding debt by optimizing the relative amounts of fixed and floating rate obligations or the risk of variations in its debt service costs, and by increasing the predictability of cash flow, including earnings on invested funds, and thereby improving Counterparty's ability to manage its funds and revenues.

(ii) *Legal Investment.* This Agreement and each Transaction hereunder do not constitute any kind of investment by Counterparty that is proscribed by any constitution, charter, law, rule, regulation, government code, constituent or governing instrument, resolution, guideline, ordinance, order, writ, judgment, decree, charge, or ruling to which Counterparty (or any of its officials in their respective capacities as such) or its property is subject.

(iii) *Assets of Counterparty.* No person, firm, corporation, entity or association other than Counterparty may liquidate, borrow, encumber or otherwise utilize the assets (including without limitation the assets identified in Section 4(f) of Counterparty, other than as provided in the Master Resolution. Counterparty has taken all steps necessary or advisable to create and perfect the pledge and security interest in the assets identified in Section 4(f), and such pledge and security interest have been validly created and perfected.

(iv) *Organization.* Counterparty is the governing body of the University System, a governmental agency of the State of Texas.

(v) *Official Statements.* No official statement or similar disclosure document delivered to GSMMDP contains, as of the date of such delivery, any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(vi) *Valid Purpose.* The execution and delivery by Counterparty of this Agreement, each Confirmation and any other documentation relating hereto, and the performance by Counterparty of its obligations hereunder and thereunder, are in furtherance, and not in violation, of the public purposes for which Counterparty is organized pursuant to the laws of the state in which Counterparty is organized.

(vii) *Nature of Obligations.* The obligations of Counterparty to make payments to GSMMDP under this Agreement and each Transaction (a) are not subject to appropriation or similar action and (b) do not (1) constitute any kind of indebtedness of Counterparty or (2) create any kind of lien on or security interest in any property or revenues of Counterparty which, in either case (1) or (2), is proscribed by any constitution, charter, law, rule, regulation, government code, constituent or governing instrument, resolution, guideline, ordinance, order, writ, judgment, decree, charge, or ruling to which Counterparty (or any of its officials in their respective capacities as such) or its property is subject.

4. Agreements

Each party (and, in the case of Sections 4(d), (e) and (f), Counterparty) agrees with the other party that, so long as either party has or may have any obligation under this Agreement or under any Credit Support Document to which it is a party:

(a) *Furnish Specified Information.* It will deliver to the other party any forms, documents or certificates specified below or in any Confirmation by the date specified below or in such Confirmation or, if none is specified, as soon as reasonably practicable.

For the purpose of this Section 4(a), each party agrees to deliver the following documents, as applicable:

Party required to deliver document	Form/Document/Certificate	Date by which to be delivered	Covered by Section 3(d) Representation
GSMMDP	Power of Attorney with respect to GSMMDP	At execution of this Agreement	Yes
GSMMDP	Support Agreement dated as of October 8, 1993 among GSMMDP, Mitsui Marine and Fire Insurance Co., Ltd., and The Goldman Sachs Group, L.P. (the "Support Agreement")	At execution of this Agreement	No
GSMMDP	Legal opinion with respect to GSMMDP	At execution of this Agreement	
GSMMDP	Audited Annual Balance Sheet of GSMMDP	After demand by Counterparty when copies are publicly available	
GSMMDP	Unaudited Semiannual Balance Sheet of GSMMDP	After demand by Counterparty when copies are publicly available	
Counterparty	Legal opinion with respect to Counterparty	At execution of this Agreement	No
Counterparty	Certified incumbency certificate or other evidence of authority and specimen signatures with respect to Counterparty and its signatories	At execution of this Agreement	Yes
Counterparty	Certified copies of: (1) Master Resolution; (2) Eighth Supplemental Resolution; and (3)	At execution of this Agreement and, in the case of amendments,	Yes

Party required to deliver document	Form/Document/Certificate	Date by which to be delivered	Covered by Section 3(d) Representation
	amendments to any of the foregoing.	promptly following the time each such amendment is made	
Counterparty	Annual Report of Counterparty containing Consolidated Financial Statements for each year	After demand by GSMMDP when copies are publicly available	Yes
Counterparty	Unaudited Semiannual Report of Counterparty containing Consolidated Financial Statement for each year	After demand by GSMMDP when copies are publicly available	
Counterparty	Covered Document	Upon execution of the Confirmation for the relevant Bond Transaction	Yes
Counterparty	The official statement or similar disclosure document or other information provided in connection with the issuance of any bonds, notes or other indebtedness by or on behalf of Counterparty	Upon execution of the Confirmation for the relevant Bond Transaction and, otherwise as soon as practicable but in any event not later than thirty (30) days after initial delivery or publication thereof	Yes
Counterparty	Acknowledgment Certificate regarding Section 6(e)(i) hereto	At execution of this Agreement and	

(b) *Maintain Authorizations.* It will use all reasonable efforts to maintain in full force and effect all consents of any governmental or other authority that are required to be obtained by it with respect to this Agreement or any Credit Support Document to which it is a party and will use all reasonable efforts to obtain any that may become necessary in the future.

(c) *Comply with Laws.* It will comply in all material respects with all applicable laws and orders to which it may be subject if failure so to comply would materially impair its ability to perform its obligations under this Agreement or any Credit Support Document to which it is a party.

(d) *Compliance with Covered Document.* Counterparty will observe, perform and fulfill each covenant, term, and provision in the Covered Document applicable to Counterparty in effect on the date specified in the Confirmation for the related Transaction, as any of those covenants, terms, and provisions may be amended, supplemented or modified for the purposes of this Agreement with the prior written consent of the other party hereto (the "Incorporated Provisions"), with the effect, among other things, and without limiting the generality of the foregoing, that such other party hereto will have the benefit of each of the Incorporated Provisions (including without limitation, covenants, right to consent to certain actions subject to consent under the Covered Document and delivery of financial statements and other notices and information). In the event the Covered Document ceases to be in effect for any reason, including, without limitation, defeasance of the Bonds issued in connection with such Covered Document, prior to the termination of this Agreement, the Incorporated Provisions (other than those provisions requiring payments in respect of bonds, notes, warrants or other similar instruments issued in connection with the Covered Document) will remain in full force and effect for purposes of this Agreement as though set forth herein until such date on which all of the obligations of Counterparty under this Agreement have been fully satisfied. The Incorporated Provisions are hereby incorporated by reference and made a part of this Agreement to the same extent as if such provisions were set forth herein. For purposes of this Agreement, the Incorporated Provisions shall be construed as though (i) all references therein to any party making loans, extensions of credit or financial accommodations thereunder or commitments therefor (the "Financings") were to the other party hereto and (ii) to the extent that such Incorporated Provisions are conditioned on or related to the existence of such Financings or Counterparty having any obligations in connection therewith, all references to such Financings or obligations were to the obligations of Counterparty under this Agreement. Any amendment, supplement, modification or waiver of any of the Incorporated Provisions without the prior written consent of GSMMDP shall have no force and effect with respect to this Agreement. Any amendment, supplement or modification for which such consent is obtained shall be part of the Incorporated Provisions for purposes of this Agreement.

(e) *Notice of Incipient Illegality.* If an Incipient Illegality occurs, Counterparty will, promptly upon becoming aware of it, notify the other party, specifying the nature of that Incipient Illegality and will also give such other information about that Incipient Illegality as the other party may reasonably require.

(f) *Source of Payments.* Counterparty agrees that its obligations hereunder are, and until the termination of this Agreement pursuant to the terms hereof shall remain special obligations of Counterparty secured by and payable from a first lien on and pledge of Pledged Revenues.

5. Events of Default and Termination Events

(a) *Events of Default.* The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any of the following events constitutes an event of default (an "Event of Default") with respect to such party:

(i) *Failure to Pay.* Failure by the party to make, when due, any payment under this Agreement required to be made by it if such failure is not remedied on or before the third Local Business Day after notice of such failure is given to the party;

(ii) *Breach of Agreement.* (A) Failure by the party to comply with or perform any agreement or obligation (other than an obligation to make any payment under this Agreement, to give notice of a Termination Event or to deliver documents under Section 4(a) at execution of this Agreement or a Confirmation) to be complied with or performed by the party in accordance with this Agreement if such failure is not remedied on or before the thirtieth day after notice of such failure is given to the party and (B) failure by the party to comply with or perform any agreement or obligation under Section 4(a) to deliver documents at execution of this Agreement or a Confirmation;

(iii) *Credit Support Default.*

(1) Failure by the party or any Credit Support Provider of such party to comply with or perform any agreement or obligation to be complied with or performed by it in accordance with any Credit Support Document if such failure is continuing after any applicable grace period has elapsed;

(2) the expiration or termination of such Credit Support Document or the failing or ceasing of such Credit Support Document to be in full force and effect for the purpose of this Agreement (in either case other than in accordance with its terms) prior to the satisfaction of all obligations of such party under each Transaction to which such Credit Support Document relates without the written consent of the other party; or

(3) the party or such Credit Support Provider disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, such Credit Support Document (or such action is taken by any person or entity appointed or empowered to operate it or act on its behalf);

(iv) *Misrepresentation.* A representation made or repeated or deemed to have been made or repeated by the party or any Credit Support Provider of such party in this Agreement or any Credit Support Document proves to have been incorrect or misleading in any material respect when made or repeated or deemed to have been made or repeated;

(v) *Default under Specified Transaction.* The party, any Credit Support Provider of such party or any applicable Specified Entity of such party (1) defaults under a

Specified Transaction and, after giving effect to any applicable notice requirement or grace period, there occurs a liquidation of, an acceleration of obligations under, or an early termination of, that Specified Transaction, (2) defaults, after giving effect to any applicable notice requirement or grace period, in making any payment due on the last payment or exchange date of, or any payment on early termination of, a Specified Transaction (or such default continues for at least three Local Business Days if there is no applicable notice requirement or grace period) or (3) disaffirms, disclaims, repudiates or rejects, in whole or in part, a Specified Transaction (or such action taken by any person or entity appointed or empowered to operate it or act on its behalf);

(vi) *Cross Default*. The occurrence or existence of (1) a default, event of default or other similar condition or event (however described) in respect of such party, any Credit Support Provider of such party or any applicable Specified Entity of such party under one or more agreements or instruments relating to Specified Indebtedness of any of them (individually or collectively) in an aggregate amount of not less than the applicable Threshold Amount which has resulted in such Specified Indebtedness becoming due and payable under such agreements or instruments, before it would otherwise have been due and payable or (2) a default by such party, such Credit Support Provider or such Specified Entity (individually or collectively) in making one or more payments on the due date thereof in an aggregate amount of not less than the applicable Threshold Amount under such agreements or instruments (after giving effect to any applicable notice requirement or grace period);

(vii) *Bankruptcy*. The party, any Credit Support Provider of such party or any applicable Specified Entity of such party:

(1) is dissolved (other than pursuant to a consolidation, amalgamation, succession or merger or, in the case of GSMMDP, reconstitution, reformation, incorporation, or admission or withdrawal of a partner); (2) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (5) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation, succession or merger or, in the case of GSMMDP, reconstitution, reformation, or incorporation); (6)(A) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for substantially all its assets or (B) in the case of Counterparty, any Credit Support Provider of Counterparty or any applicable Specified Entity of Counterparty (I) there shall be appointed or designated with respect to it, an entity

such as an organization, board, commission, authority, agency or body to monitor, review, oversee, recommend or declare a financial emergency or similar state of financial distress with respect to it or (II) there shall be declared or introduced or proposed for consideration by it or by any legislative or regulatory body with competent jurisdiction over it, the existence of a state of financial emergency or similar state of financial distress in respect of it; (7) has a secured party take possession of all or substantially all its assets or a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (8) (A) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) (inclusive) or (B) in the case of Counterparty, any Credit Support Provider of Counterparty or any applicable Specified Entity of Counterparty, causes or is subject to any event with respect to the funds specified in Section 4(f) or the project, program or other enterprise from which such funds are derived, in whole or in part, (regardless of whether any other assets are similarly affected) which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) (inclusive); or (9) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts; or

(viii) *Merger Without Assumption.* The party or any Credit Support Provider of such party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, or reorganizes, incorporates, reincorporates, reconstitutes or reforms into or as, another entity (or, without limiting the foregoing, with respect to Counterparty, an entity such as an organization, board, commission, authority, agency or body succeeds to the principal functions of, or powers and duties granted to, Counterparty or any Credit Support Provider of Counterparty generally, or with respect to the funds specified in Section 4(f) or the project, program or other enterprise from which such funds are derived in whole or in part) and, at the time of such consolidation, amalgamation, merger, transfer, reorganization, incorporation, reincorporation, reconstitution, reformation or succession:

(1) the resulting, surviving, transferee or successor entity fails to assume all the obligations of such party or such Credit Support Provider under this Agreement or any Credit Support Document to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other party to this Agreement;

(2) the benefits of any Credit Support Document fail to extend (without the consent of the other party) to the performance by such resulting, surviving, transferee or successor entity of its obligations under this Agreement; or

(3) in the case of Counterparty, the sources of payment for the obligations of Counterparty as set forth in this Agreement are no longer available for the satisfaction of such resulting, surviving, transferee or successor entity's obligations to the other party hereto.

(b) *Termination Events.* The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any event specified below constitutes an Illegality if the event is specified in (i) below, a Credit Event Upon Merger if the event is specified pursuant to (ii) below or an Additional Termination Event if the event is specified pursuant to (iii) below:

(i) *Illegality.* Due to the adoption of, or any change in, any applicable law after the date on which a Transaction is entered into, or due to the promulgation of, or any change in, the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law after such date, it becomes unlawful (other than as a result of a breach by the party of Section 4(b)) for such party (which will be the Affected Party):

(1) to perform any absolute or contingent obligation to make a payment or to receive a payment in respect of such Transaction or to comply with any other material provision of this Agreement relating to such Transaction; or

(2) to perform, or for any Credit Support Provider of such party to perform, any contingent or other obligation which the party (or such Credit Support Provider) has under any Credit Support Document relating to such Transaction;

(ii) *Credit Event Upon Merger.* Such party ("X"), any Credit Support Provider of X or any applicable Specified Entity of X consolidates or amalgamates with, or merges into, or transfers all or substantially all its assets (or, in the case of Counterparty, all or substantially all of the project, program or other enterprise from which the funds specified in Section 4(f) are derived in whole or in part) to, or reorganizes, incorporates, reincorporates, reconstitutes, or reforms into or as, or receives all or substantially all of the assets and/or liabilities or obligations of, another entity (or, without limiting the foregoing, with respect to Counterparty, an entity such as an organization, board, commission, authority, agency or body succeeds to the principal functions of, or powers and duties granted to, Counterparty or any Credit Support Provider of Counterparty or any applicable Specified Entity of Counterparty generally, or with respect to the project, program or other enterprise from which the funds specified in Section 4(f) are derived in whole or in part), and such action does not constitute an event described in Section 5(a)(viii) but the creditworthiness of X, such Credit Support Provider, or such Specified Entity (as the case may be) or any resulting, surviving, transferee, reorganized, reconstituted, reformed, recapitalized or successor entity is materially weaker than that of X, such Credit Support Provider, or such Specified Entity (as the case may be) immediately prior to such action (and, in such event, X or any resulting, surviving, transferee, reorganized, reconstituted, reformed, recapitalized, or successor entity, as appropriate, will be the Affected Party); or

(iii) *Additional Termination Event.* If any "Additional Termination Event" is specified in any Confirmation as applying, the occurrence of such event (and, in such event, the Affected Party or Affected Parties shall be as specified for such Additional Termination Event in such Confirmation).

(c) *Event of Default and Illegality.* If an event or circumstance which would otherwise constitute or give rise to an Event of Default also constitutes an Illegality, it will be treated as an Illegality and will not constitute an Event of Default.

6. Early Termination.

(a) *Right to Terminate Following Event of Default.* If at any time an Event of Default with respect to a party (the "Defaulting Party") has occurred and is then continuing, the other party (the "Non-defaulting Party") may, by not more than 20 days notice to the Defaulting Party specifying the relevant Event of Default, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all outstanding Transactions; provided, however, that an Early Termination Date in respect of all outstanding Transactions will occur immediately upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(1), (3), (5), (6) or, to the extent analogous thereto, (8), and as of the time immediately preceding the institution of the relevant proceeding or the presentation of the relevant petition upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(4) or, to the extent analogous thereto, (8).

(b) *Right to Terminate Following Termination Event.*

(i) *Notice.* If a Termination Event occurs, an Affected Party will, promptly upon becoming aware of it, notify the other party, specifying the nature of that Termination Event and each Affected Transaction and will also give such other information about that Termination Event as the other party may reasonably require.

(ii) *Two Affected Parties.* If an Illegality under Section 5(b)(i)(1) occurs and there are two Affected Parties, each party will use all reasonable efforts to reach agreement within 30 days after notice thereof is given under Section 6(b)(i) on action to avoid that Termination Event.

(iii) *Right to Terminate.* If:

(1) an agreement under Section 6(b)(ii) has not been effected with respect to all Affected Transactions within 30 days after an Affected Party gives notice under Section 6(b)(i); or

(2) an Illegality other than that referred to in Section 6(b)(ii), a Credit Event Upon Merger or an Additional Termination Event occurs,

either party in the case of an Illegality, the party designated in the relevant Confirmation in the case of an Additional Termination Event, or the party which is not the Affected Party in the case of a Credit Event Upon Merger may, by not more than 20 days notice to the other party and provided that the relevant Termination Event is then continuing, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all Affected Transactions.

(c) *Effect of Designation.*

(i) If notice designating an Early Termination Date is given under Section 6(a) or (b), the Early Termination Date will occur on the date so designated, whether or not the relevant Event of Default or Termination Event is then continuing.

(ii) Upon the occurrence or effective designation of an Early Termination Date, no further payments or deliveries under Section 2(a)(i) or 2(d) in respect of the Terminated Transactions will be required to be made, but without prejudice to the other provisions of this Agreement. The amount, if any, payable in respect of an Early Termination Date shall be determined pursuant to Section 6(e).

(d) *Calculations.*

(i) *Statement.* On or as soon as reasonably practicable following the occurrence of an Early Termination Date, each party will make the calculations on its part, if any, contemplated by Section 6(e) and will provide to the other party a statement (1) showing, in reasonable detail, such calculations (including all relevant quotations and specifying any amount payable under Section 6(e)) and (2) giving details of the relevant account to which any amount payable to it is to be paid. In the absence of written confirmation from the source of a quotation obtained in determining a Market Quotation, the records of the party obtaining such quotation will be conclusive evidence of the existence and accuracy of such quotation.

(ii) *Payment Date.* An amount calculated as being due in respect of any Early Termination Date under Section 6(e) will be payable on the day that notice of the amount payable is effective (in the case of an Early Termination Date which is designated or occurs as a result of an Event of Default) and on the day which is two Local Business Days after the day on which notice of the amount payable is effective (in the case of an Early Termination Date which is designated as a result of a Termination Event). Such amount will be paid together with (to the extent permitted under applicable law) interest thereon (before as well as after judgment), from (and including) the relevant Early Termination Date to (but excluding) the date such amount is paid, at the Applicable Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

(e) *Payments on Early Termination.* The amount, if any, payable in respect of an Early Termination Date and determined pursuant to this Section will be subject to any Set-off.

(i) *Events of Default.* If the Early Termination Date results from an Event of Default, an amount will be payable by the Defaulting Party to the Non-defaulting Party equal to the difference, if a positive number, of (A) the sum of the Settlement Amount (determined by the Non-defaulting Party) in respect of the Terminated Transactions and the Unpaid Amounts owing to the Non-defaulting Party less (B) the Unpaid Amounts owing to the Defaulting Party. [Subject to Execution of Acknowledgment Certificate]

(ii) *Termination Events.* If the Early Termination Date results from a Termination Event:

(1) *One Affected Party.* If there is one Affected Party, the amount payable will be equal to (A) the sum of the Settlement Amount (determined by the Non-affected Party) in respect of the Terminated Transactions and the Unpaid Amounts owing to the Non-affected Party less (B) the Unpaid Amounts owing to the Affected Party. If that amount is a positive number, the Affected Party will pay it to the Non-affected Party; if it is a negative number, the Non-affected Party will pay the absolute value of that amount to the Affected Party;

(2) *Two Affected Parties.* If there are two Affected Parties each party will determine a Settlement Amount in respect of the Terminated Transactions, and an amount will be payable equal to (I) the sum of (a) one-half of the difference between the Settlement Amount of the party with the higher Settlement Amount ("X") and the Settlement Amount of the party with the lower Settlement Amount ("Y") and (b) the Unpaid Amounts owing to X less (II) the Unpaid Amounts owing to Y.

If the amount payable is a positive number, Y will pay it to X; if it is a negative number, X will pay the absolute value of that amount to Y.

(iii) *Pre-Estimate.* The parties agree that an amount recoverable under this Section 6(e) is a reasonable pre-estimate of loss and not a penalty. Such amount is payable for the loss of bargain and the loss of protection against future risks and except as otherwise provided in this Agreement neither party will be entitled to recover any additional damages as a consequence of such losses.

7. Transfer

Neither this Agreement nor any interest or obligation in or under this Agreement may be transferred (whether by way of security or otherwise) by either party without the prior written consent of the other party, which consent will not be unreasonably withheld or delayed, except that:

(a) a party may make such a transfer of this Agreement pursuant to a consolidation or amalgamation with, or merger with or into, or transfer of all or substantially all its assets to, or reorganization, incorporation, reincorporation, reconstitution, or reformation into or as, another entity (but without prejudice to any other right or remedy under this Agreement);

(b) a party may make such a transfer of all or any part of its interest in any amount payable to it from a Defaulting Party under Section 6(e); and

(c) in addition to, and not in lieu of, the preceding transfer rights, GSMMDP may, without recourse by Counterparty or GSMMDP's transferee or any Credit Support Provider of either such party to or against GSMMDP or any Credit Support Provider of such party,

transfer this Agreement, all or any part of its interests (including without limitation all or any part of its interests in any amounts payable to it from Counterparty or obligations in or under this Agreement, or one or more Transactions) to any of GSMMDP's Affiliates or any of the Affiliates of The Goldman Sachs Group, L.P., provided that: (i) if any such transfer is of any obligations of GSMMDP, either (A) such transferee or such transferee's Credit Support Provider must have a long-term, unsecured, unsubordinated debt obligation rating or financial program rating (or other similar rating) by at least one U.S. nationally recognized rating agency which is equal to or greater than the comparable long-term, unsecured, unsubordinated debt obligation rating or financial program rating (or other similar rating) of GSMMDP immediately prior to such transfer, or (B) the obligations transferred to such transferee must be guaranteed by GSMMDP pursuant to a guaranty or other agreement or instrument mutually agreed upon by both parties acting reasonably; and (ii) an Event of Default or a Termination Event does not occur as a result of such transfer.

Any purported transfer that is not in compliance with this Section will be void.

Except as specified otherwise in the documentation evidencing a transfer, a transfer of all or any part of the obligations of either party made in compliance with this Section will constitute an acceptance and assumption of such obligations (and any related interests so transferred) by the transferee, a novation of the transferee in place of the transferor with respect to such obligations (and any related interests so transferred), and a release and discharge by the non-transferring party of the transferor from, and an agreement by the non-transferring party not to make any claim for payment, liability, or otherwise against the transferor with respect to, such obligations from and after the effective date of the transfer.

8. Miscellaneous

(a) *Entire Agreement.* This Agreement constitutes the entire agreement and understanding of the parties with respect to its subject matter and supersedes all oral communication and prior writings with respect thereto.

(b) *Amendments.* No amendment, modification or waiver in respect of this Agreement will be effective unless in writing (including a writing evidenced by a facsimile transmission) and executed by each of the parties or confirmed by an exchange of telexes or electronic messages on an electronic messaging system.

(c) *Survival of Obligations.* Without prejudice to Sections 2(a)(iii) and 6(c)(ii), the obligations of the parties under this Agreement will survive the termination of any Transaction.

(d) *Remedies Cumulative.* Except as provided in this Agreement, the rights, powers, remedies and privileges provided in this Agreement are cumulative and not exclusive of any rights, powers, remedies and privileges provided by law.

(e) *Counterparts and Confirmations.*

(i) This Agreement (and each amendment, modification and waiver in respect of it) may be executed and delivered in counterparts (including by facsimile transmission), each of which will be deemed an original.

(ii) A Confirmation may be executed and delivered in counterparts (including by facsimile transmission) or be created by an exchange of telexes or by an exchange of electronic messages on an electronic messaging system, which in each case will be sufficient for all purposes to evidence a binding supplement to this Agreement. The parties will specify therein or through another effective means that any such counterpart, telex or electronic message constitutes a Confirmation.

(iii) On or promptly following the Trade Date or other transaction date of each Transaction, GSMMDP will send to Counterparty a Confirmation. Counterparty will promptly thereafter confirm the accuracy of (in the manner required by Section 8(e)), or request the correction of, such Confirmation (in the latter case, indicating how it believes the terms of such Confirmation should be correctly stated and such other terms which should be added to or deleted from such Confirmation to make it correct).

(f) *No Waiver of Rights.* A failure or delay in exercising any right, power or privilege in respect of this Agreement will not be presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise of that right, power or privilege or the exercise of any other right, power or privilege.

(g) *Headings.* The headings used in this Agreement are for convenience of reference only and are not to affect the construction of or to be taken into consideration in interpreting this Agreement.

(h) *Rounding.* For purposes of any calculations referred to in this Agreement (unless otherwise specified), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (e.g., 9.876541% (or .09876541) being rounded down to 9.87654% (or .0987654) and 9.876545% (or .09876545) being rounded up to 9.87655% (or .0987655)) and (b) all U.S. Dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up).

9. Expenses

A Defaulting Party will, on demand, reimburse the other party for all reasonable out-of-pocket expenses, including legal fees, incurred by such other party by reason of the enforcement and protection of its rights under this Agreement or any Credit Support Document to which the Defaulting Party is a party or by reason of the early termination of any Transaction, including, but not limited to, costs of collection.

10. Notices

(a) *Effectiveness.* Any notice or other communication in respect of this Agreement may be given in any manner set forth below (except that a notice or other communication under Section 5 or 6 may not be given by facsimile transmission or electronic messaging system) to the address or number or in accordance with the electronic messaging system details provided herein and will be deemed effective as indicated:

(i) if in writing and delivered in person or by courier, on the date it is delivered;

(ii) if sent by telex, on the date the recipient's answerback is received;

(iii) if sent by facsimile transmission, on the date that transmission is received by a responsible employee of the recipient in legible form (it being agreed that the burden of proving receipt will be on the sender and will not be met by a transmission report generated by the sender's facsimile machine);

(iv) if sent by certified or registered mail (airmail, if overseas) or the equivalent (return receipt requested), on the date that mail is delivered or its delivery is attempted; or

(v) if sent by electronic messaging system, on the date that electronic message is received,

unless the date of that delivery (or attempted delivery) or that receipt, as applicable, is not a Local Business Day or that communication is delivered (or attempted) or received, as applicable, after the close of business on a Local Business Day, in which case that communication shall be deemed given and effective on the first following day that is a Local Business Day.

For the purpose of this Section 10(a):

Address for notices or communications to GSMMDP:

Address: 85 Broad Street
New York, New York 10004, U.S.A.

Attention: Swap Administration

Telex No.: 421344 Answerback: GOLSAX

Facsimile No.: 212-902-0996 Telephone No.: 212-902-1000

Electronic Messaging System Details: None.

With a copy to:

Address: 85 Broad Street
New York, New York 10004, U.S.A.

Attention: Treasury Administration

Telex No.: 421344 Answerback: GOLSAX

Facsimile No.: 212-902-3325 Telephone No.: 212-902-1000

Electronic Message System Details: None.

Address for notices or communications to Counterparty:

Address: Board of Regents of the University of Texas System
201 West 7th Street
Austin, Texas 78701

Attention: Office of Finance

Telex No.: None Answerback: None

Facsimile No.: 512-[TO BE PROVIDED] Telephone No.: 512-499-4367

Electronic Messaging System Details: None.

(b) *Change of Addresses.* Either party may by notice to the other change the address, telex or facsimile number or electronic messaging system details at which notices or other communications are to be given to it.

(c) *Service of Process.*

GSMMDP irrevocably appoints:

Name: Goldman Sachs Mitsui Marine Derivative Products, L.P.
Address: 85 Broad Street
New York, New York 10004
Attention: Legal Department

Counterparty irrevocably appoints:

Name: The University Texas System
Address: 201 West 7th Street
Austin, Texas 78701
Attention: General Counsel

11. Governing Law and Jurisdiction

Governing Law. This Agreement and each Confirmation will be governed by, and construed and enforced in accordance with the laws of the State of Texas except that GSMMDP's rights, remedies, and obligations hereunder shall be governed by and construed in accordance with the laws of the State of New York.

12. Definitions

As used in this Agreement:

"*Additional Termination Event*" means any event specified as such in a Confirmation.

"*Affected Party*" has the meaning specified in Section 5(b).

"*Affected Transactions*" means (a) with respect to any Termination Event consisting of an Illegality, all Transactions affected by the occurrence of such Termination Event and (b) with respect to any other Termination Event, all Transactions.

"*Affiliate*" means, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose, "control" of any entity or person means ownership of a majority of the voting power of the entity or person.

"*Applicable Rate*" means:

(a) in respect of obligations payable (or which would have been but for Section 2(a)(iii)) by a Defaulting Party, the Default Rate;

(b) in respect of an obligation to pay an amount under Section 6(e) of either party from and after the date (determined in accordance with Section 6(d)(ii)) on which that amount is payable, the Default Rate;

(c) in respect of all other obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Non-defaulting Party, the Non-default Rate; and

(d) in all other cases, the Termination Rate.

"*Authorizing Law*" means Chapter 55, Texas Education Code and Vernon's Annotated Texas Civil Statutes, Article 717q, as amended.

"*BMA Municipal Swap Index*" means the Municipal Swap Index of the Bond Market Association (formerly known as the Public Securities Association), disseminated by Municipal Market Data, a Thomson Financial Services Company or any nationally-recognized successor.

"*Bonds*" means any bonds, notes, certificates or other indebtedness or securities issued by or on behalf of Counterparty and identified in a Confirmation for a Bond Transaction.

"*Bond Transaction*" means any Transaction identified as such in the relevant Confirmation and which is entered into in connection with the issuance of Bonds.

"*Business Day*" means, in respect of any date that is specified in this Agreement or in a Confirmation to be subject to adjustment in accordance with any applicable Business Day Convention, a day on which commercial banks settle payments in the place(s) and on the days specified for that purpose in the relevant Confirmation and, if place(s) and days are not so specified, a day on which commercial banks settle payments in U.S. Dollars in New York.

"*Business Day Convention*" means:

(a) the convention for adjusting any relevant date if it would otherwise fall on a day that is not a Business Day. The following terms, when used in conjunction with the term "Business Day Convention" and a date, shall mean that an adjustment will be made if that date would otherwise fall on a day that is not a Business Day so that:

(i) if "Following" is specified, that date will be the first following day that is a Business Day;

(ii) if "Modified Following" or "Modified" is specified, that date will be the first following day that is a Business Day unless that day falls in the next calendar month, in which case that date will be the first preceding day that is a Business Day; and

(iii) if "Preceding" is specified, that date will be the first preceding day that is a Business Day.

(b) The Business Day Convention applicable to a date that is specified in this Agreement or in a Confirmation to be subject to adjustment in accordance with an applicable Business Day Convention shall be the Business Day Convention specified for that date in this Agreement or that Confirmation or, if a Business Day Convention is not so specified for that date but a Business Day Convention is specified for a Transaction, shall be the Business Day Convention specified in a Confirmation for that Transaction.

"*Calculation Agent*" means GSMMDP, unless otherwise specified in a Confirmation in relation to the relevant Transaction, responsible for (a) calculating the applicable Floating Rate, if any, for each Payment Date or for each Calculation Period, (b) calculating any Floating Amount payable on each Payment Date or for each Calculation Period, (c) calculating any Fixed Amount payable on each Payment Date or for each Calculation Period, (d) giving notice to the parties to the Transaction on the Calculation Date for each Payment Date or for each Calculation Period, specifying (i) the Payment Date, (ii) the party or parties required to make the payment or payments then due, (iii) the amount or amounts of the payment or payments

then due and (iv) reasonable details as to how the amount or amounts were determined, and (e) if, after notice is given, there is a change in the number of days in the relevant Calculation Period and the amount or amounts of the payment or payments due for that Payment Date or for that Calculation Period, promptly giving the parties to the Transaction notice of those changes, with reasonable details as to how those changes were determined. Whenever the Calculation Agent is required to select banks or dealers for the purpose of making any calculation or determination, the Calculation Agent will make the selection in good faith after consultation with the other party (or the parties, if the Calculation Agent is a third party), if practicable, for the purpose of obtaining a representative rate that will reasonably reflect conditions prevailing at the time in the relevant market, unless otherwise specified in a Confirmation in relation to the relevant Transaction.

"*Calculation Date*" means, in respect of any Payment Date or any Calculation Period, the earliest day on which it is practicable to provide the notice that the Calculation Agent is required to give for that Payment Date or for that Calculation Period, and in no event later than the close of business on the Business Day next preceding that Payment Date or the Payment Date for that Calculation Period (unless that preceding Business Day is a Reset Date, then in no event later than the latest time that will permit any payment due on that Payment Date to be made on that Payment Date).

"*Calculation Period*" means:

(a) in respect of a Transaction and a party, each period from, and including, one Period End Date of that party to, but excluding, the next following applicable Period End Date during the Term of the Transaction, except that (i) the initial Calculation Period for the party will commence on, and include, the Effective Date, and (ii) the final Calculation Period for the party will end on, but exclude, the Termination Date; provided, however that:

(b) unless otherwise provided for a Transaction or a party, where the Fixed Amount or Floating Amount is calculated by reference to a Calculation Period, the Fixed Amount or Floating Amount applicable to a Payment Date will be the Fixed Amount or Floating Amount calculated with reference to the Calculation Period ending on, but excluding, the Period End Date that is (or is closest in time to) that Payment Date or, in the case of the final Calculation Period, ending on, but excluding, the Termination Date.

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

"*consent*" includes a consent, approval, action, authorization, exemption, notice, filing, registration or exchange control consent.

"*Consolidated Financial Statements*" means in respect of Counterparty, a copy of the annual report of such party relating to the University System containing unaudited consolidated financial statements for such party's fiscal year, prepared in accordance with the Texas

Comptroller of Public Accounts Annual Financial Reporting Requirements and on a basis consistent with prior periods.

"Covered Document" means the Master Resolution including the Eighth Supplemental Resolution to the Master Resolution adopted by the Counterparty on February [11], 1999.

"Credit Event Upon Merger" has the meaning specified in Section 5(b).

"Credit Support Document" means: (i) with respect to GSMMDP the Support Agreement referenced in Section 4(a) and (ii) with respect to Counterparty, not applicable. Each Credit Support Document is incorporated by reference in, constitutes part of, and is in connection with, this Agreement and each Confirmation (unless provided otherwise in a Confirmation) as if set forth in full in this Agreement or such Confirmation.

"Credit Support Provider" means, in relation to GSMMDP, not applicable and, in relation to Counterparty, not applicable.

"Day Count Fraction" means, as specified in the Confirmation in respect of a Transaction and the calculation of a Fixed Amount or a Floating Amount,

(a) if "Actual/365" or "Actual/Actual" is specified, the actual number of days in the Calculation Period in respect of which payment is being made divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(b) if "Actual/365 (Fixed)" is specified, the actual number of days in the Calculation Period in respect of which payment is being made divided by 365;

(c) if "Actual/360" is specified, the actual number of days in the Calculation Period in respect of which payment is being made divided by 360;

(d) if "30/360", "360/360" or "Bond Basis" is specified, the number of days in the Calculation Period in respect of which payment is being made divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and

(e) if "Government Bond Basis" is specified, the number of days in the Calculation Period in respect of which payment is being made divided by 360 (the

number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

"*Default Rate*" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the relevant payee (as certified by it) if it were to fund or of funding the relevant amount plus 1% per annum; provided, however, that, with respect to amounts payable by the Counterparty, the Default Rate shall not exceed the maximum rate allowed by law, as determined by Vernon's Annotated Texas Civil Statutes, Article 717k-2, as amended.

"*Defaulting Party*" has the meaning specified in Section 6(a).

"*Early Termination Date*" means the date determined in accordance with Section 6(a) or 6(b)(iii).

"*Effective Date*" means the date specified as such for a Transaction, which date is the first day of the Term of the Transaction.

"*Event of Default*" has the meaning specified in Section 5(a).

"*Financings*" has the meaning specified in Section 4(d).

"*Fixed Amount*" means, in respect of a Transaction and a Fixed Rate Payer, an amount that, subject to any applicable condition precedent, is payable by that Fixed Rate Payer on an applicable Payment Date and is specified in a Confirmation or is determined as provided in Section 2(a)(i)(A) or as provided in a Confirmation.

"*Fixed Rate*" means, for any Payment Date or for any Calculation Period in respect of a Payment Date, a rate, expressed as a decimal, equal to the per annum rate specified as such for the Transaction or that party.

"*Fixed Rate Day Count Fraction*" means, in respect of any calculation of a Fixed Amount, the Day Count Fraction specified as the Fixed Rate Day Count Fraction for the Transaction or the Fixed Rate Payer.

"*Fixed Rate Payer*" means, in respect of a Transaction, a party obligated to make payments from time to time during the Term of the Transaction of amounts calculated by reference to a fixed per annum rate or to make one or more payments of a Fixed Amount.

"*Floating Amount*" means, in respect of a Transaction and a Floating Rate Payer, an amount determined as provided in Section 2(a)(i)(B) or as provided in a Confirmation, that, subject to any applicable condition precedent, is payable by that Floating Rate Payer on an applicable Payment Date and is determined by reference to a Floating Rate Option or pursuant to a method specified in a Confirmation.

"*Floating Rate*" means, for any Calculation Period in respect of a Payment Date or for any Reset Date, a rate, expressed as a decimal, equal to

(i) (A) if a cap rate is specified, the excess, if any, of a rate determined pursuant to subparagraph (ii) below over the cap rate so specified; or (B) if a floor rate is specified, the excess, if any, of the floor rate so specified over a rate determined pursuant to subparagraph (ii) below; and

(ii) in all other cases and for purposes of subparagraph (i)(A) and (B):

(A) if a per annum rate is specified for the Transaction or that party to be the Floating Rate applicable to that Calculation Period or Reset Date, the Floating Rate so specified;

(B) if only one Reset Date is established for the Transaction or that party during (or in respect of) that Calculation Period, the Relevant Rate for that Reset Date;

(C) if more than one Reset Date is established for the Transaction or that party during (or in respect of) that Calculation Period and the "Unweighted Average" method of calculation is specified, the arithmetic mean of the Relevant Rates for each of those Reset Dates;

(D) if more than one Reset Date is established for the Transaction or that party during (or in respect of) that Calculation Period and the "Weighted Average" method of calculation is specified, the arithmetic mean of the Relevant Rates in effect for each day in that Calculation Period calculated by multiplying each Relevant Rate by the number of days such Relevant Rate is in effect, determining the sum of such products and dividing such sum by the number of days in the Calculation Period; or

(E) if more than one Reset Date is established for the Transaction or that party during (or in respect of) that Calculation Period and neither the "Unweighted Average" nor the "Weighted Average" method of calculation is specified, a Floating Rate determined as if "Unweighted Average" had been specified as the applicable method of calculation.

"Floating Rate Day Count Fraction" means, in respect of a Transaction and any calculation of a Floating Amount, the Day Count Fraction specified as the Floating Rate Day Count Fraction for the Transaction or the Floating Rate Payer.

"Floating Rate Option" means, unless specified otherwise in a Confirmation, in respect of a Transaction and the calculation of a Floating Amount, the BMA Municipal Swap Index. If such index is no longer calculated or is otherwise unavailable, then the Kenny Index shall be substituted for the BMA Municipal Swap Index. If both the BMA Municipal Index and the Kenny Index are no longer calculated or are otherwise unavailable, then "Floating Rate Option" means that the rate for a Reset Date will be the rate determined by GSMMDP. If the rate for a Reset Date is determined by GSMMDP, such rate shall equal the prevailing rate

determined by GSMMDP for bonds rated in the highest short-term rating category by Moody's Investors Services, Inc. and Standard & Poor's Ratings Group in respect of issuers most closely resembling the "high grade" component issuers most recently selected by the Public Securities Association prior to cessation of publication of the BMA Municipal Swap Index that are subject to tender by the holders thereof for purchase on not more than seven (7) days notice and the interest on which is (i) variable on a weekly basis, (ii) excludable from gross income for federal income tax purposes under the Code, and (iii) not subject to an "individual alternative minimum tax" or similar tax under the Code, except to the extent that all tax-exempt bonds are subject to such tax.

"*Floating Rate Payer*" means, in respect of a Transaction, a party obligated to make payments from time to time during the Term of the Transaction of amounts calculated by reference to a floating per annum rate or to make one or more payments of a Floating Amount.

"*Illegality*" has the meaning specified in Section 5(b).

"*Incipient Illegality*" means (a) the enactment by any legislative body with competent jurisdiction over Counterparty of legislation which, if adopted as law, would render unlawful (i) the performance by Counterparty of any absolute or contingent obligation to make a payment or to receive a payment in respect of a Transaction or the compliance by Counterparty with any other material provision of this Agreement relating to such Transaction or (ii) the performance by Counterparty or a Credit Support Provider of Counterparty of any contingent or other obligation which Counterparty (or such Credit Support Provider) has under any Credit Support Document relating to such Transaction, (b) any assertion in any proceeding, forum or action by Counterparty, in respect of Counterparty or in respect of any entity located or organized under the laws of the state in which Counterparty is located to the effect that performance under this Agreement or similar agreements is unlawful or (c) the occurrence with respect to Counterparty or any Credit Support Provider of Counterparty of any event that constitutes an Illegality.

"*Incorporated Provisions*" has the meaning specified in Section 4(d) of this Agreement.

"*Kenny Index*"TM (a trademark of Kenny Information Systems, Inc.) means that the rate for a Reset Date will be the rate determined on the basis of the Kenny 30-Day High Grade Index and as computed by Kenny Information Systems, Inc. on that day.

"*law*" includes any treaty, law, rule or regulation and "*lawful*" and "*unlawful*" will be construed accordingly.

"*Local Business Day*" means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) (a) in relation to any obligation under Section 2(a)(i), in the place(s) specified in the relevant Confirmation or, if not so specified, in The City of New York, (b) in relation to any other payment, in the place where the relevant account is located, (c) in relation to any notice or other communication, including notice contemplated under Section 5(a)(i), in the city specified in the address for notice

provided by the recipient and, in the case of a notice contemplated by Section 2(b), in the place where the relevant new account is to be located and (d) in relation to Section 5(a)(v)(2), in the relevant locations for performance with respect to such Specified Transaction.

"Loss" means, with respect to this Agreement or one or more Terminated Transactions, as the case may be, and a party, an amount that party reasonably determines in good faith to be its (or in the case of GSMMDP, the person with which GSMMDP has entered into a transaction offsetting the Transaction with Counterparty that later becomes a Terminated Transaction) total losses and costs (or gain, in which case expressed as a negative number) in connection with this Agreement or that Terminated Transaction or group of Terminated Transactions, as the case may be, including any loss of bargain, cost of funding or, at the election of such party but without duplication, loss or cost incurred as a result of its (or in the case of GSMMDP, the person with which GSMMDP has entered into a transaction offsetting the Transaction with Counterparty that later becomes a Terminated Transaction) terminating, liquidating, obtaining or reestablishing any hedge or related trading position (or any gain resulting from any of them). Loss includes losses and costs (or gains) in respect of any payment required to have been made (assuming satisfaction of each applicable condition precedent) on or before the relevant Early Termination Date and not made, except, so as to avoid duplication, if Section 6(e)(i) or 6(e)(ii)(2) applies. Loss does not include a party's legal fees and out-of-pocket expenses referred to under Section 9. A party will determine its Loss as of the relevant Early Termination Date, or, if that is not reasonably practicable, as of the earliest date thereafter as is reasonably practicable. A party may (but need not) determine its Loss by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant markets.

"Market Quotation" means, with respect to one or more Terminated Transactions and a party making the determination, an amount determined on the basis of quotations from Reference Market-makers. Each quotation will be for an amount, if any, that would be paid to such party (expressed as a negative number) or by such party (expressed as a positive number) in consideration of an agreement between such party (taking into account any existing Credit Support Document with respect to the obligations of such party) and the quoting Reference Market-maker to enter into a transaction (the "Replacement Transaction") that would have the effect of preserving for such party the economic equivalent of any payment (whether the underlying obligation was absolute or contingent and assuming the satisfaction of each applicable condition precedent) by the parties under Section 2(a)(i) in respect of such Terminated Transaction or group of Terminated Transactions that would, but for the occurrence of the relevant Early Termination Date, have been required after that date. For this purpose, Unpaid Amounts in respect of the Terminated Transaction or group of Terminated Transactions are to be excluded but, without limitation, any payment that would, but for the relevant Early Termination Date, have been required (assuming satisfaction of each applicable condition precedent) after that Early Termination Date is to be included. The Replacement Transaction would be subject to such documentation as such party and the Reference Market-maker may, in good faith, agree. The party making the determination (or its agent) will request each Reference Market-maker to provide its quotation to the extent reasonably practicable as of the same day and time (without regard to different time zones) on or as soon

as reasonably practicable after the relevant Early Termination Date. The day and time as of which those quotations are to be obtained will be selected in good faith by the party obliged to make a determination under Section 6(e), and, if each party is so obliged, after consultation with the other. If more than three quotations are provided, the Market Quotation will be the arithmetic mean of the quotations, without regard to the quotations having the highest and lowest values. If exactly three such quotations are provided, the Market Quotation will be the quotation remaining after disregarding the highest and lowest quotations. For this purpose, if more than one quotation has the same highest value or lowest value, then one of such quotations shall be disregarded. If fewer than three quotations are provided, it will be deemed that the Market Quotation in respect of such Terminated Transaction or group of Terminated Transactions cannot be determined.

"Master Resolution" means the First Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System adopted by the Counterparty on February 14, 1991, as amended on October 8, 1993 and August 14, 1997 and each Supplemental Resolution thereto authorizing Parity Debt.

"Non-default Rate" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the Non-defaulting Party (as certified by it) if it were to fund the relevant amount.

"Non-defaulting Party" has the meaning specified in Section 6(a).

"Notional Amount" means, in respect of a party and any Calculation Period, the amount specified as such for the Transaction.

"Parity Debt" means Parity Debt as defined in the Master Resolution.

