

Meeting No. 1,173

THE MINUTES OF THE BOARD OF REGENTS  
OF  
THE UNIVERSITY OF TEXAS SYSTEM

Pages 1 - 10

November 27, 2017

Austin, Texas

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MEETING NO. 1,173

MONDAY, NOVEMBER 27, 2017.--The members of the Board of Regents of The University of Texas System convened at 3:30 p.m. on Monday, November 27, 2017, in the Board Room, Second Floor, The University of Texas System Building, 210 West Seventh Street, Austin, Texas, with the following participation:

ATTENDANCE.--

Present

Chairman Tucker  
Vice Chairman Hildebrand  
Vice Chairman Foster  
Regent Aliseda  
Regent Beck  
Regent Eltife  
Regent Hicks  
Regent Longoria  
Regent Weaver\*  
Regent Castro, Student Regent, nonvoting

\*Regent Weaver left the call and did not participate in presentation, discussion, or vote of Open Session items.

In accordance with a notice being duly posted with the Secretary of State and there being a quorum present, Chairman Tucker called the meeting to order in Open Session.

RECESS TO EXECUTIVE SESSION.--At 3:30 p.m., the Board recessed to Executive Session in the Executive Session Room, Second Floor, The University of Texas System Building, pursuant to *Texas Government Code* Sections 551.071, 551.072, and 551.074 to consider the matters listed on the Executive Session agenda.

RECONVENE THE BOARD IN OPEN SESSION TO CONSIDER ACTION, IF ANY, ON EXECUTIVE SESSION ITEMS AND TO CONSIDER AGENDA ITEMS.--The Board reconvened in Open Session in the Board Room at 4:43 p.m. No action was taken on the following Executive Session items, and the Board considered the following Agenda Items.

- 1a. U. T. System: Discussion and appropriate action regarding individual personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of presidents (academic and health institutions), U. T. System Administration officers (Deputy Chancellor, Executive Vice Chancellors, and Vice Chancellors), other officers reporting directly to the Board (Chancellor, General Counsel to the Board, and Chief Audit Executive), members of the Board of Regents, and U. T. System and institutional employees

No action was taken on this item.

- 1b. U. T. System: Discussion and appropriate action regarding individual personnel matters related to development of a bid for management of Los Alamos National Laboratory

No action was taken on this item. (See related Agenda Item 4 on Page 5 for action taken in Open Session.)

- 2a. U. T. System Board of Regents: Discussion with Counsel on pending legal issues

No action was taken on this item.

- 2b. U. T. Southwestern Medical Center: Discussion and appropriate action regarding legal issues related to proposed acquisition of North Texas Specialty Physicians through Southwestern Health Resources

No action was taken on this item. (See related Agenda Item 2 on Page 3 for action taken in Open Session.)

- 2c. U. T. M. D. Anderson Cancer Center and U. T. Health Science Center - Houston: Discussion and appropriate action regarding legal issues related to proposed TMC3 collaborative research development

No action was taken on this item. (See related Agenda Item 3 on Page 4 for action taken in Open Session.)

- 2d. U. T. System: Discussion and appropriate action regarding legal issues related to development of a bid for management of Los Alamos National Laboratory

No action was taken on this item. (See related Agenda Item 4 on Page 5 for action taken in Open Session.)

3. U. T. M. D. Anderson Cancer Center and U. T. Health Science Center - Houston: Discussion and appropriate action regarding the lease and/or exchange of land and lease of common facilities at the proposed TMC3 collaborative research development located on approximately 28 acres bounded by Old Spanish Trail, South Braeswood Boulevard, and bisected by William C. Harvin Boulevard, from Texas Medical Center, Inc., for research and related uses

No action was taken on this item. (See related Agenda Item 3 on Page 4 for action taken in Open Session.)

## AGENDA ITEMS

1. U. T. System Board of Regents: Approval of Consent Agenda items and consideration of any items referred to the full Board

Following a roll call vote, the Board unanimously approved the Consent Agenda, which is set forth on Pages 8 - 10.

In approving the Consent Agenda, the Board expressly authorized that any contracts or other documents or instruments approved therein may be executed by the appropriate officials of the respective University of Texas System institution involved.

2. U. T. Southwestern Medical Center: Discussion and appropriate action regarding proposed acquisition of North Texas Specialty Physicians through Southwestern Health Resources

A proposed acquisition for The University of Texas Southwestern Medical Center, through Southwestern Health Resources (SWHR), of North Texas Specialty Physicians (NTSP), a Texas nonprofit corporation, was before the Board to expand SWHR's physician network, provide advanced population health capabilities and infrastructure, and afford access to a health care plan.

On October 2, 2015, the Board of Regents approved the formation of a health care network, including a physician network and a hospital network, with Texas Health Resources (THR), a Texas nonprofit corporation. The health care network, known as Southwestern Health Resources, was intended to enable U. T. Southwestern Medical Center to enhance its abilities to serve its multiple public purposes and specifically to deliver high quality health care across the entire care continuum. The Board also approved allocation and expenditure of \$63 million of unrestricted institutional funds over three years to support the new clinical health network.

