

Meeting No. 894

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

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August 7-8, 1996

Tyler, Texas

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 OF
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MEETING NO. 894

WEDNESDAY, AUGUST 7, 1996.--The members of the Board of Regents of The University of Texas System convened at 1:35 p.m. on Wednesday, August 7, 1996, in Constellation Ballroom I of the Sheraton Tyler Hotel in Tyler, Texas, with the following in attendance:

ATTENDANCE.--

Present

Chairman Rapoport, presiding
Vice-Chairman Hicks
Regent Deily
Regent Evans
Regent Holmes
Regent Lebermann
Regent Temple

Absent

*Vice-Chairman Smiley
*Regent Loeffler

Executive Secretary Dilly

Chancellor Cunningham
Executive Vice Chancellor Mullins

Chairman Rapoport announced a quorum present and called the meeting to order.

RECESS TO EXECUTIVE SESSION.--At 1:37 p.m., the Board recessed to Executive Session pursuant to Texas Government Code, Chapter 551, Section 551.074 to consider the recommendations of the Hearing Tribunal regarding the termination of a tenured faculty member at The University of Texas M.D. Anderson Cancer Center.

RECONVENE.--At 3:05 p.m., the Board reconvened in open session to consider any action regarding the faculty termination case at U. T. M.D. Anderson Cancer Center. In response to Chairman Rapoport's inquiry regarding the wishes of the Board, the following action was taken:

U. T. M.D. Anderson Cancer Center: Approval of Findings and Recommendations of Hearing Tribunal Regarding Tenured Faculty Member and Termination of Employment of Elias Anaissie, M.D., Effective August 7, 1996.--Regent Deily moved that the findings and recommendations of the Hearing Tribunal with regard to the charges against Elias Anaissie, M.D., be approved by the Board of Regents for the reason that they are supported by the hearing record and that his employment as a tenured member of the faculty at The University of Texas M.D. Anderson Cancer Center be terminated as of 5:00 p.m. today, August 7, 1996.

The motion was duly seconded and carried by unanimous vote.

*Vice-Chairman Smiley and Regent Loeffler were excused because of previous commitments.

RECESS TO BRIEFING SESSION.--At 3:10 p.m., the Board recessed to a briefing session concerning the Fiscal Year 1997 Operating Budgets.

* * * * *

THURSDAY, AUGUST 8, 1996.--The members of the Board of Regents of The University of Texas System reconvened in regular session at 10:08 a.m. on Thursday, August 8, 1996, in Room 301 of the Administration Building at The University of Texas at Tyler, Tyler, Texas, with the following in attendance:

ATTENDANCE.--

<u>Present</u>	<u>Absent</u>
Chairman Rapoport, presiding	*Regent Loeffler
**Vice-Chairman Hicks	
Vice-Chairman Smiley	
Regent Deily	
Regent Evans	
Regent Holmes	
Regent Lebermann	
Regent Temple	
Executive Secretary Dilly	
Chancellor Cunningham	
Executive Vice Chancellor Duncan	
Executive Vice Chancellor Mullins	
Executive Vice Chancellor Burck	

Chairman Rapoport announced a quorum present and reconvened the meeting of the Board.

RECESS TO EXECUTIVE AND BRIEFING SESSIONS.--At 10:10 a.m., Chairman Rapoport announced that the Board would recess to convene an Executive Session and briefing session pursuant to Texas Government Code, Chapter 551, Sections 551.071, 551.072, and 551.074 to consider those matters listed on the Executive Session agenda.

*Regent Loeffler was excused because of a previous commitment.

**Vice-Chairman Hicks departed the meeting at 2:30 p.m. because of a previous commitment and was not present for the open meeting of the Board.

RECONVENE.--At 2:50 p.m., the Board reconvened in open session in Room 401 of the Robert R. Muntz Library.

WELCOME BY DR. GEORGE F. HAMM, PRESIDENT OF THE UNIVERSITY OF TEXAS AT TYLER.--Chairman Rapoport stated that the Board was pleased to be meeting at The University of Texas at Tyler and was especially delighted to have had the opportunity to meet with many of this component's friends and supporters at last evening's (August 7) very nice social event. He then called on Dr. George F. Hamm, President of U. T. Tyler, for any welcoming remarks on behalf of the host institution.

On behalf of the faculty, staff, and students of U. T. Tyler, President Hamm welcomed the members of the Board and other guests to Tyler.

U. T. BOARD OF REGENTS: APPROVAL OF MINUTES OF REGULAR MEETING HELD ON MAY 8-9, 1996.--Upon motion of Regent Lebermann, seconded by Regent Temple, the Minutes of the regular meeting of the Board of Regents of The University of Texas System held on May 8-9, 1996, in Houston, Texas, were approved as distributed by the Executive Secretary. The official copy of these Minutes is recorded in the Permanent Minutes, Volume XLIII, Pages 1489 - 1958.

SPECIAL ITEM

U. T. System: Report of Summary of Gift Acceptance and Related Administrative Actions Conforming to Board Policy for March 1, 1996 Through May 31, 1996.--Vice Chancellor for Development and External Relations Perry reviewed the Summary of Gift Acceptance and Related Administrative Actions Conforming to Board Policy for The University of Texas System for the period March 1, 1996 through May 31, 1996, as set forth on Pages 4 - 8.

Vice Chancellor Perry reported that during this period 122 items conforming to Board policy were approved including the acceptance of \$11,228,589 in gifts and \$473,333 in other matching contributions. Total gifts this quarter included a \$200,000 gift to The University of Texas at Tyler from Mr. and Mrs. Joseph Z. Ornelas, Tyler, Texas, to establish the Dr. Ben R. Fisch Endowed Professorship. These generous gifts have helped to yield a total of \$35,451,462 in gifts accepted for the first nine months of this fiscal year compared to a total of \$26,440,360 in gifts accepted for all of the Fiscal Year ended August 31, 1995.

Mrs. Perry also highlighted two additional items conforming to Board policy that have been approved for the benefit of U. T. Tyler but which will not be reported until the November 1996 Board meeting. One is a \$100,000 gift from Benjy F. Brooks, M.D., Winona, Texas, to establish the Bart Brooks Endowed Professorship of Ethics and Leadership, and the second is a total of \$500,000 in gifts and pledges from various donors to establish the George F. Hamm Endowed Chair in Arts and Humanities. The public announcement of these gifts was made at the social event the Board attended last evening (August 7).