"Payment Date" means, in respect of a Transaction and a party, each day during the Term of the Transaction so specified or predetermined and the Termination Date; except that (i) each Payment Date shall be subject to adjustment in accordance with the Modified Following Business Day Convention unless another Business Day Convention is specified to be applicable to Payment Dates in respect of the Transaction or that party and (ii) a Payment Date in respect of a Fixed Rate Payer may be a specified day prior to the Effective Date where the Floating Amounts payable by the Floating Rate Payer are calculated by reference to a cap rate or floor rate.

"Period End Date" means, in respect of a Transaction and a party,

(a) if Period End Dates are not established for the Transaction or that party, each Payment Date of that party during the Term of the Transaction; or

(b) if Period End Dates are specified or otherwise predetermined for the Transaction or that party, each day during the Term so specified or predetermined;

except that, in the case of subsection (b) above, each Period End Date shall be subject to adjustment in accordance with the Modified Following Business Day Convention unless (x) another Business Day Convention is specified to be applicable to Period End Dates in respect of the Transaction or that party, in which case an adjustment will be made in accordance with that Business Day Convention, or (y) "No Adjustment" is specified in connection with Period End Dates for the Transaction or that party, in which case no adjustment will be made, notwithstanding that the Period End Date occurs on a day that is not a Business Day.

"Pledged Revenues " means Pledged Revenues as defined in the Master Resolution.

"Potential Event of Default" means any event which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

"Reference Banks" means for purposes of any "LIBOR" Floating Rate Option, four major banks in the London interbank market.

"Reference Market-makers" means four leading dealers in the relevant market selected by the party determining a Market Quotation in good faith (a) from among dealers of the highest credit standing which satisfy all the criteria that such party applies generally at the time in deciding whether to offer or to make an extension of credit or to enter into transactions similar in nature to Transactions and (b) to the extent practicable, from among such dealers having an office in the same city.

"Relevant Rate" means for any day, a per annum rate, expressed as a decimal, equal to

(a) if such day is a Reset Date, the rate determined with respect to that day for the specified Floating Rate Option as provided in the definition of Floating Rate Option in this Agreement or as provided in a Confirmation or as provided in any agreement between the parties governing the Transaction; or

(b) if such day is not a Reset Date, the Relevant Rate determined pursuant to clause (a) above for the next preceding Reset Date.

For purposes of determining the Relevant Rate for any day:

(i) in any case where the Relevant Rate for a day is based on information obtained from the Reuters Monitor Money Rates Service or the Dow Jones Telerate Service, that Relevant Rate will be subject to the corrections, if any, to that information subsequently displayed by that source within one hour of the time when such rate is first displayed by such source;

(ii) in any case where the Relevant Rate for a day is based on the Kenny Index or the BMA Municipal Swap Index, that Relevant Rate will be subject to the corrections, if any, subsequently made available by Kenny Information Systems, Inc. or

Municipal Market Data, as the case may be, for the applicable Reset Date within 30 days of that day; and

(iii) in the event that a party to any Transaction notifies the other party to the Transaction of any correction referred to in subsection (i) or (ii) above no later than 15 days after the expiration of the period referred to in such subsection, an appropriate amount will be payable as a result of such correction (whether such correction is made or such notice is given before or after the Termination Date of the Transaction), together with interest on that amount at a rate per annum equal to the cost (without proof or evidence of any actual cost) to the relevant party (as certified by it) of funding that amount for the period from, and including, the day on which, based on such correction, a payment in the incorrect amount was first made to, but excluding, the day of payment of the refund or payment resulting from such correction.

"Reset Date" means each day specified as such (or determined pursuant to a method specified for such purpose) for the Transaction or that party, subject to adjustment in accordance with any applicable Business Day Convention which, if a Business Day Convention is not specified in a Confirmation as being applicable to Reset Dates, shall be the Business Day Convention applicable to Floating Rate Payer Payment Dates in respect of that Transaction, unless an adjustment in accordance with that Business Day Convention would cause a Reset Date to fall on the Payment Date in respect of the Calculation Period to which that Reset Date relates, in which case that Reset Date shall be adjusted in accordance with the Preceding Business Day Convention.

"Reuters Screen" means, when used in connection with any designated page and any Floating Rate Option, the display page so designated on the Reuters Monitor Money Rates Service (or such other page as may replace that page on that service for the purpose of displaying rates or prices comparable to that Floating Rate Option).

"Scheduled Payment Date" means a date on which a payment is to be made under Section 2(a)(i) with respect to a Transaction.

"Set-off" means set-off, offset, combination of accounts, right of retention or withholding or similar right or requirement to which the payer of an amount under Section 6 is entitled or subject (whether arising under this Agreement, another contract, applicable law or otherwise) that is exercised by, or imposed on, such payer.

"Settlement Amount" means, with respect to a party and any Early Termination Date, the sum of:

- (a) the Market Quotations (whether positive or negative) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation is determined; and

(b) such party's Loss (whether positive or negative and without reference to any Unpaid Amounts) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation cannot be determined or would not in (in the reasonable belief of the party making the deamination) produce a commercially reasonable result.

"Specified Entity" means

in relation to GSMMDP for the purpose of Sections 5(a)(v), 5(a)(vi), 5(a)(vii), and 5(b)(ii), not applicable, and

in relation to Counterparty for the purpose of Sections 5(a)(v), 5(a)(vi), 5(a)(vii), and 5(b)(ii), not applicable.

"Specified Indebtedness" means any obligation (whether present or future, contingent or otherwise, as principal or surety or otherwise) in respect of borrowed money.

"Specified Transaction" means (a) any transaction (including an agreement with respect thereto) now existing or hereafter entered into (i) with respect to GSMMDP, between GSMMDP and Counterparty (or any Credit Support Provider of Counterparty or any applicable Specified Entity of Counterparty) and (ii) with respect to Counterparty, between Counterparty and GSMMDP (or any Credit Support Provider of Counterparty or any applicable Specified Entity of Counterparty) which is a rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions), (b) any combination of these transactions and (c) any other transaction identified as a Specified Transaction in this Agreement or the relevant Confirmation.

"System " means The University of Texas System Revenue Financing System established in the Master Resolution.

"Telerate" means, when used in connection with any designated page and any Floating Rate Option, the display page so designated on the Dow Jones Telerate Service (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to that Floating Rate Option).

"Term" means the period commencing on the Effective Date of a Transaction and ending on the Termination Date of the Transaction.

"Terminated Transactions" means with respect to any Early Termination Date (a) if resulting from a Termination Event, all Affected Transactions and (b) if resulting from an Event of

Default, all Transactions (in either case) in effect immediately before the effectiveness of the notice designating that Early Termination Date (or, if "Automatic Early Termination" applies, immediately before the Early Termination Date).

"Termination Date" means the date specified as such for a Transaction, which date is the last day of the Term of the Transaction. The Termination Date shall not be subject to adjustment in accordance with any Business Day Convention unless the parties specify in a Confirmation that the Termination Date will be adjusted in accordance with a specified Business Day Convention.

"Termination Event" means an Illegality, a Credit Event Upon Merger or an Additional Termination Event.

"Termination Rate" means a rate per annum equal to the arithmetic mean of the cost (without proof or evidence of any actual cost) to each party (as certified by such party) if it were to fund or of funding such amounts.

"Threshold Amount" means U.S. \$25,000,000.

"University System " means The University of Texas System.

"Unpaid Amounts" owing to any party means, with respect to an Early Termination Date, in respect of all Terminated Transactions, the amounts that became payable (or that would have become payable but for Section 2(a)(iii)) to such party under Section 2(a)(i) on or prior to such Early Termination Date and which remain unpaid as at such Early Termination Date together with (to the extent permitted under applicable law) interest, in the currency of such amounts, from (and including) the date such amounts or obligations were or would have been required to have been paid or performed to (but excluding) such Early Termination Date, at the Applicable Rate. Such amounts of interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

13. Caps, Collars, Floors and Options.

Notwithstanding the terms of Sections 5 and 6 of this Agreement, if at any time and so long as one of the parties to this Agreement ("X") shall have satisfied in full all its payment obligations under Section 2(a)(i) of this Agreement and shall at that time have no future payment obligations, whether absolute or contingent, under such Section, then unless the other party ("Y") is required pursuant to appropriate proceedings to return to X or otherwise returns to X upon demand of X any portion of such payment, (a) the occurrence of an event described in Section 5(a)(i), (ii), (iii), (iv), (vi), (vii) or (viii) of this Agreement with respect to X, any Credit Support Provider of X or any Specified Entity of X shall not constitute an Event of Default or a Potential Event of Default with respect to X as the Defaulting Party and (b) Y shall be entitled to designate an Early Termination Date pursuant to Section 6 of this Agreement only as a result of the occurrence of an Event of Default set forth in Section 5(a)(v)

of this Agreement with respect to X as the Defaulting Party or a Termination Event set forth in Section 5(b)(i) of this Agreement with respect to Y as the Affected Party.

14. Severability.

If any term, provision, covenant, or condition of this Agreement, or the application thereof to any party or circumstance, shall be held to be invalid or unenforceable (in whole or in part) for any reason, the remaining terms, provisions, covenants, and conditions hereof shall continue in full force and effect as if this Agreement had been executed with the invalid or unenforceable portion eliminated, so long as this Agreement as so modified continues to express, without material change, the original intentions of the parties as to the subject matter of this Agreement and the deletion of such portion of this Agreement will not substantially impair the respective benefits or expectations of the parties hereto; provided, however, that this severability provision will not be applicable if any provision of Section 2, 5, 6, or 11 (or any definition or provision in Section 12 to the extent it relates to, or is used in or in connection with, any such section) is held to be invalid or unenforceable.

15. Set-off and Terminated Transactions.

(i) Notwithstanding any provision to the contrary in this Agreement, in the event of the declaration of an Early Termination Date, if the Defaulting Party or Affected Party would (but for the operation of this sentence) be owed amounts under this Agreement in respect of the Terminated Transactions relating to such Early Termination Date (the "Agreement Amount"), the Non-defaulting Party or non-Affected Party will be entitled, at its option and in its sole discretion, without prior notice to the Defaulting Party or Affected Party, to offset the Agreement Amount against any obligations owed, whether matured, unmatured, contingent, or otherwise, in United States Dollars, by the Defaulting Party or Affected Party to the Non-defaulting Party or non-Affected Party other than under this Agreement, (the "Other Agreement Amount"). The Agreement Amount will be deemed satisfied and discharged to the extent of any such offset. If an obligation is unascertained, the Non-defaulting Party or non-Affected Party may in good faith estimate that obligation and set off in respect of the estimate, subject to such party accounting to the Defaulting Party or Affected Party when the obligation is ascertained. Nothing in this provision will be effective to create a charge or other security interest. This provision will be without prejudice, and is in addition to, any right of Setoff, combination of accounts, lien, or other right to which any party is at any time otherwise entitled (whether by operation of law, contract, or otherwise).

(ii) Notwithstanding any provision to the contrary in this Agreement, the Non-defaulting Party or non-Affected Party shall not be required to pay to the Defaulting Party or Affected Party the Agreement Amount unless and until the Non-defaulting Party or non-Affected Party receives confirmation satisfactory to it in its sole discretion that: (A) each Specified Transaction has matured or been terminated and all obligations due and payable by the Defaulting Party or Affected Party under each such Specified Transaction have been fully and finally performed; and (B) all other obligations of any kind whatsoever (whether pursuant to Specified Indebtedness or otherwise and whether matured, unmatured, absolute, contingent,

or otherwise) of the Defaulting Party or Affected Party to make any payments or deliveries to the Non-defaulting Party or non-Affected Party which are or may be due and payable have been fully and finally performed.

IN WITNESS WHEREOF the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

**GOLDMAN SACHS MITSUI MARINE
DERIVATIVE PRODUCTS, L.P.**

By: **GSMMDPGP, INC.**
General Partner

By: _____
Name:
Title:
Date:

By: _____
Name:
Title:
Date:

EXHIBIT _____

[Form of Counterparty's Opinion]

[Letterhead of Counterparty's Outside Legal Counsel]

_____, 199__

[SUBJECT TO COMPLETION]

[Addressee]
85 Broad Street
New York, New York 10004

Ladies and Gentlemen:

We are attorneys admitted to practice in the State of _____ and are generally familiar with the affairs of _____ ("Counterparty"). We have examined and are familiar with (i) the documents relating to the creation, authorization, organization, existence, and operation of Counterparty, (ii) the Master Agreement dated as of _____ between Counterparty and [Addressee ("Addressee")] (the "Swap Agreement"), (iii) the Confirmation dated as of _____ between Counterparty and [Addressee] (the "Confirmation") (the Swap Agreement and Confirmation being collectively referred to as the "Agreement"), (iv) all necessary documentation of Counterparty relating to the authorization, execution, delivery, and performance of the Agreement, and (v) such other records and instruments as we deemed advisable.

Based upon the foregoing, we are of the opinion that:

1. Counterparty is duly organized, validly existing, and in good standing under the laws of _____.

2. Counterparty has the power pursuant to the Authorizing Law to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and any other documentation relating to this Agreement that it is required by this Agreement to deliver and to perform its obligations under this Agreement and any obligations it has under any Credit Support Document to which it is a party and has taken all necessary action and has made all necessary determinations and findings to authorize such execution, delivery and performance, the individual(s) executing and delivering this Agreement and any other documentation (including any Credit Support Document) relating to this Agreement to which it is a party or that it is required to deliver are duly empowered and

authorized to do so, and it has duly executed and delivered this Agreement and any Credit Support Document to which it is a party;

3. Such execution, delivery and performance do not violate, conflict with, or constitute a breach of or default under, any law applicable to Counterparty, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets. Counterparty is not in violation or breach of or default under any law applicable to Counterparty, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets which could adversely affect the Agreement or any other documentation (including any Credit Support Document) relating to this Agreement to which it is a party or that it is required to deliver, the legality, validity, binding effect, or enforceability thereof, the ability of Counterparty to perform its obligations thereunder, or the financial condition or operations of Counterparty.

4. All governmental and other consents that are required to have been obtained by Counterparty with respect to this Agreement or any Credit Support Document to which Counterparty is a party have been obtained and are in full force and effect and all conditions of any such consents have been complied with.

5. The Agreement and any Credit Support Document to which Counterparty is a party have been duly authorized, executed, and delivered by Counterparty, and the obligations of Counterparty under this Agreement and any such Credit Support Document constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)).

6. There is not pending or, to the knowledge of such counsel, threatened against Counterparty or against any Credit Support Provider of Counterparty or any entity designated as a Specified Entity of Counterparty for purposes of [Section 5(a)(vii)] of the Agreement (nor to the knowledge of such counsel is there any basis for), any action, suit or proceeding at law or in equity or before any court, tribunal, governmental body, agency or official or any arbitrator that is likely to affect the legality, validity or enforceability against it of this Agreement or any Credit Support Document to which it is a party or its ability to perform its obligations under this Agreement or such Credit Support Document.

Very truly yours,

ACTUAL BOND RATE SWAP CONFIRMATION - Draft as of January 11, 1999

To: The Board of Regents of The University of Texas System
Phone No.: []
Facsimile No.: []

From: Calvin R. Carver
Phone No: (212) 902-8257
Bradley W. Wendt
Phone No: (212) 902-6477
Facsimile No: (212) 346-4281
Goldman Sachs Mitsui Marine Derivative Products, L.P.

Date: []

Subject: Swap Transaction NUJO _____ (090000A00)

CC: Goldman, Sachs & Co.
Swap Administration

The purpose of this communication is to set forth the terms and conditions of the swap transaction entered into on the Trade Date specified below (the "Swap Transaction") between Goldman Sachs Mitsui Marine Derivative Products, L.P. ("Goldman") and the Board of Regents of The University of Texas System ("Counterparty"). This Swap Transaction constitutes a Swap Transaction under, and this communication constitutes a "Confirmation" as referred to in, the Swap Agreement specified below.

1. Goldman and Counterparty have entered into a Master Agreement dated as of [] (the ASwap Agreement). This Confirmation supplements, forms a part of, and is subject to, such Swap Agreement. This Confirmation is subject to, and incorporates, the 1991 ISDA Definitions (the "1991 Definitions") and the 1992 ISDA U.S. Municipal Counterparty Definitions (the "Municipal Definitions"), each published by the International Swaps and Derivatives Association, Inc. ("ISDA"). All references to "Swap Transactions" in the 1991 Definitions will be deemed to be referenced to "Transactions." In the event of any inconsistency between the 1991 Definitions and the Municipal Definitions, the 1991 Definitions will control for purposes of the Transaction to which this Confirmation relates. In the event of any inconsistency between the terms and provisions used in this Confirmation and those found in the 1991 Definitions and the Municipal Definitions, the terms and provisions of this Confirmation will control for purposes of the Transaction to which this Confirmation relates.

2. The terms of the particular Swap Transaction to which this Confirmation relates are as follows:

Trade Date: []

Effective Date: []

Notional Amount:	<u>Calculation Period</u>	<u>Notional Amount</u>
	[To Come]	
Termination Date:	[], Subject to Optional Termination as provided in Sections 4 and 5 below.	
Fixed and Floating Amount Payment Dates:	[Quarterly], each [], [], [] and [], commencing [] and ending on the Termination Date, subject to adjustment in accordance with Modified Following Business Day convention.	
Fixed and Floating Amount Period End Dates:	[Quarterly], each [], [], [] and [], commencing [] and ending on the Termination Date, not subject to adjustment.	
Floating Amounts:		
Floating Rate Payor:	Goldman	
Floating Rate Index:	Either the Actual Bond Rate or the Alternate Index. The initial Floating Rate Index shall be the Actual Bond Rate subject to conversion as described in Section 3.	
Actual Bond Rate	The actual amount of interest accrual on the Board of Regents of The University of Texas System Revenue Financing System Refunding Bonds, Series 2001 (the "Bonds") relating to the Notional Amount of this Swap Transaction.	
Alternate Index:	Floating Rate I or Floating Rate II, as selected by Goldman.	
Floating Rate I:	The Bond Market Association Municipal Swap Index™, formerly the PSA Municipal Swap Index™, (the BMA Index) [minus/plus ___%].	
Floating Rate I Day Count Fraction:	Actual/Actual	
Floating Rate I Reset Dates:	Every Thursday or if any Thursday is not a Business Day, the first succeeding Business Day.	
Floating Rate I Compounding:	Inapplicable	
Floating Rate I Averaging:	Applicable	
Floating Rate I Method of Averaging:	Weighted Average	

Floating Rate I Indexing Agent:

Municipal Market Data

Additional BMA Index Criteria:

The BMA Index shall be based upon weekly yield evaluations at par of tax-exempt state and local government bonds, utilizing the criteria established by The Bond Market Association (ABMA) for the BMA Index and as modified from time to time by BMA. The specific issuers included among the component issuers may be changed from time to time by the Indexing Agent in its discretion, subject to the then-current BMA Index criteria.

If the Indexing Agent no longer publishes an index satisfying the requirements of the preceding paragraph, Goldman shall be appointed as the successor Indexing Agent hereunder, and shall determine the BMA Index on each Reset Date upon consultation with Counterparty. The BMA Index so determined shall equal the prevailing rate determined by Goldman for tax-exempt state and local government bonds meeting criteria determined in good faith by Goldman to be comparable under the circumstances to the criteria used by BMA. If the Indexing Agent fails or is unable to make available the BMA Index for any Reset Date, Goldman shall determine the BMA Index in the manner specified in the preceding sentence until the Indexing Agent makes available the BMA Index specified above.

Floating Rate II:

CP Index multiplied by the Floating Rate II Percentage

CP Index:

Means the rate for a Reset Date will be the Money Market Yield of the rate set forth in H.15(519) for that day opposite the Designated Maturity under the caption "Commercial Paper - Nonfinancial". If on the Calculation Date for a Calculation Period such rate for a Reset Date in that Calculation Period is not yet published in H.15(519), the rate for that Reset Date will be the Money Market Yield of the rate set forth in Composite 3:30 P.M. Quotations for U.S. Government Securities for that day in respect of the Designated Maturity under the caption "Commercial Paper - Nonfinancial" (with a Designated Maturity of one month or three months being deemed to be equivalent to a Designated Maturity of 30 days or 90 days, respectively). If on the Calculation Date for a Calculation Period the appropriate rate for a Reset Date in that Calculation Period is not yet published in either H.15(519) or Composite 3:30 P.M. Quotations for U.S. Government Securities, the rate for that Reset Date will be determined as if the parties had specified "USD-CP-Reference Dealers" as the applicable Floating Rate Option. As used herein, "USD-CP-Reference Dealers" means that the rate for

a Reset Date will be the Money Market Yield of the arithmetic mean of the offered rates of the Reference Dealers as of 11:00 a.m., New York City time, on that day for U.S. Dollar commercial paper of the Designated Maturity placed for industrial issuers whose bond rating is "Aa" or the equivalent from a nationally recognized rating agency.

Floating Rate II Spread:	None
Floating Rate II Designated Maturity	90 days
Floating Rate II Day Count Fraction:	Actual/360
Floating Rate II Reset Dates:	Every day or if any day is not a Business Day, the first succeeding Business Day.
Floating Rate II Compounding:	Inapplicable
Floating Rate II Averaging:	Applicable
Floating Rate II Method of Averaging:	Weighted Average
Floating Rate II Percentage:	65%
Fixed Amounts:	
Fixed Rate Payor:	Counterparty
Fixed Rate:	[]%
Fixed Rate Day Count Fraction:	30/360
Calculation Agent:	Goldman
Business Days:	New York
Governing Law:	As provided in Swap Agreement

3. Alternate Index:

3a. Goldman Option to Convert to Floating Rate I

Goldman has the option to cause the Floating Rate Index to be converted to Floating Rate I at any time one or more of the following events have occurred:

- (i) The aggregate outstanding principal amount of the Bonds is not at least equal to the then applicable Notional Amount of this Swap Transaction.
- (ii) The auction or floating rate mode then in effect on the Bonds is not either a daily, weekly, or 28-day mode nor another mode which is acceptable to Goldman.
- (iii) The credit ratings on the Bonds (not Counterparty's underlying credit ratings on the Bonds) are below or fall below AA- or A-1+ by Standard & Poor's, as applicable, or Aa3 or VMIG1 by Moody's, as applicable.
- (iv) Counterparty's unenhanced long-term credit ratings are below A- by Standard & Poor's or A3 by Moody's
- (v) A failed auction or draw on the liquidity facility, if any, with respect to the Bonds, or a purchase of tendered Bonds by the Counterparty has occurred or is occurring.
- (vi) A market disruption in general or with respect to trading of the Bonds has occurred or is occurring, for a period of at least 20 days, which, in the opinion of Goldman, in consultation with Counterparty, has materially adversely affected the trading performance of the Bonds.
- (vii) A fixed rate conversion with respect to the Bonds (in whole or part) has occurred.
- (viii) The Remarketing Agent, as defined in the Eighth Supplemental Resolution, is replaced without the prior written consent of Goldman
- (ix) Upon the sole determination by Goldman (which determination shall be supported by empirical data) that the Bonds are no longer trading at their historical spread to the BMA Index as a result of the Remarketing Agent's actions or inactions, and (ii) Counterparty has failed to replace the Remarketing Agent, or any replacement Remarketing Agent, as defined in the Bond Documents, with another Remarketing Agent acceptable to Goldman within 15 days following notice to Counterparty from Goldman of such determination. If a replacement Remarketing Agent is not appointed within 15 days, the Floating Rate Index shall revert to the Actual Bond Rate at such time that a replacement Remarketing Agent is appointed. To the extent that a replacement Remarketing Agent is appointed, this paragraph shall remain enforceable by Goldman.
- (x) A default by Counterparty under the Swap Agreement or on the Bonds has occurred and is continuing after any applicable grace period has elapsed.

3b. Counterparty Option to Convert from Floating Rate I to Actual Bond Rate

Counterparty has the option to cause the Floating Rate Index to be converted from Floating Rate I to the Actual Bond Rate at any time if the event permitting Goldman to exercise the option described in Section 3a. ceases or is otherwise cured. In such case, Goldman shall regain its conversion rights described in Section 3a.

3c. Goldman Option to Convert to Floating Rate II

Goldman has the option to cause the Floating Rate Index to be converted to Floating Rate II (from either Actual Bond Rate or Floating Rate I) with respect to the entire transaction at any time if one or more of the following conditions exist:

- (i) A nationally recognized bond counsel mutually acceptable to Goldman and Counterparty would not issue an "unqualified" opinion as to the tax-exempt status generally of any of the Bonds under Section 103 of the Tax Code.

(ii) Counterparty is advised in writing by the Commissioner or any District Director of the Internal Revenue Service, or the Internal Revenue Service issues a statutory notice of deficiency or similar notice to any holder or former holder of the Bonds, to the effect that interest on the Bonds received by any holder or former holder thereof is includable in gross income for federal income tax purposes under Section 103 of the Tax Code.

(iii) By reason of enacted legislation, constitutional amendment, judicial decision or decree, or any order, ruling (public or private), regulation or official release of the Department of the Treasury or the Internal Revenue Service, or any successors thereto either:

- (1) the 60-day arithmetic mean of the BMA Index as a percentage of the 60-day arithmetic mean of the CP Index measured over the same period has exceeded 80%; or
- (2) the 90-day arithmetic mean of the BMA Index as a percentage of the 90-day arithmetic mean of the CP Index measured over the same period has exceeded 75%.

3d. For any day that the Actual Bond Rate is not in effect, the Alternate Index shall be in effect.

4. Counterparty Termination Option

Counterparty has the option to terminate and cancel this Swap Transaction, in whole but not in part, on any Business Day, upon at least thirty business day's notice to Goldman. Such termination shall constitute an Additional Termination Event under the Swap Agreement with Counterparty as the sole Affected Party and this Transaction as the sole Affected Transaction. Following any such early termination and payment of any amounts due, the parties shall be relieved of all further payment and other obligations hereunder. Notwithstanding anything to the contrary in this section, Counterparty will not exercise this termination option if a payment would be payable by Counterparty to Goldman unless Counterparty provides evidence reasonably satisfactory to Goldman that: (a) such payment will be made by Counterparty on the Optional Termination Date, and (b) such payment will not cause Counterparty to be in violation of, or in default of, any material obligation under, any Covered Document or any other material agreement of Counterparty.

5. Credit Related Termination Events

(i) The following shall constitute Additional Termination Events with respect to which Goldman shall be the Affected Party and Counterparty may designate an Early Termination Date:

(a) Goldman receives ratings below AA from Standard & Poor's and Aa2 from Moody's on its unsecured, unenhanced long-term debt (or financial program ratings, as applicable); or

(b) Goldman does not maintain at least one published unsecured, unenhanced long-term debt rating (or financial program rating, as applicable) from either Moody's or Standard & Poor's.

If (a) or (b) above occurs, Goldman, at its option, may eliminate the Additional Termination Event condition by securing and maintaining a replacement credit acceptable to Counterparty, such acceptance not to be unreasonably withheld, including but not restricted to (i) an affiliate of Goldman with qualifying ratings, or (ii) collateral, within two business days. The requisite documentation for (i) or (ii) must be completed in no more than 15 days following an event described in (a) or (b) to eliminate the Additional Termination Event condition.

(ii) The following shall constitute Additional Termination Events with respect to which the Counterparty shall be the Affected Party and Goldman may designate an Early Termination Date:

(a) Counterparty receives ratings on its unenhanced Parity Debt (as defined in the Swap Agreement) below AA from Standard & Poor's and Aa2 from Moody's; or

(b) Counterparty does not maintain at least one rating from either Moody's or Standard & Poor's for its unenhanced Parity Debt. This rating can be evidenced either through a publicly disseminated published rating or an unpublished private credit assessment.

If (a) or (b) above occurs, Counterparty, at its option, may eliminate the Additional Termination Event condition by securing and maintaining a replacement credit acceptable to Goldman, such acceptance not to be unreasonably withheld, including, but not restricted to: (i) swap surety policy, (ii) letter of credit, or (iii) collateral. Evidence of a binding commitment for (i) or (ii), or the collateral for (iii) must be provided within two business days following an event described in (a) or (b) to eliminate the Additional Termination Event condition. The requisite documentation for (i), (ii) or (iii) must be completed in no more than 15 days following an event described in (a) or (b) to eliminate the Additional Termination Event condition.

6. Documentation: Swap Agreement.

7. Account Details:

Payments to Goldman:

For the Account of:	Goldman Sachs Mitsui Marine Derivative Products, L.P.
Name of Bank:	Chase Manhattan Bank, New York
Account No:	930-1-034733
Fed ABA No:	021000021

Goldman Settlements:	Sukwon Lee
	Swap Operations
	Goldman Sachs Mitsui Marine Derivative Products, L.P.
	Telephone No: 212-902-2686
	Facsimile No: 212-902-5692

Payments to Counterparty:	In accordance with Counterparty's written instructions to be forwarded to Goldman immediately. Goldman shall make no payments without having received such instructions.
---------------------------	--

8. Offices:

(a) The Office of Goldman for this Swap Transaction is 85 Broad Street, New York, New York 10004.

(b) The Office of Counterparty for this Swap Transaction is Office of Finance, 201 West 7th Street, Austin, Texas 78701.

9. Please check this Confirmation, Reference Number NUUO _____ (090000A00), carefully and immediately upon receipt so that errors or discrepancies can be promptly identified and rectified. Please confirm that the foregoing correctly sets forth the terms of the agreement between Goldman and Counterparty with respect to the particular Swap Transaction to which this Confirmation relates by signing in the space provided below and immediately returning a copy of the executed Confirmation to Swap Administration, Goldman Sachs Mitsui Marine Derivative Products, L.P., Facsimile No. 212-902-5692.

Goldman Sachs Mitsui Marine Derivative Products, L.P. is very pleased to have executed this transaction with Counterparty.

Very truly yours,

Goldman Sachs Mitsui Marine Derivative
Products, L.P.

By: GSMMDPGP, Inc.,
General Partner

By: _____
Calvin R. Carver
Vice President

Agreed and Accepted By:
The Board of Regents of The University of Texas System

By: _____
Name:
Title:

BMA SWAP CONFIRMATION – Draft as of January 11, 1999

To: The Board of Regents of The University of Texas System
Phone No.: []
Facsimile No.: []

From: Calvin R. Carver
Phone No: (212) 902-8257
Bradley W. Wendt
Phone No: (212) 902-6477
Facsimile No: (212) 346-4281
Goldman Sachs Mitsui Marine Derivative Products, L.P.

Date: []

Subject: Swap Transaction NUUS _____ (090000A00)

CC: Goldman, Sachs & Co.
Swap Administration

The purpose of this communication is to set forth the terms and conditions of the swap transaction entered into on the Trade Date specified below (the "Swap Transaction") between Goldman Sachs Mitsui Marine Derivative Products, L.P. ("Goldman") and the Board of Regents of The University of Texas. ("Counterparty"). This Swap Transaction constitutes a Swap Transaction under, and this communication constitutes a "Confirmation" as referred to in, the Swap Agreement specified below.

1. Goldman and Counterparty have entered into a Master Agreement dated as of []. This Confirmation supplements, forms a part of, and is subject to, such Swap Agreement. This Confirmation is subject to, and incorporates, the 1991 ISDA Definitions (the "1991 Definitions") and the 1992 ISDA U.S. Municipal Counterparty Definitions (the "Municipal Definitions"), each published by the International Swaps and Derivatives Association, Inc. ("ISDA"). All references to "Swap Transactions" in the 1991 Definitions will be deemed to be referenced to "Transactions." In the event of any inconsistency between the 1991 Definitions and the Municipal Definitions, the 1991 Definitions will control for purposes of the Transaction to which this Confirmation relates. In the event of any inconsistency between the terms and provisions used in this Confirmation and those found in the 1991 Definitions and the Municipal Definitions, the terms and provisions of this Confirmation will control for purposes of the Transaction to which this Confirmation relates.
2. The terms of the particular Transaction to which this Confirmation relates are as follows:

Trade Date: []

Effective Date: []

Notional Amount:	<u>Calculation Period</u> [To Come]	<u>Notional Amount</u>
Termination Date:	[], Subject to Optional Termination as provided in Sections 3 and 4 below.	
Fixed and Floating Amount Payment Dates:	[Quarterly], each [], [], [] and [], commencing [] and ending on the Termination Date, subject to adjustment in accordance with Modified Following Business Day convention.	
Fixed and Floating Amount Period End Dates:	[Quarterly], each [], [], [] and [], commencing [] and ending on the Termination Date, not subject to adjustment.	
Floating Amounts:		
Floating Rate Payor:	Goldman	
Floating Rate Index:	The BMA Municipal Swap Index™, formerly the "PSA Municipal Swap Index™", (the "BMA Index") as defined below).	
Floating Rate Day Count Fraction:	Actual/Actual	
Reset Dates:	Every Thursday or if any Thursday is not a Business Day, the first succeeding Business Day.	
Compounding:	Inapplicable	
Averaging:	Applicable	
Method of Averaging:	Weighted Average	
Indexing Agent:	Municipal Market Data	
Additional BMA Index Criteria:	<p>The BMA Index shall be based upon weekly yield evaluations at par of tax-exempt state and local government bonds, utilizing the criteria established by The Bond Market Association (ABMA) for the BMA Index and as modified from time to time by BMA. The specific issuers included among the component issuers may be changed from time to time by the Indexing Agent in its discretion, subject to the then-current BMA Index criteria.</p> <p>If the Indexing Agent no longer publishes an index satisfying the requirements of the preceding paragraph, Goldman shall be appointed as the successor Indexing Agent hereunder, and shall determine the BMA Index on each Reset Date upon consultation with Counterparty. The BMA Index so determined shall equal the prevailing rate determined by Goldman for tax-exempt state and local government bonds meeting criteria determined in good faith by Goldman to be comparable under the circumstances to the criteria used by</p>	

BMA. If the Indexing Agent fails or is unable to make available the BMA Index for any Reset Date, Goldman shall determine the BMA Index in the manner specified in the preceding sentence until the Indexing Agent makes available the BMA Index specified above.

Fixed Amounts:

Fixed Rate Payor:	Counterparty
Fixed Rate:	X.XX%
Fixed Rate Day Count Fraction:	30/360
Calculation Agent:	Goldman
Business Days:	New York
Governing Law:	As provided in Swap Agreement

3. Counterparty Termination Option

Counterparty has the option to terminate and cancel this Swap Transaction, in whole but not in part, on any Business Day, upon at least thirty business day's notice to Goldman. Such termination shall constitute an Additional Termination Event under the Swap Agreement with Counterparty as the sole Affected Party, this Transaction as the sole Affected Transaction. Following any such early termination and payment of any amounts due, the parties shall be relieved of all further payment and other obligations hereunder. Notwithstanding anything to the contrary in this section, Counterparty will not exercise this termination option if a payment would be payable by Counterparty to Goldman unless Counterparty provides evidence reasonably satisfactory to Goldman that: (a) such payment will be made by Counterparty on the Optional Termination Date, and (b) such payment will not cause Counterparty to be in violation of, or in default of, any material obligation under, any Covered Document or any other material agreement of Counterparty.

4. Credit Related Termination Events

(i) The following shall constitute Additional Termination Events with respect to which Goldman shall be the Affected Party and Counterparty may designate an Early Termination Date:

(a) Goldman receives ratings below AA from Standard & Poor's and Aa2 from Moody's on its unsecured, unenhanced long-term debt (or financial program ratings, as applicable); or

(b) Goldman does not maintain at least one published unsecured, unenhanced long-term debt rating (or financial program rating, as applicable) from either Moody's or Standard & Poor's.

If (a) or (b) above occurs, Goldman, at its option, may eliminate the Additional Termination Event condition by securing and maintaining a replacement credit acceptable to Counterparty, such acceptance not to be unreasonably withheld, including but not restricted to (i) an affiliate of Goldman with qualifying ratings, or (ii) collateral, within two business days. The requisite documentation for (i) or (ii) must be completed in no more than 15 days following an event described in (a) or (b) to eliminate the Additional Termination Event condition.

(ii) The following shall constitute Additional Termination Events with respect to which the Counterparty shall be the Affected Party and Goldman may designate an Early Termination Date:

(a) Counterparty receives ratings on its unenhanced Parity Debt (as defined in the Swap Agreement) below AA from Standard & Poor's and Aa2 from Moody's; or

(b) Counterparty does not maintain at least one rating from either Moody's or Standard & Poor's

for its unenhanced Parity Debt. This rating can be evidenced either through a publicly disseminated published rating or an unpublished private credit assessment.

If (a) or (b) above occurs, Counterparty, at its option, may eliminate the Additional Termination Event condition by securing and maintaining a replacement credit acceptable to Goldman, such acceptance not to be unreasonably withheld, including, but not restricted to: (i) swap surety policy, (ii) letter of credit, or (iii) collateral. Evidence of a binding commitment for (i) or (ii), or the collateral for (iii) must be provided within two business days following an event described in (a) or (b) to eliminate the Additional Termination Event condition. The requisite documentation for (i), (ii) or (iii) must be completed in no more than 15 days following an event described in (a) or (b) to eliminate the Additional Termination Event condition.

5. Documentation: Swap Agreement.

6. Account Details:

Payments to Goldman:

For the Account of:

Goldman Sachs Mitsui Marine Derivative Products, L.P.
Name of Bank: Chase Manhattan, N.Y.
Account No.: 930-1-034733
Fed. ABA No.: 0210000021

Goldman Settlements:

Sukwon Lee
Swap Operations
Goldman Sachs Mitsui Marine Derivative Products, L.P.
Telephone No: 212-902-2686
Facsimile No: 212-902-5692

Payments to Counterparty:

In accordance with Counterparty's written instructions to be forwarded to Goldman immediately. Goldman shall make no payments without having received such instructions.

7. Offices:

(a) The Office of Goldman for this Swap Transaction is 85 Broad Street, New York, New York 10004.

(b) The Office of Counterparty for this Swap Transaction is Office of Finance, 201 West 7th Street, Austin, Texas 78701.

8. Please check this Confirmation, Reference Number NUUO_____ (090000A00) carefully and immediately upon receipt so that errors or discrepancies can be promptly identified and rectified. Please confirm that the foregoing correctly sets forth the terms of the agreement between Goldman and Counterparty with respect to the particular Swap Transaction to which this Confirmation relates by signing in the space provided below and immediately returning a copy of the executed Confirmation to Swap Administration, Goldman Sachs Mitsui Marine Derivative Products, L.P., Facsimile No. 212-902-5692.

Goldman Sachs Mitsui Marine Derivative Products, L.P. is very pleased to have executed this transaction with Counterparty.

Very truly yours,

Goldman Sachs Mitsui Marine Derivative Products,
L.P.

By: GSMMDPGP, Inc.,
General Partner

By: _____
Calvin R. Carver
Vice President

Agreed and Accepted By:
The Board of Regents of The University of Texas System

By: _____
Name: []
Title: []

LIBOR SWAP CONFIRMATION – Draft as of January 11, 1999

To: The Board of Regents of The University of Texas System
Phone No.: []
Facsimile No.: []

From: Calvin R. Carver
Phone No: (212) 902-8257
Bradley W. Wendt
Phone No: (212) 902-6477
Facsimile No: (212) 346-4281
Goldman Sachs Mitsui Marine Derivative Products, L.P.

Date: []

Subject: Swap Transaction NUUS_____ (090000A00)

CC: Goldman, Sachs & Co.
Swap Administration

The purpose of this communication is to set forth the terms and conditions of the swap transaction entered into on the Trade Date specified below (the "Swap Transaction") between Goldman Sachs Mitsui Marine Derivative Products, L.P. ("Goldman") and the Board of Regents of The University of Texas. ("Counterparty"). This Swap Transaction constitutes a Swap Transaction under, and this communication constitutes a "Confirmation" as referred to in, the Swap Agreement specified below.

1. Goldman and Counterparty have entered into a Master Agreement dated as of []. This Confirmation supplements, forms a part of, and is subject to, such Swap Agreement. This Confirmation is subject to, and incorporates, the 1991 ISDA Definitions (the "1991 Definitions") and the 1992 ISDA U.S. Municipal Counterparty Definitions (the "Municipal Definitions"), each published by the International Swaps and Derivatives Association, Inc. ("ISDA"). All references to "Swap Transactions" in the 1991 Definitions will be deemed to be referenced to "Transactions." In the event of any inconsistency between the 1991 Definitions and the Municipal Definitions, the 1991 Definitions will control for purposes of the Transaction to which this Confirmation relates. In the event of any inconsistency between the terms and provisions used in this Confirmation and those found in the 1991 Definitions and the Municipal Definitions, the terms and provisions of this Confirmation will control for purposes of the Transaction to which this Confirmation relates.

2. The terms of the particular Transaction to which this Confirmation relates are as follows:

Trade Date: []

Effective Date: []

Notional Amount:	<u>Calculation</u>	<u>Notional</u>
	<u>Period</u>	<u>Amount</u>
	[To Come]	

Termination Date: [], Subject to Optional Termination as provided in Sections 3 and 4 below.

Fixed and Floating Amount
Payment Dates:

[Quarterly], each [], [], [] and [], commencing [...] and ending on the Termination Date, subject to adjustment in accordance with Modified Following Business Day convention.

Fixed and Floating Amount
Period End Dates:

[Quarterly], each [], [], [] and [], commencing [] and ending on the Termination Date, not subject to adjustment.

Floating Amounts:

Floating Rate Payor: Goldman
Floating Rate Index: USD-LIBOR-BBA multiplied by the Floating Rate Index Percentage
Designated Maturity: 3 months
Floating Rate Option II Day Count Fraction: Actual/360
Reset Dates: Quarterly, each February 15, May 15, August 15 and November 15
Floating Rate Index Percentage: 67%
Floating Rate Index Compounding: Inapplicable
Floating Rate Index Averaging: Inapplicable

Fixed Amounts:

Fixed Rate Payor: Counterparty
Fixed Rate: X.XX%
Fixed Rate Day Count Fraction: 30/360

Calculation Agent: Goldman

Business Days: New York

Governing Law: As provided in Swap Agreement

3. Counterparty Termination Option

Counterparty has the option to terminate and cancel this Swap Transaction, in whole but not in part, on any Business Day, upon at least thirty business day's notice to Goldman. Such termination shall constitute an Additional Termination Event under the Swap Agreement with Counterparty as the sole Affected Party, this Transaction as the sole Affected Transaction. Following any such early termination and payment of any amounts due as set forth above, the parties shall be relieved of all further payment and other obligations hereunder. Notwithstanding anything to the contrary in this section, Counterparty will not exercise this termination option if a payment would be payable by Counterparty to Goldman unless Counterparty provides evidence reasonably satisfactory to Goldman that: (a) such payment will be made by Counterparty on the Optional Termination Date, and (b) such payment will not cause Counterparty to be in violation of, or in

default of, any material obligation under, any Covered Document or any other material agreement of Counterparty.

4. Credit Related Termination Events

(i) The following shall constitute Additional Termination Events with respect to which Goldman shall be the Affected Party and Counterparty may designate an Early Termination Date:

(a) Goldman receives ratings below AA from Standard & Poor's and Aa2 from Moody's on its unsecured, unenhanced long-term debt (or financial program ratings, as applicable); or

(b) Goldman does not maintain at least one published unsecured, unenhanced long-term debt rating (or financial program rating, as applicable) from either Moody's or Standard & Poor's.

If (a) or (b) above occurs, Goldman, at its option, may eliminate the Additional Termination Event condition by securing and maintaining a replacement credit acceptable to Counterparty, such acceptance not to be unreasonably withheld, including but not restricted to (i) an affiliate of Goldman with qualifying ratings, or (ii) collateral, within two business days. The requisite documentation for (i) or (ii) must be completed in no more than 15 days following an event described in (a) or (b) to eliminate the Additional Termination Event condition.

(ii) The following shall constitute Additional Termination Events with respect to which the Counterparty shall be the Affected Party and Goldman may designate an Early Termination Date:

(a) Counterparty receives ratings on its unenhanced Parity Debt (as defined in the Swap Agreement) below AA from Standard & Poor's and Aa2 from Moody's; or

(b) Counterparty does not maintain at least one rating from either Moody's or Standard & Poor's for its unenhanced Parity Debt. This rating can be evidenced either through a publicly disseminated published rating or an unpublished private credit assessment.

If (a) or (b) above occurs, Counterparty, at its option, may eliminate the Additional Termination Event condition by securing and maintaining a replacement credit acceptable to Goldman, such acceptance not to be unreasonably withheld, including, but not restricted to: (i) swap surety policy, (ii) letter of credit, or (iii) collateral. Evidence of a binding commitment for (i) or (ii), or the collateral for (iii) must be provided within two business days following an event described in (a) or (b) to eliminate the Additional Termination Event condition. The requisite documentation for (i), (ii) or (iii) must be completed in no more than 15 days following an event described in (a) or (b) to eliminate the Additional Termination Event condition.

5. Documentation: Swap Agreement.

6. Account Details:

Payments to Goldman:

For the Account of:

Goldman Sachs Mitsui Marine Derivative Products, L.P.
Name of Bank: Chase Manhattan, N.Y.
Account No.: 930-1-034733
Fed. ABA No.: 0210000021

Goldman Settlements:

Sukwon Lee
Swap Operations
Goldman Sachs Mitsui Marine Derivative Products, L.P.
Telephone No: 212-902-2686
Facsimile No: 212-902-5692

Payments to Counterparty:

In accordance with Counterparty's written instructions to be forwarded to Goldman immediately. Goldman shall make no

payments without having received such instructions.

7. Offices:

(a) The Office of Goldman for this Swap Transaction is 85 Broad Street, New York, New York 10004.

(b) The Office of Counterparty for this Swap Transaction is Office of Finance, 201 West 7th Street, Austin, Texas 78701.

8. Please check this Confirmation, Reference Number NUUO _____ (090000A00) carefully and immediately upon receipt so that errors or discrepancies can be promptly identified and rectified. Please confirm that the foregoing correctly sets forth the terms of the agreement between Goldman and Counterparty with respect to the particular Swap Transaction to which this Confirmation relates by signing in the space provided below and immediately returning a copy of the executed Confirmation to Swap Administration, Goldman Sachs Mitsui Marine Derivative Products, L.P., Facsimile No. 212-902-5692.

Goldman Sachs Mitsui Marine Derivative Products, L.P. is very pleased to have executed this transaction with Counterparty.

Very truly yours,

Goldman Sachs Mitsui Marine Derivative Products,
L.P.

By: GSMMDPGP, Inc.,
General Partner

By: _____
Calvin R. Carver
Vice President

Agreed and Accepted By:
The Board of Regents of The University of Texas System

By: _____
Name: []
Title: []

**Swap Agreement
for
Lehman Brothers Financial Products Inc.**

(Multicurrency—Cross Border)

ISDA[®]

International Swap Dealers Association, Inc.