Regent Aliseda moved that the Board authorize the allocation and expenditure of funds in the amount and within the parameters recommended by Counsel in Executive Session as appropriate to support the further development of the Southwestern Health Resources Network, including the negotiated acquisition of

North Texas Specialty Physicians, with the further requirement and understanding that the funding will be from an unrestricted source and that no state-appropriated funds or tuition revenues will be used.

The motion was seconded by Regent Longoria, and carried unanimously by roll call vote.

3. U. T. M. D. Anderson Cancer Center and U. T. Health Science Center - Houston: Discussion and appropriate action regarding proposed TMC3 collaborative research development

Chairman Tucker called on Chancellor McRaven and members of the Board for comments on the proposed TMC<sup>3</sup> collaborative research development at The University of Texas M. D. Anderson Cancer Center and The University of Texas Health Science Center at Houston. Hearing none, she called on Vice Chairman Foster for a motion.

Vice Chairman Foster moved that the Board authorize the Chancellor to work actively to assure U. T. System participation by the U. T. Health Science Center - Houston and U. T. M. D. Anderson Cancer Center in a collaborative research translation campus in Houston, Harris County, Texas, that will also include participation by The Texas A&M University System and Baylor College of Medicine, upon the satisfaction of the following actions:

- a. confirm that the envisioned philanthropy articulated by the Texas Medical Center for the TMC<sup>3</sup> project is achievable and that solicitations for lead gifts are well coordinated with campuses and not in competition with each U. T institution's respective goals;
- b. in recognition of current financial challenges at U. T. Health Science Center - Houston and the recent recovery at U. T. M. D. Anderson Cancer Center, condition their participation on some other entity covering their costs of the proposed Helix and actively seek financial support for the project from the City of Houston and/or the State of Texas;
- c. assure U. T. institutions are protected from the potential situation of paying for space that is not usable;
- d. seek a legal opinion of the Attorney General if any questions remain concerning whether the proposal is in compliance with the Texas Constitution and all applicable state laws;
- e. secure commitment to U. T. participation in the selection of an experienced third party to manage the real estate development; and finally,

- f. document that additional review and approval are required from the Board of Regents for the planned construction of the individual research buildings for which the U. T. institutions would be responsible, with the Board approval required for inclusion of the projects in the Capital Improvement Plan and recommendations on priority for and access to funding.

The motion was seconded by Regent Beck, and carried unanimously by roll call vote.

4. U. T. System: Discussion and appropriate action regarding development of a bid for management of Los Alamos National Laboratory

Chairman Tucker called on members of the Board for questions of Chancellor McRaven and Deputy Chancellor Daniel related to the bid for management of Los Alamos National Laboratory. Hearing none, she called on Vice Chairman Hildebrand for a motion.

Vice Chairman Hildebrand read the following motion as was before members of the Board:

Motion by Vice Chairman Hildebrand

I move that the Board of Regents authorize the Chancellor, the Deputy Chancellor, and other U. T. System and System Administration officials, as the Chancellor determines appropriate and as contemplated by Section 65.45 of the *Texas Education Code*, to submit a proposal and offer in response to the contract solicitation issued by the U.S. Department of Energy for the management and operation of the Los Alamos National Laboratory.

I further move that the Board of Regents ratify the formation of a limited liability company and a corporation and authorize appointment by the Chancellor of appropriate U. T. System employees to serve on the board and/or as officers of both the limited liability company and the corporation. I also move that the Board authorize U. T. System employees so appointed to serve on the board and/or as officers of the limited liability company and/or the corporation.

Finally, I move that the Board of Regents delegate to the Chancellor and Deputy Chancellor the authority to

- a. take actions necessary to create and submit the formal proposal and offer, including all required or appropriate supporting documents and agreements;
- b. upon award, perform the Prime Contract and transition activities that result;



- c. execute necessary agreements and legal documentation, including a limited liability company operating agreement and teaming agreements and subcontracts with appropriate parties, as reviewed and approved by the Office of General Counsel; and finally,
- d. carry on and support such other activities, enter into such additional agreements, and make such expenditures as the Chancellor and Deputy Chancellor may deem appropriate for achieving these purposes.

The motion was seconded by Regent Beck, and then Chairman Tucker opened the floor to discussion before calling for a vote on the motion.

Regents Hicks and Eltife noted their support of the concept and cause, but spoke of concerns related to the safety of the project, the potential financial liability, and that this is not an institutional-led effort.

Regent Longoria expressed her opinion that this bid is outside the core mission and core capability of The University of Texas System. She spoke of her concern that this project is a distraction from the core mission and will likely grow System Administration at a time where there is a need to cut back on the expenditure of the Available University Fund (AUF). Regent Longoria also spoke of safety and financial concerns related to the endeavor, including the potential risk to the AUF and the Intermediate Term Fund in the case of a catastrophic event. She spoke of her concerns about the experience of the contractors, the reputational risks, and the fact that The University of Texas at Austin is not in favor of the bid.