ACCEPTANCE OF GIFTS HELD BY BOARD

# ALL ITEMS	COMPONENT INSTITUTION	ASSET TYPES						BATCHING FUNDS	TOTAL VALUE
		CASH	SECURITIES	REAL ESTATE	PLEDGES	OTHER	TRANSFERS		
4	U. T. Arlington	\$ 35,000	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 35,000
69	U. T. Austin	2,069,969	1,565,338	---	823,600	9,603	89,399 *	448,333 *	4,820,409
3	U. T. El Paso	37,000	---	---	---	---	---	---	37,000
3	U. T. Persian Basin	305,019	---	---	---	---	---	---	305,019
7	U. T. San Antonio	127,400	11,438	---	200,000	---	---	---	338,838
1	U. T. Tyler	---	200,000	---	---	---	---	---	200,000
1	U. T. SWMC-Dallas	25,000	---	---	---	---	---	25,000 •	25,000
5	U. T. M.B.-Galveston	49,673	---	---	---	---	50,000	☺☺☺	99,673
11	UTHSC-Houston	227,520	3,362	---	54,000	---	191,398	---	476,280
8	UTHSC-San Antonio	1,045,000	---	446,000	---	---	---	---	1,491,000
7	UTMDACC	2,000,745	---	---	---	50,000	---	---	2,050,745
2	UTHC-Tyler	277,500	19,000	---	---	---	25,000	---	321,500
<u>1</u>	<u>UTEP AND UTMB</u>	<u>---</u>	<u>1,028,125</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>1,028,125</u>
122	TOTAL	\$6,199,826	\$2,827,263	\$446,000	\$1,077,600	\$59,603	\$355,797 *	\$473,333 •	\$11,228,589

• Not included in total: U. T. Austin - \$135,833 of Board-held matching funds and a \$50,000 transfer of endowment funds;
 U. T. SWMC-Dallas - \$25,000 of Board-held matching funds.

NOTE: Compiled by Office of Development and External Relations

CLASSIFICATION OF GIFTS AND OTHER ACTIONS

<u>COMPONENT INSTITUTION</u>	<u>ENDOWMENTS</u>	<u>CHARITABLE REMAINDER TRUSTS</u>	<u>POOLED INCOME FUND</u>	<u>REMAINDER INTERESTS</u>	<u>HELD IN TRUST BY OTHERS</u>	<u>CURRENT PURPOSE</u>	<u>OTHER</u>
U. T. Arlington	4	---	---	---	---	---	---
U. T. Austin	62	1	1	---	9	---	---
U. T. El Paso	2	---	---	---	---	1	---
U. T. Permian Basin	4	---	---	---	---	---	---
U. T. San Antonio	7	---	---	---	---	---	---
U. T. Tyler	1	---	---	---	---	---	---
U. T. SWMC-Dallas	1	---	---	---	---	---	---
U. T. M.B.-Galveston	5	---	---	---	---	---	---
UTHSC-Houston	10	---	---	---	1	---	---
UTHSC-San Antonio	7	1	---	---	---	---	---
UTMDACC	1	---	---	---	---	6	---
UTHC-Tyler	2	---	---	---	---	---	---
UTEP and UTMB	---	---	---	---	---	---	---
TOTAL	106	3	1	---	10	7	---

PURPOSES OF **GIFTS HELD** BY BOARD AND **OTHERS**

ENDOWMENT

<u>COMPONENT</u>	<u>INSTITUTION</u>	<u>DIST.</u> <u>CHAIR</u>	<u>CHAIR</u>	<u>DIST.</u> <u>PROF'SHIP</u>	<u>PROF'SHIP</u>	<u>FACULTY</u> <u>FELL'SHIP</u>	<u>GRADUATE</u> <u>FELL'SHIP</u>	<u>SCHOLARSHIP</u>	<u>OTHER</u>	<u>CURRENT</u> <u>PURPOSE</u>	<u>OTHER</u> <u>PURPOSE</u>
U. T.	Arlington	---	---	---	---	---	---	3	---	---	---
U. T.	Austin	---	1	---	1	1	---	52	7	---	9
U. T.	El Paso	---	---	---	---	---	---	2	---	1	---
U. T.	Permian Basin	---	2	---	---	---	---	---	---	---	---
U. T.	San Antonio	---	---	1	---	---	---	6	---	---	---
U. T.	Tyler	---	---	---	1	---	---	---	---	---	---
U. T.	SWMC-Dallas	---	---	---	---	---	---	---	1	---	---
U. T.	M.B.-Galveston	---	---	---	---	---	---	4	---	---	1
UTHSC-	Houston	---	---	---	2	1	2	3	3	---	---
UTHSC-	San Antonio	---	---	---	---	---	---	1	1	1	2
UTMDACC		---	---	---	---	---	---	---	1	5	1
UTHC-	Tyler	---	---	1	1	---	---	---	---	---	---
UTEP and	UTMB	---	---	---	---	---	---	---	---	---	1
TOTAL		---	3	2	5	2	2	71	13	7	14

Total purposes may not equal total number of items for each component, due to the fact that some items pertain to multiple purposes.

OTHER ADMINISTRATIVE ACTIONS

<u>COMPONENT</u>	<u>INSTITUTION</u>	<u>ESTABLISH</u> <u>ENDOWMENT</u>	<u>REDESIGNATE</u> <u>ENDOWMENT LEVEL</u>	<u>OTHER</u> <u>REDESIGNATION</u>	<u>DISSOLVE</u> <u>ENDOWMENT</u>	<u>APPROVE/ALLOCATE</u> <u>MATCHING</u>	<u>ACCEPT</u> <u>USTEESHIP</u>	<u>OTHER</u>
U. T.	Arlington	3	---	---	---	---		1
U. T.	Austin	56	---	3	2	13	1	4
U. T.	El Paso	2	---	---	---	---	---	1
U. T.	Permian Basin	---	2	3	---	---		---
U. T.	San Antonio	7	---	---	---	---		---
U. T.	Tyler	1	---	---	---	---		---
U. T.	SWMC-Dallas	1	---	---	---	---		---
U. T.	M.B.-Galveston	5	---	---	---	---	---	---
UTHSC-	Houston	10	---	1	---	---	---	---
UTHSC-	San Antonio	4	3	---	---	---	1	---
UTMDACC		1	---	---	---	---	---	1
UTHC-	Tyler	2	---		---	1	---	---
UTEP and	UTMB	---	---	---	---	---	1	---
TOTAL		92	5	7	2	14	3	7

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COMPARATIVE SUMMARY OF GIFTS ACCEPTED VIA THE OFFICIAL ADMINISTRATIVE PROCESS

<u>COMPONENT</u> <u>INSTITUTION</u>	FY 1995 <u>FULL YEAR</u>	FISCAL YEAR 1996		
		<u>9/1/95 - 11/30/95</u>	<u>12/1/95 - 2/29/96</u>	<u>3/1/96 - 5/31/96</u>
U. T. System	\$ ---	\$ ---	\$ 40,000	\$ ---
U. T. Arlington	476,474	---	112,630	35,000
U. T. Austin	11,154,914	2,061,600	1,406,858	4,820,409
U. T. Brownsville	220,000	---	---	---
U. T. Dallas	10,578	600,000	20,000	---
U. T. El Paso	854,886	115,328	25,000	37,000
U. T. Pan American	524,267	---	---	---
U. T. Permian Basin	567,500	10,000	37,058	305,019
U. T. San Antonio	150,300	---	117,121	338,838
U. T. Tyler	365,000	86,046	---	200,000
U. T. SWMC-Dallas	4,999,190	750,151	11,488,653	25,000
U. T. M.B.-Galveston	3,795,794	3,150,000	3,663,082	99,673
UTHSC-Houston	1,068,967	285,111	100,000	476,280
UTHSC-San Antonio	273,834	---	---	1,491,000
UTMDACC	1,230,048	---	154,235	2,050,745
U. T. HC-Tyler	748,608	---	---	321,500
UTEP and UTMB	---	---	---	1,028,125
TOTAL	\$ 26,440,360	\$ 7,058,236	\$17,164,637	\$11,228,589

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

U. T. System: Report on Investments at May 31, 1996.--On behalf of The University of Texas Investment Management Company (UTIMCO), Regent Evans, a member of the UTIMCO Board, summarized the Report on Investments for The University of Texas System for the fiscal quarter ending May 31, 1996, for the Permanent University Fund, Long Term Fund, Short/Intermediate Term Fund, and Separately Invested Assets.