MASTER AGREEMENT

dated as of

..... and

have entered and/or anticipate entering into one or more transactions (each a "Transaction") that are or will be governed by this Master Agreement, which includes the schedule (the "Schedule"), and the documents and other confirming evidence (each a "Confirmation") exchanged between the parties confirming those Transactions.

Accordingly, the parties agree as follows:—

1. Interpretation

(a) *Definitions.* The terms defined in Section 14 and in the Schedule will have the meanings therein specified for the purpose of this Master Agreement.

(b) *Inconsistency.* In the event of any inconsistency between the provisions of the Schedule and the other provisions of this Master Agreement, the Schedule will prevail. In the event of any inconsistency between the provisions of any Confirmation and this Master Agreement (including the Schedule), such Confirmation will prevail for the purpose of the relevant Transaction.

(c) *Single Agreement.* All Transactions are entered into in reliance on the fact that this Master Agreement and all Confirmations form a single agreement between the parties (collectively referred to as this "Agreement"), and the parties would not otherwise enter into any Transactions.

2. Obligations

(a) *General Conditions.*

(i) Each party will make each payment or delivery specified in each Confirmation to be made by it, subject to the other provisions of this Agreement.

(ii) Payments under this Agreement will be made on the due date for value on that date in the place of the account specified in the relevant Confirmation or otherwise pursuant to this Agreement, in freely transferable funds and in the manner customary for payments in the required currency. Where settlement is by delivery (that is, other than by payment), such delivery will be made for receipt on the due date in the manner customary for the relevant obligation unless otherwise specified in the relevant Confirmation or elsewhere in this Agreement.

(iii) Each obligation of each party under Section 2(a)(i) is subject to (1) the condition precedent that no Event of Default or Potential Event of Default with respect to the other party has occurred and is continuing, (2) the condition precedent that no Early Termination Date in respect of the relevant Transaction has occurred or been effectively designated and (3) each other applicable condition precedent specified in this Agreement.

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(b) *Change of Account.* Either party may change its account for receiving a payment or delivery by giving notice to the other party at least five Local Business Days prior to the scheduled date for the payment or delivery to which such change applies unless such other party gives timely notice of a reasonable objection to such change.

(c) *Netting.* If on any date amounts would otherwise be payable:—

- (i) in the same currency; and
- (ii) in respect of the same Transaction,

by each party to the other, then, on such date, each party's obligation to make payment of any such amount will be automatically satisfied and discharged and, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party, replaced by an obligation upon the party by whom the larger aggregate amount would have been payable to pay to the other party the excess of the larger aggregate amount over the smaller aggregate amount.

The parties may elect in respect of two or more Transactions that a net amount will be determined in respect of all amounts payable on the same date in the same currency in respect of such Transactions, regardless of whether such amounts are payable in respect of the same Transaction. The election may be made in the Schedule or a Confirmation by specifying that subparagraph (ii) above will not apply to the Transactions identified as being subject to the election, together with the starting date (in which case subparagraph (ii) above will not, or will cease to, apply to such Transactions from such date). This election may be made separately for different groups of Transactions and will apply separately to each pairing of Offices through which the parties make and receive payments or deliveries.

(d) *Deduction or Withholding for Tax.*

(i) *Gross-Up.* All payments under this Agreement will be made without any deduction or withholding for or on account of any Tax unless such deduction or withholding is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If a party is so required to deduct or withhold, then that party ("X") will:—

- (1) promptly notify the other party ("Y") of such requirement;
- (2) pay to the relevant authorities the full amount required to be deducted or withheld (including the full amount required to be deducted or withheld from any additional amount paid by X to Y under this Section 2(d)) promptly upon the earlier of determining that such deduction or withholding is required or receiving notice that such amount has been assessed against Y;
- (3) promptly forward to Y an official receipt (or a certified copy), or other documentation reasonably acceptable to Y, evidencing such payment to such authorities; and
- (4) if such Tax is an Indemnifiable Tax, pay to Y, in addition to the payment to which Y is otherwise entitled under this Agreement, such additional amount as is necessary to ensure that the net amount actually received by Y (free and clear of Indemnifiable Taxes, whether assessed against X or Y) will equal the full amount Y would have received had no such deduction or withholding been required. However, X will not be required to pay any additional amount to Y to the extent that it would not be required to be paid but for:—

(A) the failure by Y to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d); or

(B) the failure of a representation made by Y pursuant to Section 3(f) to be accurate and true unless such failure would not have occurred but for (I) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (II) a Change in Tax Law.

(ii) *Liability. If:—*

- (1) X is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, to make any deduction or withholding in respect of which X would not be required to pay an additional amount to Y under Section 2(d)(i)(4);
- (2) X does not so deduct or withhold; and
- (3) a liability resulting from such Tax is assessed directly against X.

then, except to the extent Y has satisfied or then satisfies the liability resulting from such Tax, Y will promptly pay to X the amount of such liability (including any related liability for interest, but including any related liability for penalties only if Y has failed to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d)).

(e) *Default Interest; Other Amounts.* Prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party that defaults in the performance of any payment obligation will, to the extent permitted by law and subject to Section 6(c), be required to pay interest (before as well as after judgment) on the overdue amount to the other party on demand in the same currency as such overdue amount, for the period from (and including) the original due date for payment to (but excluding) the date of actual payment, at the Default Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed. If, prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party defaults in the performance of any obligation required to be settled by delivery, it will compensate the other party on demand if and to the extent provided for in the relevant Confirmation or elsewhere in this Agreement.

3. Representations

Each party represents to the other party (which representations will be deemed to be repeated by each party on each date on which a Transaction is entered into and, in the case of the representations in Section 3(f), at all times until the termination of this Agreement) that:—

(a) *Basic Representations.*

- (i) *Status.* It is duly organised and validly existing under the laws of the jurisdiction of its organisation or incorporation and, if relevant under such laws, in good standing;
- (ii) *Powers.* It has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and any other documentation relating to this Agreement that it is required by this Agreement to deliver and to perform its obligations under this Agreement and any obligations it has under any Credit Support Document to which it is a party and has taken all necessary action to authorise such execution, delivery and performance;
- (iii) *No Violation or Conflict.* Such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;
- (iv) *Consents.* All governmental and other consents that are required to have been obtained by it with respect to this Agreement or any Credit Support Document to which it is a party have been obtained and are in full force and effect and all conditions of any such consents have been complied with; and
- (v) *Obligations Binding.* Its obligations under this Agreement and any Credit Support Document to which it is a party constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganisation, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)).

(b) **Absence of Certain Events.** No Event of Default or Potential Event of Default or, to its knowledge, Termination Event with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement or any Credit Support Document to which it is a party.

(c) **Absence of Litigation.** There is not pending or, to its knowledge, threatened against it or any of its Affiliates any action, suit or proceeding at law or in equity or before any court, tribunal, governmental body, agency or official or any arbitrator that is likely to affect the legality, validity or enforceability against it of this Agreement or any Credit Support Document to which it is a party or its ability to perform its obligations under this Agreement or such Credit Support Document.

(d) **Accuracy of Specified Information.** All applicable information that is furnished in writing by or on behalf of it to the other party and is identified for the purpose of this Section 3(d) in the Schedule is, as of the date of the information, true, accurate and complete in every material respect.

(e) **Payer Tax Representation.** Each representation specified in the Schedule as being made by it for the purpose of this Section 3(e) is accurate and true.

(f) **Payee Tax Representations.** Each representation specified in the Schedule as being made by it for the purpose of this Section 3(f) is accurate and true.

4. Agreements

Each party agrees with the other that, so long as either party has or may have any obligation under this Agreement or under any Credit Support Document to which it is a party:—

(a) **Furnish Specified Information.** It will deliver to the other party or, in certain cases under subparagraph (iii) below, to such government or taxing authority as the other party reasonably directs:—

(i) any forms, documents or certificates relating to taxation specified in the Schedule or any Confirmation;

(ii) any other documents specified in the Schedule or any Confirmation; and

(iii) upon reasonable demand by such other party, any form or document that may be required or reasonably requested in writing in order to allow such other party or its Credit Support Provider to make a payment under this Agreement or any applicable Credit Support Document without any deduction or withholding for or on account of any Tax or with such deduction or withholding at a reduced rate (so long as the completion, execution or submission of such form or document would not materially prejudice the legal or commercial position of the party in receipt of such demand), with any such form or document to be accurate and completed in a manner reasonably satisfactory to such other party and to be executed and to be delivered with any reasonably required certification,

in each case by the date specified in the Schedule or such Confirmation or, if none is specified, as soon as reasonably practicable.

(b) **Maintain Authorisations.** It will use all reasonable efforts to maintain in full force and effect all consents of any governmental or other authority that are required to be obtained by it with respect to this Agreement or any Credit Support Document to which it is a party and will use all reasonable efforts to obtain any that may become necessary in the future.

(c) **Comply with Laws.** It will comply in all material respects with all applicable laws and orders to which it may be subject if failure so to comply would materially impair its ability to perform its obligations under this Agreement or any Credit Support Document to which it is a party.

(d) **Tax Agreement.** It will give notice of any failure of a representation made by it under Section 3(f) to be accurate and true promptly upon learning of such failure.

(e) **Payment of Stamp Tax.** Subject to Section 11, it will pay any Stamp Tax levied or imposed upon it or in respect of its execution or performance of this Agreement by a jurisdiction in which it is incorporated,

organised, managed and controlled, or considered to have its seat, or in which a branch or office through which it is acting for the purpose of this Agreement is located ("Stamp Tax Jurisdiction") and will indemnify the other party against any Stamp Tax levied or imposed upon the other party or in respect of the other party's execution or performance of this Agreement by any such Stamp Tax Jurisdiction which is not also a Stamp Tax Jurisdiction with respect to the other party.

5. Events of Default and Termination Events

(a) *Events of Default.* The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any of the following events constitutes an event of default (an "Event of Default") with respect to such party:—

(i) *Failure to Pay or Deliver.* Failure by the party to make, when due, any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) required to be made by it if such failure is not remedied on or before the third Local Business Day after notice of such failure is given to the party;

(ii) *Breach of Agreement.* Failure by the party to comply with or perform any agreement or obligation (other than an obligation to make any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) or to give notice of a Termination Event or any agreement or obligation under Section 4(a)(i), 4(a)(iii) or 4(d)) to be complied with or performed by the party in accordance with this Agreement if such failure is not remedied on or before the thirtieth day after notice of such failure is given to the party;

(iii) *Credit Support Default.*

(1) Failure by the party or any Credit Support Provider of such party to comply with or perform any agreement or obligation to be complied with or performed by it in accordance with any Credit Support Document if such failure is continuing after any applicable grace period has elapsed;

(2) the expiration or termination of such Credit Support Document or the failing or ceasing of such Credit Support Document to be in full force and effect for the purpose of this Agreement (in either case other than in accordance with its terms) prior to the satisfaction of all obligations of such party under each Transaction to which such Credit Support Document relates without the written consent of the other party; or

(3) the party or such Credit Support Provider disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, such Credit Support Document;

(iv) *Misrepresentation.* A representation (other than a representation under Section 3(e) or (f)) made or repeated or deemed to have been made or repeated by the party or any Credit Support Provider of such party in this Agreement or any Credit Support Document proves to have been incorrect or misleading in any material respect when made or repeated or deemed to have been made or repeated;

(v) *Default under Specified Transaction.* The party, any Credit Support Provider of such party or any applicable Specified Entity of such party (1) defaults under a Specified Transaction and, after giving effect to any applicable notice requirement or grace period, there occurs a liquidation of, an acceleration of obligations under, or an early termination of, that Specified Transaction, (2) defaults, after giving effect to any applicable notice requirement or grace period, in making any payment or delivery due on the last payment, delivery or exchange date of, or any payment on early termination of, a Specified Transaction (or such default continues for at least three Local Business Days if there is no applicable notice requirement or grace period) or (3) disaffirms, disclaims, repudiates or rejects, in whole or in part, a Specified Transaction (or such action is taken by any person or entity appointed or empowered to operate it or act on its behalf);

(vi) *Cross Default.* If "Cross Default" is specified in the Schedule as applying to the party, the occurrence or existence of (1) a default, event of default or other similar condition or event (however

described) in respect of such party, any Credit Support Provider of such party or any applicable Specified Entity of such party under one or more agreements or instruments relating to Specified Indebtedness of any of them (individually or collectively) in an aggregate amount of not less than the applicable Threshold Amount (as specified in the Schedule) which has resulted in such Specified Indebtedness becoming, or becoming capable at such time of being declared, due and payable under such agreements or instruments, before it would otherwise have been due and payable or (2) a default by such party, such Credit Support Provider or such Specified Entity (individually or collectively) in making one or more payments on the due date thereof in an aggregate amount of not less than the applicable Threshold Amount under such agreements or instruments (after giving effect to any applicable notice requirement or grace period);

(vii) *Bankruptcy*. The party, any Credit Support Provider of such party or any applicable Specified Entity of such party:—

(1) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (2) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (5) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (7) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (8) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) (inclusive); or (9) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts; or

(viii) *Merger Without Assumption*. The party or any Credit Support Provider of such party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and, at the time of such consolidation, amalgamation, merger or transfer:—

(1) the resulting, surviving or transferee entity fails to assume all the obligations of such party or such Credit Support Provider under this Agreement or any Credit Support Document to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other party to this Agreement; or

(2) the benefits of any Credit Support Document fail to extend (without the consent of the other party) to the performance by such resulting, surviving or transferee entity of its obligations under this Agreement.

(b) *Termination Events*. The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any event specified below constitutes an Illegality if the event is specified in (i) below, a Tax Event if the event is specified in (ii) below or a Tax Event Upon Merger if the event is specified in (iii) below, and, if specified to be applicable, a Credit Event

Upon Merger if the event is specified pursuant to (iv) below or an Additional Termination Event if the event is specified pursuant to (v) below:—

(i) *Illegality*. Due to the adoption of, or any change in, any applicable law after the date on which a Transaction is entered into, or due to the promulgation of, or any change in, the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law after such date, it becomes unlawful (other than as a result of a breach by the party of Section 4(b)) for such party (which will be the Affected Party):—

(1) to perform any absolute or contingent obligation to make a payment or delivery or to receive a payment or delivery in respect of such Transaction or to comply with any other material provision of this Agreement relating to such Transaction; or

(2) to perform, or for any Credit Support Provider of such party to perform, any contingent or other obligation which the party (or such Credit Support Provider) has under any Credit Support Document relating to such Transaction;

(ii) *Tax Event*. Due to (x) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (y) a Change in Tax Law, the party (which will be the Affected Party) will, or there is a substantial likelihood that it will, on the next succeeding Scheduled Payment Date (1) be required to pay to the other party an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) or (2) receive a payment from which an amount is required to be deducted or withheld for or on account of a Tax (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) and no additional amount is required to be paid in respect of such Tax under Section 2(d)(i)(4) (other than by reason of Section 2(d)(i)(4)(A) or (B));

(iii) *Tax Event Upon Merger*. The party (the "Burdened Party") on the next succeeding Scheduled Payment Date will either (1) be required to pay an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) or (2) receive a payment from which an amount has been deducted or withheld for or on account of any Indemnifiable Tax in respect of which the other party is not required to pay an additional amount (other than by reason of Section 2(d)(i)(4)(A) or (B)), in either case as a result of a party consolidating or amalgamating with, or merging with or into, or transferring all or substantially all its assets to, another entity (which will be the Affected Party) where such action does not constitute an event described in Section 5(a)(viii);

(iv) *Credit Event Upon Merger*. If "Credit Event Upon Merger" is specified in the Schedule as applying to the party, such party ("X"), any Credit Support Provider of X or any applicable Specified Entity of X consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and such action does not constitute an event described in Section 5(a)(viii) but the creditworthiness of the resulting, surviving or transferee entity is materially weaker than that of X, such Credit Support Provider or such Specified Entity, as the case may be, immediately prior to such action (and, in such event, X or its successor or transferee, as appropriate, will be the Affected Party); or

(v) *Additional Termination Event*. If any "Additional Termination Event" is specified in the Schedule or any Confirmation as applying, the occurrence of such event (and, in such event, the Affected Party or Affected Parties shall be as specified for such Additional Termination Event in the Schedule or such Confirmation).

(c) *Event of Default and Illegality*. If an event or circumstance which would otherwise constitute or give rise to an Event of Default also constitutes an Illegality, it will be treated as an Illegality and will not constitute an Event of Default.

6. **Early Termination**

(a) **Right to Terminate Following Event of Default.** If at any time an Event of Default with respect to a party (the "Defaulting Party") has occurred and is then continuing, the other party (the "Non-defaulting Party") may, by not more than 20 days notice to the Defaulting Party specifying the relevant Event of Default, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all outstanding Transactions. If, however, "Automatic Early Termination" is specified in the Schedule as applying to a party, then an Early Termination Date in respect of all outstanding Transactions will occur immediately upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(1), (3), (5), (6) or, to the extent analogous thereto, (8), and as of the time immediately preceding the institution of the relevant proceeding or the presentation of the relevant petition upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(4) or, to the extent analogous thereto, (8).

(b) **Right to Terminate Following Termination Event.**

(i) **Notice.** If a Termination Event occurs, an Affected Party will, promptly upon becoming aware of it, notify the other party, specifying the nature of that Termination Event and each Affected Transaction and will also give such other information about that Termination Event as the other party may reasonably require.

(ii) **Transfer to Avoid Termination Event.** If either an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there is only one Affected Party, or if a Tax Event Upon Merger occurs and the Burdened Party is the Affected Party, the Affected Party will, as a condition to its right to designate an Early Termination Date under Section 6(b)(iv), use all reasonable efforts (which will not require such party to incur a loss, excluding immaterial, incidental expenses) to transfer within 20 days after it gives notice under Section 6(b)(i) all its rights and obligations under this Agreement in respect of the Affected Transactions to another of its Offices or Affiliates so that such Termination Event ceases to exist.

If the Affected Party is not able to make such a transfer it will give notice to the other party to that effect within such 20 day period, whereupon the other party may effect such a transfer within 30 days after the notice is given under Section 6(b)(i).

Any such transfer by a party under this Section 6(b)(ii) will be subject to and conditional upon the prior written consent of the other party, which consent will not be withheld if such other party's policies in effect at such time would permit it to enter into transactions with the transferee on the terms proposed.

(iii) **Two Affected Parties.** If an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there are two Affected Parties, each party will use all reasonable efforts to reach agreement within 30 days after notice thereof is given under Section 6(b)(i) on action to avoid that Termination Event.

(iv) **Right to Terminate. If:—**

(1) a transfer under Section 6(b)(ii) or an agreement under Section 6(b)(iii), as the case may be, has not been effected with respect to all Affected Transactions within 30 days after an Affected Party gives notice under Section 6(b)(i); or

(2) an Illegality under Section 5(b)(i)(2), a Credit Event Upon Merger or an Additional Termination Event occurs, or a Tax Event Upon Merger occurs and the Burdened Party is not the Affected Party,

either party in the case of an Illegality, the Burdened Party in the case of a Tax Event Upon Merger, any Affected Party in the case of a Tax Event or an Additional Termination Event if there is more than one Affected Party, or the party which is not the Affected Party in the case of a Credit Event Upon Merger or an Additional Termination Event if there is only one Affected Party may, by not more than 20 days notice to the other party and provided that the relevant Termination Event is then

continuing, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all Affected Transactions.

(c) *Effect of Designation.*

(i) If notice designating an Early Termination Date is given under Section 6(a) or (b), the Early Termination Date will occur on the date so designated, whether or not the relevant Event of Default or Termination Event is then continuing.

(ii) Upon the occurrence or effective designation of an Early Termination Date, no further payments or deliveries under Section 2(a)(i) or 2(e) in respect of the Terminated Transactions will be required to be made, but without prejudice to the other provisions of this Agreement. The amount, if any, payable in respect of an Early Termination Date shall be determined pursuant to Section 6(e).

(d) *Calculations.*

(i) *Statement.* On or as soon as reasonably practicable following the occurrence of an Early Termination Date, each party will make the calculations on its part, if any, contemplated by Section 6(e) and will provide to the other party a statement (1) showing, in reasonable detail, such calculations (including all relevant quotations and specifying any amount payable under Section 6(e)) and (2) giving details of the relevant account to which any amount payable to it is to be paid. In the absence of written confirmation from the source of a quotation obtained in determining a Market Quotation, the records of the party obtaining such quotation will be conclusive evidence of the existence and accuracy of such quotation.

(ii) *Payment Date.* An amount calculated as being due in respect of any Early Termination Date under Section 6(e) will be payable on the day that notice of the amount payable is effective (in the case of an Early Termination Date which is designated or occurs as a result of an Event of Default) and on the day which is two Local Business Days after the day on which notice of the amount payable is effective (in the case of an Early Termination Date which is designated as a result of a Termination Event). Such amount will be paid together with (to the extent permitted under applicable law) interest thereon (before as well as after judgment) in the Termination Currency, from (and including) the relevant Early Termination Date to (but excluding) the date such amount is paid, at the Applicable Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

(e) *Payments on Early Termination.* If an Early Termination Date occurs, the following provisions shall apply based on the parties' election in the Schedule of a payment measure, either "Market Quotation" or "Loss", and a payment method, either the "First Method" or the "Second Method". If the parties fail to designate a payment measure or payment method in the Schedule, it will be deemed that "Market Quotation" or the "Second Method", as the case may be, shall apply. The amount, if any, payable in respect of an Early Termination Date and determined pursuant to this Section will be subject to any Set-off.

(i) *Events of Default.* If the Early Termination Date results from an Event of Default:—

(1) *First Method and Market Quotation.* If the First Method and Market Quotation apply, the Defaulting Party will pay to the Non-defaulting Party the excess, if a positive number, of (A) the sum of the Settlement Amount (determined by the Non-defaulting Party) in respect of the Terminated Transactions and the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party over (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party.

(2) *First Method and Loss.* If the First Method and Loss apply, the Defaulting Party will pay to the Non-defaulting Party, if a positive number, the Non-defaulting Party's Loss in respect of this Agreement.

(3) *Second Method and Market Quotation.* If the Second Method and Market Quotation apply, an amount will be payable equal to (A) the sum of the Settlement Amount (determined by the

Non-defaulting Party) in respect of the Terminated Transactions and the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party less (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(4) *Second Method and Loss.* If the Second Method and Loss apply, an amount will be payable equal to the Non-defaulting Party's Loss in respect of this Agreement. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(ii) *Termination Events.* If the Early Termination Date results from a Termination Event:—

(1) *One Affected Party.* If there is one Affected Party, the amount payable will be determined in accordance with Section 6(e)(i)(3), if Market Quotation applies, or Section 6(e)(i)(4), if Loss applies, except that, in either case, references to the Defaulting Party and to the Non-defaulting Party will be deemed to be references to the Affected Party and the party which is not the Affected Party, respectively, and, if Loss applies and fewer than all the Transactions are being terminated, Loss shall be calculated in respect of all Terminated Transactions.

(2) *Two Affected Parties.* If there are two Affected Parties:—

(A) if Market Quotation applies, each party will determine a Settlement Amount in respect of the Terminated Transactions, and an amount will be payable equal to (I) the sum of (a) one-half of the difference between the Settlement Amount of the party with the higher Settlement Amount ("X") and the Settlement Amount of the party with the lower Settlement Amount ("Y") and (b) the Termination Currency Equivalent of the Unpaid Amounts owing to X less (II) the Termination Currency Equivalent of the Unpaid Amounts owing to Y; and

(B) if Loss applies, each party will determine its Loss in respect of this Agreement (or, if fewer than all the Transactions are being terminated, in respect of all Terminated Transactions) and an amount will be payable equal to one-half of the difference between the Loss of the party with the higher Loss ("X") and the Loss of the party with the lower Loss ("Y").

If the amount payable is a positive number, Y will pay it to X; if it is a negative number, X will pay the absolute value of that amount to Y.

(iii) *Adjustment for Bankruptcy.* In circumstances where an Early Termination Date occurs because "Automatic Early Termination" applies in respect of a party, the amount determined under this Section 6(e) will be subject to such adjustments as are appropriate and permitted by law to reflect any payments or deliveries made by one party to the other under this Agreement (and retained by such other party) during the period from the relevant Early Termination Date to the date for payment determined under Section 6(d)(ii).

(iv) *Pre-Estimate.* The parties agree that if Market Quotation applies an amount recoverable under this Section 6(e) is a reasonable pre-estimate of loss and not a penalty. Such amount is payable for the loss of bargain and the loss of protection against future risks and except as otherwise provided in this Agreement neither party will be entitled to recover any additional damages as a consequence of such losses.

7. Transfer

Subject to Section 6(b)(ii), neither this Agreement nor any interest or obligation in or under this Agreement may be transferred (whether by way of security or otherwise) by either party without the prior written consent of the other party, except that:—

- (a) a party may make such a transfer of this Agreement pursuant to a consolidation or amalgamation with, or merger with or into, or transfer of all or substantially all its assets to, another entity (but without prejudice to any other right or remedy under this Agreement); and
- (b) a party may make such a transfer of all or any part of its interest in any amount payable to it from a Defaulting Party under Section 6(e).

Any purported transfer that is not in compliance with this Section will be void.

8. Contractual Currency

(a) *Payment in the Contractual Currency.* Each payment under this Agreement will be made in the relevant currency specified in this Agreement for that payment (the "Contractual Currency"). To the extent permitted by applicable law, any obligation to make payments under this Agreement in the Contractual Currency will not be discharged or satisfied by any tender in any currency other than the Contractual Currency, except to the extent such tender results in the actual receipt by the party to which payment is owed, acting in a reasonable manner and in good faith in converting the currency so tendered into the Contractual Currency, of the full amount in the Contractual Currency of all amounts payable in respect of this Agreement. If for any reason the amount in the Contractual Currency so received falls short of the amount in the Contractual Currency payable in respect of this Agreement, the party required to make the payment will, to the extent permitted by applicable law, immediately pay such additional amount in the Contractual Currency as may be necessary to compensate for the shortfall. If for any reason the amount in the Contractual Currency so received exceeds the amount in the Contractual Currency payable in respect of this Agreement, the party receiving the payment will refund promptly the amount of such excess.

(b) *Judgments.* To the extent permitted by applicable law, if any judgment or order expressed in a currency other than the Contractual Currency is rendered (i) for the payment of any amount owing in respect of this Agreement, (ii) for the payment of any amount relating to any early termination in respect of this Agreement or (iii) in respect of a judgment or order of another court for the payment of any amount described in (i) or (ii) above, the party seeking recovery, after recovery in full of the aggregate amount to which such party is entitled pursuant to the judgment or order, will be entitled to receive immediately from the other party the amount of any shortfall of the Contractual Currency received by such party as a consequence of sums paid in such other currency and will refund promptly to the other party any excess of the Contractual Currency received by such party as a consequence of sums paid in such other currency if such shortfall or such excess arises or results from any variation between the rate of exchange at which the Contractual Currency is converted into the currency of the judgment or order for the purposes of such judgment or order and the rate of exchange at which such party is able, acting in a reasonable manner and in good faith in converting the currency received into the Contractual Currency, to purchase the Contractual Currency with the amount of the currency of the judgment or order actually received by such party. The term "rate of exchange" includes, without limitation, any premiums and costs of exchange payable in connection with the purchase of or conversion into the Contractual Currency.

(c) *Separate Indemnities.* To the extent permitted by applicable law, these indemnities constitute separate and independent obligations from the other obligations in this Agreement, will be enforceable as separate and independent causes of action, will apply notwithstanding any indulgence granted by the party to which any payment is owed and will not be affected by judgment being obtained or claim or proof being made for any other sums payable in respect of this Agreement.

(d) *Evidence of Loss.* For the purpose of this Section 8, it will be sufficient for a party to demonstrate that it would have suffered a loss had an actual exchange or purchase been made.

9. Miscellaneous

- (a) **Entire Agreement.** This Agreement constitutes the entire agreement and understanding of the parties with respect to its subject matter and supersedes all oral communication and prior writings with respect thereto.
- (b) **Amendments.** No amendment, modification or waiver in respect of this Agreement will be effective unless in writing (including a writing evidenced by a facsimile transmission) and executed by each of the parties or confirmed by an exchange of telexes or electronic messages on an electronic messaging system.
- (c) **Survival of Obligations.** Without prejudice to Sections 2(a)(iii) and 6(c)(ii), the obligations of the parties under this Agreement will survive the termination of any Transaction.
- (d) **Remedies Cumulative.** Except as provided in this Agreement, the rights, powers, remedies and privileges provided in this Agreement are cumulative and not exclusive of any rights, powers, remedies and privileges provided by law.
- (e) **Counterparts and Confirmations.**
- (i) This Agreement (and each amendment, modification and waiver in respect of it) may be executed and delivered in counterparts (including by facsimile transmission), each of which will be deemed an original.
 - (ii) The parties intend that they are legally bound by the terms of each Transaction from the moment they agree to those terms (whether orally or otherwise). A Confirmation shall be entered into as soon as practicable and may be executed and delivered in counterparts (including by facsimile transmission) or be created by an exchange of telexes or by an exchange of electronic messages on an electronic messaging system, which in each case will be sufficient for all purposes to evidence a binding supplement to this Agreement. The parties will specify therein or through another effective means that any such counterpart, telex or electronic message constitutes a Confirmation.
- (f) **No Waiver of Rights.** A failure or delay in exercising any right, power or privilege in respect of this Agreement will not be presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise, of that right, power or privilege or the exercise of any other right, power or privilege.
- (g) **Headings.** The headings used in this Agreement are for convenience of reference only and are not to affect the construction of or to be taken into consideration in interpreting this Agreement.

10. Offices; Multibranch Parties

- (a) If Section 10(a) is specified in the Schedule as applying, each party that enters into a Transaction through an Office other than its head or home office represents to the other party that, notwithstanding the place of booking office or jurisdiction of incorporation or organisation of such party, the obligations of such party are the same as if it had entered into the Transaction through its head or home office. This representation will be deemed to be repeated by such party on each date on which a Transaction is entered into.
- (b) Neither party may change the Office through which it makes and receives payments or deliveries for the purpose of a Transaction without the prior written consent of the other party.
- (c) If a party is specified as a Multibranch Party in the Schedule, such Multibranch Party may make and receive payments or deliveries under any Transaction through any Office listed in the Schedule, and the Office through which it makes and receives payments or deliveries with respect to a Transaction will be specified in the relevant Confirmation.

11. Expenses

A Defaulting Party will, on demand, indemnify and hold harmless the other party for and against all reasonable out-of-pocket expenses, including legal fees and Stamp Tax, incurred by such other party by reason of the enforcement and protection of its rights under this Agreement or any Credit Support Document

to which the Defaulting Party is a party or by reason of the early termination of any Transaction, including, but not limited to, costs of collection.

12. Notices

(a) *Effectiveness.* Any notice or other communication in respect of this Agreement may be given in any manner set forth below (except that a notice or other communication under Section 5 or 6 may not be given by facsimile transmission or electronic messaging system) to the address or number or in accordance with the electronic messaging system details provided (see the Schedule) and will be deemed effective as indicated:—

- (i) if in writing and delivered in person or by courier, on the date it is delivered;
- (ii) if sent by telex, on the date the recipient's answerback is received;
- (iii) if sent by facsimile transmission, on the date that transmission is received by a responsible employee of the recipient in legible form (it being agreed that the burden of proving receipt will be on the sender and will not be met by a transmission report generated by the sender's facsimile machine);
- (iv) if sent by certified or registered mail (airmail, if overseas) or the equivalent (return receipt requested), on the date that mail is delivered or its delivery is attempted; or
- (v) if sent by electronic messaging system, on the date that electronic message is received,

unless the date of that delivery (or attempted delivery) or that receipt, as applicable, is not a Local Business Day or that communication is delivered (or attempted) or received, as applicable, after the close of business on a Local Business Day, in which case that communication shall be deemed given and effective on the first following day that is a Local Business Day.

(b) *Change of Addresses.* Either party may by notice to the other change the address, telex or facsimile number or electronic messaging system details at which notices or other communications are to be given to it.

13. Governing Law and Jurisdiction

(a) *Governing Law.* This Agreement will be governed by and construed in accordance with the law specified in the Schedule.

(b) *Jurisdiction.* With respect to any suit, action or proceedings relating to this Agreement ("Proceedings"), each party irrevocably:—

- (i) submits to the jurisdiction of the English courts, if this Agreement is expressed to be governed by English law, or to the non-exclusive jurisdiction of the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York City, if this Agreement is expressed to be governed by the laws of the State of New York; and
- (ii) waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings, that such court does not have any jurisdiction over such party.

Nothing in this Agreement precludes either party from bringing Proceedings in any other jurisdiction (outside, if this Agreement is expressed to be governed by English law, the Contracting States, as defined in Section 1(3) of the Civil Jurisdiction and Judgments Act 1982 or any modification, extension or re-enactment thereof for the time being in force) nor will the bringing of Proceedings in any one or more jurisdictions preclude the bringing of Proceedings in any other jurisdiction.

(c) *Service of Process.* Each party irrevocably appoints the Process Agent (if any) specified opposite its name in the Schedule to receive, for it and on its behalf, service of process in any Proceedings. If for any

reason any party's Process Agent is unable to act as such, such party will promptly notify the other party and within 30 days appoint a substitute process agent acceptable to the other party. The parties irrevocably consent to service of process given in the manner provided for notices in Section 12. Nothing in this Agreement will affect the right of either party to serve process in any other manner permitted by law.

(d) *Waiver of Immunities.* Each party irrevocably waives, to the fullest extent permitted by applicable law, with respect to itself and its revenues and assets (irrespective of their use or intended use), all immunity on the grounds of sovereignty or other similar grounds from (i) suit, (ii) jurisdiction of any court, (iii) relief by way of injunction, order for specific performance or for recovery of property, (iv) attachment of its assets (whether before or after judgment) and (v) execution or enforcement of any judgment to which it or its revenues or assets might otherwise be entitled in any Proceedings in the courts of any jurisdiction and irrevocably agrees, to the extent permitted by applicable law, that it will not claim any such immunity in any Proceedings.

14. Definitions

As used in this Agreement:—

"Additional Termination Event" has the meaning specified in Section 5(b).

"Affected Party" has the meaning specified in Section 5(b).

"Affected Transactions" means (a) with respect to any Termination Event consisting of an Illegality, Tax Event or Tax Event Upon Merger, all Transactions affected by the occurrence of such Termination Event and (b) with respect to any other Termination Event, all Transactions.

"Affiliate" means, subject to the Schedule, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose, "control" of any entity or person means ownership of a majority of the voting power of the entity or person.

"Applicable Rate" means:—

(a) in respect of obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Defaulting Party, the Default Rate;

(b) in respect of an obligation to pay an amount under Section 6(e) of either party from and after the date (determined in accordance with Section 6(d)(ii)) on which that amount is payable, the Default Rate;

(c) in respect of all other obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Non-defaulting Party, the Non-default Rate; and

(d) in all other cases, the Termination Rate.

"Burdened Party" has the meaning specified in Section 5(b).

"Change in Tax Law" means the enactment, promulgation, execution or ratification of, or any change in or amendment to, any law (or in the application or official interpretation of any law) that occurs on or after the date on which the relevant Transaction is entered into.

"consent" includes a consent, approval, action, authorisation, exemption, notice, filing, registration or exchange control consent.

"Credit Event Upon Merger" has the meaning specified in Section 5(b).

"Credit Support Document" means any agreement or instrument that is specified as such in this Agreement.

"Credit Support Provider" has the meaning specified in the Schedule.

"Default Rate" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the relevant payee (as certified by it) if it were to fund or of funding the relevant amount plus 1% per annum.

"Defaulting Party" has the meaning specified in Section 6(a).

"Early Termination Date" means the date determined in accordance with Section 6(a) or 6(b)(iv).

"Event of Default" has the meaning specified in Section 5(a) and, if applicable, in the Schedule.

"Illegality" has the meaning specified in Section 5(b).

"Indemnifiable Tax" means any Tax other than a Tax that would not be imposed in respect of a payment under this Agreement but for a present or former connection between the jurisdiction of the government or taxation authority imposing such Tax and the recipient of such payment or a person related to such recipient (including, without limitation, a connection arising from such recipient or related person being or having been a citizen or resident of such jurisdiction, or being or having been organised, present or engaged in a trade or business in such jurisdiction, or having or having had a permanent establishment or fixed place of business in such jurisdiction, but excluding a connection arising solely from such recipient or related person having executed, delivered, performed its obligations or received a payment under, or enforced, this Agreement or a Credit Support Document).

"law" includes any treaty, law, rule or regulation (as modified, in the case of tax matters, by the practice of any relevant governmental revenue authority) and **"lawful"** and **"unlawful"** will be construed accordingly.

"Local Business Day" means, subject to the Schedule, a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) (a) in relation to any obligation under Section 2(a)(i), in the place(s) specified in the relevant Confirmation or, if not so specified, as otherwise agreed by the parties in writing or determined pursuant to provisions contained, or incorporated by reference, in this Agreement, (b) in relation to any other payment, in the place where the relevant account is located and, if different, in the principal financial centre, if any, of the currency of such payment, (c) in relation to any notice or other communication, including notice contemplated under Section 5(a)(i), in the city specified in the address for notice provided by the recipient and, in the case of a notice contemplated by Section 2(b), in the place where the relevant new account is to be located and (d) in relation to Section 5(a)(v)(2), in the relevant locations for performance with respect to such Specified Transaction.

"Loss" means, with respect to this Agreement or one or more Terminated Transactions, as the case may be, and a party, the Termination Currency Equivalent of an amount that party reasonably determines in good faith to be its total losses and costs (or gain, in which case expressed as a negative number) in connection with this Agreement or that Terminated Transaction or group of Terminated Transactions, as the case may be, including any loss of bargain, cost of funding or, at the election of such party but without duplication, loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position (or any gain resulting from any of them). Loss includes losses and costs (or gains) in respect of any payment or delivery required to have been made (assuming satisfaction of each applicable condition precedent) on or before the relevant Early Termination Date and not made, except so as to avoid duplication, if Section 6(e)(i)(1) or (3) or 6(e)(ii)(2)(A) applies. Loss does not include a party's legal fees and out-of-pocket expenses referred to under Section 11. A party will determine its Loss as of the relevant Early Termination Date, or, if that is not reasonably practicable, as of the earliest date thereafter as is reasonably practicable. A party may (but need not) determine its Loss by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant markets.

"Market Quotation" means, with respect to one or more Terminated Transactions and a party making the determination, an amount determined on the basis of quotations from Reference Market-makers. Each quotation will be for an amount, if any, that would be paid to such party (expressed as a negative number) or by such party (expressed as a positive number) in consideration of an agreement between such party (taking into account any existing Credit Support Document with respect to the obligations of such party) and the quoting Reference Market-maker to enter into a transaction (the "Replacement Transaction") that would have the effect of preserving for such party the economic equivalent of any payment or delivery (whether the underlying obligation was absolute or contingent and assuming the satisfaction of each applicable condition precedent) by the parties under Section 2(a)(i) in respect of such Terminated Transaction or group of Terminated Transactions that would, but for the occurrence of the relevant Early Termination Date, have

been required after that date. For this purpose, Unpaid Amounts in respect of the Terminated Transaction or group of Terminated Transactions are to be excluded but, without limitation, any payment or delivery that would, but for the relevant Early Termination Date, have been required (assuming satisfaction of each applicable condition precedent) after that Early Termination Date is to be included. The Replacement Transaction would be subject to such documentation as such party and the Reference Market-maker may, in good faith, agree. The party making the determination (or its agent) will request each Reference Market-maker to provide its quotation to the extent reasonably practicable as of the same day and time (without regard to different time zones) on or as soon as reasonably practicable after the relevant Early Termination Date. The day and time as of which those quotations are to be obtained will be selected in good faith by the party obliged to make a determination under Section 6(e), and, if each party is so obliged, after consultation with the other. If more than three quotations are provided, the Market Quotation will be the arithmetic mean of the quotations, without regard to the quotations having the highest and lowest values. If exactly three such quotations are provided, the Market Quotation will be the quotation remaining after disregarding the highest and lowest quotations. For this purpose, if more than one quotation has the same highest value or lowest value, then one of such quotations shall be disregarded. If fewer than three quotations are provided, it will be deemed that the Market Quotation in respect of such Terminated Transaction or group of Terminated Transactions cannot be determined.

"Non-default Rate" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the Non-defaulting Party (as certified by it) if it were to fund the relevant amount.

"Non-defaulting Party" has the meaning specified in Section 6(a).

"Office" means a branch or office of a party, which may be such party's head or home office.

"Potential Event of Default" means any event which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

"Reference Market-makers" means four leading dealers in the relevant market selected by the party determining a Market Quotation in good faith (a) from among dealers of the highest credit standing which satisfy all the criteria that such party applies generally at the time in deciding whether to offer or to make an extension of credit and (b) to the extent practicable, from among such dealers having an office in the same city.

"Relevant Jurisdiction" means, with respect to a party, the jurisdictions (a) in which the party is incorporated, organised, managed and controlled or considered to have its seat, (b) where an Office through which the party is acting for purposes of this Agreement is located, (c) in which the party executes this Agreement and (d) in relation to any payment, from or through which such payment is made.

"Scheduled Payment Date" means a date on which a payment or delivery is to be made under Section 2(a)(i) with respect to a Transaction.

"Set-off" means set-off, offset, combination of accounts, right of retention or withholding or similar right or requirement to which the payer of an amount under Section 6 is entitled or subject (whether arising under this Agreement, another contract, applicable law or otherwise) that is exercised by, or imposed on, such payer.

"Settlement Amount" means, with respect to a party and any Early Termination Date, the sum of:—

(a) the Termination Currency Equivalent of the Market Quotations (whether positive or negative) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation is determined; and

(b) such party's Loss (whether positive or negative and without reference to any Unpaid Amounts) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation cannot be determined or would not (in the reasonable belief of the party making the determination) produce a commercially reasonable result.

"Specified Entity" has the meaning specified in the Schedule.

"Specified Indebtedness" means, subject to the Schedule, any obligation (whether present or future, contingent or otherwise, as principal or surety or otherwise) in respect of borrowed money.

"Specified Transaction" means, subject to the Schedule, (a) any transaction (including an agreement with respect thereto) now existing or hereafter entered into between one party to this Agreement (or any Credit Support Provider of such party or any applicable Specified Entity of such party) and the other party to this Agreement (or any Credit Support Provider of such other party or any applicable Specified Entity of such other party) which is a rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions), (b) any combination of these transactions and (c) any other transaction identified as a Specified Transaction in this Agreement or the relevant confirmation.

"Stamp Tax" means any stamp, registration, documentation or similar tax.

"Tax" means any present or future tax, levy, impost, duty, charge, assessment or fee of any nature (including interest, penalties and additions thereto) that is imposed by any government or other taxing authority in respect of any payment under this Agreement other than a stamp, registration, documentation or similar tax.

"Tax Event" has the meaning specified in Section 5(b).

"Tax Event Upon Merger" has the meaning specified in Section 5(b).

"Terminated Transactions" means with respect to any Early Termination Date (a) if resulting from a Termination Event, all Affected Transactions and (b) if resulting from an Event of Default, all Transactions (in either case) in effect immediately before the effectiveness of the notice designating that Early Termination Date (or, if "Automatic Early Termination" applies, immediately before that Early Termination Date).

"Termination Currency" has the meaning specified in the Schedule.

"Termination Currency Equivalent" means, in respect of any amount denominated in the Termination Currency, such Termination Currency amount and, in respect of any amount denominated in a currency other than the Termination Currency (the "Other Currency"), the amount in the Termination Currency determined by the party making the relevant determination as being required to purchase such amount of such Other Currency as at the relevant Early Termination Date, or, if the relevant Market Quotation or Loss (as the case may be), is determined as of a later date, that later date, with the Termination Currency at the rate equal to the spot exchange rate of the foreign exchange agent (selected as provided below) for the purchase of such Other Currency with the Termination Currency at or about 11:00 a.m. (in the city in which such foreign exchange agent is located) on such date as would be customary for the determination of such a rate for the purchase of such Other Currency for value on the relevant Early Termination Date or that later date. The foreign exchange agent will, if only one party is obliged to make a determination under Section 6(e), be selected in good faith by that party and otherwise will be agreed by the parties.

"Termination Event" means an Illegality, a Tax Event or a Tax Event Upon Merger or, if specified to be applicable, a Credit Event Upon Merger or an Additional Termination Event.

"Termination Rate" means a rate per annum equal to the arithmetic mean of the cost (without proof or evidence of any actual cost) to each party (as certified by such party) if it were to fund or of funding such amounts.

"Unpaid Amounts" owing to any party means, with respect to an Early Termination Date, the aggregate of (a) in respect of all Terminated Transactions, the amounts that became payable (or that would have become payable but for Section 2(a)(iii)) to such party under Section 2(a)(i) on or prior to such Early Termination Date and which remain unpaid as at such Early Termination Date and (b) in respect of each Terminated Transaction, for each obligation under Section 2(a)(i) which was (or would have been but for Section 2(a)(iii)) required to be settled by delivery to such party on or prior to such Early Termination Date and which has not been so settled as at such Early Termination Date, an amount equal to the fair market

value of that which was (or would have been) required to be delivered as of the originally scheduled date for delivery, in each case together with (to the extent permitted under applicable law) interest, in the currency of such amounts, from (and including) the date such amounts or obligations were or would have been required to have been paid or performed to (but excluding) such Early Termination Date, at the Applicable Rate. Such amounts of interest will be calculated on the basis of daily compounding and the actual number of days elapsed. The fair market value of any obligation referred to in clause (b) above shall be reasonably determined by the party obliged to make the determination under Section 6(e) or, if each party is so obliged, it shall be the average of the Termination Currency Equivalents of the fair market values reasonably determined by both parties.

IN WITNESS WHEREOF the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

.....
(Name of Party)

.....
(Name of Party)

By:
Name:
Title:
Date:

By:
Name:
Title:
Date:

SCHEDULE
to the
Master Agreement
dated as of «as_of_date»
between
LEHMAN BROTHERS FINANCIAL PRODUCTS INC. ("Party A"),
a corporation organized under the laws of
the State of Delaware
and
THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM ("Party B"),
the duly appointed governing body of The University of Texas System, a governmental
agency of the State of Texas

Part 1: Termination Provisions

In this Agreement:-

(a) **"Specified Entity"** means in relation to Party A for the purpose of:-

Section 5(a)(v), Not applicable.

Section 5(a)(vi), Not applicable.

Section 5(a)(vii), Not applicable.

Section 5(b)(iv), Not applicable.

and in relation to Party B for the purpose of:-

Section 5(a)(v), Not applicable.

Section 5(a)(vi), Not applicable.

Section 5(a)(vii), Not applicable.

Section 5(b)(iv), Not applicable.