Vice Chairman Foster commented that he is compelled to speak in favor of the bid and is supportive of the U. T. System's efforts to pursue the project. He stated his belief that this represents an unbelievable opportunity for the State of Texas, U. T. System, and U. T. Austin, as well as many of the other U. T. institutions. Further stating that this project represents an opportunity for U. T. to bring in research funds, to shine, and to perform at the level that a university of the first class is expected to perform. He expressed his belief that the risks are manageable and the assembled team will be able to identify and mitigate the risks.

Regent Beck echoed Vice Chairman Foster's remarks, stating there is a risk but it is a manageable and acceptable risk and that the opportunities far outweigh those risks. He cited the data supporting the potential research and economic benefits to the U. T. System and the institutions. He acknowledged the safety concerns and commented on his belief that this will enhance the reputation of U. T. if the facility is managed and operated in the right way, and he has no reason to believe U. T. cannot do that.

Regent Aliseda also echoed both sets of comments, stating it is a noble cause, an opportunity for research to increase, and an opportunity for all the U. T. institutions. He said he wholeheartedly supports the approach in this endeavor.

Vice Chairman Hildebrand reiterated his support for the motion and his belief of the potential benefits for the 14 institutions within the U. T. System and the State of Texas.

Chairman Tucker then called for a roll call vote. Vice Chairman Hildebrand, Vice Chairman Foster, Regent Beck, and Regent Aliseda voted in favor of the motion, with Regent Longoria, Regent Hicks, and Regent Eltife voting against the motion. The motion passed with a four to three vote.

Chairman Tucker congratulated her fellow Regents for the diligence shown in asking tough questions, the thorough review of the materials, and thoughtful commentary. She also thanked Chancellor McRaven and his team for assembling the information for the Board and for the bid proposal.

ADJOURNMENT.--There being no further business, the meeting was adjourned at 5:06 p.m.

/s/ Tina E. Montemayor  
Assistant Secretary to the Board of Regents

February 2, 2018



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## MEETING OF THE BOARD

1. Contract (funds going out) - U. T. System: Amendment to contract with Netherland, Sewell & Associates, Inc. to perform reserve studies for University Lands

Agency: Netherland, Sewell & Associates, Inc.

Funds: Third amendment to existing contract for an additional \$600,000; bringing total for the initial contract and three amendments to \$1,900,000

Period: September 1, 2017 through January 1, 2018

Description: Amendment of existing agreement with Netherland, Sewell & Associates, Inc. to perform analysis of oil and gas reserves and provide reserve estimates to University Lands. The initial contract was for a one-year term beginning June 16, 2014, for \$375,000. The first amendment was for another one-year term beginning May 11, 2015, for \$350,000. The second amendment raised the total contract amount to \$1,300,000, with a term beginning May 11, 2016, and ending August 31, 2016. The second amendment was approved by the Board on July 13, 2016.

## ACADEMIC AFFAIRS COMMITTEE

2. Lease - U. T. El Paso: Authorization to lease approximately 21,800 square feet of space for the University Bookstore located at 2201 Sun Bowl Drive and two ancillary locations in El Paso, El Paso County, Texas, to Follett Higher Education Group, Inc., for the operation of a campus bookstore

Description: Lease of approximately 21,800 square feet of space; 20,000 square feet in the University Bookstore located at 2201 Sun Bowl Drive, and an additional 1,800 square feet to be leased during events at the Sun Bowl Stadium and Don Haskins Center in El Paso, El Paso County, Texas, for the operation of a campus bookstore. Lessee has operated a bookstore in these locations since 2006. The institution recently solicited competitive bids for a new operator and awarded the new contract to Follett Higher Education Group, Inc.

Lessee:	Follett Higher Education Group, Inc., an Illinois corporation
Term:	84 months commencing approximately January 1, 2018, with three one-year options to renew at the institution's sole discretion
Lease Income:	Annual base rent for the initial term is \$550,000 (\$25.23 per square foot), for a total base rental income of \$3,850,000 over the initial term of the lease. Lessee will pay Lessor annual percentage rent in an amount ranging from 20% to 24% of annual gross sales, excluding sales of academic materials. Annual gross percentage rent is estimated to be \$339,763, based on historical sales data, for a total percentage rental income of approximately \$2,378,338 over the initial term. Lessee will pay a one-time cash contribution of \$250,000, to be amortized over the initial term of the lease.
Tenant Improvements:	Lessee will contribute \$1,050,000 in improvements to the lease space, to be amortized over the initial term of the lease.
Total Lease Income:	Over the initial and renewal terms, Lessee will pay to Lessor an estimated \$9,754,364 in base rent, percent rent, and operating expenses.

### HEALTH AFFAIRS COMMITTEE

3. Contract (funds coming in) - U. T. Southwestern Medical Center: To provide physician services to Parkland Health and Hospital System for Dallas County Hospital District

Agency:	Dallas County Hospital District
Funds:	\$218,154,244
Period:	October 1, 2017 through September 30, 2019
Description:	U. T. Southwestern Medical Center will provide physician services to Parkland Health and Hospital System for Dallas County Hospital District.