Report by Regent Evans on Behalf of UTIMCO

Mr. Chairman and members of the Board, I am pleased to summarize on behalf of UTIMCO the investments for The University of Texas System for the fiscal quarter ending May 31, 1996.

Item a on Page 11 presents the summary report for Permanent University Fund (PUF) Investments. The PUF began the quarter with a market value of \$5.281 billion. During the quarter, income from the production of minerals on PUF Lands added \$19.0 million of new contributions to the Fund. In addition, investment return totaled \$111.0 million of which \$67.1 million was income return and \$43.9 million was price return. Income return of \$67.1 million was distributed to the Available University Fund (AUF) resulting in a quarter end market value of \$5.344 billion.

During the period, \$17.9 million of new cash was allocated to international equities. Assets will continue to be reallocated from cash and bonds to equities over time in order to increase the exposure to dividend growth. The allocation to bonds, at 44% of the PUF, continues to be reduced gradually although it remains overweighted versus the Fund's long-term target of 30%. This overweighting is the result of the objective to maintain income at current levels. Conversely, exposure to U. S. domestic small cap stocks, foreign stocks and private investments, all of which carry lower yields, is approximately half of long-term allocation targets of 10% each.

Income distributions to the AUF of \$67.1 million for the quarter increased by a nominal rate of 4.7% and by an inflation adjusted rate of 3.6% versus the third quarter of the preceding fiscal year. Interest income from fixed income securities, which represents approximately 75% of total income generated, declined by 2.2% to \$49.1 from \$50.2 million. Replacement of existing coupon rates on maturing bonds during this phase of the interest rate cycle continues to represent a major impediment to preservation of income purchasing power. During the quarter, \$39.5 million bonds with an average yield of 9.74% ran off and were reinvested at an average yield of 7.30%. Dividend income, on the other hand, continued to grow increasing by 20% to \$15.6 million from \$13.0 million. Finally, income from private investments increased by 200% from \$0.7 million to \$2.1 million during the period.

Total investment return for the third quarter was 2.1%. Fixed income as an asset class continued to perform poorly with the Salomon Broad Bond Index generating a negative total return of 1.5%. The Fund's fixed income portfolio at negative 1.9% underperformed the index due to the longer average maturity of the portfolio. Equities, as an asset class, continued to generate higher relative returns with the S&P 500 Index posting a 5.1% unannualized return. The PUF's equity portfolios outperformed this index generating a 5.8% return. Finally, private investments produced a 3.4% return for the quarter. The private investments portfolio has performed extremely well as of late generating a 53% return for the preceding twelve months.

Item b on Page 12 reports summary activity for the Long Term Fund (LTF). During the quarter, net withdrawals totaled 900 thousand dollars. Total gross investment return was 62 million dollars of which 19.2 million dollars was paid to the endowment and other funds underlying the LTF. The Fund's market value closed the quarter at 1 billion, 733 million dollars or \$3.98 a share.

Since the Long Term Fund is managed as a total return fund, it contains a higher allocation to equity securities. Total investment return for the Fund was 3.8% for the quarter versus 2.1% for the PUF. Total year-to-date investment return for the Fund was 12.8% and net 6.8% after deducting expenses, inflation and distributions to U. T. System component institutions.

Item c on Page 13 presents quarterly activity for the Short/Intermediate Term Fund. During the quarter, the Fund received net contributions of 29.7 million dollars. It earned and distributed 18.2 million dollars and generated net realized and unrealized losses of 15.9 million dollars to end the quarter at 1 billion 279 million dollars. Total return on the fund was .03% for the period versus its performance benchmark of .21%.

Item d on Page 14 presents book and market value of cash, fixed income, equity and other securities held in funds outside of internally managed investment pools. Total cash and equivalents (in the upper far right column) consisting primarily of component operating funds held in the money market fund increased by 47 million dollars to 667 million dollars. Asset values for the remaining asset types were fixed income securities: 106.9 million dollars, equities: 20.3 million dollars, and other local bank deposits: 5.2 million dollars.

This report is a summarized version of the official [UTIMCO Investment Report](#) for the fiscal third quarter which you received prior to this meeting and which is on file in the Office of the Board of Regents. I and the UTIMCO staff are available at any time to answer any questions concerning the report or any other investment-related issues.

Mr. Chairman, that concludes the presentation regarding UTIMCO investment matters.

a. PERMANENT UNIVERSITY FUND

Summary Investment Report at May 31, 1996.--

PERMANENT UNIVERSITY FUND'
SUMMARY REPORT
(\$ millions)

	<u>FY94-95</u>	<u>FY95-96</u>			<u>Total</u>
	<u>Full Year</u>	<u>1st Otr</u>	<u>2nd Otr</u>	<u>3rd Otr</u>	
Beginning Market Value	4,428.0	4,958.5	5,153.7	5,280.7	4,958.5
PUF Lands Receipts ¹	57.1	16.4	13.8	19.0	49.2
Investment Income	249.5	64.6	60.1	67.1	191.8
Investment Income Distributed	(249.5)	(64.6)	(60.1)	(67.1)	(191.8)
Realized Gains (Losses)	105.5	46.3	34.2	73.3	153.8
Change in Unrealized Gains (Losses)	<u>367.9</u>	<u>132.5</u>	<u>79.0</u>	<u>(29.4)</u>	<u>182.1</u>
Ending Market Value	4,958.5	5,153.7	5,280.7	5,343.6	5,343.6
AUF Income					
Investment Income	249.5	64.6	60.1	67.1	191.8
Surface Income	3.6	0.3	1.6	.7	2.6
Other Income	<u>0.3</u>	<u>0.1</u>	<u>0.1</u>	<u>.2</u>	<u>.4</u>
Total	253.4	65.0	61.8	68.0	194.8

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

¹Excludes PUF Lands mineral and surface interests with estimated values of \$328.6 million and \$157.8 million, respectively.