(b) Section 5(a)(ii) is amended by adding "A" prior to the word "Failure" at the beginning of the subsection and adding the following at the end of the subsection following the word "party" but before the semicolon: "(B) failure by the party to comply with or perform any agreement or obligation under the Schedule or a Confirmation to deliver documents at execution of this Agreement of a Confirmation."

(c) **"Specified Transaction"** will have the meaning specified in Section 14 of this Agreement.

(d) The **"Cross Default"** provisions of Section 5(a)(vi) will apply to Party A and will apply to Party B.

The following provisions apply:-

"Specified Indebtedness" will have the meaning specified in Section 14.

"Threshold Amount" means USD 25,000,000.

- (e) The **"Credit Event Upon Merger"** provisions of Section 5(b)(iv) will apply to Party A and will apply to Party B.
- (f) The **"Automatic Early Termination"** provisions of Section 6(a) will apply to Party A and Party B.
- (g) **Payments on Early Termination.** For the purpose of Section 6(e) of this Agreement, Market Quotation and the First Method will apply.
- (h) **"Termination Currency"** means United States Dollars ("USD").
- (i) **Additional Termination Event** will apply to the extent set forth in a Confirmation.
- (j) The **"Tax Event"** and **"Tax Event Upon Merger"** provisions of Section 5(b)(iii) and Section 5(b)(iv), respectively will not apply to Party A and Party B.
- (k) **Credit Related Termination Events**

(i) The following shall constitute Additional Termination Events with respect to which Party A shall be the Affected Party and Party B may designate an Early Termination Date;

(a) Party A receives long-term credit ratings below AA from Standard & Poor's and Aa2 from Moody's on its unsecured, unenhanced long-term debt (or financial program ratings, as applicable); or

(b) Party A does not maintain at least one published unsecured, unenhanced long-term debt rating (or financial program rating, as applicable) from either Standard & Poor's or Moody's.

If (a) or (b) above occurs, Party A, at its option, may eliminate the Additional Termination Event condition by securing and maintaining a placement credit acceptable to Party B, such acceptance not to be unreasonably withheld, including but not restricted to (i) an affiliate of Party A with qualifying ratings, or (ii) collateral, within two Business Days. The requisite documentation for (i) or (ii) must be completed no more than 15 days following an event described in (a) or (b) to eliminate the Additional Termination Event condition.

(ii) The following shall constitute an Additional Termination Event with respect to which Party B shall be the Affected Party and Party A may designate an Early Termination Date:

(a) Party B receives ratings on its unenhanced Parity Debt (as defined below) below AA from Standard & Poor's and Aa2 from Moody's; or

(b) Party B does not maintain at least one rating from either Standard & Poor's or Moody's for its unenhanced Parity Debt. This credit rating can be evidenced either through a publicly disseminated published rating or an unpublished private credit assessment.

If (a) or (b) above occurs, Party B, at its option, may eliminate the Additional Termination Event condition by securing and maintaining a replacement credit acceptable to Party A, such acceptance not to be unreasonably withheld, including, but not restricted to: (i) swap surety policy, (ii) letter of credit, or (iii) collateral. Evidence of a binding commitment for (i) or (ii), or the collateral for (iii) must be provided within two Business Days following an event described in (a) or (b) to eliminate the Additional Termination Event condition. The requisite documentation for (i), (ii) or (iii) must be completed in no more than 15 days following an event described in (a) or (b) to eliminate the Additional Termination Event condition.

Part 2: Agreement to Deliver Documents

For the purpose of Sections 4(a)(i) and (ii) of this Agreement, each party agrees to deliver the following documents, as applicable:-

<u>Party required to deliver document</u>	<u>Form/Document/Certificate</u>	<u>Date by which to be Delivered</u>	<u>Covered by Section 3(d)</u>
Party A	An opinion of counsel for Party A substantially in the form of Exhibit A to this Schedule.	Promptly after execution of this Agreement.	Yes
Party A	A guarantee of Lehman Brothers Holdings Inc. ("Holdings") in the form of Exhibit B to this Schedule	Upon substitution of Lehman Brothers Special Financing Inc. ("LBSF") for Party A pursuant to paragraph (a) of Part 5 of this Schedule	Yes
Party A	An incumbency certificate with respect to the signatory of this Agreement.	Upon execution of this Agreement.	Yes
Party A	Audited Annual Balance	After demand by Party	No

	Sheet of Party A	B when copies are publicly available	
Party A	Unaudited semiannual balance sheet of Party A	After demand by Party B when copies are publicly available	No
Party B	An opinion of counsel for Party B substantially in the form of Exhibit C to this Schedule.	Promptly after execution of this Agreement.	Yes
Party B	An incumbency certificate with respect to the signatory of this Agreement.	Upon execution of this Agreement.	Yes
Party B	A certified copy of the resolution or resolutions (the "Authorizing Resolution") of Party B, furnished by Party B to certified by a secretary, or an assistant secretary of Party B, pursuant to which Party B is authorized to enter into this Agreement and each Transaction entered into under this Agreement.	Upon execution of this Agreement (unless an Authorizing Resolution has previously been Party A) and, with respect to each Transaction not covered by a previously-furnished Authorizing Resolution, within five (5) Business Days of the Trade Date.	Yes

Part 3: Miscellaneous

(a) **Addresses for Notices.** For the purpose of Section 12(a):-

Address for notices or communications to Party A:-

Address: Lehman Brothers Financial Products Inc.
3 World Financial Center, 8th floor
New York, New York 10285-0800 USA

Attention: Documentation Group

Telephone No. (212) 526-1877

Facsimile No: (212) 528-7097

For all purposes.

Address for notices or communications to Party B:-

Address: The Board of Regents of The University of Texas System
201 West 7th Street
Austin, TX 78701

Attention: Office of Finance

Telephone No.: «cp_telephone»
Facsimile No.: 512-499-4367

For all purposes.

(b) **Process Agent.** For the purpose of Section 13(c):-

Party A appoints as its Process Agent	Not applicable.
Party B appoints as its Process Agent	Not applicable.

(c) **Offices.** The provisions of Section 10(a) will apply to this Agreement.

(d) **Multibranch Party.** For the purpose of Section 10(c) of this Agreement:-

Party A is not a Multibranch Party.

Party B is not a Multibranch Party.

(e) **Calculation Agent.** The Calculation Agent is Party A, unless otherwise specified in a Confirmation in relation to the relevant Transaction.

(f) **Credit Support Document.** Details of any Credit Support Document, each of which is incorporated by reference in, constitutes part of, and is in connection with, this Agreement and each Confirmation (unless provided otherwise in a Confirmation) as if set forth in full in this Agreement or such Confirmation:-

In the case of Party A: Not applicable, but only from and after the substitution of LBSF for Party A hereunder pursuant to paragraph (a) of Part 4 of this Schedule, the Guarantee of Holdings in the form of Exhibit B to this Schedule.

In the case of Party B: Not applicable.

(g) **Credit Support Provider.**

In relation to Party A: Not applicable, but only from and after the substitution of LBSF for Party A hereunder pursuant to paragraph (a) of Part 4 of this Schedule, Holdings.

In relation to Party B: Not applicable.

(h) **Governing Law.** This Agreement will be governed by and construed in accordance with the laws of the State of Texas, except that Party A's rights, remedies and obligations hereunder shall be governed by and construed in accordance with the laws of the State of New York.

(i) **Jurisdiction.** Sections 13(b) and (d) will not apply to this Agreement.

(j) **Netting of Payments.** Subparagraph (ii) of Section 2(c) of this Agreement will not apply to any of the Transactions from the date of this Agreement.

(k) **"Affiliate"** will have the meaning specified in Section 14 of this Agreement.

(l) **"Covered Documents"** means the Master Resolution including particularly the Eighth Supplemental Resolution to the Master Resolution adopted by Party B.

(m) **"Covered Documents Incorporation Date"** means the date of this Agreement.

(n) **"Government Entity"** means Party B.

(o) "Section 9(e)(ii) shall read as follows:

'A Confirmation may be executed and delivered in counterparts (including by facsimile transmission) or be created by an exchange of telexes or by an exchange of electronic messages on an electronic messaging system, which in each case will be sufficient for all purposes to evidence a binding supplement to this Agreement. The parties will specify therein or through another effective means that any such counterpart, telex or electronic message constitutes a Confirmation.'

(p) The **"Payer Tax Representation"** and **"Payee Tax Representations"** provisions of Section 3(e) and Section 3(f), respectively, shall not apply to Party A and Party B.

Part 4: Other Provisions

(a) **Credit Assignment Event.**

(i) If at any time during the term of this Agreement, the rating of Party B falls below the Assignment Threshold Rating (as defined below) the rights and obligations of Party A under this Agreement and all Transactions hereunder shall automatically, and without any further action by any party, be deemed to have been assigned and delegated to LBSF, effective on the third Business Day following notification by Party A to Party B of such assignment and Party B expressly and irrevocably consents to such assignment and assumption, except that no such assignment and assumption shall occur at any time after the occurrence of any event of default under any master agreement between Party A and LBSF. As of and from the effective date

of such assignment, LBSF shall succeed to all rights and obligations of Party A under this Agreement and all Transactions hereunder. Notwithstanding the above, if at the time of such assignment LBSF and Party B are parties to a master agreement that sets forth general terms and conditions applicable to swap and related transactions between LBSF and Party B, the Transactions hereunder transferred to LBSF pursuant to the above provision will be governed by such master agreement.

"Assignment Threshold Rating" means (A) with respect to a Moody's Investors Service Inc.: (1) long-term senior unsecured debt rating, counterparty rating or long-term deposit-paying rating, Baa3, (2) financial strength rating, Baa2 or (3) if (A)(1) and (A)(2) are not available, commercial paper or short-term rating, P-3, and (B) with respect to a Standard & Poor's Rating Group: (1) long-term unsecured debt rating, financial programs rating or certificate of deposit rating, BBB-, (2) claims-paying ability rating, BBB or (3) if (B)(1) and (B)(2) are not available, commercial paper rating or short-term rating, A-2.

- (ii) Party A represents that it has provided separate consideration to LBSF for the right to assign this Agreement and the Transactions hereunder to LBSF pursuant to clause (i), and Party B shall not owe Party A any termination or other payment upon any such assignment.
- (iii) Notwithstanding clause (i) above, no assignment of any Transaction to LBSF shall occur if, prior to the effective date of the assignment described in such clause (i), Party B notifies Party A that Party B agrees to (A) terminate all Transactions as if a Termination Event has occurred with Party B as the Affected Party or (B) assign all Transactions to a third party on terms acceptable to Party A and Party B.
- (iv) Notwithstanding clauses (i) through (iii) above, no transfer or assignment payment shall be due to or owing from either Party A or Party B other than its obligations under the Transactions.
- (v) Notwithstanding the foregoing, the assignment provisions of this paragraph shall not take effect if, at the time such assignment would be required, Party B shall have satisfied in full all of its payment obligations under Section 2(a) of this Agreement and shall at such time have no future payment obligations, whether absolute or contingent, under such Section.

Miscellaneous:

- (b) **Country of Domicile.** The country of domicile of Party A is the United States of America. The country of domicile of Party B is the United States of America.
- (c) **Confirmation.** Each Confirmation supplements, forms part of, and will be read and construed as one with, this Agreement. A form of Confirmation is set forth as Exhibit D hereto.
- (d) **"Stockholders' Equity"** means with respect to an entity, at any time, the sum at such time of (i) its capital stock (including preferred stock) outstanding, taken at par value, (ii) its

capital surplus and (iii) its retained earnings, minus (iv) treasury stock, each to be determined in accordance with generally accepted accounting principles.

- (e) **Transfer.** Section 7 of the Agreement is hereby modified by inserting the following after the word "party" but before the comma in the third line thereof:

", provided, however, that such consent shall not be unreasonably withheld"

- (f) For purposes of Sections 2(d)(i)(4) and 3(f), any payee tax representation specified in a Confirmation under this Agreement shall be deemed to be specified in this Schedule.
- (g) **Trial By Jury.** Each party irrevocably waives any and all rights to trial by jury in any legal proceeding in connection with this Agreement or any Transaction.
- (h) **Accuracy of Specified Information.** Section 3(d) is hereby amended by adding in the third line thereof after the word "respect" and before the period the words "or, in the case of audited or unaudited financial statements or balance sheets, a fair presentation of the financial condition of the relevant person".
- (i) **Definitions.** This Agreement, each Confirmation, and each Transaction are subject to the 1991 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc. as amended, supplemented, updated, restated, and superseded from time to time (the "Definitions"), and will be governed in all respects by the Definitions (except that references to "Swap Transactions" in the Definitions will be deemed to be references to "Transactions"). The Definitions as so modified, are incorporated by reference in, and made part of, this Agreement and each Confirmation as if set forth in full in this Agreement and such Confirmations. Subject to Section 1(b), in the event of any inconsistency between the provisions of this Agreement and the Definitions, this Agreement will prevail. Also, subject to Section 1(b), in the event of any inconsistency between the provisions of any Confirmation and this Agreement, or the Definitions, such Confirmation will prevail for the purpose of the relevant Transaction.
- (j) **Representations.** Section 3 is hereby amended by adding the following additional Subsections:

(g) **No Agency.** It is entering into this Agreement and each Transaction as principal (and not as agent or in any other capacity, fiduciary or otherwise).

(h) **Eligible Swap Participant.** It is an "eligible swap participant" as defined in the Part 35 Regulations of the U.S. Commodity Futures Trading Commission.

(i) **No Reliance.** In connection with the negotiation of, the entering into, and the confirming of the execution of, this Agreement, any Credit Support Document to which it is a party, and each Transaction: (i) it has consulted with its own legal, regulatory, tax, business, investment, financial, and accounting advisors to the extent it has deemed necessary, and it has made its own investment, hedging, and trading decisions based upon its own judgment and

upon any advice from such advisors as it has deemed necessary and not upon any view expressed by the other party (other than the representations of such other party expressly set forth in this Agreement and the legal opinions delivered on behalf of such other party pursuant to this Agreement); (ii) it has determined that the rates, prices, or amounts and other terms of each Transaction and the indicative quotations (if any) provided by the other party reflect those in the relevant market for similar transactions, and all trading decisions have been the result of arm's length negotiations between the parties; and (iii) it is entering into this Agreement, such Credit Support Document, and such Transaction with a full understanding of all of the risks hereof and thereof (economic and otherwise), and it is capable of assuming and willing to assume (financially and otherwise) those risks.

(j) **Powers.** It has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and any other documentation relating to this Agreement that it is required by this Agreement to deliver and to perform its obligations under this Agreement and any obligations it has under any Credit Support Document to which it is a party and has taken all necessary action and made all necessary determinations and findings to authorize such execution, delivery and performance

(k) **Absence of Certain Events.** No Event of Default or Potential Event of Default or, to its knowledge, Incipient Illegality (in the case of a Government Entity) or Termination Event with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement or any Credit Support Document to which it is a party.

(l) **Non-Speculation.** This Agreement has been, and each Transaction hereunder will be (and, if applicable, has been), entered into for purposes of managing its borrowings or investments and not for purposes of speculation but solely in connection with the financing activities activities of Party B, for the purpose of effectively hedging with respect to interest on all or a portion of certain of Party B's debt from a fixed rate to a floating rate, or from a floating rate to a fixed rate, and therefore optimizing the relative amounts of fixed and floating rate obligations or the risk of variations in its debt service costs, and by increasing the predictability of cash flow from earnings on invested funds and thereby improving Party B's ability to manage its funds and revenues.

(m) **Assets of Counterparty.** No Affiliate or other person, firm, corporation, entity or association may liquidate, borrow, encumber or otherwise utilize the assets of Party B, other than as provided in the Master Resolution.

(n) **Organization.** Party B is the governing body of the University System, a governmental agency of the State of Texas.

PART 5: Agreements

(a) **Source of Payments.** Party B agrees that its obligations hereunder are, and until the

termination of this Agreement pursuant to the terms hereof shall remain special obligations of Party B secured by and payable from a first lien on and pledge of Pledged Revenues.

(b) **Compliance with Covered Documents.** The Government Entity will observe, perform and fulfill each provision in the Covered Documents applicable to such Government Entity in effect on the Covered Documents Incorporation Date, as any of those provisions may be amended, supplemented or modified for purposes of this Agreement with the prior written consent of the other party hereto (the "Incorporated Provisions"), with the effect that such other party hereto will have the benefit of each of the Incorporated Provisions (including without limitation, covenants, right to consent to certain actions subject to consent under the Covered Documents and delivery of financial statements and other notices and information). In the event the Covered Documents ceases to be in effect prior to the termination of this Agreement, the Incorporated Provisions (other than those provisions requiring payments in respect of bonds, notes, warrants or other similar instruments issued under the Covered Documents) will remain in full force and effect for purposes of this Agreement as though set forth herein until such date on which all of the obligations of the Government Entity under this Agreement and any obligations of the Government Entity or any Credit Support Provider of the Government Entity under a Credit Support Document have been fully satisfied. The Incorporated Provisions are hereby incorporated by reference and made a part of this Agreement to the same extent as if such provisions were set forth herein. For purposes of this Agreement, the Incorporated Provisions shall be construed as though (i) all references therein to any party making loans, extensions of credit or financial accommodations thereunder or commitments therefor (the "Financings") were to the other party hereto and (ii) to the extent that such Incorporated Provisions are conditioned on or relate to the existence of such Financings or the Government Entity having any obligations in connection therewith, all references to such Financings or obligations were to the obligations of the Government Entity under this Agreement. Any amendment, supplement, modification or waiver of any of the Incorporated Provisions without the prior written consent of the other party hereto shall have no force and effect with respect to this Agreement. Any amendment, supplement or modification for which such consent is obtained shall be part of the Incorporated Provisions for purposes of this Agreement.

(c) **Definitions.** Section 12 of this Agreement is hereby amended to add the following definitions in their appropriate alphabetical order:—

" **'Authorizing Law'** means Chapter 55, Texas Education Code and Vernon's Annotated Texas Civil Statutes, Article 717q, as amended."

" **'Bonds'** means any bonds, notes, certificates or other indebtedness or securities identified in a Confirmation for a Transaction."

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

" **'Consolidated Financial Statements'** means in respect of Party B, a copy of the annual report of Party B relating to the University System containing unaudited consolidated financial statements for Party B's fiscal year, prepared in accordance with the Texas Comptroller of Public Accounts Annual Financial Reporting Requirements and on a basis consistent with prior periods.

" **'Covered Documents'** has the meaning specified in the Schedule."

" *'Covered Documents Incorporation Date'* has the meaning specified in the Schedule."

" *'Default Rate'* means a rate per annum determined in accordance with the Federal Funds Rate Option plus the Default Spread, using a rate reset daily; provided, however, that, with respect to amounts payable by Party B, the Default Rate shall not exceed the maximum rate allowed by law, as determined by Vernon's Annotated Texas Civil Statutes, Article 717k-2, as amended.

" *'Default Spread'* means 1% per annum.

" *'Federal Funds Floating Rate Option'* means for any given day, the rate set forth in H.15(519) for that day opposite caption "Federal Funds Rate (Effective)". If such rate is not yet published in H.15(519), the rate will be the rate set forth in Composite 3:30 P.M. Quotations for U.S. Government Securities for that day under the caption "Federal Funds/Effective Rate." If on the Calculation Date the appropriate rate for that day is not yet published in either H.15(519) or Composite 3:30 P.M. Quotations for U.S. Government Securities, the rate for that day will be determined as if the parties had specified "Federal Funds (Reference Dealers)" as the applicable Floating Rate Option.

" *'Government Entity'* has the meaning specified in the Schedule."

" *'Incipient Illegality'* means (a) the enactment by any legislative body with competent jurisdiction over a Government Entity of legislation which, if adopted as law, would render unlawful (i) the performance by such Government Entity of any absolute or contingent obligation to make a payment or delivery or to receive a payment or delivery in respect of a Transaction or the compliance by such Government Entity with any other material provision of this Agreement relating to such Transaction or (ii) the performance by a Government Entity or a Credit Support Provider of such Government Entity of any contingent or other obligation which the Government Entity (or such Credit Support Provider) has under any Credit Support Document relating to such Transaction, (b) any assertion in any proceeding, forum or action by a Government Entity, in respect of such Government Entity or in respect of any entity located or organized under the laws of the state in which such Government Entity is located to the effect that performance under this Agreement or similar agreements is unlawful or (c) the occurrence with respect to a Government Entity or any Credit Support Provider of such Government Entity of any event that constitutes an Illegality."

" *'Master Resolution'* means the First Amended and Restated Master Resolution establishing The University of Texas System Revenue Financing System adopted by Party B on February 14, 1991, as amended on October 8, 1993 and August 14, 1997 and each Supplemental Resolution thereto authorizing Parity Debt.

" *'Parity Debt'* means Parity Debt as defined in the Master Resolution.

" *'Pledged Revenues'* means Pledged Revenues as defined in the Master Resolution.

" *'System'* means The University of Texas System Revenue Financing System established in the Master Resolution.

“ *University System* ” means the University of Texas System.

The parties executing this Schedule have executed the Master Agreement and have agreed as to the contents of this Schedule.

LEHMAN BROTHERS FINANCIAL PRODUCTS INC.

By: _____

Title: _____

THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

By: _____

Title: _____

EXHIBIT A to Schedule

[Form of Opinion of Counsel for
Lehman Brothers Financial Products Inc.]

[date]

«counterparty»
«cp_street»
«cp_city», «cp_state» «cp_zip»

Attention: Treasurer

Ladies and Gentlemen:

I have acted as counsel to Lehman Brothers Financial Products Inc., a Delaware corporation ("Party A"), and am familiar with matters pertaining to the execution and delivery of the Master Agreement (the "Master Agreement") dated as of «as_of_date» between Party A and «Counterparty» ("Party B").

In connection with this opinion, I have examined, or have had examined on my behalf, an executed copy of the Master Agreement, certificates and statements of public officials and officers of Party A and such other agreements, instruments, documents and records as I have deemed necessary or appropriate for the purposes of this opinion.

Based on the foregoing but subject to the assumptions, exceptions, qualifications and limitations hereinafter expressed, I am of the opinion that:

- 10 Party A is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware.
- 20 The execution, delivery and performance of the Master Agreement, are within Party A's corporate power, have been duly authorized by all corporate action and do not conflict with any provision of its certificate of incorporation or by-laws.
- 30 The Master Agreement, has been duly executed and delivered and constitutes a legal, valid and binding obligation, enforceable against it in accordance with its terms.
- 40 To the best of my knowledge no consent, authorization, license or approval of or registration or declaration with, any U.S. federal or New York State governmental authority is required in connection with the execution, delivery and performance of the Master Agreement, in the case of Party A.

The foregoing opinions are subject to the following assumptions, exceptions, qualifications and limitations:

A. My opinion in paragraph 3 above is subject to the effect of any bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors rights

generally (including, without limitation, the effect of statutory or other laws regarding fraudulent or other similar transfers) and general principles of equity, regardless of whether enforceability is considered in a proceeding in equity or at law.

B. I am a member of the Bar of the State of New York and render no opinion on the laws of any jurisdiction other than the laws of the State of New York, the federal laws of the United States of America and the General Corporation Law of the State of Delaware.

C. My opinions are limited to the present laws and to the facts as they presently exist. I assume no obligation to revise or supplement this opinion should the present laws of the jurisdictions referred to in paragraph B above be changed by legislative action, judicial decision or otherwise.

D. This letter is rendered to you in connection with the Master Agreement and the transactions related thereto and may not be relied upon by any other person or by you in any other context or for any other purpose. This letter may not be quoted in whole or in part, nor may copies thereof be furnished or delivered to any other person, without the prior written consent of Lehman Brothers Financial Products Inc., except that you may furnish copies hereof (i) to your independent auditors and attorneys, (ii) to any United States, state or local authority having jurisdiction over you or over Party A, (iii) pursuant to the order of any legal process of any court of competent jurisdiction or any governmental agency, and (iv) in connection with any legal action arising out of the Master Agreement.

E. I have assumed with your permission (i) the genuineness of all signatures by each party other than Party A, (ii) the authenticity of documents submitted to me as originals and the conformity to authentic original documents of all documents submitted to me as copies, and (iii) the due execution and delivery, pursuant to due authorization, of the Master Agreement by each party other than Party A.

Very truly yours,

EXHIBIT B to Schedule

GUARANTEE OF LEHMAN BROTHERS HOLDINGS INC.

LEHMAN BROTHERS SPECIAL FINANCING INC. ("Party A") and «COUNTERPARTY» ("Party B") have entered into a Master Agreement dated as of «as_of_date», pursuant to which Party A and Party B have entered and/or anticipate entering into one or more transactions (each a "Transaction"), the Confirmation of each of which supplements, forms part of, and will be read and construed as one with, the Master Agreement (collectively referred to as the "Agreement"). This Guarantee is a Credit Support Document as contemplated in the Agreement. For value received, and in consideration of the financial accommodation accorded to Party A by Party B under the Agreement, LEHMAN BROTHERS HOLDINGS INC., a corporation organized and existing under the laws of the State of Delaware ("Guarantor"), hereby agrees to the following:

(a) Guarantor hereby unconditionally guarantees to Party B the due and punctual payment of all amounts payable by Party A under each Transaction when and as Party A's obligations thereunder shall become due and payable in accordance with the terms of the Agreement. In case of the failure of Party A to pay punctually any such amounts, Guarantor hereby agrees, upon written demand by Party B, to pay or cause to be paid any such amounts punctually when and as the same shall become due and payable.

(b) Guarantor hereby agrees that its obligations under this Guarantee constitute a guarantee of payment when due and not of collection.

(c) Guarantor hereby agrees that its obligations under this Guarantee shall be unconditional, irrespective of the validity, regularity or enforceability of the Agreement against Party A (other than as a result of the unenforceability thereof against Party B), the absence of any action to enforce Party A's obligations under the Agreement, any waiver or consent by Party B with respect to any provisions thereof, the entry by Party A and Party B into additional Transactions under the Agreement or any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor (excluding the defense of payment or statute of limitations, neither of which are waived); provided, however, that Guarantor shall be entitled to exercise any right that Party A could have exercised under the Agreement to cure any default in respect of its obligations under the Agreement or to setoff, counterclaim or withhold payment in respect of any Event of Default or potential Event of Default in respect of Party B or any Affiliate, but only to the extent such right is provided to Party A under the Agreement. The Guarantor acknowledges that Party A and Party B may from time to time enter into one or more Transactions pursuant to the Agreement and agrees that the obligations of the Guarantor under this Guarantee will upon the execution of any such Transaction by Party A and Party B extend to all such Transactions without the taking of further action by the Guarantor

(d) This Guarantee shall remain in full force and effect until such time as Party B shall receive written notice of termination. Termination of this Guarantee shall not affect Guarantor's liability hereunder as to obligations incurred or arising out of Transactions entered into prior to the termination hereof.

(e) Guarantor further agrees that this Guarantee shall continue to be effective or be reinstated, as the case may be, if at any time, payment, or any part thereof, of any obligation or

interest thereon is rescinded or must otherwise be restored by Party B upon an Event of Default as set forth in Section 5(a)(vii) of the Agreement affecting Party A or Guarantor.

(f) Guarantor hereby waives (i) promptness, diligence, presentment, demand of payment, protest, order and, except as set forth in paragraph (a) hereof, notice of any kind in connection with the Agreement and this Guarantee, or (ii) any requirement that Party B exhaust any right to take any action against Party A or any other person prior to or contemporaneously with proceeding to exercise any right against Guarantor under this Guarantee.

This Guarantee shall be governed by and construed in accordance with the laws of the State of New York, without reference to choice of law doctrine. All capitalized terms not defined in this Guarantee are defined in the Agreement.

Any notice hereunder will be sufficiently given if given in accordance with the provisions for notices under the Agreement and will be effective as set forth therein. All notices hereunder shall be delivered to Lehman Brothers Holdings Inc., Attention: Treasurer, at 3 World Financial Center, 28th Floor, New York, New York 10285 (Facsimile No. (212) 526-1467) with a copy to Lehman Brothers Special Financing Inc., Attention: Notice Generation at 3 World Financial Center, 12th Floor, New York, New York 10285-1200 (Facsimile No. (212) 528-6927).

IN WITNESS WHEREOF, Guarantor has caused this Guarantee to be executed in its corporate name by its duly authorized officer as of the date of the Agreement.

LEHMAN BROTHERS HOLDINGS INC.

By: _____

Title: _____

EXHIBIT C to Schedule

[Form of Opinion of Counsel for Party B]

[Date]

Lehman Brothers Financial Products Inc.
3 World Financial Center
New York, New York 10285 USA

Attention: Treasurer

Ladies and Gentlemen:

I have acted as counsel to «Counterparty», a «cp_jurisdiction» corporation (“Party B”), and am familiar with matters pertaining to the execution and delivery of the Master Agreement (the “Master Agreement”) dated as of «as_of_date» between Party B and Lehman Brothers Financial Products, Inc. (“Party A”).

In connection with this opinion, I have examined, or have had examined on my behalf, an executed copy of the Master Agreement, certificates and statements of public officials and officers of Party B and such other agreements, instruments, documents and records as I have deemed necessary or appropriate for the purposes of this opinion.

Based on the foregoing but subject to the assumptions, exceptions, qualifications and limitations hereinafter expressed, I am of the opinion that:

- 10 Party B is a «entity_type» duly incorporated, validly existing and in good standing under the laws of the State of «cp_jurisdiction».
- 20 The execution, delivery and performance of the Master Agreement, in the case of Party B are within its corporate power, have been duly authorized by all appropriate action and do not conflict with any provision of its authorization documents.
- 30 The Master Agreement, has been duly executed and delivered by Party B and constitutes a legal, valid and binding obligation, enforceable against it in accordance with its terms.
- 40 To the best of my knowledge no consent, authorization, license or approval of or registration or declaration with, any U.S. federal or State governmental authority is required in connection with the execution, delivery and performance of the Master Agreement, by Party B.

The foregoing opinions are subject to the following assumptions, exceptions, qualifications and limitations:

A. My opinion in paragraph 3 above is subject to the effect of any bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors rights generally (including, without limitation, the effect of statutory or other laws regarding fraudulent or other similar transfers) and general principles of equity, regardless of whether enforceability is considered in a proceeding in equity or at law.

B. I am a member of the Bar of the State of Texas and render no opinion on the laws of any jurisdiction other than the laws of the State of Texas, the federal laws of the United States of America and the General Corporation Law of the State of Texas.

C. My opinions are limited to the present laws and to the facts as they presently exist. I assume no obligation to revise or supplement this opinion should the present laws of the jurisdictions referred to in paragraph B above be changed by legislative action, judicial decision or otherwise.

D. I have assumed with your permission (i) the genuineness of all signatures by each party other than Party B, (ii) the authenticity of documents submitted to me as originals and the conformity to authentic original documents of all documents submitted to me as copies, and (iii) the due execution and delivery, pursuant to due authorization, of the Master Agreement by each party other than Party B.

Very truly yours,

EXHIBIT D to Schedule

Form of Confirmation

***ADD OPTIONAL
TERMINATION***

TO: «counterparty»
 «cp_street»
 «cp_city», «cp_state»
 «cp_zip»
 Attention: «attention»

 Telephone: «cp_telephone»
 Facsimile: «cp_fax»

FROM: Lehman Brothers Financial Products Inc.
 3 World Financial Center
 7th Floor
 New York, New York 10285-0700
 Attention: Notice Generation

 Telephone: (212) 526-8586
 Facsimile: (212) 528-6927

SUBJECT: TRANSACTION (Ref:)

DATE: [date]

Dear _____

SUBJECT: SWAP TRANSACTION (REF:)

The purpose of this communication is to set forth the terms and conditions of the interest rate swap transaction entered into on the Trade Date referred to below (the "Swap Transaction"), between Lehman Brothers Financial Products Inc. ("Party A") and «counterparty» ("Party B"). This communication constitutes a "Confirmation" as referred to in the Swap Agreement specified below.

1. This confirmation supplements or will supplement, forms or will form a part of, and is or will be subject to, the Master Agreement, which the parties have entered into, dated as of «as_of_date» (the "Master Agreement"), between Lehman Brothers Financial Products Inc. and «counterparty». All provisions contained in, or incorporated by reference to, the Master Agreement shall or will govern this Confirmation except as expressly modified below.

2. This communication incorporates the definitions and provisions contained in the 1991 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc.) (the "Definitions").

3. The terms of the particular Swap Transaction to which this communication relates are as follows:

Trade Date:

Effective Date:

Termination Date:

[Notional Amount:]

FIXED AMOUNTS:

Fixed Rate Payer: [Party A/B]

[Fixed Rate Payer Calculation Amount:]

Fixed Rate Payer Payment Dates [or, Period End Dates, if Delayed Payment or Early Payment applies]: [], subject to adjustment in accordance with the [Following/Modified Following/Preceding] Business Day Convention, with respect to a _____ Business Day and a _____ Business Day [,with No Adjustment of Period End Dates]

[Fixed Amount:]

Fixed Rate:

Fixed Rate Day Count Fraction:

FLOATING AMOUNTS:

Floating Rate Payer: [Party B/A]

[Floating Rate Payer Calculation Amount:]

Floating Rate Payer Payment Dates [or, Period End Dates, if Delayed Payment or Early Payment applies]: [], subject to adjustment in accordance with the [Following/Modified Following/Preceding] Business Day Convention, with respect to a _____ Business Day and a _____ Business Day [,with No Adjustment of Period End Dates]

Floating Rate for initial Calculation Period:

Floating Rate Option:

Designated Maturity:

Floating Rate Spread: [plus/minus] ____% p.a.

Floating Rate Day Count Fraction:

Reset Dates:

[Rate Cut-off Dates:]

[Method of Averaging: Unweighted/Weighted Average]

Compounding: Applicable/Inapplicable

[Compounding Dates:]

[Initial Exchanges:

Initial Exchange Date:

Initial Exchange Amount to Party A:

Initial Exchange Amount to Party B:

Final Exchanges:

Final Exchange Date:

Final Exchange Amount to Party A:

Final Exchange Amount to Party B:]

Calculation Agent:

3. Account Details

Payments to Party A

Account for payments in [first currency]: []

Account for payments in [second currency]: []

Payments to Party B

Account for payments in [first currency]: []

Account for payments in [second currency]: []

4. Offices

The Office of Party B for the Transaction is [].

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing the copy of this Confirmation enclosed for that purpose and returning it to us.

Yours sincerely,

LEHMAN BROTHERS FINANCIAL PRODUCTS INC.

By: _____

Name:

Title:

Date:

Confirmed as of the date first written:

«COUNTERPARTY»

By: _____

Name:

Title:

Date:

CONFIRMATION

[Date]

TRANSACTION

TO: The Board of Regents of The University of Texas System
201 West 7th Street
Austin, TX 78701
Attention:
Telephone:
Facsimile:

FROM: Lehman Brothers Financial Products Inc.
3 World Financial Center, 7th Floor
New York, New York 10285-0700
Attention: Notice Generation
Telephone: (212) 526-8586
Facsimile: (212) 528-6927

Re: The Board of Regents of The University of Texas. [name of Bond Issue] Bonds

Ladies and Gentlemen:

SUBJECT: SWAP TRANSACTION (REF:)

The purpose of this communication is to set forth the terms and conditions of the interest rate swap transaction entered into on the Trade Date referred to below (the "Swap Transaction"), between Lehman Brothers Financial Products Inc. ("Party A") and The Board of Regents of The University of Texas System ("Party B"). This communication constitutes a "Confirmation" as referred to in the Swap Agreement specified below.

1. This confirmation supplements or will supplement, forms or will form a part of, and is or will be subject to, the Master Agreement, which the parties have entered into, dated as of «as_of_date» (the "Master Agreement"), between Lehman Brothers Financial Products Inc. and «counterparty». All provisions contained in, or incorporated by reference to, the Master Agreement shall or will govern this Confirmation except as expressly modified below.

2. This communication incorporates the definitions and provisions contained in the 1991 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc.) (the "Definitions"). The definitions and provisions contained in the 1992 ISDA U.S. Municipal Counterparty Definitions (as published by the International Swaps and Derivatives Association, Inc.) (the "Definitions"), are incorporated into this Confirmation. In the event of any inconsistency between those Definitions and this Confirmation, this Confirmation will govern. When used herein, "Bonds" shall have the meaning specified in paragraph 4 hereof.

3. The terms of the particular Swap Transaction to which this communication relates are as follows:

LBFP.BRUTS(ABR)

Party A: LEHMAN BROTHERS FINANCIAL PRODUCTS INC.

Party B: THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

Notional Amount: \$ _____, which shall reduce in such amounts and such dates (each, a "Reduction Date") as specified below. The amount of such reduction in Notional Amount shall be referred to herein as a "Revised Notional Amount."

<u>Reduction Date</u>	<u>Amortization</u>	<u>Revised Notional</u>
<u>Amount</u>		<u>Amount</u>
_____	\$ _____	\$ _____
_____	\$ _____	\$ _____
_____	\$ _____	\$ _____
_____	\$ _____	\$ _____
_____	\$ _____	\$ _____
_____	\$ _____	\$ _____
_____	\$ _____	\$ _____
_____	\$ _____	\$ _____
_____	\$ _____	\$ _____
_____	\$ _____	\$ _____
_____	\$ _____	\$ _____
_____	\$ _____	\$ _____
_____	\$ _____	\$ _____

Trade Date: [TBD]

Effective Date: _____

Termination Date: _____

FIXED AMOUNTS:

Fixed Rate Payer: Party B

Fixed Rate Payer Payment Dates: Each February 15, May 15, August 15 and November 15, subject to adjustment in accordance with the Modified Following Business Day Convention.

Fixed Rate Payer Period End Dates: [TBD.]

Fixed Rate: _____%

Fixed Rate Day Count Fraction: 30/360

FLOATING AMOUNTS:

Floating Rate Payer: Party A

Floating Rate Payer Payment Dates: Each February 15, May 15, August 15 and November 15, subject to adjustment in accordance with the Modified Following Business Day Convention.

Floating Rate Payer Period End Dates: [TBD]

Floating Rate Option: Bond Rate. "Bond Rate" means that rate in respect of each Calculation Period will be the rate paid on the Bonds, Series _____ but in no event higher than the Maximum Rate. "Maximum Rate" means ____%.

Floating Rate Day Count Fraction: Actual/365 (Fixed)

Method of Calculation: Weighted Average

Alternative Floating Rate Option: For each Calculation Period, the Alternative Floating Rate. "Alternative Floating Rate" means a per annum rate, not to exceed the maximum interest rate payable on the Bonds, expressed as a decimal, equal to ____% of The BMA Municipal Swap Index (the "BMA Index") in effect for each Alternative Rate Reset Date in the relevant Calculation Period, calculated by multiplying each BMA Index by the number of Alternative Floating Rate Reset Dates such BMA Index is in effect, determining the sum of such products and dividing such sum by the number of Alternative Floating Rate Reset Dates in the Calculation Period.

Alternative Floating Rate Reset Dates: Each Thursday, subject to adjustment in accordance with the Following Business Day Convention..

Alternative Floating Rate Day Count Fraction: Actual/Actual

Alternative Method of
Averaging:

Weighted Average

Alternative Floating Rate Date:

Upon the occurrence of an Alternative Floating Rate Date, the Floating Rate Option shall be the Alternative Floating Rate Option. An "Alternative Floating Rate Date" shall occur upon the occurrence (and, in the case of the events described in clauses 1, 3 and 4 below, the continuance) of any of the following:

3. Party B defaults under this Transaction or the Bonds.

4. 2. Party B undertakes with respect to the Bonds any of the following:

5.

(a) fixed rate conversion;

6. conversion to a mode other than the weekly mode; or

7. unscheduled redemption.

8.

9. The short term rating of the Bonds falls below A1+ by S&P or P1 by Moody's.

10.

11. The long term rating of the Bonds falls below AA- by S&P or Aa3 by Moody's.

12.

13. The Bonds are not issued.

14.

15. For any portion of a Calculation Period, any of the Bonds are held by _____, as the liquidity facility provider, because of a drawing on the Liquidity Facility.

16.

17. _____ is replaced or terminated by Party B as the remarketing agent for the Bonds.

18.

19. An Event of Taxability occurs in respect of

the Bonds.

20.

Events of Taxability:

(1) Party B is advised in writing by the Commissioner or any District Director of the Internal Revenue Service that the interest on the Bonds is includable in the gross income or becomes a specific preference item for individual or corporate minimum taxes, for federal income tax purposes, of any bondholder; or

(2)

(3) Party B receives a copy of an opinion of nationally recognized bond counsel to the effect that interest on the Bonds received by any bondholder is includable in gross income, for federal or state income tax purposes; or

(4)

(5) The Internal Revenue Service issues a statutory notice of deficiency or similar notice to any bondholder to the effect that the interest on the Bonds is includable in gross income, for federal tax purposes and Party B has received a copy of such notice; or

(6)

(7) the interest on the Bonds becomes includable in the gross income, for federal or Texas income tax purposes, of any bondholder by reason of legislation or constitutional amendment, judicial decision or decree, or any order, ruling or official release by the Department of the Treasury or the Internal Revenue Service or the relevant Texas taxing authority and Party B has received a copy of such action or other determination.

(8)

(9)

(10) Party B agrees to notify Party A of the occurrence of any of the Events of Taxability listed above, or in subsections 1 through 7 of the Alternative Floating Rate Date section above, promptly upon the Party B's awareness thereof.

(11)

(12)

4. As used in this Confirmation, "Bonds" shall mean _____

5. Additional Termination Event: The occurrence of an Alternative Floating Rate Date shall constitute an Additional Termination Event in respect of this Transaction. Party B may designate an Early Termination Date in respect of such Additional Termination Event pursuant to Section 6 of the Agreement.

6. If an Additional Termination Event occurs upon the occurrence of an Alternative Floating Rate Date, Party B may designate an Early Termination Date provided that Party B first or concurrently provides satisfactory evidence that Party B has sufficient available funds to pay the Settlement Amount to be paid by Party B, if any.

7. Party B shall have the right to terminate this Transaction upon at least five (and no more than twenty) Business Days prior written notice to Party A designating a day not earlier than the day such notice is effective as an Early Termination Date. Party B's election to terminate this Transaction shall constitute an Additional Termination Event pursuant to Section 5(b)(v) of the Agreement and, upon such election, this Transaction shall be terminated according to Section 6 of the Agreement. Party B shall be the sole Affected Party for purposes of determining any amount payable upon such termination; provided that, notwithstanding the fact that Party B is the Affected Party, Party B shall designate the Early Termination Date pursuant to Section 6(b) of the Agreement and this paragraph.

8. For purposes of this Transaction, the definition of "Business Day" shall not include _____

9. Payment Instructions:

All Payments to Party A:

The Chase Manhattan Bank NY
ABA No. 021000021
for the Account of Lehman Brothers Financial Products Inc.
Account No.

All Payments to Party B:

[BANK NAME]
ABA:
A/C#
A/C Name:

10. Please check this Confirmation carefully and immediately upon receipt so that errors or discrepancies can be promptly identified and rectified. Please confirm that the foregoing correctly sets forth the terms of the agreement between Party A and Party B with respect to the particular Transaction to which this Confirmation relates by either (a) signing in the space provided below and immediately returning a copy of the executed Confirmation to Party A and/or (b) sending a return communication to Party A, substantially to the following effect:

"We acknowledge receipt of your communication dated _____ with respect to the interest rate swap transaction entered into on _____ (the "Transaction") between Lehman Brothers Financial Products Inc. and _____, with a Notional Amount of \$_____ and a Termination Date of _____, and confirm that such communication correctly sets forth the terms of our agreement relating to the Transaction described therein. Very truly yours, _____

DRAFT - January 11, 1999

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing the copy of this Confirmation enclosed for that purpose and returning it to us.

Yours sincerely,

LEHMAN BROTHERS FINANCIAL PRODUCTS INC.

By: _____
Name:
Title:

Confirmed as of the
date first above written

THE BOARD OF REGENTS OF
THE UNIVERSITY OF TEXAS SYSTEM

By: _____
Name:
Title:

CONFIRMATION

[Date]

TRANSACTION

TO: The Board of Regents of The University of Texas System
201 West 7th Street
Austin, TX 78701
Attention:
Telephone:
Facsimile:

FROM: Lehman Brothers Financial Products Inc.
3 World Financial Center, 7th Floor
New York, New York 10285-0700
Attention: Notice Generation
Telephone: (212) 526-8586
Facsimile: (212) 528-6927

Re: The Board of Regents of The University of Texas, Inname of Bond Issue Bonds

Ladies and Gentlemen:

SUBJECT: SWAP TRANSACTION (REF:)

The purpose of this communication is to set forth the terms and conditions of the interest rate swap transaction entered into on the Trade Date referred to below (the "Swap Transaction"), between Lehman Brothers Financial Products Inc. ("Party A") and The Board of Regents of The University of Texas System ("Party B"). This communication constitutes a "Confirmation" as referred to in the Swap Agreement specified below.

1. This confirmation supplements or will supplement, forms or will form a part of, and is or will be subject to, the Master Agreement, which the parties have entered into, dated as of «as_of_date» (the "Master Agreement"), between Lehman Brothers Financial Products Inc. and «counterparty». All provisions contained in, or incorporated by reference to, the Master Agreement shall or will govern this Confirmation except as expressly modified below.

2. This communication incorporates the definitions and provisions contained in the 1991 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc.) (the "Definitions"). The definitions and provisions contained in the 1992 ISDA U.S. Municipal Counterparty Definitions (as published by the International Swaps and Derivatives Association, Inc.) (the "Definitions"), are incorporated into this Confirmation. In the event of any inconsistency between those Definitions and this Confirmation, this Confirmation will govern. When used herein, "Bonds" shall have the meaning specified in paragraph 4 hereof.

3. The terms of the particular Swap Transaction to which this communication relates are as follows:

LBFP/BRUTS (BMA)

Party A: LEHMAN BROTHERS FINANCIAL PRODUCTS INC.

Party B: THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

Notional Amount: \$ _____, which shall reduce in such amounts and such dates (each, a "Reduction Date") as specified below. The amount of such reduction in Notional Amount shall be referred to herein as a "Revised Notional Amount."

<u>Reduction</u>	<u>Date</u>	<u>Revised Notional</u>
<u>Amortization Amount</u>		<u>Amount</u>
_____		\$ _____
\$ _____		\$ _____
_____		\$ _____
\$ _____		\$ _____
_____		\$ _____
\$ _____		\$ _____
_____		\$ _____
\$ _____		\$ _____
_____		\$ _____
\$ _____		\$ _____
_____		\$ _____
\$ _____		\$ _____
_____		\$ _____
\$ _____		\$ _____
_____		\$ _____
\$ _____		\$ _____

Trade Date: [TBD]

Effective Date: _____

Termination Date: _____

FIXED AMOUNTS:

Fixed Rate Payer: Party B

Floating Rate Payer Payment Dates: Each February 15, May 15, August 15 and November 15, subject to adjustment in accordance with the Modified Following Business Day Convention.

Floating Rate Payer Period End Dates: [TBD.]

Fixed Rate: _____%

Fixed Rate Day Count Fraction: 30/360

FLOATING AMOUNTS:

Floating Rate Payer: Party A

Floating Rate Payer Payment Dates: Each February 15, May 15, August 15 and November 15, subject to adjustment in accordance with the Modified Following Business Day Convention.

Floating Rate Payer Period End Dates: [TBD]

Floating Rate Option: The BMA Municipal Swap Index (the "BMA Index").

If Municipal Market Data no longer publishes the BMA Index, Party A shall determine the rate on each Reset Date. The rate so determined by Party A shall equal the prevailing rate determined by Party A for bonds that are rated in the highest short-term rating category by Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, A Division of The McGraw-Hill Companies, Inc. in respect of issuers most closely resembling the component issuers selected by Municipal Market Data and that are subject to tender by the holders thereof for purchase on not more than seven days' notice and the interest on which is (a) variable on a weekly basis, (b) excludable from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"), and (c) not subject to an "alternative minimum tax" or similar tax under the Code, unless all tax-exempt bonds are subject to such tax.

If Municipal Market Data fails or is unable to make available the BMA Index for any Reset Date, Party A shall determine the rate in the manner specified in the immediately preceding paragraph until Municipal Market Data makes available the BMA Index.

Floating Rate Reset Dates: Each Thursday, subject to adjustment in accordance with the Following Business Day

Convention.

Floating Rate Day Count
Fraction: Actual/Actual

Method of Averaging: Weighted Average

4. Party B shall have the right to terminate this Transaction upon at least five (and no more than twenty) Business Days prior written notice to Party A designating a day not earlier than the day such notice is effective as an Early Termination Date. Party B's election to terminate this Transaction shall constitute an Additional Termination Event pursuant to Section 5(b)(v) of the Agreement and, upon such election, this Transaction shall be terminated according to Section 6 of the Agreement. Party B shall be the sole Affected Party for purposes of determining any amount payable upon such termination; provided that, notwithstanding the fact that Party B is the Affected Party, Party B shall designate the Early Termination Date pursuant to Section 6(b) of the Agreement and this paragraph.

5. As used in this Confirmation, "Bonds" shall mean _____

6. For purposes of this Transaction, the definition of "Business Day" shall not include _____

7. Payment Instructions:

All Payments to Party A:

The Chase Manhattan Bank NY
ABA No. 021000021
for the Account of Lehman Brothers Financial Products Inc.
Account No.

All Payments to Party B:

[BANK NAME]
ABA:
A/C#
A/C Name:

8. Please check this Confirmation carefully and immediately upon receipt so that errors or discrepancies can be promptly identified and rectified. Please confirm that the foregoing correctly sets forth the terms of the agreement between Party A and Party B with respect to the particular Transaction to which this Confirmation relates by either (a) signing in the space provided below and immediately returning a copy of the executed Confirmation to Party A and/or (b) sending a return communication to Party A, substantially to the following effect:

"We acknowledge receipt of your communication dated _____ with respect to the interest rate swap transaction entered into on _____ (the "Transaction") between Lehman Brothers Financial Products Inc. and _____, with a Notional Amount of \$ _____ and a Termination Date of _____, and confirm that such communication correctly sets forth the terms of our agreement relating to the Transaction described therein. Very truly yours, _____

DRAFT - January 11, 1999

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing the copy of this Confirmation enclosed for that purpose and returning it to us.

Yours sincerely,

LEHMAN BROTHERS FINANCIAL PRODUCTS INC.

By: _____

Name:

Title:

Confirmed as of the
date first above written

THE BOARD OF REGENTS OF
THE UNIVERSITY OF TEXAS SYSTEM

By: _____

Name:

Title:

CONFIRMATION

[Date]

TRANSACTION

TO: The Board of Regents of The University of Texas System
201 West 7th Street
Austin, TX 78701
Attention:
Telephone:
Facsimile:

FROM: Lehman Brothers Financial Products Inc.
3 World Financial Center, 7th Floor
New York, New York 10285-0700
Attention: Notice Generation
Telephone: (212) 526-8586
Facsimile: (212) 528-6927

Re: The Board of Regents of The University of Texas, [name of Bond Issue] Bonds

Ladies and Gentlemen:

SUBJECT: SWAP TRANSACTION (REF:)

The purpose of this communication is to set forth the terms and conditions of the interest rate swap transaction entered into on the Trade Date referred to below (the "Swap Transaction"), between Lehman Brothers Financial Products Inc. ("Party A") and The Board of Regents of The University of Texas System ("Party B"). This communication constitutes a "Confirmation" as referred to in the Swap Agreement specified below.

1. This confirmation supplements or will supplement, forms or will form a part of, and is or will be subject to, the Master Agreement, which the parties have entered into, dated as of «as_of_date» (the "Master Agreement"), between Lehman Brothers Financial Products Inc. and «counterparty». All provisions contained in, or incorporated by reference to, the Master Agreement shall or will govern this Confirmation except as expressly modified below.

2. This communication incorporates the definitions and provisions contained in the 1991 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc.) (the "Definitions"). The definitions and provisions contained in the 1992 ISDA U.S. Municipal Counterparty Definitions (as published by the International Swaps and Derivatives Association, Inc.) (the "Definitions"), are incorporated into this Confirmation. In the event of any inconsistency between those Definitions and this Confirmation, this Confirmation will govern. When used herein, "Bonds" shall have the meaning specified in paragraph 4 hereof.

3. The terms of the particular Swap Transaction to which this communication relates are as follows:

LBFP.BRUTS (LIBOR)

Party A:

LEHMAN BROTHERS FINANCIAL PRODUCTS INC.

Party B:

THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

Notional Amount:

\$ _____, which shall reduce in such amounts and such dates (each, a "Reduction Date") as specified below. The amount of such reduction in Notional Amount shall be referred to herein as a "Revised Notional Amount."

<u>Reduction Date</u>	<u>Amortization</u>	<u>Revised Notional</u>
<u>Amount</u>		<u>Amount</u>
_____		\$ _____
\$ _____		\$ _____
_____		\$ _____
\$ _____		\$ _____
_____		\$ _____
\$ _____		\$ _____
_____		\$ _____
\$ _____		\$ _____
_____		\$ _____
\$ _____		\$ _____
_____		\$ _____
\$ _____		\$ _____
_____		\$ _____
\$ _____		\$ _____
_____		\$ _____
\$ _____		\$ _____

Trade Date:

[TBD]

Effective Date:

Termination Date:

FIXED AMOUNTS:

Fixed Rate Payer:

Party B

Floating Rate Payer Payment Dates:

Each February 15, May 15, August 15 and November 15, subject to adjustment in accordance with the Modified Following Business Day Convention.

Floating Rate Payer Period End Dates:

[TBD.]

Fixed Rate: _____%

Fixed Rate Day Count Fraction: 30/360

FLOATING AMOUNTS:

Floating Rate Payer: Party A

Floating Rate Payer Payment Dates: Each February 15, May 15, August 15 and November 15, subject to adjustment in accordance with the Modified Following Business Day Convention.

Floating Rate Payer Period End Dates: [TBD]

Floating Rate Option: For each Calculation Period, a per annum rate, not to exceed the maximum interest rate payable on the Bonds, expressed as a decimal, equal to _____% of the arithmetic mean of the USD-LIBOR-BBA in effect for each Rate Reset Date in the relevant Calculation Period, calculated by multiplying each USD-LIBOR-BBA by the number of Floating Rate Reset Dates such USD-LIBOR-BBA is in effect, determining the sum of such products and dividing such sum by the number of Floating Rate Reset Dates in the Calculation Period.

Designated Maturity: One Month

Floating Rate Reset Dates: Each day of which commercial banks are open for business (including dealings in foreign exchange and foreign currency) in the City of London (each a "Reset Business Day") on and after the Floating Rate Date (and, if the Floating Rate Date is a day other than a Reset Business Day, the Reset Business Day next preceding the Floating Rate Date.

Floating Rate Day Count Fraction: Actual/Actual

Method of Averaging: Unweighted Average

4. Party B shall have the right to terminate this Transaction upon at least five (and no more than twenty) Business Days prior written notice to Party A designating a day not earlier than the day such notice is effective as an Early Termination Date. Party B's election to terminate this Transaction shall constitute an Additional Termination Event pursuant to Section 5(b)(v) of the Agreement and, upon such

election, this Transaction shall be terminated according to Section 6 of the Agreement. Party B shall be the sole Affected Party for purposes of determining any amount payable upon such termination; provided that, notwithstanding the fact that Party B is the Affected Party, Party B shall designate the Early Termination Date pursuant to Section 6(b) of the Agreement and this paragraph.

5. As used in this Confirmation, "Bonds" shall mean _____
6. For purposes of this Transaction, the definition of "Business Day" shall not include _____
7. Payment Instructions:

All Payments to Party A:

The Chase Manhattan Bank NY
ABA No. 021000021
for the Account of Lehman Brothers Financial Products Inc.
Account No.

All Payments to Party B:

[BANK NAME]
ABA:
A/C#
A/C Name:

8. Please check this Confirmation carefully and immediately upon receipt so that errors or discrepancies can be promptly identified and rectified. Please confirm that the foregoing correctly sets forth the terms of the agreement between Party A and Party B with respect to the particular Transaction to which this Confirmation relates by either (a) signing in the space provided below and immediately returning a copy of the executed Confirmation to Party A and/or (b) sending a return communication to Party A, substantially to the following effect:

"We acknowledge receipt of your communication dated _____ with respect to the interest rate swap transaction entered into on _____ (the "Transaction") between Lehman Brothers Financial Products Inc. and _____, with a Notional Amount of \$_____ and a Termination Date of _____, and confirm that such communication correctly sets forth the terms of our agreement relating to the Transaction described therein. Very truly yours, _____

DRAFT - January 11, 1999

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing the copy of this Confirmation enclosed for that purpose and returning it to us.

Yours sincerely,

LEHMAN BROTHERS FINANCIAL PRODUCTS INC.

By: _____
Name:
Title:

Confirmed as of the
date first above written

THE BOARD OF REGENTS OF
THE UNIVERSITY OF TEXAS SYSTEM

By: _____
Name:
Title:

Swap Agreement
for
Morgan Guaranty Trust of New York

(Multicurrency—Cross Border)

ISDA[®]

International Swap Dealers Association, Inc.

MASTER AGREEMENT

dated as of

..... and

have entered and/or anticipate entering into one or more transactions (each a "Transaction") that are or will be governed by this Master Agreement, which includes the schedule (the "Schedule"), and the documents and other confirming evidence (each a "Confirmation") exchanged between the parties confirming those Transactions.

Accordingly, the parties agree as follows:—

1. Interpretation

- (a) *Definitions.* The terms defined in Section 14 and in the Schedule will have the meanings therein specified for the purpose of this Master Agreement.
- (b) *Inconsistency.* In the event of any inconsistency between the provisions of the Schedule and the other provisions of this Master Agreement, the Schedule will prevail. In the event of any inconsistency between the provisions of any Confirmation and this Master Agreement (including the Schedule), such Confirmation will prevail for the purpose of the relevant Transaction.
- (c) *Single Agreement.* All Transactions are entered into in reliance on the fact that this Master Agreement and all Confirmations form a single agreement between the parties (collectively referred to as this "Agreement"), and the parties would not otherwise enter into any Transactions.

2. Obligations

(a) *General Conditions.*

- (i) Each party will make each payment or delivery specified in each Confirmation to be made by it, subject to the other provisions of this Agreement.
- (ii) Payments under this Agreement will be made on the due date for value on that date in the place of the account specified in the relevant Confirmation or otherwise pursuant to this Agreement, in freely transferable funds and in the manner customary for payments in the required currency. Where settlement is by delivery (that is, other than by payment), such delivery will be made for receipt on the due date in the manner customary for the relevant obligation unless otherwise specified in the relevant Confirmation or elsewhere in this Agreement.
- (iii) Each obligation of each party under Section 2(a)(i) is subject to (1) the condition precedent that no Event of Default or Potential Event of Default with respect to the other party has occurred and is continuing, (2) the condition precedent that no Early Termination Date in respect of the relevant Transaction has occurred or been effectively designated and (3) each other applicable condition precedent specified in this Agreement.

(b) *Change of Account.* Either party may change its account for receiving a payment or delivery by giving notice to the other party at least five Local Business Days prior to the scheduled date for the payment or delivery to which such change applies unless such other party gives timely notice of a reasonable objection to such change.

(c) *Netting.* If on any date amounts would otherwise be payable:—

- (i) in the same currency; and
- (ii) in respect of the same Transaction,

by each party to the other, then, on such date, each party's obligation to make payment of any such amount will be automatically satisfied and discharged and, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party, replaced by an obligation upon the party by whom the larger aggregate amount would have been payable to pay to the other party the excess of the larger aggregate amount over the smaller aggregate amount.

The parties may elect in respect of two or more Transactions that a net amount will be determined in respect of all amounts payable on the same date in the same currency in respect of such Transactions, regardless of whether such amounts are payable in respect of the same Transaction. The election may be made in the Schedule or a Confirmation by specifying that subparagraph (ii) above will not apply to the Transactions identified as being subject to the election, together with the starting date (in which case subparagraph (ii) above will not, or will cease to, apply to such Transactions from such date). This election may be made separately for different groups of Transactions and will apply separately to each pairing of Offices through which the parties make and receive payments or deliveries.

(d) *Deduction or Withholding for Tax.*

(i) *Gross-Up.* All payments under this Agreement will be made without any deduction or withholding for or on account of any Tax unless such deduction or withholding is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If a party is so required to deduct or withhold, then that party ("X") will:—

- (1) promptly notify the other party ("Y") of such requirement;
- (2) pay to the relevant authorities the full amount required to be deducted or withheld (including the full amount required to be deducted or withheld from any additional amount paid by X to Y under this Section 2(d)) promptly upon the earlier of determining that such deduction or withholding is required or receiving notice that such amount has been assessed against Y;
- (3) promptly forward to Y an official receipt (or a certified copy), or other documentation reasonably acceptable to Y, evidencing such payment to such authorities; and
- (4) if such Tax is an Indemnifiable Tax, pay to Y, in addition to the payment to which Y is otherwise entitled under this Agreement, such additional amount as is necessary to ensure that the net amount actually received by Y (free and clear of Indemnifiable Taxes, whether assessed against X or Y) will equal the full amount Y would have received had no such deduction or withholding been required. However, X will not be required to pay any additional amount to Y to the extent that it would not be required to be paid but for:—

(A) the failure by Y to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d); or

(B) the failure of a representation made by Y pursuant to Section 3(f) to be accurate and true unless such failure would not have occurred but for (I) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (II) a Change in Tax Law.

(ii) *Liability. If:—*

- (1) X is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, to make any deduction or withholding in respect of which X would not be required to pay an additional amount to Y under Section 2(d)(i)(4);
- (2) X does not so deduct or withhold; and
- (3) a liability resulting from such Tax is assessed directly against X.

then, except to the extent Y has satisfied or then satisfies the liability resulting from such Tax, Y will promptly pay to X the amount of such liability (including any related liability for interest, but including any related liability for penalties only if Y has failed to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d)).

(c) *Default Interest; Other Amounts.* Prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party that defaults in the performance of any payment obligation will, to the extent permitted by law and subject to Section 6(c), be required to pay interest (before as well as after judgment) on the overdue amount to the other party on demand in the same currency as such overdue amount, for the period from (and including) the original due date for payment to (but excluding) the date of actual payment, at the Default Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed. If, prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party defaults in the performance of any obligation required to be settled by delivery, it will compensate the other party on demand if and to the extent provided for in the relevant Confirmation or elsewhere in this Agreement.

3. Representations

Each party represents to the other party (which representations will be deemed to be repeated by each party on each date on which a Transaction is entered into and, in the case of the representations in Section 3(f), at all times until the termination of this Agreement) that:—

(a) *Basic Representations.*

- (i) *Status.* It is duly organised and validly existing under the laws of the jurisdiction of its organisation or incorporation and, if relevant under such laws, in good standing;
- (ii) *Powers.* It has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and any other documentation relating to this Agreement that it is required by this Agreement to deliver and to perform its obligations under this Agreement and any obligations it has under any Credit Support Document to which it is a party and has taken all necessary action to authorise such execution, delivery and performance;
- (iii) *No Violation or Conflict.* Such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;
- (iv) *Consents.* All governmental and other consents that are required to have been obtained by it with respect to this Agreement or any Credit Support Document to which it is a party have been obtained and are in full force and effect and all conditions of any such consents have been complied with; and
- (v) *Obligations Binding.* Its obligations under this Agreement and any Credit Support Document to which it is a party constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganisation, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)).

(b) *Absence of Certain Events.* No Event of Default or Potential Event of Default or, to its knowledge, Termination Event with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement or any Credit Support Document to which it is a party.

(c) *Absence of Litigation.* There is not pending or, to its knowledge, threatened against it or any of its Affiliates any action, suit or proceeding at law or in equity or before any court, tribunal, governmental body, agency or official or any arbitrator that is likely to affect the legality, validity or enforceability against it of this Agreement or any Credit Support Document to which it is a party or its ability to perform its obligations under this Agreement or such Credit Support Document.

(d) *Accuracy of Specified Information.* All applicable information that is furnished in writing by or on behalf of it to the other party and is identified for the purpose of this Section 3(d) in the Schedule is, as of the date of the information, true, accurate and complete in every material respect.

(e) *Payer Tax Representation.* Each representation specified in the Schedule as being made by it for the purpose of this Section 3(e) is accurate and true.

(f) *Payee Tax Representations.* Each representation specified in the Schedule as being made by it for the purpose of this Section 3(f) is accurate and true.

4. Agreements

Each party agrees with the other that, so long as either party has or may have any obligation under this Agreement or under any Credit Support Document to which it is a party:—

(a) *Furnish Specified Information.* It will deliver to the other party or, in certain cases under subparagraph (iii) below, to such government or taxing authority as the other party reasonably directs:—

(i) any forms, documents or certificates relating to taxation specified in the Schedule or any Confirmation;

(ii) any other documents specified in the Schedule or any Confirmation; and

(iii) upon reasonable demand by such other party, any form or document that may be required or reasonably requested in writing in order to allow such other party or its Credit Support Provider to make a payment under this Agreement or any applicable Credit Support Document without any deduction or withholding for or on account of any Tax or with such deduction or withholding at a reduced rate (so long as the completion, execution or submission of such form or document would not materially prejudice the legal or commercial position of the party in receipt of such demand), with any such form or document to be accurate and completed in a manner reasonably satisfactory to such other party and to be executed and to be delivered with any reasonably required certification,

in each case by the date specified in the Schedule or such Confirmation or, if none is specified, as soon as reasonably practicable.

(b) *Maintain Authorisations.* It will use all reasonable efforts to maintain in full force and effect all consents of any governmental or other authority that are required to be obtained by it with respect to this Agreement or any Credit Support Document to which it is a party and will use all reasonable efforts to obtain any that may become necessary in the future.

(c) *Comply with Laws.* It will comply in all material respects with all applicable laws and orders to which it may be subject if failure so to comply would materially impair its ability to perform its obligations under this Agreement or any Credit Support Document to which it is a party.

(d) *Tax Agreement.* It will give notice of any failure of a representation made by it under Section 3(f) to be accurate and true promptly upon learning of such failure.

(e) *Payment of Stamp Tax.* Subject to Section 11, it will pay any Stamp Tax levied or imposed upon it or in respect of its execution or performance of this Agreement by a jurisdiction in which it is incorporated,

organised, managed and controlled, or considered to have its seat, or in which a branch or office through which it is acting for the purpose of this Agreement is located ("Stamp Tax Jurisdiction") and will indemnify the other party against any Stamp Tax levied or imposed upon the other party or in respect of the other party's execution or performance of this Agreement by any such Stamp Tax Jurisdiction which is not also a Stamp Tax Jurisdiction with respect to the other party.

5. Events of Default and Termination Events

(a) *Events of Default.* The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any of the following events constitutes an event of default (an "Event of Default") with respect to such party:—

(i) *Failure to Pay or Deliver.* Failure by the party to make, when due, any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) required to be made by it if such failure is not remedied on or before the third Local Business Day after notice of such failure is given to the party;

(ii) *Breach of Agreement.* Failure by the party to comply with or perform any agreement or obligation (other than an obligation to make any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) or to give notice of a Termination Event or any agreement or obligation under Section 4(a)(i), 4(a)(iii) or 4(d)) to be complied with or performed by the party in accordance with this Agreement if such failure is not remedied on or before the thirtieth day after notice of such failure is given to the party;

(iii) *Credit Support Default.*

(1) Failure by the party or any Credit Support Provider of such party to comply with or perform any agreement or obligation to be complied with or performed by it in accordance with any Credit Support Document if such failure is continuing after any applicable grace period has elapsed;

(2) the expiration or termination of such Credit Support Document or the failing or ceasing of such Credit Support Document to be in full force and effect for the purpose of this Agreement (in either case other than in accordance with its terms) prior to the satisfaction of all obligations of such party under each Transaction to which such Credit Support Document relates without the written consent of the other party; or

(3) the party or such Credit Support Provider disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, such Credit Support Document;

(iv) *Misrepresentation.* A representation (other than a representation under Section 3(e) or (f)) made or repeated or deemed to have been made or repeated by the party or any Credit Support Provider of such party in this Agreement or any Credit Support Document proves to have been incorrect or misleading in any material respect when made or repeated or deemed to have been made or repeated;

(v) *Default under Specified Transaction.* The party, any Credit Support Provider of such party or any applicable Specified Entity of such party (1) defaults under a Specified Transaction and, after giving effect to any applicable notice requirement or grace period, there occurs a liquidation of, an acceleration of obligations under, or an early termination of, that Specified Transaction, (2) defaults, after giving effect to any applicable notice requirement or grace period, in making any payment or delivery due on the last payment, delivery or exchange date of, or any payment on early termination of, a Specified Transaction (or such default continues for at least three Local Business Days if there is no applicable notice requirement or grace period) or (3) disaffirms, disclaims, repudiates or rejects, in whole or in part, a Specified Transaction (or such action is taken by any person or entity appointed or empowered to operate it or act on its behalf);

(vi) *Cross Default.* If "Cross Default" is specified in the Schedule as applying to the party, the occurrence or existence of (1) a default, event of default or other similar condition or event (however

described) in respect of such party, any Credit Support Provider of such party or any applicable Specified Entity of such party under one or more agreements or instruments relating to Specified Indebtedness of any of them (individually or collectively) in an aggregate amount of not less than the applicable Threshold Amount (as specified in the Schedule) which has resulted in such Specified Indebtedness becoming, or becoming capable at such time of being declared, due and payable under such agreements or instruments, before it would otherwise have been due and payable or (2) a default by such party, such Credit Support Provider or such Specified Entity (individually or collectively) in making one or more payments on the due date thereof in an aggregate amount of not less than the applicable Threshold Amount under such agreements or instruments (after giving effect to any applicable notice requirement or grace period);

(vii) *Bankruptcy*. The party, any Credit Support Provider of such party or any applicable Specified Entity of such party:—

(1) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (2) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (5) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (7) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (8) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) (inclusive); or (9) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts; or

(viii) *Merger Without Assumption*. The party or any Credit Support Provider of such party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and, at the time of such consolidation, amalgamation, merger or transfer:—

(1) the resulting, surviving or transferee entity fails to assume all the obligations of such party or such Credit Support Provider under this Agreement or any Credit Support Document to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other party to this Agreement; or

(2) the benefits of any Credit Support Document fail to extend (without the consent of the other party) to the performance by such resulting, surviving or transferee entity of its obligations under this Agreement.

(b) *Termination Events*. The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any event specified below constitutes an Illegality if the event is specified in (i) below, a Tax Event if the event is specified in (ii) below or a Tax Event Upon Merger if the event is specified in (iii) below, and, if specified to be applicable, a Credit Event

Upon Merger if the event is specified pursuant to (iv) below or an Additional Termination Event if the event is specified pursuant to (v) below:—

(i) **Illegality.** Due to the adoption of, or any change in, any applicable law after the date on which a Transaction is entered into, or due to the promulgation of, or any change in, the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law after such date, it becomes unlawful (other than as a result of a breach by the party of Section 4(b)) for such party (which will be the Affected Party):—

(1) to perform any absolute or contingent obligation to make a payment or delivery or to receive a payment or delivery in respect of such Transaction or to comply with any other material provision of this Agreement relating to such Transaction; or

(2) to perform, or for any Credit Support Provider of such party to perform, any contingent or other obligation which the party (or such Credit Support Provider) has under any Credit Support Document relating to such Transaction;

(ii) **Tax Event.** Due to (x) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (y) a Change in Tax Law, the party (which will be the Affected Party) will, or there is a substantial likelihood that it will, on the next succeeding Scheduled Payment Date (1) be required to pay to the other party an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) or (2) receive a payment from which an amount is required to be deducted or withheld for or on account of a Tax (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) and no additional amount is required to be paid in respect of such Tax under Section 2(d)(i)(4) (other than by reason of Section 2(d)(i)(4)(A) or (B));

(iii) **Tax Event Upon Merger.** The party (the "Burdened Party") on the next succeeding Scheduled Payment Date will either (1) be required to pay an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) or (2) receive a payment from which an amount has been deducted or withheld for or on account of any Indemnifiable Tax in respect of which the other party is not required to pay an additional amount (other than by reason of Section 2(d)(i)(4)(A) or (B)), in either case as a result of a party consolidating or amalgamating with, or merging with or into, or transferring all or substantially all its assets to, another entity (which will be the Affected Party) where such action does not constitute an event described in Section 5(a)(viii);

(iv) **Credit Event Upon Merger.** If "Credit Event Upon Merger" is specified in the Schedule as applying to the party, such party ("X"), any Credit Support Provider of X or any applicable Specified Entity of X consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and such action does not constitute an event described in Section 5(a)(viii) but the creditworthiness of the resulting, surviving or transferee entity is materially weaker than that of X, such Credit Support Provider or such Specified Entity, as the case may be, immediately prior to such action (and, in such event, X or its successor or transferee, as appropriate, will be the Affected Party); or

(v) **Additional Termination Event.** If any "Additional Termination Event" is specified in the Schedule or any Confirmation as applying, the occurrence of such event (and, in such event, the Affected Party or Affected Parties shall be as specified for such Additional Termination Event in the Schedule or such Confirmation).

(c) **Event of Default and Illegality.** If an event or circumstance which would otherwise constitute or give rise to an Event of Default also constitutes an Illegality, it will be treated as an Illegality and will not constitute an Event of Default.

6. **Early Termination**

(a) **Right to Terminate Following Event of Default.** If at any time an Event of Default with respect to a party (the "Defaulting Party") has occurred and is then continuing, the other party (the "Non-defaulting Party") may, by not more than 20 days notice to the Defaulting Party specifying the relevant Event of Default, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all outstanding Transactions. If, however, "Automatic Early Termination" is specified in the Schedule as applying to a party, then an Early Termination Date in respect of all outstanding Transactions will occur immediately upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(1), (3), (5), (6) or, to the extent analogous thereto, (8), and as of the time immediately preceding the institution of the relevant proceeding or the presentation of the relevant petition upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(4) or, to the extent analogous thereto, (8).

(b) **Right to Terminate Following Termination Event.**

(i) **Notice.** If a Termination Event occurs, an Affected Party will, promptly upon becoming aware of it, notify the other party, specifying the nature of that Termination Event and each Affected Transaction and will also give such other information about that Termination Event as the other party may reasonably require.

(ii) **Transfer to Avoid Termination Event.** If either an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there is only one Affected Party, or if a Tax Event Upon Merger occurs and the Burdened Party is the Affected Party, the Affected Party will, as a condition to its right to designate an Early Termination Date under Section 6(b)(iv), use all reasonable efforts (which will not require such party to incur a loss, excluding immaterial, incidental expenses) to transfer within 20 days after it gives notice under Section 6(b)(i) all its rights and obligations under this Agreement in respect of the Affected Transactions to another of its Offices or Affiliates so that such Termination Event ceases to exist.

If the Affected Party is not able to make such a transfer it will give notice to the other party to that effect within such 20 day period, whereupon the other party may effect such a transfer within 30 days after the notice is given under Section 6(b)(i).

Any such transfer by a party under this Section 6(b)(ii) will be subject to and conditional upon the prior written consent of the other party, which consent will not be withheld if such other party's policies in effect at such time would permit it to enter into transactions with the transferee on the terms proposed.

(iii) **Two Affected Parties.** If an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there are two Affected Parties, each party will use all reasonable efforts to reach agreement within 30 days after notice thereof is given under Section 6(b)(i) on action to avoid that Termination Event.

(iv) **Right to Terminate. If:—**

(1) a transfer under Section 6(b)(ii) or an agreement under Section 6(b)(iii), as the case may be, has not been effected with respect to all Affected Transactions within 30 days after an Affected Party gives notice under Section 6(b)(i); or

(2) an Illegality under Section 5(b)(i)(2), a Credit Event Upon Merger or an Additional Termination Event occurs, or a Tax Event Upon Merger occurs and the Burdened Party is not the Affected Party.

either party in the case of an Illegality, the Burdened Party in the case of a Tax Event Upon Merger, any Affected Party in the case of a Tax Event or an Additional Termination Event if there is more than one Affected Party, or the party which is not the Affected Party in the case of a Credit Event Upon Merger or an Additional Termination Event if there is only one Affected Party may, by not more than 20 days notice to the other party and provided that the relevant Termination Event is then

continuing, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all Affected Transactions.

(c) **Effect of Designation.**

(i) If notice designating an Early Termination Date is given under Section 6(a) or (b), the Early Termination Date will occur on the date so designated, whether or not the relevant Event of Default or Termination Event is then continuing.

(ii) Upon the occurrence or effective designation of an Early Termination Date, no further payments or deliveries under Section 2(a)(i) or 2(e) in respect of the Terminated Transactions will be required to be made, but without prejudice to the other provisions of this Agreement. The amount, if any, payable in respect of an Early Termination Date shall be determined pursuant to Section 6(e).

(d) **Calculations.**

(i) **Statement.** On or as soon as reasonably practicable following the occurrence of an Early Termination Date, each party will make the calculations on its part, if any, contemplated by Section 6(e) and will provide to the other party a statement (1) showing, in reasonable detail, such calculations (including all relevant quotations and specifying any amount payable under Section 6(e)) and (2) giving details of the relevant account to which any amount payable to it is to be paid. In the absence of written confirmation from the source of a quotation obtained in determining a Market Quotation, the records of the party obtaining such quotation will be conclusive evidence of the existence and accuracy of such quotation.

(ii) **Payment Date.** An amount calculated as being due in respect of any Early Termination Date under Section 6(e) will be payable on the day that notice of the amount payable is effective (in the case of an Early Termination Date which is designated or occurs as a result of an Event of Default) and on the day which is two Local Business Days after the day on which notice of the amount payable is effective (in the case of an Early Termination Date which is designated as a result of a Termination Event). Such amount will be paid together with (to the extent permitted under applicable law) interest thereon (before as well as after judgment) in the Termination Currency, from (and including) the relevant Early Termination Date to (but excluding) the date such amount is paid, at the Applicable Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

(e) **Payments on Early Termination.** If an Early Termination Date occurs, the following provisions shall apply based on the parties' election in the Schedule of a payment measure, either "Market Quotation" or "Loss", and a payment method, either the "First Method" or the "Second Method". If the parties fail to designate a payment measure or payment method in the Schedule, it will be deemed that "Market Quotation" or the "Second Method", as the case may be, shall apply. The amount, if any, payable in respect of an Early Termination Date and determined pursuant to this Section will be subject to any Set-off.

(i) **Events of Default.** If the Early Termination Date results from an Event of Default:—

(1) **First Method and Market Quotation.** If the First Method and Market Quotation apply, the Defaulting Party will pay to the Non-defaulting Party the excess, if a positive number, of (A) the sum of the Settlement Amount (determined by the Non-defaulting Party) in respect of the Terminated Transactions and the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party over (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party.

(2) **First Method and Loss.** If the First Method and Loss apply, the Defaulting Party will pay to the Non-defaulting Party, if a positive number, the Non-defaulting Party's Loss in respect of this Agreement.

(3) **Second Method and Market Quotation.** If the Second Method and Market Quotation apply, an amount will be payable equal to (A) the sum of the Settlement Amount (determined by the

Non-defaulting Party) in respect of the Terminated Transactions and the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party less (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(4) *Second Method and Loss.* If the Second Method and Loss apply, an amount will be payable equal to the Non-defaulting Party's Loss in respect of this Agreement. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(ii) *Termination Events.* If the Early Termination Date results from a Termination Event:—

(1) *One Affected Party.* If there is one Affected Party, the amount payable will be determined in accordance with Section 6(e)(i)(3), if Market Quotation applies, or Section 6(e)(i)(4), if Loss applies, except that, in either case, references to the Defaulting Party and to the Non-defaulting Party will be deemed to be references to the Affected Party and the party which is not the Affected Party, respectively, and, if Loss applies and fewer than all the Transactions are being terminated, Loss shall be calculated in respect of all Terminated Transactions.

(2) *Two Affected Parties.* If there are two Affected Parties:—

(A) if Market Quotation applies, each party will determine a Settlement Amount in respect of the Terminated Transactions, and an amount will be payable equal to (I) the sum of (a) one-half of the difference between the Settlement Amount of the party with the higher Settlement Amount ("X") and the Settlement Amount of the party with the lower Settlement Amount ("Y") and (b) the Termination Currency Equivalent of the Unpaid Amounts owing to X less (II) the Termination Currency Equivalent of the Unpaid Amounts owing to Y; and

(B) if Loss applies, each party will determine its Loss in respect of this Agreement (or, if fewer than all the Transactions are being terminated, in respect of all Terminated Transactions) and an amount will be payable equal to one-half of the difference between the Loss of the party with the higher Loss ("X") and the Loss of the party with the lower Loss ("Y").

If the amount payable is a positive number, Y will pay it to X; if it is a negative number, X will pay the absolute value of that amount to Y.

(iii) *Adjustment for Bankruptcy.* In circumstances where an Early Termination Date occurs because "Automatic Early Termination" applies in respect of a party, the amount determined under this Section 6(e) will be subject to such adjustments as are appropriate and permitted by law to reflect any payments or deliveries made by one party to the other under this Agreement (and retained by such other party) during the period from the relevant Early Termination Date to the date for payment determined under Section 6(d)(ii).

(iv) *Pre-Estimate.* The parties agree that if Market Quotation applies an amount recoverable under this Section 6(e) is a reasonable pre-estimate of loss and not a penalty. Such amount is payable for the loss of bargain and the loss of protection against future risks and except as otherwise provided in this Agreement neither party will be entitled to recover any additional damages as a consequence of such losses.

7. Transfer

Subject to Section 6(b)(ii), neither this Agreement nor any interest or obligation in or under this Agreement may be transferred (whether by way of security or otherwise) by either party without the prior written consent of the other party, except that:—

- (a) a party may make such a transfer of this Agreement pursuant to a consolidation or amalgamation with, or merger with or into, or transfer of all or substantially all its assets to, another entity (but without prejudice to any other right or remedy under this Agreement); and
- (b) a party may make such a transfer of all or any part of its interest in any amount payable to it from a Defaulting Party under Section 6(e).

Any purported transfer that is not in compliance with this Section will be void.

8. Contractual Currency

(a) *Payment in the Contractual Currency.* Each payment under this Agreement will be made in the relevant currency specified in this Agreement for that payment (the "Contractual Currency"). To the extent permitted by applicable law, any obligation to make payments under this Agreement in the Contractual Currency will not be discharged or satisfied by any tender in any currency other than the Contractual Currency, except to the extent such tender results in the actual receipt by the party to which payment is owed, acting in a reasonable manner and in good faith in converting the currency so tendered into the Contractual Currency, of the full amount in the Contractual Currency of all amounts payable in respect of this Agreement. If for any reason the amount in the Contractual Currency so received falls short of the amount in the Contractual Currency payable in respect of this Agreement, the party required to make the payment will, to the extent permitted by applicable law, immediately pay such additional amount in the Contractual Currency as may be necessary to compensate for the shortfall. If for any reason the amount in the Contractual Currency so received exceeds the amount in the Contractual Currency payable in respect of this Agreement, the party receiving the payment will refund promptly the amount of such excess.

(b) *Judgments.* To the extent permitted by applicable law, if any judgment or order expressed in a currency other than the Contractual Currency is rendered (i) for the payment of any amount owing in respect of this Agreement, (ii) for the payment of any amount relating to any early termination in respect of this Agreement or (iii) in respect of a judgment or order of another court for the payment of any amount described in (i) or (ii) above, the party seeking recovery, after recovery in full of the aggregate amount to which such party is entitled pursuant to the judgment or order, will be entitled to receive immediately from the other party the amount of any shortfall of the Contractual Currency received by such party as a consequence of sums paid in such other currency and will refund promptly to the other party any excess of the Contractual Currency received by such party as a consequence of sums paid in such other currency if such shortfall or such excess arises or results from any variation between the rate of exchange at which the Contractual Currency is converted into the currency of the judgment or order for the purposes of such judgment or order and the rate of exchange at which such party is able, acting in a reasonable manner and in good faith in converting the currency received into the Contractual Currency, to purchase the Contractual Currency with the amount of the currency of the judgment or order actually received by such party. The term "rate of exchange" includes, without limitation, any premiums and costs of exchange payable in connection with the purchase of or conversion into the Contractual Currency.

(c) *Separate Indemnities.* To the extent permitted by applicable law, these indemnities constitute separate and independent obligations from the other obligations in this Agreement, will be enforceable as separate and independent causes of action, will apply notwithstanding any indulgence granted by the party to which any payment is owed and will not be affected by judgment being obtained or claim or proof being made for any other sums payable in respect of this Agreement.

(d) *Evidence of Loss.* For the purpose of this Section 8, it will be sufficient for a party to demonstrate that it would have suffered a loss had an actual exchange or purchase been made.

9. Miscellaneous

(a) *Entire Agreement.* This Agreement constitutes the entire agreement and understanding of the parties with respect to its subject matter and supersedes all oral communication and prior writings with respect thereto.

(b) *Amendments.* No amendment, modification or waiver in respect of this Agreement will be effective unless in writing (including a writing evidenced by a facsimile transmission) and executed by each of the parties or confirmed by an exchange of telexes or electronic messages on an electronic messaging system.

(c) *Survival of Obligations.* Without prejudice to Sections 2(a)(iii) and 6(c)(ii), the obligations of the parties under this Agreement will survive the termination of any Transaction.

(d) *Remedies Cumulative.* Except as provided in this Agreement, the rights, powers, remedies and privileges provided in this Agreement are cumulative and not exclusive of any rights, powers, remedies and privileges provided by law.

(e) *Counterparts and Confirmations.*

(i) This Agreement (and each amendment, modification and waiver in respect of it) may be executed and delivered in counterparts (including by facsimile transmission), each of which will be deemed an original.

(ii) The parties intend that they are legally bound by the terms of each Transaction from the moment they agree to those terms (whether orally or otherwise). A Confirmation shall be entered into as soon as practicable and may be executed and delivered in counterparts (including by facsimile transmission) or be created by an exchange of telexes or by an exchange of electronic messages on an electronic messaging system, which in each case will be sufficient for all purposes to evidence a binding supplement to this Agreement. The parties will specify therein or through another effective means that any such counterpart, telex or electronic message constitutes a Confirmation.

(f) *No Waiver of Rights.* A failure or delay in exercising any right, power or privilege in respect of this Agreement will not be presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise, of that right, power or privilege or the exercise of any other right, power or privilege.

(g) *Headings.* The headings used in this Agreement are for convenience of reference only and are not to affect the construction of or to be taken into consideration in interpreting this Agreement.

10. Offices; Multibranch Parties

(a) If Section 10(a) is specified in the Schedule as applying, each party that enters into a Transaction through an Office other than its head or home office represents to the other party that, notwithstanding the place of booking office or jurisdiction of incorporation or organisation of such party, the obligations of such party are the same as if it had entered into the Transaction through its head or home office. This representation will be deemed to be repeated by such party on each date on which a Transaction is entered into.

(b) Neither party may change the Office through which it makes and receives payments or deliveries for the purpose of a Transaction without the prior written consent of the other party.

(c) If a party is specified as a Multibranch Party in the Schedule, such Multibranch Party may make and receive payments or deliveries under any Transaction through any Office listed in the Schedule, and the Office through which it makes and receives payments or deliveries with respect to a Transaction will be specified in the relevant Confirmation.

11. Expenses

A Defaulting Party will, on demand, indemnify and hold harmless the other party for and against all reasonable out-of-pocket expenses, including legal fees and Stamp Tax, incurred by such other party by reason of the enforcement and protection of its rights under this Agreement or any Credit Support Document

to which the Defaulting Party is a party or by reason of the early termination of any Transaction, including, but not limited to, costs of collection.

12. Notices

(a) *Effectiveness.* Any notice or other communication in respect of this Agreement may be given in any manner set forth below (except that a notice or other communication under Section 5 or 6 may not be given by facsimile transmission or electronic messaging system) to the address or number or in accordance with the electronic messaging system details provided (see the Schedule) and will be deemed effective as indicated:—

- (i) if in writing and delivered in person or by courier, on the date it is delivered;
- (ii) if sent by telex, on the date the recipient's answerback is received;
- (iii) if sent by facsimile transmission, on the date that transmission is received by a responsible employee of the recipient in legible form (it being agreed that the burden of proving receipt will be on the sender and will not be met by a transmission report generated by the sender's facsimile machine);
- (iv) if sent by certified or registered mail (airmail, if overseas) or the equivalent (return receipt requested), on the date that mail is delivered or its delivery is attempted; or
- (v) if sent by electronic messaging system, on the date that electronic message is received,

unless the date of that delivery (or attempted delivery) or that receipt, as applicable, is not a Local Business Day or that communication is delivered (or attempted) or received, as applicable, after the close of business on a Local Business Day, in which case that communication shall be deemed given and effective on the first following day that is a Local Business Day.

(b) *Change of Addresses.* Either party may by notice to the other change the address, telex or facsimile number or electronic messaging system details at which notices or other communications are to be given to it.

13. Governing Law and Jurisdiction

(a) *Governing Law.* This Agreement will be governed by and construed in accordance with the law specified in the Schedule.

(b) *Jurisdiction.* With respect to any suit, action or proceedings relating to this Agreement ("Proceedings"), each party irrevocably:—

- (i) submits to the jurisdiction of the English courts, if this Agreement is expressed to be governed by English law, or to the non-exclusive jurisdiction of the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York City, if this Agreement is expressed to be governed by the laws of the State of New York; and
- (ii) waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings, that such court does not have any jurisdiction over such party.

Nothing in this Agreement precludes either party from bringing Proceedings in any other jurisdiction (outside, if this Agreement is expressed to be governed by English law, the Contracting States, as defined in Section 1(3) of the Civil Jurisdiction and Judgments Act 1982 or any modification, extension or re-enactment thereof for the time being in force) nor will the bringing of Proceedings in any one or more jurisdictions preclude the bringing of Proceedings in any other jurisdiction.

(c) *Service of Process.* Each party irrevocably appoints the Process Agent (if any) specified opposite its name in the Schedule to receive, for it and on its behalf, service of process in any Proceedings. If for any

reason any party's Process Agent is unable to act as such, such party will promptly notify the other party and within 30 days appoint a substitute process agent acceptable to the other party. The parties irrevocably consent to service of process given in the manner provided for notices in Section 12. Nothing in this Agreement will affect the right of either party to serve process in any other manner permitted by law.

(d) *Waiver of Immunities.* Each party irrevocably waives, to the fullest extent permitted by applicable law, with respect to itself and its revenues and assets (irrespective of their use or intended use), all immunity on the grounds of sovereignty or other similar grounds from (i) suit, (ii) jurisdiction of any court, (iii) relief by way of injunction, order for specific performance or for recovery of property, (iv) attachment of its assets (whether before or after judgment) and (v) execution or enforcement of any judgment to which it or its revenues or assets might otherwise be entitled in any Proceedings in the courts of any jurisdiction and irrevocably agrees, to the extent permitted by applicable law, that it will not claim any such immunity in any Proceedings.

14. Definitions

As used in this Agreement:—

"Additional Termination Event" has the meaning specified in Section 5(b).

"Affected Party" has the meaning specified in Section 5(b).

"Affected Transactions" means (a) with respect to any Termination Event consisting of an Illegality, Tax Event or Tax Event Upon Merger, all Transactions affected by the occurrence of such Termination Event and (b) with respect to any other Termination Event, all Transactions.

"Affiliate" means, subject to the Schedule, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose, "control" of any entity or person means ownership of a majority of the voting power of the entity or person.

"Applicable Rate" means:—

- (a) in respect of obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Defaulting Party, the Default Rate;
- (b) in respect of an obligation to pay an amount under Section 6(e) of either party from and after the date (determined in accordance with Section 6(d)(ii)) on which that amount is payable, the Default Rate;
- (c) in respect of all other obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Non-defaulting Party, the Non-default Rate; and
- (d) in all other cases, the Termination Rate.

"Burdened Party" has the meaning specified in Section 5(b).

"Change in Tax Law" means the enactment, promulgation, execution or ratification of, or any change in or amendment to, any law (or in the application or official interpretation of any law) that occurs on or after the date on which the relevant Transaction is entered into.

"consent" includes a consent, approval, action, authorisation, exemption, notice, filing, registration or exchange control consent.

"Credit Event Upon Merger" has the meaning specified in Section 5(b).

"Credit Support Document" means any agreement or instrument that is specified as such in this Agreement.

"Credit Support Provider" has the meaning specified in the Schedule.

"Default Rate" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the relevant payee (as certified by it) if it were to fund or of funding the relevant amount plus 1% per annum.

"Defaulting Party" has the meaning specified in Section 6(a).

"Early Termination Date" means the date determined in accordance with Section 6(a) or 6(b)(iv).

"Event of Default" has the meaning specified in Section 5(a) and, if applicable, in the Schedule.

"Illegality" has the meaning specified in Section 5(b).

"Indemnifiable Tax" means any Tax other than a Tax that would not be imposed in respect of a payment under this Agreement but for a present or former connection between the jurisdiction of the government or taxation authority imposing such Tax and the recipient of such payment or a person related to such recipient (including, without limitation, a connection arising from such recipient or related person being or having been a citizen or resident of such jurisdiction, or being or having been organised, present or engaged in a trade or business in such jurisdiction, or having or having had a permanent establishment or fixed place of business in such jurisdiction, but excluding a connection arising solely from such recipient or related person having executed, delivered, performed its obligations or received a payment under, or enforced, this Agreement or a Credit Support Document).