²As of May 31, 1996: 833,711 acres under lease, 518,135 producing acres, 2,766 active leases and 2,040 producing leases.

b. LONG TERM FUND

Summary Investment Report at May 31, 1996.--

LONG TERM FUND
SUMMARY REPORT
(\$ millions)

	<u>FY94-95</u>		<u>FY95-96</u>		
	<u>Full Year</u>	<u>1st Otr</u>	<u>2nd Otr</u>	<u>3rd Otr</u>	<u>Total</u>
Beginning Net Assets	1,226.3	1,558.8	1,628.5	1,694.9	1,558.8
Net Contributions (Withdrawals)	202.3	19.6	17.9	(0.9)	36.6
Investment Return	203.4	69.9	68.8	62.0	200.7
Expenses	(2.8)	(0.7)	(0.9)	(1.0)	(2.6)
Distributions (Payout)*	(68.5)	(18.9)	(19.1)	(19.2)	(57.2)
Distribution of Loss on Participant Withdrawal*	(1.9)	(0.2)	(0.3)	(2.5)	(3.0)
Ending Net Assets	<u>1,558.8</u>	<u>1,628.5</u>	<u>1,694.9</u>	<u>1,733.3</u>	<u>1,733.3</u>
Net Asset Value per Unit	3.661	3.778	3.890	3.985	
No. of Units (End of Period)	425,751,253	431,062,475	435,717,737	434,972,374	
Distribution Rate per Unit	0.175	0.04375	0.04375	0.04375	

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

*Prior period reporting has been restated to conform with current period.

c. SHORT/INTERMEDIATE TERM FUND

Summary Investment Report at May 31, 1996.--

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

	<u>FY94-95</u>	<u>FY95-96</u>			
	<u>Full Year</u>	<u>1st Otr</u>	<u>2nd Otr</u>	<u>3rd Otr</u>	<u>Total</u>
Beginning Net Assets	945.3	1,129.5	1,232.9	1,266.8	1,129.5
Net Contributions	175.7	94.4	39.8	29.7	163.9
Investment Return*	68.7	25.8	12.0	.4	38.2
Expenses*	(0.2)	-	-	(0.1)	(0.1)
Distributions of Income*	(60.0)	(16.8)	(17.9)	(18.2)	(52.9)
Ending Net Assets	<u>1,129.5</u>	<u>1,232.9</u>	<u>1,266.8</u>	<u>1,278.6</u>	<u>1,278.6</u>

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

*Prior period reporting has been restated to conform with current period.

d. **SEPARATELY INVESTED ASSETS**

Summary Investment Report at May 31, 1996.--

ASSET TYPES	FUND TYPE													
	CURRENT PURPOSE				ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		OPERATING FUNDS		TOTAL	
	DESIGNATED	RESTRICTED												
	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
Cash & Equivalents:														
Beginning value 3/1/96	3,532,458	3,532,458	1,902,135	1,902,135	16,113,803	16,113,803	1,157,700	1,157,700	4,130,174	4,130,174	593,460,074	593,460,074	620,296,344	620,296,344
Increase/(Decrease)	20,959,124	20,959,124	(538,533)	(538,533)	3,369,475	3,369,475	(717,312)	(717,312)	(1,583,373)	(1,583,373)	25,093,009	25,093,009	46,582,390	46,582,390
Ending value 5/31/96	24,491,582	24,491,582	1,363,602	1,363,602	19,483,278	19,483,278	440,388	440,388	2,546,801	2,546,801	618,553,083	618,553,083	666,878,734	666,878,734
Debt Securities:														
Beginning value 3/1/96	14,727,269	14,777,368	7,366	3,758	45,141,255	46,120,351	7,765,142	8,188,298	-	-	52,721,089	52,800,499	120,362,121	121,890,274
Increase/(Decrease)	(2,123,568)	(2,204,309)	-	(177)	779,869	(358,277)	30,405	(286,297)	-	-	(12,025,864)	(12,127,970)	(13,339,158)	(14,977,030)
Ending value 5/31/96	12,603,701	12,573,059	7,366	3,581	45,921,124	45,762,074	7,795,547	7,902,001	-	-	40,695,225	40,672,529	107,022,963	106,913,244
Equity Securities:														
Beginning value 3/1/96	52,450	71,283	59,489	58,274	13,417,909	16,346,181	4,389,245	5,159,563	7	281,715			17,919,100	21,917,016
Increase/(Decrease)		11,001	511,490	501,232	352,162	1,695,771	(3,305,694)	(3,556,757)	(4)	(281,712)			(2,442,046)	(1,630,465)
Ending value 5/31/96	52,450	82,284	570,979	559,506	13,770,071	18,041,952	1,083,551	1,602,806	3	3			15,477,054	20,286,551
Other:														
Beginning value 3/1/96	-		4	4	7	7							11	11
Increase/(Decrease)					39,204	39,204	5,137,409	5,137,409					5,176,613	5,176,613
Ending value 5/31/96			4	4	39,211	39,211	5,137,409	5,137,409					5,176,624	5,176,624

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

RECESS FOR COMMITTEE MEETINGS AND COMMITTEE REPORTS TO THE BOARD.--At 3:00 p.m., the Board recessed for the meetings of the Standing Committees, and Chairman Rapoport announced that at the conclusion of each committee meeting the Board would reconvene to approve the report and recommendations of that committee.

The meetings of the Standing Committees were conducted in open session and the reports and recommendations thereof are set forth on the following pages.

REPORTS AND RECOMMENDATIONS OF STANDING COMMITTEES

REPORT OF EXECUTIVE COMMITTEE (Page 16).--In compliance with Section 7.14 of Chapter I of Part One of the Regents' Rules and Regulations, Chairman Rapoport reported that there were no actions by the Executive Committee since the last meeting for ratification and approval by the U. T. Board of Regents except for Executive Committee Letters 96-15 through 96-21 as noted below:

U. T. System: Approval of Executive Committee Letters 96-15 Through 96-21 Via the Chancellor's Docket Process.--Chairman Rapoport noted that in keeping with approved procedures Executive Committee Letters 96-15 through 96-21, which had been distributed since the May 1996 meeting of the Board and which had received the prior approval of the Executive Committee, now appear in The University of Texas System Administration Docket on Pages ECL 1 - 9 and would be considered for approval or ratification on the agenda of the Business Affairs and Audit Committee as set out on Page 17.

REPORT AND RECOMMENDATIONS OF THE BUSINESS AFFAIRS AND AUDIT COMMITTEE (Pages 17 - 29).--Committee Chairman Smiley reported that the Business Affairs and Audit Committee had met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, the actions set forth in the Minute Orders which follow were recommended by the Business Affairs and Audit Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. System: Approval of Chancellor's Docket No. 86 (Catalog Change). --Upon recommendation of the Business Affairs and Audit Committee, the Board approved Chancellor's Docket No. 86 in the form distributed by the Executive Secretary. It is attached following Page 92 in the official copies of the Minutes and is made a part of the record of this meeting.

It was expressly authorized that any contracts or other documents or instruments approved therein had been or shall be executed by the appropriate officials of the respective institution involved.

It was ordered that any item included in the Docket that normally is published in the institutional catalog be reflected in the next appropriate catalog published by the respective institution.

To avoid any appearance of a possible conflict of interest, Regent Deily was recorded as abstaining from any vote on Items 1 - 5 on Page G - 3 of The University of Texas Medical Branch at Galveston Docket related to contracts with Houston Lighting & Power Company.

2. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Amendments to Chapter V, Section 3 (Employee Training, Education, and Development). --In order to clarify the guidelines to be followed by The University of Texas System component institutions when adopting programs relating to employee training, education, and development, the Board, upon recommendation of the Business Affairs and Audit Committee, amended the Regents' Rules and Regulations, Part Two, Chapter V, Section 3 regarding Employee Training, Education, and Development as set forth below:

Sec. 3. Employee Training, Education, and Development.