"Law" includes any treaty, law, rule or regulation (as modified, in the case of tax matters, by the practice of any relevant governmental revenue authority) and **"lawful"** and **"unlawful"** will be construed accordingly.

"Local Business Day" means, subject to the Schedule, a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) (a) in relation to any obligation under Section 2(a)(i), in the place(s) specified in the relevant Confirmation or, if not so specified, as otherwise agreed by the parties in writing or determined pursuant to provisions contained, or incorporated by reference, in this Agreement, (b) in relation to any other payment, in the place where the relevant account is located and, if different, in the principal financial centre, if any, of the currency of such payment, (c) in relation to any notice or other communication, including notice contemplated under Section 5(a)(i), in the city specified in the address for notice provided by the recipient and, in the case of a notice contemplated by Section 2(b), in the place where the relevant new account is to be located and (d) in relation to Section 5(a)(v)(2), in the relevant locations for performance with respect to such Specified Transaction.

"Loss" means, with respect to this Agreement or one or more Terminated Transactions, as the case may be, and a party, the Termination Currency Equivalent of an amount that party reasonably determines in good faith to be its total losses and costs (or gain, in which case expressed as a negative number) in connection with this Agreement or that Terminated Transaction or group of Terminated Transactions, as the case may be, including any loss of bargain, cost of funding or, at the election of such party but without duplication, loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position (or any gain resulting from any of them). Loss includes losses and costs (or gains) in respect of any payment or delivery required to have been made (assuming satisfaction of each applicable condition precedent) on or before the relevant Early Termination Date and not made, except, so as to avoid duplication, if Section 6(e)(i)(1) or (3) or 6(e)(ii)(2)(A) applies. Loss does not include a party's legal fees and out-of-pocket expenses referred to under Section 11. A party will determine its Loss as of the relevant Early Termination Date, or, if that is not reasonably practicable, as of the earliest date thereafter as is reasonably practicable. A party may (but need not) determine its Loss by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant markets.

"Market Quotation" means, with respect to one or more Terminated Transactions and a party making the determination, an amount determined on the basis of quotations from Reference Market-makers. Each quotation will be for an amount, if any, that would be paid to such party (expressed as a negative number) or by such party (expressed as a positive number) in consideration of an agreement between such party (taking into account any existing Credit Support Document with respect to the obligations of such party) and the quoting Reference Market-maker to enter into a transaction (the "Replacement Transaction") that would have the effect of preserving for such party the economic equivalent of any payment or delivery (whether the underlying obligation was absolute or contingent and assuming the satisfaction of each applicable condition precedent) by the parties under Section 2(a)(i) in respect of such Terminated Transaction or group of Terminated Transactions that would, but for the occurrence of the relevant Early Termination Date, have

been required after that date. For this purpose, Unpaid Amounts in respect of the Terminated Transaction or group of Terminated Transactions are to be excluded but, without limitation, any payment or delivery that would, but for the relevant Early Termination Date, have been required (assuming satisfaction of each applicable condition precedent) after that Early Termination Date is to be included. The Replacement Transaction would be subject to such documentation as such party and the Reference Market-maker may, in good faith, agree. The party making the determination (or its agent) will request each Reference Market-maker to provide its quotation to the extent reasonably practicable as of the same day and time (without regard to different time zones) on or as soon as reasonably practicable after the relevant Early Termination Date. The day and time as of which those quotations are to be obtained will be selected in good faith by the party obliged to make a determination under Section 6(e), and, if each party is so obliged, after consultation with the other. If more than three quotations are provided, the Market Quotation will be the arithmetic mean of the quotations, without regard to the quotations having the highest and lowest values. If exactly three such quotations are provided, the Market Quotation will be the quotation remaining after disregarding the highest and lowest quotations. For this purpose, if more than one quotation has the same highest value or lowest value, then one of such quotations shall be disregarded. If fewer than three quotations are provided, it will be deemed that the Market Quotation in respect of such Terminated Transaction or group of Terminated Transactions cannot be determined.

"Non-default Rate" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the Non-defaulting Party (as certified by it) if it were to fund the relevant amount.

"Non-defaulting Party" has the meaning specified in Section 6(a).

"Office" means a branch or office of a party, which may be such party's head or home office.

"Potential Event of Default" means any event which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

"Reference Market-makers" means four leading dealers in the relevant market selected by the party determining a Market Quotation in good faith (a) from among dealers of the highest credit standing which satisfy all the criteria that such party applies generally at the time in deciding whether to offer or to make an extension of credit and (b) to the extent practicable, from among such dealers having an office in the same city.

"Relevant Jurisdiction" means, with respect to a party, the jurisdictions (a) in which the party is incorporated, organised, managed and controlled or considered to have its seat, (b) where an Office through which the party is acting for purposes of this Agreement is located, (c) in which the party executes this Agreement and (d) in relation to any payment, from or through which such payment is made.

"Scheduled Payment Date" means a date on which a payment or delivery is to be made under Section 2(a)(i) with respect to a Transaction.

"Set-off" means set-off, offset, combination of accounts, right of retention or withholding or similar right or requirement to which the payer of an amount under Section 6 is entitled or subject (whether arising under this Agreement, another contract, applicable law or otherwise) that is exercised by, or imposed on, such payer.

"Settlement Amount" means, with respect to a party and any Early Termination Date, the sum of:—

(a) the Termination Currency Equivalent of the Market Quotations (whether positive or negative) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation is determined; and

(b) such party's Loss (whether positive or negative and without reference to any Unpaid Amounts) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation cannot be determined or would not (in the reasonable belief of the party making the determination) produce a commercially reasonable result.

"Specified Entity" has the meaning specified in the Schedule.

"Specified Indebtedness" means, subject to the Schedule, any obligation (whether present or future, contingent or otherwise, as principal or surety or otherwise) in respect of borrowed money.

"Specified Transaction" means, subject to the Schedule, (a) any transaction (including an agreement with respect thereto) now existing or hereafter entered into between one party to this Agreement (or any Credit Support Provider of such party or any applicable Specified Entity of such party) and the other party to this Agreement (or any Credit Support Provider of such other party or any applicable Specified Entity of such other party) which is a rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions), (b) any combination of these transactions and (c) any other transaction identified as a Specified Transaction in this Agreement or the relevant confirmation.

"Stamp Tax" means any stamp, registration, documentation or similar tax.

"Tax" means any present or future tax, levy, impost, duty, charge, assessment or fee of any nature (including interest, penalties and additions thereto) that is imposed by any government or other taxing authority in respect of any payment under this Agreement other than a stamp, registration, documentation or similar tax.

"Tax Event" has the meaning specified in Section 5(b).

"Tax Event Upon Merger" has the meaning specified in Section 5(b).

"Terminated Transactions" means with respect to any Early Termination Date (a) if resulting from a Termination Event, all Affected Transactions and (b) if resulting from an Event of Default, all Transactions (in either case) in effect immediately before the effectiveness of the notice designating that Early Termination Date (or, if "Automatic Early Termination" applies, immediately before that Early Termination Date).

"Termination Currency" has the meaning specified in the Schedule.

"Termination Currency Equivalent" means, in respect of any amount denominated in the Termination Currency, such Termination Currency amount and, in respect of any amount denominated in a currency other than the Termination Currency (the "Other Currency"), the amount in the Termination Currency determined by the party making the relevant determination as being required to purchase such amount of such Other Currency as at the relevant Early Termination Date, or, if the relevant Market Quotation or Loss (as the case may be), is determined as of a later date, that later date, with the Termination Currency at the rate equal to the spot exchange rate of the foreign exchange agent (selected as provided below) for the purchase of such Other Currency with the Termination Currency at or about 11:00 a.m. (in the city in which such foreign exchange agent is located) on such date as would be customary for the determination of such a rate for the purchase of such Other Currency for value on the relevant Early Termination Date or that later date. The foreign exchange agent will, if only one party is obliged to make a determination under Section 6(e), be selected in good faith by that party and otherwise will be agreed by the parties.

"Termination Event" means an Illegality, a Tax Event or a Tax Event Upon Merger or, if specified to be applicable, a Credit Event Upon Merger or an Additional Termination Event.

"Termination Rate" means a rate per annum equal to the arithmetic mean of the cost (without proof or evidence of any actual cost) to each party (as certified by such party) if it were to fund or of funding such amounts.

"Unpaid Amounts" owing to any party means, with respect to an Early Termination Date, the aggregate of (a) in respect of all Terminated Transactions, the amounts that became payable (or that would have become payable but for Section 2(a)(iii)) to such party under Section 2(a)(i) on or prior to such Early Termination Date and which remain unpaid as at such Early Termination Date and (b) in respect of each Terminated Transaction, for each obligation under Section 2(a)(i) which was (or would have been but for Section 2(a)(iii)) required to be settled by delivery to such party on or prior to such Early Termination Date and which has not been so settled as at such Early Termination Date, an amount equal to the fair market

value of that which was (or would have been) required to be delivered as of the originally scheduled date for delivery, in each case together with (to the extent permitted under applicable law) interest, in the currency of such amounts, from (and including) the date such amounts or obligations were or would have been required to have been paid or performed to (but excluding) such Early Termination Date, at the Applicable Rate. Such amounts of interest will be calculated on the basis of daily compounding and the actual number of days elapsed. The fair market value of any obligation referred to in clause (b) above shall be reasonably determined by the party obliged to make the determination under Section 6(e) or, if each party is so obliged, it shall be the average of the Termination Currency Equivalents of the fair market values reasonably determined by both parties.

IN WITNESS WHEREOF the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

.....
(Name of Party)

.....
(Name of Party)

By:
Name:
Title:
Date:

By:
Name:
Title:
Date:

SCHEDULE
to the
Master Agreement
dated as of «as_of_date»
between
MORGAN GUARANTY TRUST COMPANY OF NEW YORK ("Party A"),
a banking institution organized under the laws of
the State of New York
and

THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM ("Party B"),
the duly appointed governing body of The University of Texas System, a governmental
agency of the State of Texas

Part 1: Termination Provisions

In this Agreement:-

(a) **"Specified Entity"** means in relation to Party A for the purpose of:-

- Section 5(a)(v), Not applicable.
- Section 5(a)(vi), Not applicable.
- Section 5(a)(vii), Not applicable.
- Section 5(b)(iv), Not applicable.

and in relation to Party B for the purpose of:-

- Section 5(a)(v), Not applicable.
- Section 5(a)(vi), Not applicable.
- Section 5(a)(vii), Not applicable.
- Section 5(b)(iv), Not applicable.

(b) Section 5(a)(ii) is amended by adding "A" prior to the word "Failure" at the beginning of the subsection and adding the following at the end of the subsection following the word "party" but before the semicolon: "(B) failure by the party to comply with or perform any agreement or obligation under the Schedule or a Confirmation to deliver documents at execution of this Agreement of a Confirmation."

(c) **"Specified Transaction"** will have the meaning specified in Section 14 of this Agreement.

- (d) The "Cross Default" provisions of Section 5(a)(vi) will apply to Party A and will apply to Party B.

The following provisions apply:-

"Specified Indebtedness" will have the meaning specified in Section 14.

"Threshold Amount" means, in relation to Party A, an amount equal to 3 percent of its total stockholders' equity, and in relation to Party B, an amount equal to 3 percent of its net asset value (in each case, as specified in the most recently published or available financial statements of the party).

- (e) The "Credit Event Upon Merger" provisions of Section 5(b)(iv) will not apply to Party A and will apply to Party B.
- (f) The "Automatic Early Termination" provisions of Section 6(a) will apply to Party A and Party B.
- (g) **Payments on Early Termination.** For the purpose of Section 6(e) of this Agreement, Market Quotation and the First Method will apply.
- (h) "Termination Currency" means United States Dollars ("USD").
- (i) **Additional Termination Event** will apply to the extent set forth in a Confirmation.

Part 2: Agreement to Deliver Documents

For the purpose of Sections 4(a)(i) and (ii) of this Agreement, each party agrees to deliver the following documents, as applicable:-

Party required to deliver Section document	Form/Document/ Certificate	Covered Date by which by to be Delivered 3(d)
Party A	An opinion of counsel for Party A substantially in the form of Exhibit A to this Schedule.	Promptly after execution of this Agreement. Yes
Party A	An incumbency certificate with respect to the signatory of this Agreement.	Upon execution of this Agreement. Yes

Party A	Audited Annual Balance Sheet of Party A	After demand by Party B when copies are publicly available	No
Party B	An opinion of counsel for Party B substantially in the form of Exhibit B to this Schedule.	Promptly after execution of this Agreement.	Yes
Party B	An incumbency certificate with respect to the signatory of this Agreement.	Upon execution of this Agreement.	Yes
Party B	A certified copy of the resolution or resolutions (the "Authorizing Resolution") of Party B, furnished by Party B to certified by a secretary, or an assistant secretary of Party B, pursuant to which Party B is authorized to enter into this Agreement and each Transaction entered into under this Agreement.	Upon execution of this Agreement (unless an Authorizing Resolution has previously been Party A) and, with respect to each Transaction not covered by a previously-furnished Authorizing Resolution, within five (5) Business Days of the Trade Date.	Yes
Party A and Party B	The Credit Support Document specified in Part 3(f) of this Schedule.	Upon execution of this Agreement.	

Part 3: Miscellaneous

(a) **Addresses for Notices.** For the purpose of Section 12(a):-

Address for notices or communications to Party A:-

Address: Morgan Guaranty Trust Company of New York
60 Wall Street
New York, NY 10260

Attention: Global Swaps Unit

Telephone No. (212) 483-2323
Facsimile No: (212) 648-5922

Address for notices or communications to Party B:-

Address: The Board of Regents of The University of Texas System
201 West 7th Street
Austin, TX 78701

Attention: Office of Finance

Telephone No.: «cp_telephone»

Facsimile No.: 512-499-4367

For all purposes.

(b) **Process Agent.** For the purpose of Section 13(c):-

Party A appoints as its Process Agent Not applicable.

Party B appoints as its Process Agent Not applicable.

(c) **Offices.** The provisions of Section 10(a) will apply to this Agreement.

(d) **Multibranch Party.** For the purpose of Section 10(c) of this Agreement:-

Party A is a Multibranch Party and may act through its New York and London Offices.

Party B is not a Multibranch Party.

(e) **Calculation Agent.** The Calculation Agent is Party A, unless otherwise specified in a Confirmation in relation to the relevant Transaction.

(f) **Credit Support Document.** Subject to the "Contingent Collateralization" provisions set forth in Part 5(d) of this Schedule, the ISDA Credit Support Annex (New York Law, Security Interest Form) and supplementary "Paragraph 13 – Elections & Variables" thereto in the form of Exhibit C to this Schedule shall constitute a "Credit Support Document" in relation to each party, respectively, for all purposes of this Agreement.

(g) **Credit Support Provider.** Not Applicable.

(h) **Governing Law.** This Agreement will be governed by and construed in accordance with the laws of the State of Texas, except that Party A's rights, remedies and obligations hereunder shall be governed by and construed in accordance with the laws of the State of New York.

(i) **Jurisdiction.** Sections 13(b) and (d) will not apply to this Agreement.

(j) **Netting of Payments.** Subparagraph (ii) of Section 2(c) of this Agreement will not apply to any of the Transactions from the date of this Agreement.

- (k) "**Affiliate**" will have the meaning specified in Section 14 of this Agreement.
- (l) "**Covered Documents**" means the Master Resolution including particularly the Eighth Supplemental Resolution to the Master Resolution adopted by Party B.
- (m) "**Covered Documents Incorporation Date**" means the date of this Agreement.
- (n) "**Government Entity**" means Party B.
- (o) "Section 9(e)(ii) shall read as follows:

'A Confirmation may be executed and delivered in counterparts (including by facsimile transmission) or be created by an exchange of telexes or by an exchange of electronic messages on an electronic messaging system, which in each case will be sufficient for all purposes to evidence a binding supplement to this Agreement. The parties will specify therein or through another effective means that any such counterpart, telex or electronic message constitutes a Confirmation.'

Part 4: Other Provisions

Miscellaneous:

- (a) **Country of Domicile.** The country of domicile of Party A is the United States of America. The country of domicile of Party B is the United States of America.
- (b) **Confirmation.** Each Confirmation supplements, forms part of, and will be read and construed as one with, this Agreement. A form of Confirmation is set forth as Exhibit D hereto.
- (c) "**Stockholders' Equity**" means with respect to an entity, at any time, the sum at such time of (i) its capital stock (including preferred stock) outstanding, taken at par value, (ii) its capital surplus and (iii) its retained earnings, minus (iv) treasury stock, each to be determined in accordance with generally accepted accounting principles; or as otherwise provided in its balance sheet.
- (d) **Transfer.** Section 7 of the Agreement is hereby modified by inserting the following after the word "party" but before the comma in the third line thereof:

", provided, however, that such consent shall not be unreasonably withheld"
- (e) For purposes of Sections 2(d)(i)(4) and 3(f), any payee tax representation specified in a Confirmation under this Agreement shall be deemed to be specified in this Schedule.
- (f) **Trial By Jury.** Each party irrevocably waives any and all rights to trial by jury in any legal proceeding in connection with this Agreement or any Transaction.

- (g) **Accuracy of Specified Information.** Section 3(d) is hereby amended by adding in the third line thereof after the word “respect” and before the period the words “or, in the case of audited or unaudited financial statements or balance sheets, a fair presentation of the financial condition of the relevant person”.
- (h) **Definitions.** This Agreement, each Confirmation, and each Transaction are subject to the 1991 ISDA Definitions (including 1998 Supplement) as published by the International Swaps and Derivatives Association, Inc. as amended, supplemented, updated, restated, and superseded from time to time (the “Definitions”), and will be governed in all respects by the Definitions (except that references to “Swap Transactions” in the Definitions will be deemed to be references to “Transactions”). The Definitions as so modified, are incorporated by reference in, and made part of, this Agreement and each Confirmation as if set forth in full in this Agreement and such Confirmations. Subject to Section 1(b), in the event of any inconsistency between the provisions of this Agreement and the Definitions, this Agreement will prevail. Also, subject to Section 1(b), in the event of any inconsistency between the provisions of any Confirmation and this Agreement, or the Definitions, such Confirmation will prevail for the purpose of the relevant Transaction.
- (i) **Representations.** Section 3 is hereby amended by adding the following additional Subsections:

(g) **No Agency.** It is entering into this Agreement and each Transaction as principal (and not as agent or in any other capacity, fiduciary or otherwise).

(h) **Eligible Swap Participant.** It is an “eligible swap participant” as defined in the Part 35 Regulations of the U.S. Commodity Futures Trading Commission.

(i) **No Reliance.** In connection with the negotiation of, the entering into, and the confirming of the execution of, this Agreement, any Credit Support Document to which it is a party, and each Transaction: (i) it has consulted with its own legal, regulatory, tax, business, investment, financial, and accounting advisors to the extent it has deemed necessary, and it has made its own investment, hedging, and trading decisions based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by the other party (other than the representations of such other party expressly set forth in this Agreement and the legal opinions delivered on behalf of such other party pursuant to this Agreement); (ii) it has determined that the rates, prices, or amounts and other terms of each Transaction and the indicative quotations (if any) provided by the other party reflect those in the relevant market for similar transactions, and all trading decisions have been the result of arm's length negotiations between the parties; and (iii) it is entering into this Agreement, such Credit Support Document, and such Transaction with a full understanding of all of the risks

hereof and thereof (economic and otherwise), and it is capable of assuming and willing to assume (financially and otherwise) those risks.

(j) **Powers.** It has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and any other documentation relating to this Agreement that it is required by this Agreement to deliver and to perform its obligations under this Agreement and any obligations it has under any Credit Support Document to which it is a party and has taken all necessary action and made all necessary determinations and findings to authorize such execution, delivery and performance

(k) **Absence of Certain Events.** No Event of Default or Potential Event of Default or, to its knowledge, Incipient Illegality (in the case of a Government Entity) or Termination Event with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement or any Credit Support Document to which it is a party.

(l) **Non-Speculation.** This Agreement has been, and each Transaction hereunder will be (and, if applicable, has been), entered into for purposes of managing its borrowings or investments and not for purposes of speculation but solely in connection with the financing activities activities of Party B, for the purpose of effectively hedging with respect to interest on all or a portion of certain of Party B's debt from a fixed rate to a floating rate, or from a floating rate to a fixed rate, and therefore optimizing the relative amounts of fixed and floating rate obligations or the risk of variations in its debt service costs, and by increasing the predictability of cash flow from earnings on invested funds and thereby improving Party B's ability to manage its funds and revenues.

(m) **Assets of Counterparty.** No Affiliate or other person, firm, corporation, entity or association may liquidate, borrow, encumber or otherwise utilize the assets of Party B, other than as provided in the Master Resolution.

(n) **Organization.** Party B is the governing body of the University System, a governmental agency of the State of Texas.

PART 5: Agreements

(a) **Source of Payments.** Party B agrees that its obligations hereunder are, and until the termination of this Agreement pursuant to the terms hereof shall remain special obligations of Party B secured by and payable from a first lien on and pledge of Pledged Revenues.

(b) **Compliance with Covered Documents.** The Government Entity will observe, perform and fulfill each provision in the Covered Documents applicable to such Government Entity in effect on

the Covered Documents Incorporation Date, as any of those provisions may be amended, supplemented or modified for purposes of this Agreement with the prior written consent of the other party hereto (the "Incorporated Provisions"), with the effect that such other party hereto will have the benefit of each of the Incorporated Provisions (including without limitation, covenants, right to consent to certain actions subject to consent under the Covered Documents and delivery of financial statements and other notices and information). In the event the Covered Documents ceases to be in effect prior to the termination of this Agreement, the Incorporated Provisions (other than those provisions requiring payments in respect of bonds, notes, warrants or other similar instruments issued under the Covered Documents) will remain in full force and effect for purposes of this Agreement as though set forth herein until such date on which all of the obligations of the Government Entity under this Agreement and any obligations of the Government Entity or any Credit Support Provider of the Government Entity under a Credit Support Document have been fully satisfied. The Incorporated Provisions are hereby incorporated by reference and made a part of this Agreement to the same extent as if such provisions were set forth herein. For purposes of this Agreement, the Incorporated Provisions shall be construed as though (i) all references therein to any party making loans, extensions of credit or financial accommodations thereunder or commitments therefor (the "Financings") were to the other party hereto and (ii) to the extent that such Incorporated Provisions are conditioned on or relate to the existence of such Financings or the Government Entity having any obligations in connection therewith, all references to such Financings or obligations were to the obligations of the Government Entity under this Agreement. Any amendment, supplement, modification or waiver of any of the Incorporated Provisions without the prior written consent of the other party hereto shall have no force and effect with respect to this Agreement. Any amendment, supplement or modification for which such consent is obtained shall be part of the Incorporated Provisions for purposes of this Agreement.

(c) **Definitions.** Section 12 of this Agreement is hereby amended to add the following definitions in their appropriate alphabetical order:—

" **'Authorizing Law'** means Chapter 55, Texas Education Code and Vernon's Annotated Texas Civil Statutes, Article 717q, as amended."

" **'Bonds'** means any bonds, notes, certificates or other indebtedness or securities identified in a Confirmation for a Transaction."

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

" **'Consolidated Financial Statements'** means in respect of Party B, a copy of the annual report of Party B relating to the University System containing unaudited consolidated financial statements for Party B's fiscal year, prepared in accordance with the Texas Comptroller of Public Accounts Annual Financial Reporting Requirements and on a basis consistent with prior periods.

" **'Covered Documents'** has the meaning specified in Part 3(l) of the Schedule."

" **'Covered Documents Incorporation Date'** has the meaning specified in Part 3(m) of the Schedule."

“ ***Default Rate***’ means a rate per annum determined in accordance with the Federal Funds Rate Option plus the Default Spread, using a rate reset daily; provided, however, that, with respect to amounts payable by Party B, the Default Rate shall not exceed the maximum rate allowed by law, as determined by Vernon’s Annotated Texas Civil Statutes, Article 717k-2, as amended.

“ ***Default Spread***’ means 1% per annum.

“ ***Federal Funds Floating Rate Option***’ means for any given day, the rate set forth in H.15(519) for that day opposite caption “Federal Funds Rate (Effective)”. If such rate is not yet published in H.15(519), the rate will be the rate set forth in Composite 3:30 P.M. Quotations for U.S. Government Securities for that day under the caption “Federal Funds/Effective Rate.” If on the Calculation Date the appropriate rate for that day is not yet published in either H.15(519) or Composite 3:30 P.M. Quotations for U.S. Government Securities, the rate for that day will be determined as if the parties had specified “Federal Funds (Reference Dealers)” as the applicable Floating Rate Option.

“ ***Government Entity***’ has the meaning specified in Part 3(n) of the Schedule.”

“ ***Incipient Illegality***’ means (a) the enactment by any legislative body with competent jurisdiction over a Government Entity of legislation which, if adopted as law, would render unlawful (i) the performance by such Government Entity of any absolute or contingent obligation to make a payment or delivery or to receive a payment or delivery in respect of a Transaction or the compliance by such Government Entity with any other material provision of this Agreement relating to such Transaction or (ii) the performance by a Government Entity or a Credit Support Provider of such Government Entity of any contingent or other obligation which the Government Entity (or such Credit Support Provider) has under any Credit Support Document relating to such Transaction, (b) any assertion in any proceeding, forum or action by a Government Entity, in respect of such Government Entity or in respect of any entity located or organized under the laws of the state in which such Government Entity is located to the effect that performance under this Agreement or similar agreements is unlawful or (c) the occurrence with respect to a Government Entity or any Credit Support Provider of such Government Entity of any event that constitutes an Illegality.”

“ ***Master Resolution***’ means the First Amended and Restated Master Resolution establishing The University of Texas System Revenue Financing System adopted by Party B on February 14, 1991, as amended on October 8, 1993 and August 14, 1997 and each Supplemental Resolution thereto authorizing Parity Debt.

“ ***Parity Debt***’ means Parity Debt as defined in the Master Resolution.

“ ***Pledged Revenues***’ means Pledged Revenues as defined in the Master Resolution.

“ *System* ’ means The University of Texas System Revenue Financing System established in the Master Resolution.

“ *University System* ’ means the University of Texas System.

(d) **Contingent Collateralization.** The parties agree that if at any time the rating assigned to the long-term unsecured and unsubordinated indebtedness of either party should cease to be rated at least AA- or Aa3 (as determined by Standard & Poor’s Corporation or Moody’s Investor Services, Inc., respectively, whereby, in the case of incomparable ratings, the party shall have the benefit of the higher rating) or should the party cease to be rated by either agency, then the obligations of the relevant party under this Agreement shall be secured upon the terms of an ISDA Credit Support Annex (New York Law Security Interest form) (as published by the International Swaps and Derivatives Association, Inc., 1994) upon such terms as the parties may at such time agree and specify in a “Paragraph 13 – Elections & Variables” supplement to the ISDA Credit Support Annex.

(e) **Scope of Agreement.** Notwithstanding anything contained in the Agreement to the contrary, any transaction which may otherwise constitute a “Specified Transaction” for purposes of this Agreement which has been or will be entered into between the parties shall constitute a “Transaction” which is subject to, governed by, and construed in accordance with the terms of this Agreement, provided that no Confirmation with respect to any Transaction entered into after the execution of this Agreement shall indicate otherwise.

(f) **Setoff.** Without limiting the rights of set-off otherwise available by operation of law, the parties agree to hereby incorporate by reference the “Basic Set-off Provision” set forth in Section V(A) of the ISDA User’s Guide (as published by the International Swaps and Derivatives Association, Inc., 1993).

(g) **Inapplicable Provisions.** The parties agree that Sections 3(e) and (f), Sections 5(b)(ii) and (iii), and Section 6(b)(ii) of the Agreement shall not apply.

The parties executing this Schedule have executed the Master Agreement and have agreed as to the contents of this Schedule.

**MORGAN GUARANTY TRUST COMPANY
OF NEW YORK**

By: _____
Name:
Title
Date:

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

By: _____

Name:

Title

Date:

EXHIBIT A to Schedule

[Form of Opinion of Counsel for
MORGAN GUARANTY TRUST COMPANY OF NEW YORK.]

[Date]

[Addressed to Party B]

Dear Ladies/Gentlemen:

This opinion is furnished to you in connection with the ISDA Master Agreement between Morgan Guaranty Trust Company of New York ("Party A") and [Counterparty] (the "Party B") dated as of [date] (the "Agreement"). Terms defined in the Agreement and used but not defined herein have the meanings given to them in the Agreement.

I am Vice President and Assistant General Counsel of Morgan and have represented Morgan in connection with the Agreement and the transactions contemplated thereby. In connection with the delivery of this opinion, I have examined (a) executed copies of the Agreement and (b) copies, certified or otherwise identified to my satisfaction, of such documents, corporate records, certificates of public officials and other instruments, and have conducted such investigation of fact and law, as I have deemed necessary or appropriate for the opinions expressed herein. In rendering the opinions expressed below, I have assumed the due authorization, execution and delivery of the Agreement by each of the parties thereto other than Morgan and I have assumed and have not verified that the signatures (other than signatures of officers of Morgan) on all documents that I have examined are genuine.

Based on the foregoing, I am of the opinion that:

- (1) Morgan is a banking corporation, duly organized, validly existing and in good standing under the laws of the State of New York.
- (2) Morgan has full corporate power and authority to execute and deliver the Agreement and to perform its obligations thereunder and the Agreement has been duly authorized, executed and delivered by Morgan.
- (3) No consents, authorizations or approvals are required for the execution and delivery by Morgan of the Agreement and the performance of its obligations thereunder, and no other action by, and no notice to or filing with, any governmental authority or regulatory body is required for such execution, delivery or performance.

(4) The execution, delivery and performance by Morgan of the Agreement do not and will not contravene any law or governmental regulation or order presently binding on Morgan or its articles of incorporation or bylaws or contravene any provision of or constitute a default under any indenture, contract or other instrument to which Morgan is a party or by which Morgan is bound.

(5) The Agreement constitutes the legal, valid and binding obligation of Morgan enforceable in accordance with its terms (except as enforcement thereof may be limited by bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally and by general equitable principles).

With respect to clause (5) above, I express no opinion regarding the legality, validity, binding effect or enforceability of Section 6(e) of the Agreement insofar as it purports to obligate a party, on termination of the Agreement, to pay an amount in excess of that measured by the lowest quotation from a Reference Market-maker. In addition, in connection with any such Early Termination on the grounds of default, a court might limit the non-defaulting party's recovery to its actual damages in the circumstances, imposing its own settlement procedures in lieu of the provisions of Section 6(e) of the Agreement.

I am a member of the bar of the State of New York and the opinions expressed herein are limited to the laws of the State of New York and the Federal laws of the United States of America.

I am furnishing this letter to you in my capacity as Counsel for Morgan and this opinion may not be relied upon by or furnished to any other person without my prior written consent.

Very truly yours,

EXHIBIT B to Schedule

[Form of Opinion of Counsel for PARTY B]

EXHIBIT C to Schedule

“Paragraph 13 - Elections & Variables”

to the

ISDA CREDIT SUPPORT ANNEX

to the Schedule to the

ISDA Master Agreement

dated as of _____

between

Morgan Guaranty Trust
Company of New York
("Party A")

and

The Board of Regents of the
University of Texas System
("Party B")

The terms of this ISDA Credit Support Annex is subject to the "Contingent Collateralization" provision set forth in Part 5(d) of the Schedule to the Agreement.

Paragraph 13. Elections and Variables

- (a) **Security Interest for "Obligations".** The term "Obligations" as used in this Annex includes no additional obligations.
- (b) **Credit Support Obligations.**
 - (i) **"Delivery Amount," "Return Amount," and "Credit Support Amount".**
 - (A) "Delivery Amount" will have the meaning specified in Paragraph 3(a).
 - (B) "Return Amount" will have the meaning specified in Paragraph 3(b).
 - (C) "Credit Support Amount" will have the meaning specified in Paragraph 3(b).
 - (ii) **Eligible Collateral.** The following items will qualify as "Eligible Collateral" in relation to each party as Pledgor (as indicated by an "[X]") subject to the Valuation Percentages specified below (except that the Valuation Percentage shall be 100% as applicable to all Eligible Collateral for any Valuation Date which is an Early Termination Date under the Agreement).

	"Valuation Percentage"
(A) Cash	[100]%
(B) Negotiable debt obligations issued by the U.S. Treasury Department having an original maturity at issuance of not more than one year ("Treasury Bills")	[98]%
(C) Negotiable debt obligations issued by the U.S. Treasury Department having an original maturity at issuance of more than one year but not more than ten years ("Treasury Notes")	[95]%
(D) negotiable debt obligations issued by the U.S. Treasury Department having an original maturity at issuance of more than ten years ("Treasury Bonds")	[95]%
(E) Other: Agency Securities having an original maturity at issuance of not more than ten years.	[98]%
Agency Securities having an original maturity at issuance of more than ten years.	[95]%

As used herein, "Agency Securities" means negotiable debt obligations which are fully guaranteed as to both principal and interest by the Federal National Mortgage Association, the Government National Mortgage Corporation or the Federal Home Loan Mortgage Corporation, but excluding (i) interest only and principal only securities and (ii) Collateralized Mortgage Obligations, Real Estate Mortgage Investment Conduits and similar derivative securities.

- (iii) **Other Eligible Support.** There shall be no "Other Eligible Support" in relation to either party for purposes of this Annex.
- (iv) **Thresholds.**
- (A) **"Independent Amount"** shall not apply for purposes of this Annex, unless specified in a Confirmation.
- (B) **"Threshold"** means \$0.
- (C) **"Minimum Transfer Amount"** means \$100,000, provided, however, that if an Event of Default has occurred and is continuing with respect to a party, the Minimum Transfer Amount with respect to such party shall be \$0.

(D) **Rounding.** The Delivery Amount and the Return Amount will be rounded up and down respectively to the nearest integral multiple of \$10,000.

(c) **Valuation and Timing.**

(i) **"Valuation Agent"** means the party making the demand under Paragraph 3, unless there has occurred and is continuing any Event of Default, Potential Event of Default or Termination Event with respect to such party, in such case the other party shall be the Valuation Agent.

(ii) **"Valuation Date"** means any Local Business Day.

(iii) **"Valuation Time"** means the close of business in the city of the Valuation Agent on the Valuation Date or date of calculation, as applicable; provided that the calculations of Value and Exposure will be made as of approximately the same time on the same date.

(iv) **"Notification Time"** means by 1:00 p.m., New York time, on a Local Business Day.

(d) **Conditions Precedent.** An Illegality (as defined in the Agreement) (if such party is the Affected Party with respect to such Termination Event) will be a "Specified Condition

(e) **Substitution.**

(i) **"Substitution Date"** has the meaning specified in Paragraph 4(d)(ii).

(ii) **Consent.** Not Applicable.

(f) **Dispute Resolution.**

(i) **"Resolution Time"** means 1:00 p.m., New York time, on the Local Business Day following the date on which notice is given that gives rise to a dispute under Paragraph 5.

(ii) **Value.** For the purpose of Paragraphs 5(i)(C) and 5(ii), the Value of Posted Credit Support other than Cash will be calculated as follows:

Treasury Bills, Treasury Notes, Treasury Bonds or Agency Securities (referred to herein as "Government Obligations"), shall have the value of the sum of (I) (x) the mean of the high bid and low asked prices quoted on such date by any principal market maker for such Government Obligations chosen by the Disputing Party, or (y) if no quotations are available from a principal market maker for such date, the mean of such high bid and low asked prices as of the day, next preceding such date, on which such quotations were available, plus (II) the accrued interest on such Government Obligations (except to the extent Transferred to a party pursuant to any applicable

provision of this Agreement or included in the applicable price referred to in (I) of this clause (A) as of such date.

(iii) The provisions of Paragraph 5(i) will apply

(g) **Holding and Using Posted Collateral.**

(i) **Eligibility to Hold Posted Collateral; Custodians.** Morgan will be entitled to hold Posted Collateral itself or by a Custodian pursuant to Paragraph 6(b), provided that the following conditions applicable to it are satisfied:

(A) Morgan is not a Defaulting Party.

(B) The Custodian is a Bank (as defined in the Federal Deposit Insurance Act) whose Long Term Debt Rating (meaning, the rating assigned by either Standard & Poor's Ratings Group ("S&P") or Moody's Investor Services, Inc. ("Moody's"), respectively, to its long term, unsecured and unsubordinated indebtedness) is at least BBB+/Baa1.

The Counterparty will be entitled to hold Posted Collateral itself or by a Custodian pursuant to Paragraph 6(b), provided that the following conditions applicable to it are satisfied:

(A) The Counterparty is not a Defaulting Party.

(B) The Custodian is a Bank (as defined in the Federal Deposit Insurance Act) whose Long Term Debt Rating (meaning, the rating assigned by either Standard & Poor's Ratings Group ("S&P") or Moody's Investor Services, Inc. ("Moody's"), respectively, to its long term, unsecured and unsubordinated indebtedness) is at least BBB+/Baa1.

(ii) **Use of Posted Collateral.** The provisions of Paragraph 6(c) will not apply to Morgan or the Counterparty.

(h) **Distributions and Interest Amount.**

(i) **Interest Rate.** Not Applicable.

(ii) **Transfer of Interest Amount.** Not Applicable.

(iii) **Alternative to Interest Amount.** The provisions of Paragraph 6(d)(ii) will apply.

(i) **Additional Representations.**

None.

(j) Other Eligible Support and Other Posted Support.

- (i) "Value" shall have no meaning in relation to either party with respect to Other Eligible Support and Other Posted Support.
- (ii) "Transfer" shall have no meaning in relation to either party with respect to Other Eligible Support and Other Posted Support.

(k) Demands and Notices; Addresses for Transfers..

All demands, specifications and notices made by a party to this Annex will be made pursuant to the Notices Section of this Agreement, unless otherwise specified here:

In relation to Party A:

Morgan Guaranty Trust Company of New York
 Collateral Operations Department
 36th Floor
 60 Wall Street
 New York, N.Y. 10260-0060
 Attention: Susan McGillion
 Telephone: (212) 648 4603]

In relation to Party B:

Board of Regents of the University of Texas System

Attention: _____

Telephone No.: _____

Fax No.: _____

(l) Other Provisions.

The provisions of this ISDA Credit Support Annex are subject to the "Contingent Collateralization" provision set forth in Part 5(d) of the Schedule to the Agreement.

Please confirm your agreement to the terms of the foregoing "Paragraph 13 – Elections & Variables" supplement to the ISDA Credit Support Annex (New York Law, Security Interest Form) by signing below.

**MORGAN GUARANTY TRUST COMPANY
OF NEW YORK**

By: _____
Name:
Title
Date:

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

By: _____
Name:
Title:
Date:

Swap Transaction

Date: TBD

The purpose of this letter agreement is to confirm the terms and conditions of the Transaction entered into between:

MORGAN GUARANTY TRUST COMPANY OF NEW YORK

and

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

on the Trade Date and identified by the Morgan Deal Number specified below (the 'Transaction'). This letter agreement constitutes a 'Confirmation' as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 1991 ISDA Definitions subject to the 1998 ISDA Supplement (as published by the International Swap Dealers Association, Inc.) are incorporated into this Confirmation. In the event of any inconsistency between those definitions and provisions and this Confirmation, this Confirmation will govern.

This Confirmation represents an amendment and restatement of any prior documents or other confirming communications between the parties with respect to the Transaction.

Morgan Guaranty Trust Company of New York is, together with other United Kingdom listed institutions, subject to the Bank of England's Code of Conduct. In connection therewith, this and certain future wholesale money market transactions will be outside the Financial Services Act, but you will have the benefit of the Code of Conduct.

1. This Confirmation supplements, forms part of, and is subject to, the ISDA Master Agreement dated as of [TBD], as amended and supplemented from time to time (the 'Agreement'), between MORGAN GUARANTY TRUST COMPANY OF NEW YORK ('Morgan') and BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM (the 'Counterparty'). All provisions contained in the Agreement govern this Confirmation except as expressly modified below.

2. The terms of the particular Transaction to which this Confirmation relates are as follows:

Morgan Deal Number:

Trade Date:

TBD

Effective Date:

(TBD), subject to adjustment in accordance with the Modified Following Business Day Convention

Termination Date:

(TBD), subject to adjustment in accordance with the Modified Following Business Day Convention

Unwind Provision.

The parties acknowledge that the Counterparty may request the termination of this Transaction at any time prior to its stated maturity where an Event of Default or Termination Event has not occurred in relation to either party under the Agreement, where for such purposes, Morgan will provide the Counterparty with a quotation determined by Morgan in its sole discretion at which it would agree to terminate the Transaction, which the Counterparty may accept or reject in its discretion.

Fixed Amounts:

Fixed Rate Payer:

Counterparty

Notional Amount:

(TBD) (Amortizing per Attachment A)

Fixed Rate Payer Payment Dates:

Each (TBD) up to, and including, the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention and there will be an adjustment to the Calculation Period.

Fixed Rate:

TBD

Fixed Rate Day Count Fraction:

30/360

Floating Amounts:

Floating Rate Payer:

Morgan

Floating Rate Payer Payment Dates:

Each (TBD) up to, and including, the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention and there will be an adjustment to the Calculation Period.

JPMorgan

Floating Rate ("Actual Rate"):

Actual Rate on the Bonds remarketed by (TBD), as Remarketing Agent (the "Remarketing Agent") provided, however, that if an Alternative Index Event has occurred, Morgan shall have the right upon notice to Counterparty to convert the Floating Rate to the Alternative Floating Rate plus 0.0% (0 basis points), such conversion to be effective as of the date on which such Alternative Index Event occurred. Morgan's exercise of this right shall not preclude the Floating Rate from converting or reconverting the Floating Rate at any time from the Alternative Floating Rate plus 0.0% to the Actual Rate upon direction by the Counterparty if the Alternative Index Event ceases at any time thereafter. In such case, Morgan shall continue to have the right to convert the Floating Rate to the Alternative Floating Rate again in the event an Alternative Index Event occurs. The Counterparty shall give or cause to be given to Morgan written notice of the (i) amount of interest to accrue on the Bonds during each Calculation Period to Morgan promptly following the Remarketing Agent's determination of the interest rate to accrue on the Bonds for the balance of the Calculation Period and (ii) the Floating Rate promptly following each determination thereof.

Alternative Floating Rate

Municipal Swap Index, as defined below:

"Municipal Swap Index" means The Bond Market Association Municipal Swap Index™ (formerly, the PSA Municipal Swap Index™), as defined in the *ISDA 1992 Municipal Counterparties Definitions* (the "1992 Definitions"); provided, however, that if The Bond Market Association Municipal Swap Index™ is no longer available, the Municipal Swap Index shall be deemed to be the Kenny Index™ (as defined in the 1992 Definitions), and provided, further, however, that if the Kenny Index™ is no longer available, Morgan, in consultation with the Counterparty, will select or calculate a comparable index (which comparable index shall reflect taxable bond rates in the event a legislative or regulatory change has the effect of eliminating tax-exempt bonds) which shall be deemed to be the Municipal Swap Index.

Designated Maturity:

1 Week

Spread:

N/A

Floating Rate Day Count Fraction:

Actual/Actual

JP Morgan

Refix Day:	Weekly on each Tuesday for value Wednesday in the case of the Actual Rate and Weekly on each Wednesday for value Thursday in the case of the Alternative Floating Rate.
Method of Averaging	Daily Weighted Average
Compounding:	Inapplicable
Alternative Index Events	<p>The occurrence of any of the following shall constitute an "Alternative Index Event"</p> <ul style="list-style-type: none">a. The credit rating on the Bonds (not Counterparty's general obligation credit rating) is below or falls below either AA- by Standard and Poor's ("S&P") or Aa3 by Moody's Investors Service ("Moody's") or such rating is withdrawn.b. The rating assigned to the Counterparty's unenhanced senior obligations is withdrawn, is below or falls below BBB+ by S&P or Baa1 by Moody's.c. The Bonds are Board-held Bonds.d. An Event of Default or Termination Event shall have occurred with respect to the Counterparty under the Agreement or the Bonds, and is continuing after any applicable grace period has elapsed.e. The Counterparty has not replaced the Remarketing Agent(s) with respect to the Bonds within 45 days after being requested to do so by Morgan.f. The interest on the Bonds is subject to either United States or Texas income tax, or legislation is introduced which would make the Bonds subject to either United States or Texas income tax, and such action in the reasonable opinion of Morgan in consultation with the Counterparty has materially impacted the trading performance of the Bonds.g. The aggregate outstanding principal amount of the Bonds in a Weekly Mode is less than \$10,000,000.i. The Bonds are not in a Weekly Mode.

JPMorgan

Notice of Alternative Index Events

Upon the occurrence of an Alternative Index Event, the Counterparty will, promptly upon becoming aware of the same, notify Morgan thereof, specifying the nature of such event.

The Counterparty will also give such other information to Morgan with regard to such event as Morgan may reasonably request.

The Counterparty agrees to give notice to Morgan of any Mode Change no less than fifteen (15) Business Days prior to the occurrence thereof but in no event later than notice thereof is given to Bondholders.

Mode Change Request

A written notice from Morgan to the Counterparty requesting the Counterparty to change the Mode on the Bonds to a Weekly Mode or a Daily Mode in each case as specified by Morgan in the relevant Mode Change Request.

It is agreed in connection with the foregoing that:

- (i) Morgan shall not be entitled to deliver more than four Mode Change Requests in any calendar year; and
- (ii) Morgan shall bear any up front costs and expenses associated with any changes in the Mode of the Bonds and the Counterparty shall retain any reduction or increase in ongoing fees, costs, or expenses associated with the ongoing remarketing of the Bonds after a Mode Change Request.

Payment Business Day Locations for Counterparty:

London, New York

Payment Business Day Locations for Morgan:

London, New York

Payments will be:

Net

3. Account Details

Payments to Morgan:

Account for payments in USD: Morgan Guaranty Trust Co of New York
23 Wall St
New York

Favour: Morgan Guaranty Trust Co of New York -
London Office

ABA/Bank No.:
Account No.: 670 07 054
Reference: Further Credit to Swaps Group Account:
10005035
Please send MT 100 cover cable to MGT London

Payments to Counterparty:

Account for payments in USD:

Favour:
ABA/Bank No.:
Account No.:
Reference:

4. Offices

- (a) The Office of Morgan for the Swap Transaction is LONDON; and
- (b) The Office of the Counterparty for the Swap Transaction is TBD..

All enquiries regarding payments and/or rate resettings only should be sent to:

**Morgan Guaranty Trust Company of New York
60 Victoria Embankment
London. EC4Y 0JP**

**Attention: Derivatives Processing Center
Telephone: 011 44 171 325 3783
Facsimile: 011 44 171 325 7400
Telex: 896631 MGT G
Cable: Morganbank**

Please quote the Morgan Deal Number indicated above.

All enquiries regarding confirmations should be sent to:

**Morgan Guaranty Trust Company of New York
60 Wall Street
New York, New York 10260**

**Attention: Amy Harris
Telephone: 1-212-648-3510
Facsimile: 1-212-648-5117**

Please quote the Morgan Deal Number indicated above.

JPMorgan

JPMorgan

JP MORGAN SECURITIES INCORPORATED is acting solely as agent for Morgan and will have no obligations under this Transaction.

Each party represents that (i) it is entering into the transaction evidenced hereby as principal (and not as agent or in any other capacity); (ii) the other party is not acting as a fiduciary for it; (iii) it is not relying upon any representations except those expressly set forth in the Agreement or this Confirmation; (iv) it has consulted with its own legal, regulatory, tax, business, investment, financial, and accounting advisors to the extent it has deemed necessary, and it has made its own investment, hedging, and trading decisions based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by the other party; and (v) it is entering into this transaction with a full understanding of the terms, conditions and risks thereof and it is capable of and willing to assume those risks.

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing a copy of this Confirmation and returning it to us or by sending to us a letter, telex or facsimile substantially similar to this letter, which letter, telex or facsimile sets forth the material terms of the Transaction to which this Confirmation relates and indicates agreement to those terms. When referring to this Confirmation, please indicate: Morgan Deal Number: TBD.

Yours sincerely,

JP MORGAN SECURITIES INCORPORATED,
as Agent for and signing on behalf of:

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK

By:
Name:
Title:

Confirmed as of the
date first above written:

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

By: _____
Name:
Title:

JPMorgan

Exhibit A- Notional Amount

<u>From and</u> <u>Including</u>	<u>To but</u> <u>Excluding</u>	<u>Notional</u>
-------------------------------------	-----------------------------------	-----------------

Swap Transaction

Date: TBD

The purpose of this letter agreement is to confirm the terms and conditions of the Transaction entered into between:

MORGAN GUARANTY TRUST COMPANY OF NEW YORK

and

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

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This Confirmation represents an amendment and restatement of any prior documents or other confirming communications between the parties with respect to the Transaction.

Morgan Guaranty Trust Company of New York is, together with other United Kingdom listed institutions, subject to the Bank of England's Code of Conduct. In connection therewith, this and certain future wholesale money market transactions will be outside the Financial Services Act, but you will have the benefit of the Code of Conduct.

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2. The terms of the particular Transaction to which this Confirmation relates are as follows:

Morgan Deal Number:

Trade Date:

TBD

Effective Date:

TBD, subject to adjustment in accordance with the Modified Following Business Day Convention

Termination Date:

TBD, subject to adjustment in accordance with the Modified Following Business Day Convention

JP Morgan

Unwind Provision.

The parties acknowledge that the Counterparty may request the termination of this Transaction at any time prior to its stated maturity where an Event of Default or Termination Event has not occurred in relation to either party under the Agreement, where for such purposes, Morgan will provide the Counterparty with a quotation determined by Morgan in its sole discretion at which it would agree to terminate the Transaction, which the Counterparty may accept or reject in its discretion.

Fixed Amounts:

Fixed Rate Payer:

Counterparty

Notional Amount:

TBD (Amortizing per Attachment A)

Fixed Rate Payer Payment Dates:

Each (TBD) up to, and including, the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention and there will be an adjustment to the Calculation Period.

Fixed Rate:

TBD

Fixed Rate Day Count Fraction:

30/360

Floating Amounts:

Floating Rate Payer:

Morgan

Notional Amount:

TBD (Amortizing per Attachment A)

Floating Rate Payer Payment Dates:

Each (TBD) up to, and including, the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention and there will be an adjustment to the Calculation Period.

Floating Rate Option:

Municipal Swap Index (as defined below)

Designated Maturity:

1 Week

Spread:

None

Floating Rate Day Count Fraction:

Actual/Actual

Reset Dates:

Weekly on each Wednesday for value Thursday

Compounding:

Inapplicable

Method of Averaging:

Daily Weighted Average

Municipal Swap Index Definition:

"Municipal Swap Index" means the BMA Municipal Swap IndexTM (formerly, the PSA Municipal Swap IndexTM), as defined in the *ISDA 1992 Municipal Counterparties Definitions* (the "1992 Definitions"); provided, however, that if the BMA Municipal Swap IndexTM is no longer available, the Municipal Swap Index shall be deemed to be the Kenny IndexTM (as defined in the 1992 Definitions), and provided, further, however, that if the Kenny IndexTM is no longer available, Morgan, in consultation with the Counterparty, will select or calculate a comparable index (which comparable index shall reflect taxable bond rates in the event a legislative or regulatory change has the effect of eliminating tax-exempt bonds) which shall be deemed to be the Municipal Swap Index.

Payment Business Day Locations for Counterparty: London, New York

Payment Business Day Locations for Morgan: London, New York

Payments will be: Net

3. Account Details

Payments to Morgan:

Account for payments in USD: Morgan Guaranty Trust Co of New York
23 Wall St
New York

Favour: Morgan Guaranty Trust Co of New York -
London Office

ABA/Bank No.:
Account No.: 670 07 054
Reference: Further Credit to Swaps Group Account:
10005035
Please send MT 100 cover cable to MGT London

Payments to Counterparty:

Account for payments in USD:

Favour:
ABA/Bank No.:
Account No.:
Reference:

4. Offices

- (a) The Office of Morgan for the Swap Transaction is LONDON; and
- (b) The Office of the Counterparty for the Swap Transaction is TBD..

All enquiries regarding payments and/or rate resettings only should be sent to:

**Morgan Guaranty Trust Company of New York
60 Victoria Embankment
London. EC4Y 0JP**

JPMorgan

Attention: Derivatives Processing Center
Telephone: 011 44 171 325 3783
Facsimile: 011 44 171 325 7400
Telex: 896631 MGT G
Cable: Morganbank

Please quote the Morgan Deal Number indicated above.

All enquiries regarding confirmations should be sent to:

Morgan Guaranty Trust Company of New York
60 Wall Street
New York, New York 10260

Attention: Amy Harris

Telephone: 1-212-648-3510
Facsimile: 1-212-648-5117

Please quote the Morgan Deal Number indicated above.

JP Morgan

JP MORGAN SECURITIES INCORPORATED is acting solely as agent for Morgan and will have no obligations under this Transaction.

Each party represents that (i) it is entering into the transaction evidenced hereby as principal (and not as agent or in any other capacity); (ii) the other party is not acting as a fiduciary for it; (iii) it is not relying upon any representations except those expressly set forth in the Agreement or this Confirmation; (iv) it has consulted with its own legal, regulatory, tax, business, investment, financial, and accounting advisors to the extent it has deemed necessary, and it has made its own investment, hedging, and trading decisions based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by the other party; and (v) it is entering into this transaction with a full understanding of the terms, conditions and risks thereof and it is capable of and willing to assume those risks.

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing a copy of this Confirmation and returning it to us or by sending to us a letter, telex or facsimile substantially similar to this letter, which letter, telex or facsimile sets forth the material terms of the Transaction to which this Confirmation relates and indicates agreement to those terms. When referring to this Confirmation, please indicate: Morgan Deal Number: TBD.

Yours sincerely,

JP MORGAN SECURITIES INCORPORATED,
as Agent for and signing on behalf of:

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK

By:
Name:
Title:

Confirmed as of the
date first above written:

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

By: _____
Name:
Title:

Exhibit A - Notional Amount

<u>From and</u> <u>Including</u>	<u>To but</u> <u>Excluding</u>	<u>Notional</u>
-------------------------------------	-----------------------------------	-----------------

Swap Transaction

Date: TBD

The purpose of this letter agreement is to confirm the terms and conditions of the Transaction entered into between:

MORGAN GUARANTY TRUST COMPANY OF NEW YORK

and

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

on the Trade Date and identified by the Morgan Deal Number specified below (the 'Transaction'). This letter agreement constitutes a 'Confirmation' as referred to in the ISDA Master Agreement specified below.

The definitions and provisions contained in the 1991 ISDA Definitions subject to the 1998 ISDA Supplement (as published by the International Swap Dealers Association, Inc.) are incorporated into this Confirmation. In the event of any inconsistency between those definitions and provisions and this Confirmation, this Confirmation will govern.

This Confirmation represents an amendment and restatement of any prior documents or other confirming communications between the parties with respect to the Transaction.

Morgan Guaranty Trust Company of New York is, together with other United Kingdom listed institutions, subject to the Bank of England's Code of Conduct. In connection therewith, this and certain future wholesale money market transactions will be outside the Financial Services Act, but you will have the benefit of the Code of Conduct.

1. This Confirmation supplements, forms part of, and is subject to, the ISDA Master Agreement dated as of [TBD], as amended and supplemented from time to time (the 'Agreement'), between MORGAN GUARANTY TRUST COMPANY OF NEW YORK ('Morgan') and BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM (the 'Counterparty'). All provisions contained in the Agreement govern this Confirmation except as expressly modified below.

2. The terms of the particular Transaction to which this Confirmation relates are as follows:

Morgan Deal Number:

Trade Date:

TBD

Effective Date:

(TBD), subject to adjustment in accordance with the Modified Following Business Day Convention

Termination Date:

(TBD), subject to adjustment in accordance with the Modified Following Business Day Convention

JPMorgan

Unwind Provision.

The parties acknowledge that the Counterparty may request the termination of this Transaction at any time prior to its stated maturity where an Event of Default or Termination Event has not occurred in relation to either party under the Agreement, where for such purposes, Morgan will provide the Counterparty with a quotation determined by Morgan in its sole discretion at which it would agree to terminate the Transaction, which the Counterparty may accept or reject in its discretion.

Fixed Amounts:

Fixed Rate Payer:

Counterparty

Notional Amount:

(TBD) (Amortizing per Attachment A)

Fixed Rate Payer Payment Dates:

Each (TBD) up to, and including, the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention and there will be an adjustment to the Calculation Period.

Fixed Rate:

TBD

Fixed Rate Day Count Fraction:

30/360

Floating Amounts:

Floating Rate Payer:

Counterparty

Notional Amount:

(TBD) (Amortizing per Attachment A)

Floating Rate Payer Payment Dates:

Each (TBD) up to, and including, the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention and there will be an adjustment to the Calculation Period.

Floating Rate for Initial Calculation Period:

TBD (Excluding Spread where applicable)

Floating Rate Option:

(TBD)% of USD-LIBOR-BBA

Designated Maturity:

3 Month

Spread:

None

Floating Rate Day Count Fraction:

Actual/360

Reset Dates:

The first day of each Calculation Period.

Compounding:

Inapplicable

JPMorgan

Payment Business Day Locations for Counterparty: London, New York

Payment Business Day Locations for Morgan: London, New York

Payments will be: Net

3. Account Details

Payments to Morgan:

Account for payments in USD: Morgan Guaranty Trust Co of New York
23 Wall St
New York

Favour: Morgan Guaranty Trust Co of New York -
London Office

ABA/Bank No.:
Account No.: 670 07 054
Reference: Further Credit to Swaps Group Account:
10005035
Please send MT 100 cover cable to MGT London

Payments to Counterparty:

Account for payments in USD:

Favour:
ABA/Bank No.:
Account No.:
Reference:

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- (a) The Office of Morgan for the Swap Transaction is LONDON; and
- (b) The Office of the Counterparty for the Swap Transaction is TBD..

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60 Victoria Embankment
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**Attention: Derivatives Processing Center
Telephone: 011 44 171 325 3783
Facsimile: 011 44 171 325 7400
Telex: 896631 MGT G
Cable: Morganbank**

Please quote the Morgan Deal Number indicated above.

JPMorgan

All enquiries regarding confirmations should be sent to:

Morgan Guaranty Trust Company of New York
60 Wall Street
New York, New York 10260

Attention: Amy Harris

Telephone: 1-212-648-3510

Facsimile: 1-212-648-5117

Please quote the Morgan Deal Number indicated above.

JP Morgan

JP MORGAN SECURITIES INCORPORATED is acting solely as agent for Morgan and will have no obligations under this Transaction.

Each party represents that (i) it is entering into the transaction evidenced hereby as principal (and not as agent or in any other capacity); (ii) the other party is not acting as a fiduciary for it; (iii) it is not relying upon any representations except those expressly set forth in the Agreement or this Confirmation; (iv) it has consulted with its own legal, regulatory, tax, business, investment, financial, and accounting advisors to the extent it has deemed necessary, and it has made its own investment, hedging, and trading decisions based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by the other party; and (v) it is entering into this transaction with a full understanding of the terms, conditions and risks thereof and it is capable of and willing to assume those risks.

Please confirm that the foregoing correctly sets forth the terms of our agreement by executing a copy of this Confirmation and returning it to us or by sending to us a letter, telex or facsimile substantially similar to this letter, which letter, telex or facsimile sets forth the material terms of the Transaction to which this Confirmation relates and indicates agreement to those terms. When referring to this Confirmation, please indicate: Morgan Deal Number: TBD.

Yours sincerely,

JP MORGAN SECURITIES INCORPORATED,
as Agent for and signing on behalf of:

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK

By:
Name:
Title:

Confirmed as of the
date first above written:

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

By: _____
Name:
Title:

JPMorgan

Exhibit A- Notional Amount

<u>From and</u> <u>Including</u>	<u>To but</u> <u>Excluding</u>	<u>Notional</u>
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PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned 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, (the "Master Resolution"), adopted by the U. T. Board of Regents ("Board") on February 14, 1991, and amended on October 8, 1993, and August 14, 1997, do hereby execute this certificate for the benefit of the Board pursuant to Section 5(a)(ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity Debt" to refund outstanding debt, and do certify that to the best of my knowledge, the Board is in compliance with and not in default of any terms, provisions, and conditions in the Master Resolution, the First Supplemental Resolution Establishing the Revenue Financing System Commercial Paper Program, ("First Supplemental"), the Second Supplemental Resolution, the Third Supplemental Resolution, the Fourth Supplemental Resolution, the Fifth Supplemental Resolution, the Sixth Supplemental Resolution, and the Seventh Supplemental Resolution.

EXECUTED this 5 day of January, 1999



Assistant Vice Chancellor for Finance

4. U. T. Pan American: Request for Approval to Sell the Residential Property Located at 1200 South Sugar Road, Edinburg, Hidalgo County, Texas, and Authorization to Execute All Documents Related Thereto.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for Academic Affairs, and President Nevarez that authorization be given for the U. T. System Real Estate Office, on behalf of U. T. Pan American, to sell the residential property located at 1200 South Sugar Road in Edinburg, Hidalgo County, Texas. The property will be marketed through a local real estate firm and sold for the best offer at or above its appraised value.

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 to take all such further actions deemed necessary or desirable to carry out the purpose and intent of the foregoing recommendation.

BACKGROUND INFORMATION

The subject property was acquired by Pan American College (now U. T. Pan American) on February 4, 1966, and a house was constructed on the property in May 1968. The property consists of a four-bedroom, three and one-half bath house containing approximately 5,012 gross square feet of living area on 5.0 acres.

This residential property has been utilized as the official residence of the President of U. T. Pan American since 1968.

5. U. T. Pan American: Request for Approval to Purchase Real Property Located at 1201 West Schunior Street, Edinburg, Hidalgo County, Texas, and Authorization to Execute All Documents Related Thereto.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for Academic Affairs, and President Nevarez that authorization be given for the U. T. System Real Estate Office, on behalf of U. T. Pan American, to purchase the real property located at 1201 West Schunior Street in Edinburg, Hidalgo County, Texas, at its appraised fair market value.

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 to take all such further actions deemed necessary or desirable to carry out the purpose and intent of the foregoing recommendation.

BACKGROUND INFORMATION

The subject property consists of a 4,368 gross square foot church and classroom building. The site contains approximately 31,500 square feet of land including a parking lot of approximately 30 parking spaces.

The property is located within the boundaries of an area targeted by U. T. Pan American for future campus expansion and within the legislatively-authorized area specified by House Bill 2564 which was approved by the Texas Legislature during its 75th session.

INFORMATIONAL REPORTS

1. U. T. System: Discussion of the December 1998 Monthly Financial Report.--

REPORT

Mr. R. D. Burck, Executive Vice Chancellor for Business Affairs, will discuss the December 1998 Monthly Financial Report for the U. T. System.

2. U. T. System: Presentation on the 1998 Cost Savings Report.--

REPORT

A presentation on the U. T. System 1998 Cost Savings Report will be made by Mr. R. D. Burck, Executive Vice Chancellor for Business Affairs.

3. U. T. System: Annual Presentation of the Reporting Package for the Board of Regents.--

REPORT

Mr. R. D. Burck, Executive Vice Chancellor for Business Affairs, will report to the U. T. Board of Regents on the information contained in the updated U. T. System "Reporting Package for the Board of Regents." Information provided in the report includes financial, investment, and research data for the U. T. System institutions

covering a five-year period ending August 31, 1998. The report also includes faculty, employee, and student demographics extending from the Fall 1994 through the Fall 1998 Semester. A copy of the "Reporting Package for the Board of Regents" is on file in the Office of the Board of Regents.

4. U. T. System: Progress Report on the Institutional Compliance Initiative.--

REPORT

Mr. R. D. Burck, Executive Vice Chancellor for Business Affairs, will present a progress report on the Institutional Compliance Initiative.

Academic Affairs Committee

ACADEMIC AFFAIRS COMMITTEE
Committee Chairman Lebermann

Date: February 11, 1999
Time: Following the Meeting of the Business Affairs and Audit Committee
Place: Frank C. Erwin, Jr. Atrium, Eighth Floor, Lyndon Baines Johnson
Library and Museum, 2313 Red River Street, U. T. Austin

	<u>Page</u> <u>AAC</u>
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2. U. T. Arlington and U. T. Dallas: Request for Authorization to Charge Nonresident Tuition Rates to Graduate Students Exceeding 99 Doctoral Hours (Catalog Change)	3
3. U. T. Austin: Request for Authorization to Conduct a Private Fund-Raising Campaign for the Benefit of the IC ² (Innovation, Creativity, Capital) Institute (Regents' <u>Rules and Regulations</u> , Part One, Chapter VII, Section 2, Subsection 2.4, Subdivision 2.44)	4
4. U. T. Austin: Presentation of Resolution of Appreciation	5
5. U. T. Dallas: Request for Authorization to Establish a Bachelor of Arts Degree in Gender Studies and to Submit the Proposed Degree Program to the Coordinating Board for Approval (Catalog Change)	6

1. U. T. System: Request for Authorization to Submit Core Curricula in Excess of 42 Semester Credit Hours to the Coordinating Board on Behalf of the Component Institutions.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and the Vice Chancellor for Academic Affairs that:

- a. The appropriate Executive Vice Chancellor or Vice Chancellor be authorized to review and approve on behalf of the U. T. Board of Regents all institutional core curricula in excess of 42 semester credit hours for the U. T. System components
- b. The appropriate Executive Vice Chancellor or Vice Chancellor be authorized to submit, on behalf of the component institutions and the U. T. Board of Regents, such core curricula to the Texas Higher Education Coordinating Board for review and approval.

This item requires the concurrence of the Health Affairs Committee.

BACKGROUND INFORMATION

In July 1998, the Texas Higher Education Coordinating Board adopted revised Rules and Regulations (Chapter 5, Subchapter S, Section 5.403) concerning core curricula in excess of 42 semester credit hours. The new rules require that such core curricula have prior approval of an institution's Board of Regents before submission to the Coordinating Board. The rules further require that the institution provide a narrative justifying the need of a larger core curriculum, that the larger core curriculum is consistent with the institution's role and mission, and that a proposed upper-division core course cannot be substantially comparable in content or depth of study to a lower-division course listed in the "Texas Common Course Numbering System."

To streamline the process, it is recommended that the U. T. Board of Regents delegate authority to approve core curricula requests requiring Coordinating Board approval to the appropriate Executive Vice Chancellor or Vice Chancellor so that the requests from U. T. System institutions may be promptly forwarded to the Coordinating Board.

U. T. Permian Basin is the first institution to submit a request for approval of a core curriculum in excess of 42 semester credit hours under the new Coordinating Board rules. Upon delegation of approval authority by the U. T. Board of Regents, the Vice Chancellor for Academic Affairs will submit U. T. Permian Basin's request for a core curriculum of 44 semester credit hours to the Coordinating Board for review and approval.

2. U. T. Arlington and U. T. Dallas: Request for Authorization to Charge Nonresident Tuition Rates to Graduate Students Exceeding 99 Doctoral Hours (Catalog Change).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Vice Chancellor for Academic Affairs and Presidents Witt and Jenifer that the U. T. Board of Regents authorize U. T. Arlington and U. T. Dallas to charge a tuition rate that is higher than the regular tuition rate but that does not exceed the statutory nonresident tuition rate to graduate students who accumulate in excess of 99 doctoral hours. Such tuition rates would apply only to graduate students who enroll under the Summer 1999 or subsequent catalogs at U. T. Arlington, and graduate students who enroll under the Fall 1999 or subsequent catalogs at U. T. Dallas.

Upon approval by the U. T. Board of Regents, the next appropriate catalogs published at U. T. Arlington and U. T. Dallas will be amended to reflect this action.

BACKGROUND INFORMATION

Section 54.066 of the Texas Education Code, which was passed by the 75th Texas Legislature in 1997, authorizes the governing board of an institution of higher education to charge a resident doctoral student tuition at the rate charged a nonresident doctoral student if the resident student has more semester credit hours of doctoral work than allowed for purposes of state funding for the current state fiscal biennium. Section 61.059(l) of the Texas Education Code, also enacted in 1997, directs the Coordinating Board to withhold formula funding, with certain exceptions, for doctoral students who have a total of 100 or more semester credit hours of doctoral work at an institution of higher education.

The proposed authorization to allow U. T. Arlington and U. T. Dallas to charge nonresident tuition rates for doctoral hours in excess of 99 will permit those component institutions to recover a portion of the lost formula funding. The U. T. Board of Regents authorized U. T. Austin to charge similar rates at the November 1998 meeting.

3. U. T. Austin: Request for Authorization to Conduct a Private Fund-Raising Campaign for the Benefit of the IC² (Innovation, Creativity, Capital) Institute (Regents' Rules and Regulations, Part One, Chapter VII, Section 2, Subsection 2.4, Subdivision 2.44).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Vice Chancellor for Academic Affairs and President Faulkner that authorization be given for U. T. Austin to conduct a private fund-raising campaign for the benefit of the IC² (Innovation, Creativity, Capital) Institute, pursuant to the Regents' Rules and Regulations, Part One, Chapter VII, Section 2, Subsection 2.4, Subdivision 2.44, relating to private fund-raising campaigns.

BACKGROUND INFORMATION

Founded in 1977, the IC² Institute at U. T. Austin has established an outstanding national and global reputation as a unique and nontraditional center for research and educational excellence. Its mission is to discover, explain, test, and disseminate breakthrough knowledge that accelerates wealth creation and prosperity sharing. The Institute's activities consist of applications research, pioneering educational programs, and activities to foster development of technology-based businesses globally and in Austin.

The primary initiative of the proposed campaign at U. T. Austin is to support a plan to allocate land on the west tract of the U. T. Austin Pickle Campus for a new facility for the IC² Institute. The campaign goal is to raise approximately \$25,000,000 for the new IC² facility and programming to include an allocation of up to 25 acres for a building, parking, and possible future expansion. The IC² Institute's operations are self-supporting and the Institute receives no State appropriations.

4. U. T. Austin: Presentation of Resolution of Appreciation.--

RESOLUTION OF APPRECIATION

WHEREAS, Through the efforts of two great Texans, The University of Texas at Austin has received an invaluable chronicle of life in early Texas, as well as an eyewitness account of the most celebrated military engagement in the history of our State--the memoir of Lieutenant Colonel Jose Enrique de la Pena;

WHEREAS, This contribution will further enhance the reputation and usefulness of the University's scholarly collections, including the most extensive compilation in existence of original manuscripts, maps, books, and newspapers documenting the history of Texas;

WHEREAS, The commitment of these two Texans to expanding human knowledge and the historical record of our State's illustrious past resulted in their generous bid for the de la Pena memoir at a spirited auction; and

WHEREAS, The University vows to make the permanent home of the de la Pena memoir on Texas soil--always and forever.

NOW, THEREFORE BE IT RESOLVED, That the members of the Board of Regents of The University of Texas System commend and extend utmost gratitude to two great citizens of Texas and friends of the University, Charles W. Tate and Thomas O. Hicks; and be it further

RESOLVED, That originals of this Resolution be presented to Charles W. Tate and Thomas O. Hicks as a token of esteem and the gratitude of the Board, The University of Texas System, The University of Texas at Austin, and the people of Texas, and that a copy of this Resolution be placed in the Minutes of this meeting as a testament to the generosity, devotion to scholarship, and support of the University demonstrated by Charles W. Tate and Thomas O. Hicks.

5. U. T. Dallas: Request for Authorization to Establish a Bachelor of Arts Degree in Gender Studies and to Submit the Proposed Degree Program to the Coordinating Board for Approval (Catalog Change).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Vice Chancellor for Academic Affairs and President Jenifer that authorization be granted to establish a Bachelor of Arts degree in Gender Studies at U. T. Dallas and to submit the proposal to the Texas Higher Education Coordinating Board for approval. The proposed degree program is consistent with U. T. Dallas' Table of Programs as approved by the U. T. Board of Regents and with institutional plans for offering quality degree programs to meet student needs. A description of the degree program is included in the background information of this agenda item.

Upon approval by the Coordinating Board, the next appropriate catalog published at U. T. Dallas will be amended to reflect this action.

BACKGROUND INFORMATION

U. T. Dallas proposes to offer a Bachelor of Arts degree in Gender Studies. The program is distinguished from traditional women's studies programs in its interdisciplinary, policy-oriented focus. Gender studies will address the historical, psychological, and sociocultural origins of past and present gender arrangements and the institutions that support them. It will illuminate the effects of gender in the arts, the sciences, technology, the economy, business, and religion.

The program will draw upon many existing courses in the current course inventory. Only four new core courses will be established.

Need and Student Demand

It is anticipated that gender studies would enroll 15 students each year for the first three years and 20 to 25 students for each of the fourth and fifth years. This enrollment projection is based on inquiries received from area high schools and community colleges concerning the availability of a gender-related major.

Program Quality

U. T. Dallas already offers a rich array of gender-related courses taught by recognized scholars. The new courses will be developed by current faculty members who hold tenured positions. Part-time lecturers will be employed to teach courses now being taught by those tenured faculty members to allow the tenured faculty to devote time to developing and teaching the new courses.

Cost

The estimated additional cost to offer this program is \$172,000. This modest incremental cost is associated with adding four additional core courses.

Summary

U. T. Dallas proposes to establish a Bachelor of Arts degree in Gender Studies. The program will utilize existing courses plus four new core courses, at a total program development cost expected to be less than \$175,000. Well recognized faculty scholars will teach in the program.

A copy of the proposal for the Bachelor of Arts degree in Gender Studies at U. T. Dallas is on file in the U. T. System Office of Academic Affairs.

Health Affairs Committee

HEALTH AFFAIRS COMMITTEE
Committee Chairman Loeffler

Date: February 11, 1999
Time: Following the Meeting of the Academic Affairs Committee
Place: Frank C. Erwin, Jr. Atrium, Eighth Floor, Lyndon Baines Johnson
Library and Museum, 2313 Red River Street, U. T. Austin

	<u>Page</u> <u>HAC</u>
1. U. T. System: Recommendation to Amend Article V, Section 4, Subsection R of The University of Texas System Professional Medical Liability Benefit Plan	2
2. U. T. System: Request for Authorization to Submit to the Coordinating Board Revised Mission Statements for U. T. Health Science Center - Houston and U. T. Health Science Center - San Antonio and Revised Consolidated Table of Programs for U. T. Health Institutions	3
3. U. T. Health Science Center - San Antonio: Request for Authorization to Establish a Cooperative Master of Physical Therapy (MPT) Degree in Physical Therapy with U. T. Pan American and to Submit the Proposed Degree Program to the Coordinating Board for Approval (Catalog Change)	11

1. U. T. System: Recommendation to Amend Article V, Section 4, Subsection R of The University of Texas System Professional Medical Liability Benefit Plan.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and the Vice Chancellor and General Counsel that Article V, Section 4, Subsection R of The University of Texas System Professional Medical Liability Benefit Plan be amended as set forth below in congressional style:

ARTICLE V COVERAGE OF PARTICIPANTS

....

Section 4 - - Exclusions

The System will not defend or pay under this coverage for:

....

- R. Any claim arising out of professional services where the professional services were billed for by the participant and were not deposited in a System health component practice plan trust or affiliated foundation or certified not-for-profit corporation as approved by the U. T. Board of Regents;

.....

BACKGROUND INFORMATION

Pursuant to the authority of Chapter 59 of the Texas Education Code, the U. T. Board of Regents adopted the Professional Medical Liability Self-Insurance Plan to provide medical liability coverage for certain medical staff and medical students of the U. T. System effective April 1, 1977.

Effective February 12, 1998, the U. T. Board of Regents rescinded The University of Texas System Plan for Professional Medical Liability Self-Insurance and adopted The University of Texas System Professional Medical Liability Benefit Plan. The basic Plan document was revised by the law firm of Davis and Wilkerson to incorporate changes in Texas insurance law since the Plan's inception and to clarify certain ambiguous sections of the Plan.

The Plan document, as adopted on February 12, 1998, inadvertently omitted the correct wording of Article V, Section 4, Subsection R, and the purpose of this proposed amendment is to correct that omission.

2. U. T. System: Request for Authorization to Submit to the Coordinating Board Revised Mission Statements for U. T. Health Science Center - Houston and U. T. Health Science Center - San Antonio and Revised Consolidated Table of Programs for U. T. Health Institutions.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and Presidents Low and Howe that authorization be granted for U. T. System Administration to submit to the Texas Higher Education Coordinating Board revised Mission Statements and Table of Programs which are consistent with the respective component institutions' long-range strategic plans and newly assigned responsibilities relating to the implementation of the Lower Rio Grande Valley Regional Academic Health Center and the U. T. Public Health School – Houston Satellite in Brownsville. The revised Mission Statements for the U. T. Health Science Center – Houston and the U. T. Health Science Center – San Antonio and the consolidated Table of Programs for the U. T. health institutions are shown on Pages HAC 6 - 10.

BACKGROUND INFORMATION

Section 61.051 of the Texas Education Code requires the Texas Higher Education Coordinating Board to review periodically the Role and Mission Statements, Tables of Programs, and all degree and certificate programs offered by public institutions of higher education.

The U. T. Board of Regents first approved Tables of Programs for U. T. System institutions in June 1984 as a part of the U. T. System strategic planning process. The Tables of Programs have guided planning in the U. T. System since that time. Subsequently, the Coordinating Board adopted more detailed tables using footnotes in some instances to restrict degree program authority to subsets of the broad discipline categories shown in the tables. The Coordinating Board staff has indicated that they will continue to use the footnote format. Consequently, U. T. System Administration and the institutional administrators will be called upon to work with Coordinating Board staff to resolve issues associated with the footnotes.

The scope of programs recommended for each U. T. System institution is based primarily upon the size of the population served by that institution and the number of degrees which a population of that size might be expected to earn annually. If the number of degrees projected for a given level and discipline is low, the corresponding row and column in the table is left blank and the university does not seek approval to establish programs in that discipline and level. Exceptions are made at the undergraduate level for the core disciplines in the liberal arts and sciences and at any level and discipline where special circumstances lead to the conclusion that a strong program can be developed with an adequate number of students to operate efficiently.

National data on degrees awarded in the United States have been used as guidelines for the development of these tables. Within the two categories, core disciplines and professional programs, the disciplines are listed in descending order from the discipline in which the most degrees are awarded to the discipline category in which the fewest degrees are awarded. All categories used are those in a national taxonomy for classifying academic programs. As a general rule, institutions serving a larger population will have degree program authority for more categories than will smaller institutions.

The revised Table of Programs for the U. T. health institutions summarizes the major changes to be presented to the Coordinating Board. The Coordinating Board will be asked to grant degree program planning authority for the disciplines and levels coded "2." In addition, the Coordinating Board will be asked to remove some

of its current restrictions in disciplines and levels coded "1." All disciplines and levels with a "1" code have been previously approved by the U. T. Board of Regents.

In May 1998, the U. T. Board of Regents approved the institutions' Mission Statements and authorized the U. T. System Administration to negotiate with the Coordinating Board staff to expand the Tables of Programs adequately to provide for the planned addition of new degree programs. Some minor changes to the narrative Mission Statements for U. T. Health Science Center - Houston and U. T. Health Science Center - San Antonio are now being proposed to reflect the new responsibilities assigned to these institutions by the U. T. Board of Regents in November 1998 as they relate to the Lower Rio Grande Valley Regional Academic Health Center and the U. T. Public Health School - Houston Satellite in Brownsville.

Copies of the proposed Mission Statements and Tables of Programs in the Coordinating Board's footnote format are on file in the U. T. System Office of Health Affairs. The next comprehensive review and amendment to the Tables of Programs by the Coordinating Board will provide the framework and planning authorization for new degree programs to be implemented during the following four years. It is anticipated that the Coordinating Board will act upon these materials at its April 1999 meeting. Following approval, the final versions will be on file in the Office of Health Affairs.

The University of Texas Health Science Center at Houston

Mission Statement

The University of Texas Health Science Center at Houston (UTHSC-H) is a component of The University of Texas System and, as such, is committed to the pursuit of high standards of achievement in instruction, student performance, clinical service, research, and scholarly accomplishment toward improvement of the health of Texans.

As an academic health science center, ~~this~~[the] institution is one in which undergraduate, graduate and post-graduate students are educated broadly in the sciences of health and disease and are prepared for health-related careers in the provision of human services, and for investigating the mysteries of the biomedical sciences[in teaching and research]. Within an environment of academic freedom, students learn from faculty scholars who have in-depth expertise in the predominant health disciplines [various specialties of health care] and the biomedical sciences. ~~R~~[Such faculty, with the assistance of their students and trainees, engage in r]research, both to extend human knowledge related to health and to develop and maintain their own scholarly and professional expertise, is led by a faculty who involves and educates students and trainees in their research pursuits.

UTHSC-H consists of the following organizational units which are listed by date of establishment:

Dental Branch (established 1905; joined UT 1943)*

Graduate School of Biomedical Sciences (1963)*

School of Public Health (1967)*

Medical School (1970)*

School of Nursing (1972)*

School of Allied Health Sciences (1973)*

Harris County Psychiatric Center (established 1981; joined UT 1989)

The comprehensiveness of ~~this university~~[he UTHSC-H], featuring [including]the presence of six major health-related schools—medicine, dentistry, public health, nursing, allied health, and biomedical science—provides an environment beneficial to[many avenues for] collaborative endeavors in teaching, research, and service. Interdisciplinary projects and activities bring faculty and students together in a rich learning environment. Collectively, these units respond to the health care manpower needs of the citizens of Texas, the City of Houston, and Harris County and its surrounding counties by developing creative models for the training of health professionals, particularly emphasizing interdisciplinary educational models, and addressing the growing demand for primary care health professionals.

With over 200 clinical affiliates in the State, UTHSC-H provides health professions students with a variety of clinical and community-based experiences. With such experiences in urban, suburban, and rural environments, UTHSC-H students are trained where Texans live. The School of Public Health, the only accredited school of public health [of-its-kind] in the State of Texas, acknowledges and accepts a[its] unique responsibility to reach throughout the S[s]tate to prepare individuals for the challenges of this expanding field. Three[Two] satellite programs are already in place with others planned for the future to assist in meeting the increasing demand for public health professionals. A new program in health informatics is also unique in Texas-and the nation. With its interdisciplinary focus, this program should provide an invaluable resource of expertise and training in health informatics for our State.

~~In addition to the six schools, [encompassing the major health science disciplines, the other unit in the UTHSC-H organization is] the Harris County Psychiatric Center (HCPC) is a unique feature of the organization that is [HCPC-is-]committed to advances[ment] in mental health services and care as well as education of mental health care professionals[through clinical, research, and educational excellence].~~

~~[Collectively, these units respond to the health care manpower needs of the citizens of Texas, the City of Houston, and Harris and its surrounding counties by developing creative models for the training of health professionals, particularly emphasizing interdisciplinary educational models, and addressing the growing demand for primary care health professionals.~~

~~Together, faculty and students engage in patient care as an essential part of the teaching and learning experience. These professionals provide exemplary health care services to directly benefit the individual recipient and to serve as models which other providers will emulate. The clinical aspects of research are also conducted in conjunction with patient care.]~~

The University of Texas Health Science Center at Houston considers itself a member of a large learning community and works to contribute to and draw from the intellectual pursuit of the other institutions in [within] the Texas Medical Center[,] and [within] the greater Houston area. I [Also, t]o benefit this local community and the entire State of Texas, this[e] institution offers a variety [program] of continuing education programs to assist practicing health professionals in utilizing the latest findings of research from the worldwide community of scholars in clinical and biomedical fields. As a result of participation in these professional enhancement programs, practitioners adopt new modalities for the treatment and prevention of disease. With these outreach

efforts and programs aimed at promoting science and math as well as careers in health care to young students in grades K-12, UTHSC-H will meet new challenges to the health of the citizens of the State of Texas.

~~[The institution consists of the following units which are listed by date of establishment:~~

- ~~2. Dental Branch (established 1905; joined UT 1943)*~~**
- ~~2. Graduate School of Biomedical Sciences (1963)*~~**
- ~~2. School of Public Health (1967)*~~**
- ~~2. Medical School (1970)*~~**
- ~~2. School of Nursing (1972)*~~**
- ~~2. School of Allied Health Sciences (1973)*~~**
- ~~2. Harris County Psychiatric Center (established 1981; joined UT 1989)]~~**

*** The units included in the above list offer degrees and programs with subjects limited to health-related fields.**

**The University of Texas Health Science Center at San Antonio
Mission Statement**

The mission of The University of Texas Health Science Center at San Antonio is to serve the needs of the citizens of Texas, the nation, and the world through programs committed to excellence and designed to:

- educate health professionals for San Antonio and the entire South Texas Community and for the State of Texas to provide the best possible health care, to apply state-of-the-art treatment modalities, and to continue to seek information fundamental to the prevention, diagnosis, and treatment of disease.
- play a major regional, national and international role as a leading biomedical education and research institution in the discovery of new knowledge and the search for answers to society's health care needs.
- be an integral part of the health care delivery system of San Antonio and the entire South Texas community, as well as an important component of the health care delivery system of the State of Texas and the nation.
- serve as a catalyst for stimulating the life science industry in South Texas, culminating in services and technology transfer that benefit local and state economies.
- offer continuing education programs and expertise for the professional and lay communities.

Table 1

**TABLE OF PROGRAMS
THE UNIVERSITY OF TEXAS SYSTEM
HEALTH INSTITUTIONS
February 1999**

Disciplines	Certificate					Bachelor					Masters					Doctoral					Professional					
	D	G	H	S	M	D	G	H	S	M	D	G	H	S	M	D	G	H	S	M	D	G	H	S	M	
	A	A	O	A	D	A	A	O	A	D	A	A	O	A	D	A	A	O	A	D	A	A	O	A	D	
Academic Disciplines																										
Conservation & Rnwable Nat. Rsrcls.														1						1						
Education						1		1			1		1													
Engineering											1									1						
Home Economics						1		1						1												
L A & Sci.Gnrl. Stds. & Humanities																				1						
Biological Sciences/Life Sciences											1	1	1	1		1	1	1	1							
Public Administration & Services																				1						
Physical Sci/Sci Technologies														1						1						
Multi/Interdisciplinary Studies, Other											1	1								1						
Psychology											1									1						
Protective Services											1															
Health Prof. & Related Sciences																										
Coma. Disorders Sci. and Services														1	1											
Community Health Services						1								1												
Dentistry (D.D.S., D.M.D.)																								1	1	
DntiClncl Sci/Grd Dntstry (MS, Ph.D.)														1	1											
Dental Services														1												
Health & Administrative Services											1	1														
Health and Medical Assistants						1			1		1	1		2												
Hlth & Med. Diagnostic & Treat. Srv.	A		A	A	A	1			1		1			1												
Hlth & Med. Lab. Technlg/Tchncn	B		B	B	A	1			1		1			1												
Hlth & Med. Lab. Technlg/Tchncn																										
Medicine (M.D.)														1						1	1	1	1	1		
Medical Basic Sciences											1	1	1	1		1	1	1	1							
Medical Clinical Sci. (M.S., Ph.D.)																										
Mental Health Services																										
Nursing														1	1	1					1	1	1			
Pharmacy														1						1					1	
Public Health														1						1						
Rehabilitation/Therapeutic Services						1	1		1		1	1		1		1	1									
Misc Hlth Sci & Allied Hlth Srvs																										
Dental Residency Programs											1			1												
Medical Residency Programs																										
Misc Hlth Prof. & Related Sci											1	1	1							1	1					

KEY - Table of Programs Authorization Status

1. Institutions have been given authority by the U. T. Board of Regents to develop degree programs in this discipline and level.
2. Institutions are requesting U. T. Board of Regents' authority to develop degree programs in this discipline and level.
 - a. Institutions are requesting U. T. Board of Regents' authority to develop pre-baccalaureate certificate programs in this discipline.
 - A. Institutions have been given authority by the U. T. Board of Regents to develop pre-baccalaureate certificate programs in this discipline.
 - B. Institutions have been given authority by the U. T. Board of Regents to develop post-baccalaureate certificate programs in this discipline.

3. U. T. Health Science Center - San Antonio: Request for Authorization to Establish a Cooperative Master of Physical Therapy (MPT) Degree in Physical Therapy with U. T. Pan American and to Submit the Proposed Degree Program to the Coordinating Board for Approval (Catalog Change).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Vice Chancellor for Academic Affairs, and Presidents Howe and Nevarez that authorization be granted to establish a cooperative Master of Physical Therapy degree program in Physical Therapy between the U. T. Health Science Center - San Antonio and U. T. Pan American and to submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action. The proposed master's degree program is consistent with U. T. Pan American's Table of Programs and institutional plans for offering quality degree programs to meet student needs. A description of the degree program is included in the Background Information of this agenda item.

Upon approval by the Coordinating Board, the next appropriate catalogs published at U. T. Pan American and U. T. Health Science Center – San Antonio will be amended to reflect this action.

This item requires the concurrence of the Academic Affairs Committee.

BACKGROUND INFORMATION

Program Description

U. T. Health Science Center - San Antonio and U. T. Pan American have designed a cooperative master's degree program to educate individuals as entry-level physical therapists. The Master of Physical Therapy (MPT) degree in Physical Therapy was developed as a "three plus three" program in the Department of Physical Therapy, U. T. Allied Health Sciences School – San Antonio at the U. T. Health Science Center - San Antonio. Students will enter the program having completed a minimum of 90 semester credit hours of prescribed course work. The

professional phase consists of 100 semester credit hours of required course work over a 33-month period. The cooperative program at U. T. Pan American will mirror the current MPT program at U. T. Health Science Center - San Antonio, by utilizing the same curricular model, including similar course sequencing to facilitate distance education. The first class of 16 MPT students is anticipated to be admitted to the U. T. Pan American campus in the Fall 2000.

Need

Currently, the nine physical therapy programs in Texas are all located in or north of San Antonio. Six of the nine are located in or within 50 miles of the four largest cities in Texas, while the rural areas remain underserved, especially those areas south of a line drawn from El Paso to Corpus Christi. U. T. Pan American is an excellent candidate to develop and implement a physical therapy program that meets the educational and employment needs of the Rio Grande Valley population. The Texas Physical Therapy Association (Opinion Analysts, 1993) conducted a survey of 6,306 therapists to determine geographically where therapists were employed. Based on a 26% survey response rate, the statistics describe the employment pattern of therapists in Texas. Rural counties accounted for only 16% of employed therapists and South Texas counties employed only 13%. Locally, the acute care hospitals have had difficulty filling full-time equivalent positions. In the last few months, through aggressive hiring, the situation has improved in less rural regions. This indicates a low percentage of therapists employed in the southern counties of Texas which include the Rio Grande Valley. Correlating these results with a survey of employers in the Rio Grande Valley indicates that the employment percentage does not meet the demand for the region. Due to its geographical location, the Rio Grande Valley region possesses a large population of Hispanics (80%), while in the State of Texas only 6% of the physical therapists are Hispanic.

Quality

The curriculum is a "three plus three" program with the preprofessional curriculum consisting of 90 semester credit hours of prescribed course work. The Professional Phase consists of three years (98 to 100 semester credit hours) of a combination of didactic, research, and clinical experiences. The curriculum provides the foundation upon which the student will build a theoretical framework and psychomotor skills necessary to become a physical therapist. Foundation courses in anatomy, kinesiology, work biology, and neuroscience are offered early in the curriculum to provide the base for clinical courses. Clinical courses will be presented from a clinical decision-making perspective in which the student must apply basic science and clinical information to develop the optimal management plans for a given patient. Admission standards for the program consist of completion of 90 semester

credit hours of prerequisite courses; a minimum overall GPA of 3.0; prerequisite courses with a GPA of at least 3.0; minimum Graduate Record Examination (GRE) score of 1,000; a personal interview; two letters of reference; and knowledge and understanding of physical therapy through a minimum of 100 hours of observation, volunteer work, or as a paid employee. Currently there are 8.25 full-time equivalent faculty in the Department of Physical Therapy at U. T. Health Science Center – San Antonio. Five of the faculty members hold the Ph.D. degree and the other full-time equivalent hold Masters' degrees. The first year of the new program, two new faculty will be hired. The number of full-time equivalent faculty will increase incrementally to six in the fifth year.

Cost

The following five-year table of cost projections for the proposed program includes program administration, faculty salaries, clerical staff, supplies, equipment, and travel.

<u>Year 1</u> <u>2000-2001</u>	<u>Year 2</u> <u>2001-2002</u>	<u>Year 3</u> <u>2002-2003</u>	<u>Year 4</u> <u>2003-2004</u>	<u>Year 5</u> <u>2004-2005</u>	<u>Total</u>
\$522,790	\$462,290	\$541,720	\$574,222	\$617,010	\$2,718,032

The source of funds will be South Texas Border Initiative appropriations.

Summary

U. T. Health Science Center - San Antonio and U. T. Pan American are requesting authorization to establish a cooperative entry-level Master of Physical Therapy degree program in Physical Therapy at U. T. Pan American and to submit the proposed degree program to the Texas Higher Education Coordinating Board for approval. There is a strong need for this degree in the region. The proposed degree will help to fill this need and to fulfill the desire by U. T. Pan American to meet the educational needs of students and community constituents in its region.

A copy of the proposal for the cooperative Master of Physical Therapy degree program in Physical Therapy between U. T. Health Science Center – San Antonio and U. T. Pan American is on file in the U. T. System Office of Health Affairs.