- 3.6 Higher Education Tuition Support Program.
 - 3.61 Definition: This program will provide financial assistance for graduate or undergraduate level training leading to a degree. It provides for student enrollment and is to be for selected, qualified employees of the U. T. System. This program will be provided on the basis of institutional need and to the extent funds are available.
 - 3.62 Objective: To provide a college or university education for qualified employees as specifically required in their areas of employment.

- 3.63 Program Elements: This training is to provide student enrollment in a graduate or undergraduate program leading to a degree that directly relates to that employee's current or future employment.
- 3.64 Administration: Eligibility Requirements.
 - 3.641 Selected employees must have necessary academic qualifications to meet all entrance requirements of the college or university where training is provided.
 - 3.642 Degree training must be directly related to an existing job or job series.
 - 3.643 Selected employees should be scheduled for appointment to a job requiring the degree training on completion of schooling.
 - 3.644 Selected employees must meet requirements and be recommended through the chief administrative officer and approved by the institutional human resources/personnel director or the Director of the Office of Human Resources.
 - 3.645 Selected employees on educational stipend shall be considered as employees and accrue vacation, sick leave, group insurances, and other benefits while in a student status.
 - 3.646 Participating employees must receive grades of "C" or better in undergraduate classes and "B" or better in graduate courses to continue eligibility.
- 3.65 Administration: Obligations. Employees who receive financial assistance under this program, in completion of either undergraduate or advanced degrees, will be obligated to fulfill the following terms and conditions:
 - 3.651 An agreement to be bound by the rules and regulations contained herein and such other policies, rules, and procedures as may be promulgated by the employing entity.

- 3.652 An agreement to return to the employing entity upon graduation and attainment of the degree and to remain in the employment for a period of time subsequent to graduation that is proportionate either to the period of time the employee has received financial assistance to attend college or university or to the amount of financial assistance received, or at the institution's option.
- 3.653 An agreement to execute a formal obligatory document between the employing entity and the recipient of assistance under this program, to repay in a lump sum or such alternate arrangement as the employing entity may prescribe, the amount of money expended for the cost of such college education if the individual for any reason, except circumstances beyond the individual's control, fails to complete the training or otherwise defaults in any provision of the agreement or agreements.

3.7 In-Service Training and Education Program.

- 3.71 Definition: Human resource development may include on-the-job training, training in preparation for future job responsibilities, and continuing training programs that are designed to increase job effectiveness.
- 3.72 Objectives: To equip an individual to perform job specific tasks and/or to equip the employee to deal with new technological and legal developments, to develop additional work capabilities, or increase the employee's level of effectiveness.

3. U. T. Board of Regents: Approval to Amend the Guidelines Governing Administration of the Revenue Financing System; Authorization for an Aggregate Amount of Equipment Financing for Fiscal Year 1997; and Approval of the Use of Revenue Financing System Parity Debt, Receipt of Certification, and Finding of Fact with Regard to Financial Capacity.--Upon recommendation of the Business Affairs and Audit Committee, the Board:

a. Amended the Guidelines Governing Administration of the Revenue Financing System as follows:

5. Member Institution Duties

g. Each member shall annually file a report with the Office of Business Affairs on any project financed with Revenue Financing System Debt which shall have materially failed to meet its original projections and, during the previous fiscal year, did not produce sufficient revenues, along with dedicated supplemental revenues, after all expenditures, based on the originally proposed method of finance, to at least meet its required allocation of Revenue Financing System debt service.

9. Equipment Purchases Funded Through the Revenue Financing System

Equipment purchases authorized by the U. T. Board of Regents to be funded through the Revenue Financing System will be approved in aggregate amount by component institution at the beginning of each fiscal year. The minimum aggregate amount is \$100,000 per component institution and allows for several smaller equipment purchases to be commingled to achieve the minimum amount. Each piece of equipment must have a useful life of not less than three years. The equipment will be purchased from the vendor by the component institution and Revenue Financing System debt will be issued on the first business day of each November, February, May, and August to reimburse the component institution for the equipment purchases. The debt will be amortized each February 15 and August 15 with full amortization not to exceed ten years.

b. Approved an aggregate financed amount of \$33,698,000 under the Revenue Financing System for equipment to be purchased in Fiscal Year 1997 by the following University of Texas System component institutions:

\$ 3,000,000 - U. T. Arlington
2,500,000 - U. T. Austin
980,000 - U. T. Brownsville
2,250,000 - U. T. El Paso
2,270,000 - U. T. San Antonio
10,638,000 - U. T. Medical Branch - Galveston
5,300,000 - U. T. Health Science Center - Houston
500,000 - U. T. Health Science Center -
San Antonio
1,000,000 - U. T. M.D. Anderson Cancer Center
5,260,000 - U. T. Health Center - Tyler

Following a presentation by Ms. Pam Clayton, Director of Finance for The University of Texas System, related to the qualifications of this project for the U. T. System Revenue Financing System and in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993 (the "Master Resolution"), and upon delivery of the Certificate of an Authorized Representative as set out on Page 22, the Board resolved that:

- a. Parity Debt shall be issued to pay the project's cost paid 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 Board relating to the Financing System
- c. The component institutions to finance equipment, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the aggregate amount of \$33,698,000 for the purchase of equipment
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

The amendments to the Guidelines Governing Administration of the Revenue Financing System ("Guidelines") will extend the full amortization period from seven years to ten years to allow a proper matching of useful life with the term of debt and will clear ambiguity regarding annual reporting. Projects with a useful life of ten years include fiber optic cable and other technology infrastructure.

The Guidelines Governing Administration of the Revenue Financing System, as amended, are set forth in their entirety on Pages 23 - 27.

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 adopted by the Board on February 14, 1991 and amended on October 8, 1993 (the "Master Resolution"), do hereby execute this certificate for the benefit of the Board of Regents pursuant to Section 5 (a) (ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity **Debt**" pursuant to the Master Resolution to finance equipment cost at U. T. Arlington, U. T. Austin, U. T. Brownsville, U. T. El Paso, U. T. San Antonio, U. T. Medical Branch - Galveston, U. T. Health Science Center - San Antonio, U. T. Health Science Center - Houston, U. T. M.D. Anderson Cancer Center, U. T. Health Center - Tyler, and do certify that to the best of my knowledge the Board of Regents is in compliance with all covenants contained in the Master Resolution, First Supplemental Resolution Establishing an Interim Financing Program, the Second Supplemental Resolution, the Third Supplemental Resolution, and the Fourth Supplemental Resolution, and is not in default of any of the terms, provisions and conditions in said Master Resolution, First Supplemental Resolution, the Second Supplemental Resolution, the Third Supplemental Resolution, and the Fourth Supplemental Resolution.

EXECUTED this 8 day of August, 1996

John A. Brown
Assistant Vice Chancellor for Finance

Guidelines Governing Administration of the Revenue Financing System

The purpose of the Revenue Financing System is to provide a Systemwide financing program with which to finance capital improvement projects using debt secured by resources other than the Permanent University Fund. The guiding principle underlying administration of the Revenue Financing System is that allocations of debt proceeds shall be contingent upon a Board determination that a component institution can prudently meet its proportionate share of debt service with its own financial resources. All decisions including Board actions shall be premised upon the observation of this principle.

Administration of the Revenue Financing System shall be the shared responsibility of the Office of Business Affairs and individual component institutions.

Component institutions are not automatically admitted as members of the Revenue Financing System. Admittance shall require approval of the Board. All component institutions constituting The University of Texas System as of April 12, 1990, shall be members of the Revenue Financing System.

1. Approval of Revenue Financing System Indebtedness for CIP Projects

All capital improvement projects to be funded in part or in whole with Revenue Financing System bond proceeds must receive a recommendation for allocation of debt proceeds from the Office of Business Affairs prior to being approved by the Board for inclusion in the capital budget. Each request for formal approval from the Board of Regents for the expenditure of funds for architectural or construction expenses shall be accompanied by a recommendation from the Office of Business Affairs concerning the use of Revenue Financing System bond proceeds. Recommendations of allocations of proceeds shall be given by the Office of Business Affairs upon the completion of a financing evaluation concluding that the individual component institution proposing the project may prudently service its proportionate share of debt with its own financial resources. The financing evaluation shall include:

- a. Three levels of debt capacity & repayment analysis:
 - project level
 - component level
 - System level; with emphasis on maintaining or improving the current debt rating

- b. Financial Statement analysis:
 - 5-year history
 - trend analysis
 - evaluation of basis for projections

 - 5-year projections
 - verification of assumptions
 - risk adjustment of revenues

- c. Sensitivity analysis:
 - worst, probable and best cases
- d. Application of tests:
 - debt service coverage
 - leverage

The Board shall determine the sequence of funding and the terms of Revenue Financing System debt issues.

2. Issuance of Revenue Financing System Debt

Revenue Financing System debt shall be issued pursuant to a resolution and supplements specifying the terms of each issue.

Subject to outstanding debt with overlapping revenue pledges, Revenue Financing System debt shall be secured by a first lien on member institution revenues and fund balances lawfully available to the Board for payments of debt service except revenues and fund balances comprising: (a) the Available University Fund, (b) Higher Education Assistance Funds, (c) State of Texas general revenue fund appropriations unless specifically appropriated for debt service, and (d) M.S.R.D.P. income; unless and to the extent specifically pledged with the consent of a member institution.

After the establishment of the Revenue Financing System, no additional debt may be issued at parity with any outstanding debt secured in whole or in part with the pledged revenues.

3. Allocation of Debt Proceeds to Members

Revenue Financing System debt proceeds shall be advanced to a member institution and repaid to the Board in accordance with a financing agreement.

Advances shall be made at the time that the Board issues Revenue Financing System debt to fund a member institution's project. Proceeds shall be held and invested at the direction of the Office of Business Affairs by The University of Texas Investment Management Company (UTIMCO) until disbursed to a member institution in reimbursement of project costs or directly to vendors to pay financing costs. Advances pursuant to each supplement shall be evidenced by a single promissory note payable to the order of the Board in a principal amount equal to the aggregate unpaid principal amount of the advances. Each advance shall bear interest at a rate equal to that rate paid by the Board on the Revenue Financing System debt issued to fund the advances.

4. Anticipated Payment Deficit by a Member

It is the intent of the Board that all debt service payments be made on a timely basis. In any circumstance where the Board determines that a member institution will be unable to satisfy its proportionate share of debt service, the Board may take any and all actions, including raising the general fee without limit at said institution or any other member institution.

5. Member Institution Duties

- a. Each member shall furnish the Office of Business Affairs five-year projections of its balance sheet, statement of changes in funds balances, and statement of current revenues and expenditures.
- b. Each member in establishing its annual budget shall provide for the payment of its proportionate share of Revenue Financing System debt service.
- c. Each member shall establish and use its reasonable efforts to collect fees and other charges for goods and services in order to generate revenue sufficient to meet all of its financial obligations.
- d. Each member shall make available its proportionate share of Revenue Financing System debt service at such time and places as directed by the Office of Business Affairs in order to enable the Board to pay Revenue Financing System debt service.
- e. Each member shall not incur additional debt (including leases) except as permitted by the Board.
- f. Each member shall inform the Office of Business Affairs of any material change in its financial condition which would have a negative impact on its five-year projection.
- g. Each member shall annually file a report with the Office of Business Affairs on any project financed with Revenue Financing System Debt which shall have materially failed to meet its original projections and, during the previous fiscal year, did not produce sufficient revenues, along with dedicated supplemental revenues, after all expenditures, based on the originally proposed method of finance, to at least meet its required allocation of Revenue Financing System debt service.
- h. In forecasting revenues and expenditures in support of an application for the use of Revenue Financing System proceeds, a component shall be guided by historical facts and trends. An allocation for expected future repairs and maintenance shall be included and inflation should be considered where relevant.
- i. Whenever possible, a good faith effort should be made to obtain a portion of the total capital cost from private contributions.

6. Annual Report of Nonperforming Projects

The Office of Business Affairs shall annually submit to the Board a report of all projects which have failed to perform financially as originally approved by the Board.

7. Tuition Supported Projects

Projects authorized by the U. T. Board of Regents to be funded as provided in Section 55.172 of the Texas Education Code and Chapter 803, Seventy-Third Legislature, Regular Session, 1993, shall be funded under these Guidelines except for the provisions of Section 1 related to project and Member capacity. The General Tuition of each institution shall be allocated to debt service on these projects on a basis consistent with that institution's relative share of total U. T. System tuition, the amount of General Revenue appropriated to that institution in reimbursement thereof, and the provisions of the Texas Education Code.

8. Provisions for Issuance of Unenhanced Variable Rate Notes

With regard to procedures relating to Notes purchased by the Board in the case of a failed remarketing of Variable Rate Notes issued by the Revenue Financing System, the following policies shall apply:

- a. The maximum amount of Notes maturing on any one business day shall not exceed \$25,000,000 unless such date shall be the closing date of a Note refunding funded with proceeds from a Revenue Financing System bond issue covered by a bond purchase contract.
- b. A credit agreement, as described in the First Supplemental Resolution to the Master Resolution, shall be obtained should the net asset value of the Short/Intermediate Term Fund decline to an amount less than \$875,000,000 and be expected to remain below that amount for a period of 30 days, the Revenue Financing System will obtain, within 60 days of notification from The University of Texas Investment Management Company (UTIMCO), a substitute note purchase commitment from a third party for an amount that will limit the Short/Intermediate Term Fund's Purchase Commitment to \$150,000,000.
- c. Fees and charges associated with the use of a credit agreement or note purchase agreement shall be allocated to Members accessing the use of Variable Rate Notes and expended for both internal and external liquidity support as provided in written agreements.

9. Equipment Purchases Funded Through the Revenue Financing System

Equipment purchases authorized by the U. T. Board of Regents to be funded through the Revenue Financing System will be approved in aggregate amount by component institution at the beginning of each fiscal year. The minimum aggregate amount is \$100,000 per component institution and allows for several smaller equipment purchases to be commingled to achieve the minimum amount. Each piece of equipment must have a useful life of not less than three years. The equipment will be purchased from the vendor by the component institution and Revenue Financing System debt will be issued on the first business day of each November, February, May, and August to reimburse the component institution for the equipment purchases. The debt will be amortized each February 15 and August 15 with full amortization not to exceed ten years.