**Facilities, Planning & Construction
Committee**

FACILITIES PLANNING AND CONSTRUCTION COMMITTEE
Committee Chairman Clements

Date: February 11, 1999
Time: Following the Meeting of the Health Affairs Committee
Place: Frank C. Erwin, Jr. Atrium, Eighth Floor, Lyndon Baines Johnson
Library and Museum, 2313 Red River Street, U. T. Austin

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5. U. T. Austin - New Psychology & Child Development Building (Project No. 102-922): Request for Approval to Name Building (Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Naming of Buildings and Other Facilities); Approval of Design Development Plans; Approval of Total Project Cost; Appropriation of Funds and Authorization of Expenditure; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Parity Debt Certificate, and Finding of Fact with Regard to Financial Capacity 12
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8. U. T. San Antonio - Recreation/Wellness Center (Project No. 401-958): Request for Approval of Design Development Plans; Approval of Total Project Cost; Appropriation and Expenditure of Funds; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Parity Debt Certificate, and Finding of Fact with Regard to Financial Capacity 27
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1. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part Two, Chapter VIII, Sections 1 Through 4 (Physical Plant Improvements).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and the Vice Chancellor for Academic Affairs that the Regents' Rules and Regulations, Part Two, Chapter VIII, Sections 1 through 4, regarding physical plant improvements, be amended as set forth below in congressional style:

CHAPTER VIII

PHYSICAL PLANT IMPROVEMENTS

Sec. 1. Institutional Committees.

-
- 1.3 Selection Committees.--Selection Committees are authorized to evaluate, rank, and select qualifications and competitive sealed proposals in response to requests for qualifications and requests for proposals by design-build contractors, construction manager-agents, construction managers-at-risk, general contractors, and job order contractors and to enter into discussions for modification and negotiation of competitive sealed proposals in response to requests for proposals with respondents, as required or permitted by law. Selection Committees for Major Projects shall be appointed by the Director of the Office of Facilities Planning and Construction in consultation with the institutional chief administrative officer and the Executive Vice Chancellor for Business Affairs. Selection Committees for Minor Projects shall be appointed by the Responsible Administrator.

Sec. 2. Major Construction and Repair and Rehabilitation Projects.

2.1 General Requirements.

...

2.16 The Chancellor or delegate shall approve the construction contractor's, design-build contractor's, or construction manager's estimates, guaranteed maximum price or stipulated sum proposals; sign change orders;[;] and provide general supervision of all Major Projects. The Chancellor with the advice of the appropriate Executive Vice Chancellor or Vice Chancellor and chief administrative officer is authorized to increase the approved Total Project Cost not more than ten percent. To provide funding for the increase, the Chancellor may reallocate funding between or among approved projects at a single component if funding for such projects has previously been authorized in accordance with Subdivision 2.13 or approve funding from some other source available to the component.

2.2 Major Projects Procedures.

...

2.23 The Chancellor, on behalf of the Board, will utilize the services of a project architect, [or] engineer, or design-build contractor for each Major Project or portion thereof as may be desirable or required by law. Contracts with architects and engineers shall comply with guidelines issued by the Office of General Counsel and shall be written on a standard form approved by the Office of General Counsel.

2.24 After approval of the facility program, the Chancellor or delegate is authorized to give the project architect, [or] engineer, or design-build contractor the facility program and direct the preparation of schematic plans, exterior design and site plans, cost estimates, and other necessary and appropriate documents ("Schematic Plans")[;] and design development plans, elevations, and

sections, outline specifications, cost estimates, and other related work to fix the design, dimensions, materials, and scope of the project in greater detail ("Design Development Plans"). Design Development Plans are referred to as Preliminary Plans in applicable rules of the Texas Higher Education Coordinating Board. The project architect, [or] engineer, or design-build contractor shall work with the Ad Hoc Project Building Committee, if any, and the Office of Facilities Planning and Construction with regard to preparation of all plans and documents.

...
Sec. 3. Minor Construction and Repair and Rehabilitation Projects.

- 3.1 Delegation of Authority.--Subject to Subsections 3.2 and 3.3 of this Section and the general provisions of Part One, Chapter I, Section 9 and except as otherwise specified in these Rules and Regulations, each chief administrative officer is authorized to appoint architects, approve plans and Construction Documents, and execute and deliver contracts, agreements, guaranteed maximum price or stipulated sum proposals, and other documents on behalf of the Board for all new construction projects of \$300,000 or less and for repair and rehabilitation projects of \$600,000 or less ("Minor Projects").

...
Sec. 4. Bidding, Proposals, Award of Contract, and Final Payment.

- 4.1 Advertisement for Bids and Proposals.--The Chancellor with respect to Major Projects or the chief administrative officer with respect to Minor Projects (the "Responsible Administrator") is authorized to advertise for bids, qualifications, and proposals for construction projects. The Construction Documents must be approved by the Chancellor before the advertisement for bids, or the solicitation of competitive sealed proposals from general contractors, for Major Projects.

- 4.2 Modification of Bids.--No bid may be changed, amended, or modified after the time for bid filing set out in the advertisement for bids. The substance of this requirement shall be stated in the advertisement for bids[;] provided, however, that this requirement shall not be construed to prohibit the submission or filing of more than one separate and independent bid by any bidder or the modification and negotiation of proposals as permitted by law.
- 4.3 Proposed Decision for Award.--The Responsible Administrator or delegate shall receive and open bids[;] and, with the project architect or engineer, if any, and others, shall tabulate and study such bids. After tabulation and study of the bids, the Responsible Administrator shall make a proposed decision for award. The proposed decision for award based on competitive sealed proposals in response to a request for proposals shall be made by the Selection Committee.
- 4.4 Notice of Proposed Decision for Award by Bid.--In the event the lowest bidder is found to be not responsible[;] or other facts and circumstances necessitate award of contract to other than the lowest bidder, the bidder(s) submitting proposal(s) lower than the bidder to whom award is proposed shall be notified of the proposed decision for award. If the lowest bidder fails to timely file notice of protest, the proposed decision for award will be final.

BACKGROUND INFORMATION

The proposed amendments to the Regents' Rules and Regulations, Part Two, Chapter VIII, Sections 1 through 4, relating to Physical Plant Improvements, clarify the authority of the Chancellor to approve proposals from construction managers and design-build contractors and clarify the procedures for advertising and award of construction contracts procured through competitive sealed proposals.

These amendments contain substantive and editorial corrections and are proposed to conform U. T. System procedures for construction contracting with the mandatory requirements of Senate Bill 583, 75th Legislature, codified as Sections 44.031 and 51.776 through 51.784 of the Texas Education Code.

The proposed amendments have been recommended by the U. T. System Process Review Committee chaired by Regent Lowell H. Lebermann, Jr.

2. U. T. Arlington - Bookstore: Request for Authorization to (a) Enter into Ground Lease Agreement with Follett College Stores Corporation, Elmhurst, Illinois, (b) Amend the FY 1998-2003 Capital Improvement Program to Include Project, (c) Approve Project Architectural Design, and (d) Execute All Documents Related Thereto.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for Academic Affairs, and President Witt that authorization be granted by the U. T. Board of Regents, on behalf of U. T. Arlington, to:

- a. Enter into a Ground Lease Agreement with Follett College Stores Corporation, Elmhurst, Illinois, for the construction and operation of a campus bookstore
- b. Amend the FY 1998-2003 Capital Improvement Program to include a project entitled Bookstore for U. T. Arlington
- c. Approve the proposed architectural design of the project
- d. Authorize the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to execute all documents, instruments, and other agreements and to take all such actions deemed necessary or desirable to carry out the purpose and intent of the foregoing recommendations.

BACKGROUND INFORMATION

Follett College Stores Corporation (Follett) began operating the U. T. Arlington bookstore on August 17, 1998, and the "Lease and Operating Agreement" with that firm was included in U. T. Arlington's institutional docket at the November 12, 1998 meeting of the U. T. Board of Regents. This "Lease and Operating Agreement" was entered into pursuant to U. T. Arlington's Request for Proposal (RFP) Number 9802 and Follett's proposal dated March 25, 1998.

Since August 1998, U. T. Arlington and Follett have been negotiating the Ground Lease which was described in the RFP, pursuant to which Follett College Stores Corporation will plan, design, finance, construct, and manage a new bookstore on the U. T. Arlington campus. If approved by the U. T. Board of Regents, the new bookstore is expected to be completed during the Fall Semester 1999 and should be fully operational prior to the beginning of the Spring Semester 2000.

The initial term of the proposed Ground Lease will be fifteen (15) years with the option to renew and extend the term of the Ground Lease for two (2) additional periods of five (5) years each. The new store will contain a minimum of 25,000 gross square feet of auxiliary enterprise space and will be constructed on the northern edge of the U. T. Arlington campus along Border Street near the intersection with Oak Street. The estimated total project cost for the new bookstore, to be fully financed by Follett College Stores Corporation, is \$5,000,000.

Approval of this item will amend the FY 1998-2003 Capital Improvement Program to include the Bookstore project at U. T. Arlington.

3. U. T. Arlington - New Residence Hall: Request to Amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to Include Project.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for Academic Affairs, and President Witt that the U. T. Board of Regents amend the FY 1998-2003 Capital Improvement Program

and the FY 1998 and FY 1999 Capital Budget to include the New Residence Hall at U. T. Arlington at a preliminary project cost of \$20,000,000, with funding from Revenue Financing System Bond Proceeds.

BACKGROUND INFORMATION

The U. T. Arlington Building Advisory Committee has provided a detailed description of how the New Residence Hall relates to the University's Strategic Plan (FY 1997-2000). Highlights of the project goals are to provide updated living accommodations which meet the needs of today's students, to fulfill the mission of the University to focus on the freshman experience, to improve retention and graduation rates, and to provide a greater sense of on-campus community within the student body.

These goals are to be accomplished by providing a residence hall of approximately 600 beds with single and double rooms. Each room will have access to the University's computer network, telephone system, and local cable television. All rooms will be furnished to provide an attractive housing alternative to the existing campus facilities. The development will include a commons facility with amenities to include food services, computer labs, study lounges, conference facilities, exercise room, and a general store.

Current capacity of residence halls at U. T. Arlington is 808 beds with a freshman enrollment in excess of 2,000. There is always a waiting list for these facilities at the beginning of each semester. The newest residence hall was built in 1963. One of the older and smaller residence halls will be demolished in conjunction with this proposed construction netting an increased total number of approximately 465 beds.

A Facilities Program is being prepared at this time, and it is anticipated that this project will proceed utilizing a design/build contract, with the project ready for occupancy by the Fall Semester 2000.

Approval of this item will amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the New Residence Hall at U. T. Arlington at a preliminary project cost of \$20,000,000, with funding from Revenue Financing System Bond Proceeds.

4. U. T. Austin - Jester Center Dining Renovations: Request to Amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to Include Project.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for Academic Affairs, and President Faulkner that the U. T. Board of Regents amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the Jester Center Dining Renovations at U. T. Austin at a preliminary project cost of \$13,000,000, with funding from Auxiliary Enterprise Balances.

BACKGROUND INFORMATION

In August 1998, a master plan study of the U. T. Austin Jester Center Dining Commons was completed, providing a comprehensive plan for the renovation of this facility. The proposed project consists of three stages of work, with the first stage scheduled to begin in December 1999 at an estimated cost of \$5,300,000. The remaining two stages will be completed as reserve funds are accumulated with an anticipated completion date for the entire project of April 2003. This project will renovate the existing Jester Center food services facility, upgrade and enhance food preparation and service facilities, and provide more efficient and attractive dining areas.

This project is necessary to provide the expanded food service capacity required to meet increased student demand which will result from the completion of the Student Housing project programmed for completion in August 2000.

Approval of this item will amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the Jester Center Dining Renovations at U. T. Austin at a preliminary project cost of \$13,000,000, with funding from Auxiliary Enterprise Balances.

5. U. T. Austin - New Psychology & Child Development Building (Project No. 102-922): Request for Approval to Name Building (Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Naming of Buildings and Other Facilities); Approval of Design Development Plans; Approval of Total Project Cost; Appropriation of Funds and Authorization of Expenditure; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Parity Debt 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, the Vice Chancellor for Academic Affairs, and President Faulkner that the U. T. Board of Regents:

- a. Approve the naming of the New Psychology & Child Development Building as the Sarah M. and Charles E. Seay Psychology, Child Development, and Family Relationships Building at U. T. Austin
- b. Approve design development plans for the project
- c. Approve a total project cost of \$44,200,000
- d. Appropriate funds and authorize expenditure of \$12,500,000 from Tuition Revenue Bond Proceeds issued under the Revenue Financing System, \$17,500,000 from Designated Tuition Funds, \$11,200,000 from Gifts and Grants, and \$3,000,000 from Unexpended Plant Fund Balances.

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 (the "Master Resolution"), 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 FPCC - 16, the U. T. Board of Regents resolves that:

- a. Parity Debt shall be issued to pay the project's cost including any costs prior to the issuance of such Parity Debt
- 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. U. T. component institutions, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the amount of \$12,500,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

BACKGROUND INFORMATION

The New Psychology & Child Development Building project at U. T. Austin is included in the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget at a preliminary project cost of \$40,000,000.

The New Psychology & Child Development Building will be home to the Department of Psychology in the College of Liberal Arts and also home for the Child Development and Family Relationships program within the Department of Human Ecology in the College of Natural Sciences. Currently, the two groups are in several different buildings on and off campus. The new facility will bring the individual functions to a single location.

The project consists of a new building of approximately 175,000 gross square feet with provisions for future horizontal expansion. The building will contain faculty offices, high-tech wet and dry labs, a psychology clinic, early childhood teaching facilities, family interaction labs, conference and library rooms, and support facilities.

This new facility to house these important academic and research areas has been a priority for U. T. Austin. Early efforts in the 1990s to raise funds for the project met with the great generosity of Sarah M. and Charles E. Seay of Dallas, Texas, long-time supporters of U. T. Austin and U. T. Southwestern Medical Center - Dallas, as well as other entities in Texas. Mr. and Mrs. Seay pledged \$5,000,000 to the project in its very critical early stages. Through their generous pledge and support, the planning for the New Psychology & Child Development Building was able to proceed in full force. Mr. and Mrs. Seay, their family, and the Seay Foundation, have given U. T. Austin additional substantial gifts, including the principal for an endowed faculty chair, three endowed faculty professorships, and two endowed scholarships. U. T. Austin wishes to honor Mr. and Mrs. Seay, and their family, in a lasting way by naming the New Psychology & Child Development Building as the Sarah M. and Charles E. Seay Psychology, Child Development, and Family Relationships Building. The proposed naming of the New Psychology & Child Development Building at U. T. Austin is consistent with the Regents' Rules and Regulations on naming of buildings in honor of and in appreciation of the longtime and continuing support and generosity of Mr. and Mrs. Seay.

The approved Facilities Program for this project determined that a project cost of \$44,200,000 would be required to accomplish the desired project scope. The additional funding of \$4,200,000 will be \$1,200,000 from Gifts and Grants and \$3,000,000 from Unexpended Plant Fund Balances.

The 75th Session of the Texas Legislature authorized \$12,500,000 of tuition bonds to be issued for U. T. Austin. No additional tuition bond authority will remain for U. T. Austin after the issuance of the tuition bonds for this project. The debt service coverage for the \$12,500,000 Tuition Revenue Bonds is reflected on Page FPCC - 17. This project financing assumes interim financing at a 4.5% interest rate for a portion of FY 1999 and a 6% fixed interest rate for 20 years with the fixed rate borrowing to occur in FY 2000.

Approval of this item will amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget for the New Psychology & Child Development Building at U. T. Austin at a total project cost of \$44,200,000, with

funding of \$12,500,000 from Tuition Revenue Bond Proceeds issued under the Revenue Financing System, \$17,500,000 from Designated Tuition Funds, \$11,200,000 from Gifts and Grants, and \$3,000,000 from Unexpended Plant Fund Balances.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned 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, (the "Master Resolution"), adopted by the U. T. Board of Regents ("Board") on February 14, 1991, and amended on October 8, 1993, and August 14, 1997, do hereby execute this certificate for the benefit of the Board pursuant to Section 5(a)(ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity Debt" to finance the construction cost of the New Psychology & Child Development Building at U. T. Austin, and do certify that to the best of my knowledge, the Board is in compliance with and not in default of any terms, provisions, and conditions in the Master Resolution, the First Supplemental Resolution Establishing the Revenue Financing System Commercial Paper Program, ("First Supplemental"), the Second Supplemental Resolution, the Third Supplemental Resolution, the Fourth Supplemental Resolution, the Fifth Supplemental Resolution, the Sixth Supplemental Resolution, and the Seventh Supplemental Resolution.

EXECUTED this 5 day of January, 1999

Pamela K. Clayton
Assistant Vice Chancellor for Finance

**The University of Texas System
Revenue Financing System
Debt Service Coverage
(\$ in millions)**

	Actual			Forecast				
	FY 96	FY 97	FY 98	FY 99	FY 2000	FY 01	FY 02	FY 03
Available Revenues	3,767.5	3,900.3	4,208.7	4,078.6	4,197.8	4,277.2	4,374.6	4,435.0
Operating Expenses	<u>(3,436.1)</u>	<u>(3,657.7)</u>	<u>(3,911.5)</u>	<u>(3,849.9)</u>	<u>(3,917.0)</u>	<u>(4,003.0)</u>	<u>(4,080.6)</u>	<u>(4,164.4)</u>
Net Revenues Available for Debt Service	331.4	242.6	297.2	228.7	280.8	274.2	294.0	270.6
Other Mandatory Transfers	(17.1)	(1.8)	(1.1)	(2.2)	(3.0)	(3.9)	(3.8)	(3.8)
Debt Service:								
Non - Tuition Related	(41.7)	(51.8)	(61.6)	(82.8)	(91.8)	(93.6)	(91.4)	(90.8)
Tuition Debt Service								
Bonds issued prior to 1993	(9.4)	(7.7)	(7.1)	(7.7)	(7.7)	(7.7)	(7.7)	0.0
South Texas Border Initiative Debt	(6.9)	(14.0)	(12.6)	(13.7)	(13.1)	(13.1)	(13.1)	(13.0)
Debt Authorized by 75th Legislature								
Approved by BOR 8/97 (renov)-\$43.9 mil				(3.5)	(3.5)	(3.5)	(3.5)	(3.5)
Approved by BOR 2/98-\$6.05 mil				(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Approved by BOR 5/98-\$5.5 mil				(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Approved by BOR 8/98-\$7 mil				(0.56)	(0.56)	(0.56)	(0.56)	(0.56)
Approved by BOR 11/98-\$19.85 mil				(0.40)	(1.73)	(1.73)	(1.73)	(1.73)
Recommended to BOR 2/99-\$35 mil				(0.79)	(3.05)	(3.05)	(3.05)	(3.05)
Remaining Tuition Project Financing				(1.11)	(5.57)	(12.57)	(12.57)	(12.57)
TOTAL DEBT SERVICE	<u>(58.0)</u>	<u>(73.5)</u>	<u>(81.3)</u>	<u>(111.1)</u>	<u>(127.6)</u>	<u>(136.4)</u>	<u>(134.2)</u>	<u>(125.8)</u>
Debt Service Coverage Without Tuition Bonds (x)	5.6	4.5	4.7	2.7	3.0	2.8	3.1	2.9
Debt Service Coverage With Tuition Bonds (x)	4.4	3.2	3.6	2.0	2.2	2.0	2.1	2.1

FPCC - 17

6. U. T. Brownsville - Life & Health Science Building - Phase I (Project No. 902-976): Request for Approval of Design Development Plans; Approval of Total Project Cost; Appropriation of Funds and Authorization of Expenditure; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Parity Debt 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, the Vice Chancellor for Academic Affairs, and President Garcia that the U. T. Board of Regents:

- a. Approve design development plans for the Life & Health Science Building - Phase I at U. T. Brownsville
- b. Approve a total project cost of \$22,500,000
- c. Appropriate funds and authorize expenditure of \$22,500,000 from Tuition Revenue Bond Proceeds.

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 (the "Master Resolution"), 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 FPCC - 20, the U. T. Board of Regents resolves that:

- a. Parity Debt shall be issued to pay the project's cost including any costs prior to the issuance of such Parity Debt
- 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. U. T. component institutions, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the amount of \$22,500,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

BACKGROUND INFORMATION

The Life & Health Science Building - Phase I at U. T. Brownsville is included in the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget at a preliminary project cost of \$22,500,000, with funding from Tuition Revenue Bond Proceeds. This new academic building will support the Allied Health and Nursing Departments of the College of Health Sciences and the Biology Department in the College of Science and Math. This project will provide approximately 95,000 square feet of new construction to house instructional and teaching laboratories, technology and general academic instruction areas, faculty and administrative offices, and support areas. Site development will include parking for approximately 200 vehicles.

The 75th Session of the Texas Legislature authorized \$22,500,000 of tuition bonds to be issued for U. T. Brownsville. No additional tuition bond authority will remain for U. T. Brownsville after the issuance of the tuition bonds for this project. The debt service coverage for the \$22,500,000 Tuition Revenue Bonds is reflected on Page FPCC - 21. This project financing assumes interim financing at a 4.5% interest rate for a portion of FY 1999 and a 6% fixed interest rate for 20 years with the fixed rate borrowing to occur in FY 2000.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned 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, (the "Master Resolution"), adopted by the U. T. Board of Regents ("Board") on February 14, 1991, and amended on October 8, 1993, and August 14, 1997, do hereby execute this certificate for the benefit of the Board pursuant to Section 5(a)(ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity Debt" to finance the construction cost of the Life & Health Science Building - Phase I at U. T. Brownsville, and do certify that to the best of my knowledge, the Board is in compliance with and not in default of any terms, provisions, and conditions in the Master Resolution, the First Supplemental Resolution Establishing the Revenue Financing System Commercial Paper Program, ("First Supplemental"), the Second Supplemental Resolution, the Third Supplemental Resolution, the Fourth Supplemental Resolution, the Fifth Supplemental Resolution, the Sixth Supplemental Resolution, and the Seventh Supplemental Resolution.

EXECUTED this 5 day of January, 1999


Assistant Vice Chancellor for Finance

**The University of Texas System
Revenue Financing System
Debt Service Coverage
(\$ in millions)**

	Actual			Forecast				
	FY 96	FY 97	FY 98	FY 99	FY 2000	FY 01	FY 02	FY 03
Available Revenues	3,767.5	3,900.3	4,208.7	4,078.6	4,197.8	4,277.2	4,374.6	4,435.0
Operating Expenses	(3,436.1)	(3,657.7)	(3,911.5)	(3,849.9)	(3,917.0)	(4,003.0)	(4,080.6)	(4,164.4)
Net Revenues Available for Debt Service	331.4	242.6	297.2	228.7	280.8	274.2	294.0	270.6
Other Mandatory Transfers	(17.1)	(1.8)	(1.1)	(2.2)	(3.0)	(3.9)	(3.8)	(3.8)
Debt Service:								
Non - Tuition Related	(41.7)	(51.8)	(61.6)	(82.8)	(91.8)	(93.6)	(91.4)	(90.8)
Tuition Debt Service								
Bonds issued prior to 1993	(9.4)	(7.7)	(7.1)	(7.7)	(7.7)	(7.7)	(7.7)	0.0
South Texas Border Initiative Debt	(6.9)	(14.0)	(12.6)	(13.7)	(13.1)	(13.1)	(13.1)	(13.0)
Debt Authorized by 75th Legislature								
Approved by BOR 8/97 (renov)-\$43.9 mil				(3.5)	(3.5)	(3.5)	(3.5)	(3.5)
Approved by BOR 2/98-\$6.05 mil				(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Approved by BOR 5/98-\$5 mil				(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Approved by BOR 8/98-\$7 mil				(0.56)	(0.56)	(0.56)	(0.56)	(0.56)
Approved by BOR 11/98-\$19.85 mil				(0.40)	(1.73)	(1.73)	(1.73)	(1.73)
Recommended to BOR 2/99-\$35 mil				(0.79)	(3.05)	(3.05)	(3.05)	(3.05)
Remaining Tuition Project Financing				(1.11)	(5.57)	(12.57)	(12.57)	(12.57)
TOTAL DEBT SERVICE	(58.0)	(73.5)	(81.3)	(111.1)	(127.6)	(136.4)	(134.2)	(125.8)
Debt Service Coverage Without Tuition Bonds (x)	5.6	4.5	4.7	2.7	3.0	2.8	3.1	2.9
Debt Service Coverage With Tuition Bonds (x)	4.4	3.2	3.6	2.0	2.2	2.0	2.1	2.1

FPCC - 21

7. U. T. Pan American - Student Union (Project No. 901-952): Request for Approval of Design Development Plans; Approval of Total Project Cost; Appropriation of Funds and Authorization of Expenditure; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Parity Debt 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, the Vice Chancellor for Academic Affairs, and President Nevarez that the U. T. Board of Regents:

- a. Approve design development plans for the Student Union at U. T. Pan American
- b. Approve a total project cost of \$7,000,000
- c. Appropriate funds and authorize expenditure of \$5,750,000 from Revenue Financing System Bond Proceeds and \$1,250,000 from Unexpended Plant Fund Balances for total project funding.

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 (the "Master Resolution"), 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 FPCC - 25, the U. T. Board of Regents resolves that:

- a. Parity Debt shall be issued to pay the project's cost including any costs prior to the issuance of such Parity Debt

- 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. U. T. Pan American, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the amount of \$5,750,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

BACKGROUND INFORMATION

The Student Union at U. T. Pan American is included in the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget at a preliminary project cost of \$7,000,000, with funding of \$250,000 from Student Fee Reserves, \$1,000,000 from Designated Tuition, and \$5,750,000 from Student Union Fee. The Union will provide approximately 44,000 square feet of new construction to house a variety of student activities, including commons, convenience store, food court, game room, study areas, multipurpose meeting/study session rooms, TV lounge, and a 500-seat theater for live performances and cinematic presentations, and to provide office space needed to support student activities.

The debt is to be repaid from the Student Union Fee which is \$30 per student per regular semester or \$15 per student for each term of the Summer Session. Based on a Fall 1998 headcount of 12,373, the projected annual collection of the Student Union Fee exceeds \$742,000.

The Student Union Fee will not be collected until the facility is open for use. During the construction period, the debt service will be paid from Unexpended Plant Fund Balances. Annual debt service during the construction period is projected to be \$258,750, assuming a 4.5% short-term borrowing rate.

When the Student Union is open for use in FY 2001, the annual debt service is projected to be \$501,311 based on a 6% long-term borrowing rate with a 20-year amortization period. The annual debt service coverage for the Student Union is expected to be 1.48 times. The financing forecast is set forth on Page FPCC - 26.

Approval of this item will amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to modify project funding to \$5,750,000 from Revenue Financing System Bond Proceeds and \$1,250,000 from Unexpended Plant Fund Balances for total project funding.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned 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, (the "Master Resolution"), adopted by the U. T. Board of Regents ("Board") on February 14, 1991, and amended on October 8, 1993, and August 14, 1997, do hereby execute this certificate for the benefit of the Board pursuant to Section 5(a)(ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity Debt" to finance the construction cost of the Student Union at U. T. Pan American, and do certify that to the best of my knowledge, the Board is in compliance with and not in default of any terms, provisions, and conditions in the Master Resolution, the First Supplemental Resolution Establishing the Revenue Financing System Commercial Paper Program, ("First Supplemental"), the Second Supplemental Resolution, the Third Supplemental Resolution, the Fourth Supplemental Resolution, the Fifth Supplemental Resolution, the Sixth Supplemental Resolution, and the Seventh Supplemental Resolution.

EXECUTED this 5 day of January, 1999


Assistant Vice Chancellor for Finance

**The University of Texas - Pan American
Student Union**

Project Level (Actual \$)

	Forecast				
	FY99	FY2000	FY 01	FY 02	FY 03
Student Union Fee (\$30 Regular, \$15 summer), Fall Headcount 12,373; Spring 85% of Fall, Summer 30% of Fall					
Projected Collection of Student Union Fee	0	0	742,380	742,380	742,380
Debt Service	(129,375)	(258,750)	(501,311)	(501,311)	(501,311)
Debt Service Coverage	n.a.	n.a.	1.48	1.48	1.48

Campus Level: (\$ in millions)

	Actual			Forecast				
	FY96	FY97	FY98	FY 99	FY 00	FY 01	FY 02	FY 03
Beg. Fund Balance	23.8	30.8	27.4	28.1	29.3	30.4	31.5	28.3
Total Current Unrestricted Revenues	76.7	79.6	86.2	83.5	85.6	87.4	88.6	89.8
Total Current Unrestricted Expenditures	(65.0)	(68.4)	(76.0)	(70.7)	(73.2)	(75.4)	(77.7)	(80.0)
Net Revenues	11.7	11.2	10.2	12.8	12.4	12.0	10.9	9.8
Debt Service	(1.9)	(2.3)	(6.0)	(7.3)	(8.4)	(9.4)	(8.8)	(8.6)
Other Mand. Transfers	(0.1)	(0.2)	(0.1)	(0.2)	(0.1)	(0.2)	(0.1)	(0.2)
Total Mand. Transfers	(2.0)	(2.5)	(6.1)	(7.5)	(8.5)	(9.6)	(8.9)	(8.8)
Non-Mand. Transfers	(1.9)	(11.1)	(3.2)	(4.1)	(2.8)	(1.3)	(5.2)	(1.5)
Adjustments	(0.8)	(1.0)	(0.2)	0.0	0.0	0.0	0.0	0.0
Net Inc./Dec. for Year	7.0	(3.4)	0.7	1.2	1.1	1.1	(3.2)	(0.5)
End. Fund Balance	30.8	27.4	28.1	29.3	30.4	31.5	28.3	27.8
Debt Service Coverage	5.9	4.5	1.7	1.7	1.5	1.3	1.2	1.1
Debt Service to Operating Expenses	2.9%	3.4%	7.9%	10.3%	11.5%	12.5%	11.3%	10.8%
Debt Service to Operating Expenses without HEAF debt				4.2%	5.6%	6.8%	6.6%	7.0%

U.T. System (\$ in millions)

	Actual			Forecast				
	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Available Revenues	3,767.5	3,900.3	4,208.7	4,078.6	4,197.8	4,277.2	4,374.6	4,435.0
Operating Expenses	(3,436.1)	(3,657.7)	(3,911.5)	(3,849.9)	(3,917.0)	(4,003.0)	(4,080.6)	(4,164.4)
Net Available for Debt Serv.	331.4	242.6	297.2	228.7	280.8	274.2	294.0	270.6
Other Mandatory Transfers	(17.1)	(1.8)	(1.1)	(2.2)	(3.0)	(3.9)	(3.8)	(3.8)
Debt Service	(58.0)	(73.5)	(81.3)	(111.1)	(127.6)	(136.4)	(134.2)	(125.8)
Debt Service Coverage	4.4	3.2	3.6	2.0	2.1501	2.0	2.1	2.1
Debt Service to Operating Expenses	1.7%	2.0%	2.1%	2.9%	3.2%	3.4%	3.3%	3.0%

FPCC - 26

8. U. T. San Antonio - Recreation/Wellness Center (Project No. 401-958): Request for Approval of Design Development Plans; Approval of Total Project Cost; Appropriation and Expenditure of Funds; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Parity Debt 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, the Vice Chancellor for Academic Affairs, and President Kirkpatrick that the U. T. Board of Regents:

- a. Approve design development plans for the Recreation/Wellness Center at U. T. San Antonio
- b. Approve a total project cost of \$14,375,000
- c. Appropriate funds and authorize expenditure of \$13,775,000 from Revenue Financing System Bond Proceeds and \$600,000 from the Recreational Facility Fee Balance.

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 (the "Master Resolution"), 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 FPCC - 30, the U. T. Board of Regents resolves that:

- a. Parity Debt shall be issued to pay the project's cost including any costs prior to the issuance of such Parity Debt
- 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. U. T. San Antonio, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the amount of \$13,775,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

BACKGROUND INFORMATION

The Recreation/Wellness Center project at U. T. San Antonio is included in the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget at a preliminary project cost of \$14,375,000. This project will be dedicated to providing quality programs and services in the areas of recreation, wellness, intramurals, sports, and child care. The Recreation/Wellness Center project consists of the construction of two new buildings: the Recreation/Wellness Center and the Child Care Center, totaling approximately 98,000 gross square feet.

The Recreation/Wellness Center building will contain approximately 85,000 gross square feet and provide facilities for a variety of activities, including basketball, volleyball, aerobics, weight lifting, racquetball, wall climbing, and fitness programs. The Center will house facilities to support the coordination of the campus intramural program and the provision of health-care programs and services to U. T. San Antonio students and, as feasible, to faculty and staff.

The Child Care Center building will contain approximately 13,000 gross square feet with an adjacent outdoor playground area and will provide quality child care for U. T. San Antonio students, faculty, and staff. Alumni and members of the greater San Antonio community may access the services on a fully paid, space available basis.

The debt is to be repaid from the Recreational Facility Fee, designated tuition, and revenues generated by the facilities. The Recreational Facility Fee is \$1 per semester credit hour with a maximum fee of \$30 per semester through FY 2000. With the projected opening of the facility in FY 2001, the Recreational Facility Fee will increase to \$5 per semester credit hour with a maximum fee of \$30 per semester. Annual debt service during the construction period is projected to be \$619,875, assuming a 4.5% short-term borrowing rate. When the facility is open for use in FY 2001, the annual debt service is projected to be \$1,200,967 based on a 6% long-term borrowing rate with a 20-year amortization period. The annual debt service coverage for the facility is expected to be 1.2 times. The financing forecast for this project is set forth on Pages FPCC 31 - 32.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned 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, (the "Master Resolution"), adopted by the U. T. Board of Regents ("Board") on February 14, 1991, and amended on October 8, 1993, and August 14, 1997, do hereby execute this certificate for the benefit of the Board pursuant to Section 5(a)(ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity Debt" to finance the construction cost of the Recreation/Wellness Center at U. T. San Antonio, and do certify that to the best of my knowledge, the Board is in compliance with and not in default of any terms, provisions, and conditions in the Master Resolution, the First Supplemental Resolution Establishing the Revenue Financing System Commercial Paper Program, ("First Supplemental"), the Second Supplemental Resolution, the Third Supplemental Resolution, the Fourth Supplemental Resolution, the Fifth Supplemental Resolution, the Sixth Supplemental Resolution, and the Seventh Supplemental Resolution.

EXECUTED this 5 day of January, 1999


Assistant Vice Chancellor for Finance

**The University of Texas at San Antonio
Recreation/Wellness Center**

	<u>FY 96</u>	<u>FY 97</u>	<u>FY 98</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>
Rec/Wellness Fee Per Semester Credit Hr		\$1/\$30	\$1/\$30	\$1/\$30	\$1/\$30	\$5/\$30	\$5/\$30	\$5/\$30
Fiscal Year Semester Credit Hours		391,831	403,609	416,700	424,752	432,993	441,430	449,981

Project Level (Actual \$)

	<u>Actual</u>			<u>Forecast</u>				
	<u>FY 96</u>	<u>FY 97</u>	<u>FY 98</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>
Rec/Wellness Center Beg Fund Bal	0	0	210,000	567,886	1,192,129	829,423	530,457	726,998
Rec/Wellness Fee Collections	0	389,605	402,372	416,700	424,752	1,243,655	1,267,925	1,292,560
Other Revenues	0	0	0	0	0	280,000	285,000	290,000
Tuition Designated Transfer		210,000	210,000	560,000	560,000	430,000	430,000	430,000
Total Rec/Wellness Revenues	0	599,605	612,372	976,700	984,752	1,953,655	1,982,925	2,012,560
Rec/Wellness Expenses	0	0	(20,412)	(107,000)	(127,583)	(551,654)	(585,417)	(620,718)
Funds Available for Debt Service	0	599,605	591,960	869,700	857,169	1,402,001	1,397,508	1,391,842
Debt Service	0	0	0	(245,457)	(619,875)	(1,200,967)	(1,200,967)	(1,200,967)
Transfer to Plant Funds		(389,605)	(234,074)		(600,000)	(500,000)		
Change in Fund Balance	0	210,000	357,886	624,243	(362,706)	(298,966)	196,541	190,875
Ending Fund Balance	0	210,000	567,886	1,192,129	829,423	530,457	726,998	917,872
Debt Service Coverage	n.a.	n.a.	n.a.	3.5	1.4	1.2	1.2	1.2

Campus Level: (\$ in millions)

	<u>Actual</u>			<u>Forecast</u>				
	<u>FY 96</u>	<u>FY 97</u>	<u>FY 98</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>
Beg. Fund Balance	7.2	11.5	14.1	22.6	26.2	25.2	26.8	27.5
Total Current Unrestricted Revenues	95.8	100.1	116.8	120.2	125.9	133.7	137.2	138.6
Total Current Unrestricted Expenditures	(84.9)	(91.8)	(100.3)	(106.8)	(113.3)	(118.1)	(122.6)	(125.4)
Net Revenues	10.9	8.3	16.5	13.4	12.6	15.6	14.6	13.2
Debt Service	(4.4)	(4.9)	(5.6)	(8.1)	(11.5)	(12.4)	(12.3)	(11.2)
Other Mand. Transfers	(0.0)	(0.0)	0.0	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Total Mand. Transfers	(4.4)	(4.9)	(5.6)	(8.2)	(11.6)	(12.5)	(12.4)	(11.3)
Non-Mand. Transfers	(1.5)	0.5	(2.0)	(1.4)	(1.9)	(1.3)	(1.3)	(1.3)
Adjustments	(0.7)	(1.2)	(0.4)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Net Inc./(Dec.) for Year	4.3	2.7	8.5	3.6	(1.1)	1.6	0.7	0.4
End. Fund Balance	11.5	14.1	22.6	26.2	25.2	26.8	27.5	27.9
Debt Service Coverage	2.5	1.7	2.9	1.6	1.1	1.3	1.2	1.17
Debt Service to Operating Expenses	5.2%	5.3%	5.6%	7.6%	10.2%	10.5%	10.0%	8.9%

**The University of Texas at San Antonio
Recreation/Wellness Center**

U.T. System (\$ in millions)

	<u>Actual</u>			<u>Forecast</u>				
	<u>FY 96</u>	<u>FY 97</u>	<u>FY 98</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>
Available Revenues	3,767.5	3,900.3	4,208.7	4,078.6	4,197.8	4,277.2	4,374.6	4,435.0
Operating Expenses	(3,436.1)	(3,657.7)	(3,911.5)	(3,849.9)	(3,917.0)	(4,003.0)	(4,080.6)	(4,164.4)
Net Available for Debt Serv.	331.4	242.6	297.2	228.7	280.8	274.2	294.0	270.6
Other Mandatory Transfers	(17.1)	(1.8)	(1.1)	(2.2)	(3.0)	(3.9)	(3.8)	(3.8)
Debt Service	(58.0)	(73.5)	(81.3)	(111.1)	(127.6)	(136.4)	(134.2)	(125.8)
Debt Service Coverage	4.4	3.2	3.6	2.0	2.2	2.0	2.1	2.1
Debt Service to Operating Expenses	1.7%	2.0%	2.1%	2.9%	3.2%	3.4%	3.3%	3.1%

9. U. T. Medical Branch - Galveston - Keiller Building Laboratory Expansion: Request to Amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget and Appropriation of Funds.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and President Stobo that the U. T. Board of Regents:

- a. Amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to modify funding for the Keiller Building Laboratory Expansion at U. T. Medical Branch - Galveston to \$2,835,000 from Hospital Revenues and \$2,835,000 from Gifts and Grants
- b. Appropriate funds of \$2,835,000 from Hospital Revenues and \$2,835,000 from Gifts and Grants for total project funding.

BACKGROUND INFORMATION

The Keiller Building Laboratory Expansion project at U. T. Medical Branch - Galveston is included in the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget at a preliminary project cost of \$5,670,000, with funding of \$4,000,000 from Revenue Financing System Bond Proceeds, \$170,000 from Hospital Revenues, and \$1,500,000 from Gifts and Grants. It is requested that this previously approved funding be modified to accommodate a National Institutes of Health Construction Grant. The new total funding request for this renovation project is \$2,835,000 from Hospital Revenues and \$2,835,000 from Gifts and Grants.

Approval of this item will amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget for the Keiller Building Laboratory Expansion project at U. T. Medical Branch - Galveston at a preliminary project cost of \$5,670,000, with funding of \$2,835,000 from Hospital Revenues and \$2,835,000 from Gifts and Grants.

10. U. T. M.D. Anderson Cancer Center - Faculty Center (Project No. 703-960): Request for Approval of Design Development Plans; Approval of Total Project Cost; Appropriation of Funds and Authorization of Expenditure; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Parity Debt 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, the Executive Vice Chancellor for Health Affairs, and President Mendelsohn that the U. T. Board of Regents:

- a. Approve design development plans for the Faculty Center at U. T. M.D. Anderson Cancer Center
- b. Approve a total project cost of \$45,400,000
- c. Appropriate funds and authorize expenditure of \$25,000,000 from Revenue Financing System Bond Proceeds and \$20,400,000 from Hospital Revenues for total project funding.

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 (the "Master Resolution"), 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 FPCC - 37, the U. T. Board of Regents resolves that:

- a. Parity Debt shall be issued to pay the project's cost including any costs prior to the issuance of such Parity Debt
- 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. U. T. M.D. Anderson Cancer Center, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the amount of \$25,000,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

BACKGROUND INFORMATION

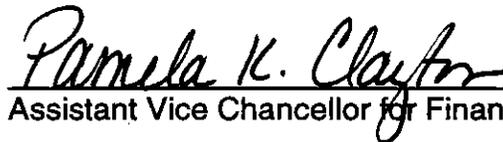
The Faculty Center at U. T. M.D. Anderson Cancer Center is included in the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget at a preliminary project cost of \$45,400,000, with funding of \$25,000,000 from Revenue Financing System Bond Proceeds and \$20,400,000 from Hospital Revenues. This project will provide approximately 325,000 square feet of new construction and will include office space, telemedicine and conference facilities, an academy for training and systems improvement, a copy center, mail services, a small food court, dock and building support areas, a sky bridge to the Rotary House, and site development. This project will provide office space to relocate most of the faculty and some administrative employees currently housed in leased space.

The debt is to be repaid from Hospital Revenues. Annual debt service during the construction period is projected to be \$1,125,000, assuming a 4.5% short-term borrowing rate. When the Faculty Center is open for use in FY 2001, the annual debt service is projected to be \$2,179,613 based on a 6% long-term borrowing rate with a 20-year amortization period. The financing forecast for this project is set forth on Page FPCC - 38.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned 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, (the "Master Resolution"), adopted by the U. T. Board of Regents ("Board") on February 14, 1991, and amended on October 8, 1993, and August 14, 1997, do hereby execute this certificate for the benefit of the Board pursuant to Section 5(a)(ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity Debt" to finance the construction cost of the Faculty Center at U. T. M.D. Anderson Cancer Center, and do certify that to the best of my knowledge, the Board is in compliance with and not in default of any terms, provisions, and conditions in the Master Resolution, the First Supplemental Resolution Establishing the Revenue Financing System Commercial Paper Program, ("First Supplemental"), the Second Supplemental Resolution, the Third Supplemental Resolution, the Fourth Supplemental Resolution, the Fifth Supplemental Resolution, the Sixth Supplemental Resolution, and the Seventh Supplemental Resolution.

EXECUTED this 5 day of January, 1999



Assistant Vice Chancellor for Finance

**The University of Texas
M. D. Anderson Cancer Center
Faculty Center**

Campus Level: U.T.M.D. Anderson Cancer Center (\$ in millions)

	Actual			Forecast				
	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Beg. Fund Balance	327.2	360.7	384.3	445.0	427.2	406.7	460.8	480.6
Total Current Unrestricted Revenues	649.6	675.3	763.6	716.6	729.8	744.8	760.1	775.8
Total Current Unrestricted Expenditures	(592.3)	(609.0)	(675.4)	(675.2)	(691.8)	(708.1)	(724.9)	(742.1)
Net Revenues	57.4	66.2	88.3	41.4	38.1	36.6	35.2	33.7
Debt Service	(2.4)	(5.3)	(6.2)	(9.3)	(12.6)	(17.4)	(17.4)	(17.4)
Other Mand. Transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Mand. Transfers	(2.4)	(5.3)	(6.2)	(9.3)	(12.6)	(17.4)	(17.4)	(17.4)
Non-Mand. Transfers	6.6	2.3	(17.7)	(49.9)	(45.9)	34.8	2.0	2.0
Adjustments	(28.1)	1.0	(3.7)	0.0	0.0	0.0	0.0	0.0
Net Inc./(Dec.) for Year	33.5	64.2	60.7	(17.9)	(20.4)	54.0	19.8	18.4
End. Fund Balance	360.7	424.9	445.0	427.2	406.7	460.8	480.6	498.9
Debt Service Coverage	24.1	12.5	14.3	4.4	3.0	2.1	2.0	1.9
Debt Service to Operating Expenses	0.4%	0.9%	0.9%	1.4%	1.8%	2.5%	2.4%	2.3%

U.T. System (\$ in millions)

	Actual			Forecast				
	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Available Revenues	3,767.5	3,900.3	4,208.7	4,078.6	4,197.8	4,277.2	4,374.6	4,435.0
Operating Expenses	(3,436.1)	(3,657.7)	(3,911.5)	(3,849.9)	(3,917.0)	(4,003.0)	(4,080.6)	(4,164.4)
Net Available for Debt Serv.	331.4	242.6	297.3	228.7	280.8	274.2	294.0	270.6
Other Mandatory Transfers	(17.1)	(1.8)	(1.1)	(2.2)	(3.0)	(3.9)	(3.8)	(3.8)
Debt Service	(58.0)	(73.5)	(81.3)	(111.1)	(127.6)	(136.4)	(134.2)	(125.8)
Debt Service Coverage	4.4	3.2	3.6	2.0	2.2	2.0	2.1	2.1
Debt Service to Operating Expenses	1.7%	2.0%	2.1%	2.9%	3.2%	3.4%	3.3%	3.1%

FPCC - 38

Executive Session of the Board

**BOARD OF REGENTS
EXECUTIVE SESSION**
Pursuant to Texas Government Code
Chapter 551, Sections 551.071 and 551.074

Date: February 10, 1999

Time: 9:30 a.m.

Place: Regents' Meeting Room, Ninth Floor, Ashbel Smith Hall
201 West Seventh Street, Austin, Texas

1. Consultation with Attorney Regarding Pending and/or Contemplated Litigation or Settlement Offers - Section 551.071

U. T. Austin: Pending and Potential Contemplated Litigation
2. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Section 551.074
 - a. U. T. Austin: Evaluation and Deliberation of Terms of Reappointment of Head Football Coach and Assistant Coaches
 - b. U. T. San Antonio: Consideration of Personnel Matters Related to the Possible Selection and Employment of a President