4. U. T. System: Approval of Non-Personnel Aspects of the Operating Budgets for the Fiscal Year Ending August 31, 1997, Including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans and Authorization for the Chancellor to Make Editorial Corrections Therein; and Approval of Permanent University Fund Bond Proceeds Reserve Allocation for Library, Equipment, Repair and Rehabilitation Projects.--At the request of Committee Chairman Smiley, Chancellor Cunningham, with the aid of transparencies, presented a comprehensive overview of the proposed Operating Budgets for The University of Texas System for the Fiscal Year ending August 31, 1997. A copy of Chancellor Cunningham's report is on file in the Office of the Board of Regents.

Following Dr. Cunningham's presentation, the Board, upon recommendation of the Academic Affairs, Health Affairs, and Business Affairs and Audit Committees, approved the non-personnel aspects of the U. T. System Operating Budgets as listed below for the Fiscal Year ending August 31, 1997, including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans and authorized the Chancellor to make editorial corrections in these budgets with subsequent adjustments to be ratified by the U. T. Board of Regents through the institutional dockets:

The University of Texas System Administration
(including the Available University Fund)
The University of Texas at Arlington
The University of Texas at Austin
The University of Texas at Brownsville
The University of Texas at Dallas
The University of Texas at El Paso
The University of Texas - Pan American
The University of Texas of the Permian Basin
The University of Texas at San Antonio
The University of Texas at Tyler
The University of Texas Southwestern Medical
Center at Dallas
The University of Texas Medical Branch
at Galveston
The University of Texas Health Science
Center at Houston
The University of Texas Health Science
Center at San Antonio
The University of Texas M.D. Anderson
Cancer Center
The University of Texas Health Center
at Tyler

These budgets are a part of the Minutes of this meeting and the official copy is in bound Volume LI entitled Annual Budget for 1996-1997.

Further, Permanent University Fund (PUF) Bond Proceeds in the amount of \$10,000,000 from reserves provided in the Fiscal Year 1997 Capital Improvement Program, \$1,000,000 from unused prior year allocations, and \$10,250,000 from special PUF dividend reserves for a total of \$21,250,000 were appropriated for Library, Equipment, Repair and Rehabilitation Projects during the Fiscal Year ending August 31, 1997. This allocation, which was discussed

in the briefing session on August 7, 1996, is set forth in the document titled ["The University of Texas System Administration Allocation of Permanent University Fund Bond Proceeds Reserves for Library & Equipment, Repairs & Rehabilitation"](#) which is on file in the Office of the Board of Regents.

In addition, the U. T. System component institutions were authorized to purchase approved equipment items and library materials and to contract for repair and rehabilitation projects following standard purchasing and contracting procedures within approved dollar limits. Substitute equipment purchases are to receive prior approval by the Chancellor and appropriate Executive Vice Chancellor and, where required, the U. T. Board of Regents. Transfers by the U. T. System Administration of allocated funds to institutional control or to vendors will coincide with vendor payment requirements. Final approval of specific repair and rehabilitation projects will be in accordance with Board established procedures for construction projects.

Fiscal Year 1997 funds from these reserves not expended or obligated by contract/purchase order within six months after the close of Fiscal Year 1997 are to be available for future System-wide reallocation unless specific authorization to continue obligating the funds is given by the Executive Vice Chancellor for Business Affairs on recommendation of the President and the appropriate Executive Vice Chancellor.

See Page 89 for approval of the personnel aspects of the Operating Budgets for the Fiscal Year ending August 31, 1997.

REPORT AND RECOMMENDATIONS OF THE ACADEMIC AFFAIRS COMMITTEE (Pages 30 - 42).--Committee Chairman Lebermann reported that the Academic Affairs Committee had met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, the actions set forth in the Minute Orders which follow were recommended by the Academic Affairs Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. Board of Regents and U. T. Austin: Appointment of (a) Mr. Robert K. Moses, Jr., Houston, Texas, as Regental Representative to Intercollegiate Athletics Council for Men and (b) George Willeford III, M.D., Austin, Texas, as Regental Representative to Intercollegiate Athletics Council for Women Effective September 1, 1996.--Approval was given to appoint the following Regental representatives to The University of Texas at Austin Intercollegiate Athletics Council for Men and the Intercollegiate Athletics Council for Women each for a four-year term beginning September 1, 1996 and ending August 31, 2000:
 - a. Mr. Robert K. Moses, Jr., Houston, Texas, to succeed Mr. Baker Montgomery on the Intercollegiate Athletics Council for Men
 - b. George Willeford III, M.D., Austin, Texas, to succeed Mr. George O. Nokes, Jr., on the Intercollegiate Athletics Council for Women.

Mr. Moses, who is active in many aspects of the men's athletic program, is a well respected Houston businessman and civic leader who won both All Southwest Conference and All American honors on the U. T. Austin football team.

Dr. Willeford, a gastroenterologist in private practice in Austin and a graduate of U. T. Austin and The University of Texas Southwestern Medical School at Dallas, is an active supporter of many aspects of the women's athletic program.

2. U. T. Board of Regents: Approval to Include Minimum Faculty Academic Workload Requirements for General Academic Institutions (Formerly Minimum Faculty Teaching Requirements Policy) in the Regents' Rules and Regulations, Part One, Chapter III, Section 36, and to Delete Present Section 36 (Staff Benefits).--Upon recommendation of the Academic Affairs Committee, the Regental policy on Minimum Faculty Teaching Requirements for general academic institutions within The University of Texas System was retitled Minimum Faculty Academic Workload Requirements for General Academic Institutions and amended accordingly for inclusion in the Regents' Rules and Regulations.

In accordance therewith, Chapter III, Part One of the Regents' Rules and Regulations was amended as follows:

- a. Present Section 36 (Staff Benefits) was deleted in its entirety
- b. A new Section 36 was added to read as follows:

Sec. 36. Minimum Faculty Academic Workload Requirements for General Academic Institutions. Each person paid full time from the appropriations item "Faculty Salaries" shall be assigned a minimum workload equivalent to eighteen semester credit hours of instruction in organized undergraduate classes each nine-month academic year, or fiscal year at an institution's option, in accordance with guidelines listed below.

When a faculty member is paid partially from a source of funds other than the "Faculty Salaries" line item, the minimum workload shall be proportioned to the percentage of salary paid from the appropriations item "Faculty Salaries."

Teaching assistants shall be used only when given proper guidance and supervision to ensure quality instruction. The minimum faculty workload established below does not apply to graduate teaching assistants or assistant instructors who are pursuing degrees. The institutional head is responsible for assuring that all teaching assistants are carefully supervised.

This policy sets the minimum workload and equivalencies only; an institution may enact more intensive and/or more detailed minimum requirements for inclusion in the institutional Handbook of Operating Procedures, following appropriate approvals. For example, an institution may set individual minimum requirements, consistent with these minimum guidelines, for a specific school or college.

No two institutions in the U. T. System (and, indeed, no two teaching units within a particular institution) are alike in the workload required of individual faculty to meet student needs within the funds appropriated by the Legislature. It is the responsibility of each institutional head to require teaching in excess of the minimum where such teaching is necessary to meet the institution's obligations to its students. Each institution will establish additional standards as necessary in accordance with its role and scope, so long as it satisfies the minimum given herein, to meet the instructional obligations of the institution to the students and to operate effectively within the faculty salary resources available. Faculty members not actively involved in a program of research and publication or in equivalent academic service should typically carry a teaching load greater than the minimum.

State law requires the adoption of rules concerning faculty academic workloads. Texas Education Code, Section 51.402(b) recognizes that important elements of workload include classroom teaching, basic and applied research, and professional development. Workload for U. T. System faculty members is expressed in terms of classroom teaching, teaching equivalencies and presidential credits for assigned activities.

- 36.1 Teaching Equivalencies.
 - 36.11 Graduate Instruction. One semester credit hour of graduate instruction will be considered the equivalent of one and one-half semester credit hours of undergraduate instruction.
 - 36.12 Specialized Instruction. One and one-half contact hours of instruction of regularly scheduled laboratory and clinical courses, physical activity courses, studio art, studio music instruction, and primary music performance organizations, such as ensembles and marching bands, for each week of a long-term semester will be considered the equivalent of one semester credit hour of undergraduate instruction.
 - 36.13 Supervision. Supervision of student teachers, clinical supervision, and intern supervision shall be credited such that 12 total student semester credit hours taught will be considered the equivalent of one semester credit hour.
 - 36.14 Practicum and Individual Instruction. Supervision of student practicum and individual instruction courses, such as honors programs and individual research projects, shall provide equivalency at the rate of one-tenth semester credit hour for each student semester hour of undergraduate instruction and one-fifth semester hour for each student semester hour of graduate instruction per long-term semester. In no case will individual instruction in a single course generate more semester credit hour equivalence than if the course were taught as a regularly scheduled, organized course.
 - 36.15 Thesis and Dissertation Supervision. Graduate thesis or dissertation supervision shall provide equivalent credit hours only to the chairperson of the thesis or dissertation committee at the rate of one semester credit hour for each six total student semester hours of thesis research credit and at the rate of one semester credit hour for each three total student semester hours of dissertation credit.

36.16 Multiple Sections. A faculty member who coordinates several sections of a single course shall be given one semester hour of workload credit for each six sections coordinated up to a maximum of three semester hours of credit per semester.

36.17 Large Classes. Workload credit may be proportionally increased for teaching a large class that requires extensive grading or evaluation of students' work by the faculty member according to the following weighing factors:

<u>Class Size</u>	<u>Weighing Factor</u>
59 or less	1.0
60 - 69	1.1
70 - 79	1.2
80 - 89	1.3
90 - 99	1.4
100 - 124	1.5
125 - 149	1.6
150 - 174	1.7
175 - 199	1.8
200 - 249	1.9
250 or more	2.0

36.18 Team Teaching. When more than one teacher participates in the instruction of a single course, the credit is proportioned according to the effort expended.

36.19 Insufficient Enrollment. A reduced workload may be granted temporarily if assigned classes do not materialize because of insufficient enrollment and when additional classes or other academic duties cannot be assigned to the faculty member. This exception may be granted for two consecutive long-term semesters only for any particular faculty member.

36.2 Other Equivalencies.

36.21 Administrative Assignments. Workload credit may be granted for a faculty member who is head of a department or head of a comparable administrative unit up to a maximum of six semester hours of workload credit per semester. When justified by the department/unit head and approved by the institutional head, three hours of credit may be given to faculty members who provide nonteaching academic services to the department/unit head. In no case will the total for departmental administration, including the head, exceed nine workload credits per semester unless the institution's organizational structure includes academic units composed of more than one academic discipline.

- 36.22 New Faculty. At the recommendation of the head of the department or comparable unit and upon approval of the institutional head, up to three semester hours of workload credit for each of two semesters may be given to a newly-appointed faculty member during the first year of employment for the purpose of developing instructional materials for the courses he or she will teach.
- 36.23 New Course Development. At the recommendation of the departmental chair and upon approval of the institutional head, workload credit may be granted to a faculty member involved in the creation of a new course, new course format, or new course materials.
- 36.24 Presidential Credits. Academic workload credit granted by the head of the institution for all other purposes is limited to 1% of the total semester credit hours taught at the institution during the comparable (fall or spring) semester in the previous year. With the approval of the institutional head, limited faculty workload credit (within the 1% limit above) may be granted for major academic advising responsibilities, for basic and applied research following a research work plan approved pursuant to institutional policy, for preparing major documents in the fulfillment of programmatic needs or accreditation requirements, or for duties performed in the best interest of the institution's instructional programs as determined by the head of the institution.
- 36.25 Faculty with Technical Rank. Instructional workload equivalents for faculty members holding technical rank may be determined on a clock-hour basis where full-time employment is equivalent to not less than 30 hours of instructionally related activities each week for contact hour courses taught on a quarterly basis.
- 36.3 Compliance.
- 36.31 The chief administrative officer shall designate the officer of the institution who will monitor workloads, review workload reports, and submit the reports to the institutional head for approval and comment, as appropriate, prior to submitting the reports to the Board of Regents through System Administration following the standard reporting format and deadlines as provided by the Texas Higher Education Coordinating Board in accordance with Section 51.402 of the Texas Education Code and any applicable riders in the current General Appropriations Act.

36.32 Every faculty member's compliance with these minimum academic workload requirements shall be assessed each academic year. If a faculty member is found to be out of compliance, the institution shall take appropriate steps to address the noncompliance and to prevent such noncompliance in the future.

The Minimum Faculty Teaching Requirements Policy, which was first adopted by the U. T. Board of Regents in August 1978 and last amended in May 1995, is included annually in each general academic institution's operating budget. Since the current minimum teaching load policy is the same for all general academic institutions, this policy is being included in the Regents' Rules and Regulations, Part One, Chapter III, Section 36, for easier reference and broader access.

3. U. T. System: Authorization for the Appropriate Executive Vice Chancellor to Submit Distance Learning Plans and Plan Amendments to the Coordinating Board on Behalf of the Component Institutions and Approval of Off-Campus Degree Programs at U. T. Arlington (Bachelor of Science in Nursing Program on the Campus of Trinity Valley Community College in Kaufman, Texas) and U. T. Dallas (Master of Business Administration Degree Program to MBNA American Bank, N.A., in Dallas, Texas).--In April 1996, the Texas Higher Education Coordinating Board adopted revised Rules and Regulations (Chapter 5, Subchapter H) concerning distance learning to replace separate subchapters that had addressed "Telecommunications" and "Delivery of Courses Off-Campus."

The new rules require each institution to file annually a distance learning plan covering all instruction which is intended to be delivered either by telecommunications or by conventional classroom instruction off-campus. The rules further provide for amending the annual plan during a year either by action of the full Coordinating Board through what is referred to as an "expansion of authority" or by approval of the Commissioner to offer selected courses on a temporary basis under what is referred to as "experimental authority."

In accordance therewith and upon recommendation of the Academic Affairs and Health Affairs Committees, the Board authorized:

- a. The appropriate Executive Vice Chancellor to review and approve on behalf of the U. T. Board of Regents all institutional distance learning plans and amendments thereto
- b. The appropriate Executive Vice Chancellor to submit those distance learning plans to the Texas Higher Education Coordinating Board on behalf of the component institutions and the U. T. Board of Regents for review and approval

- c. The University of Texas at Arlington to deliver its Bachelor of Science in Nursing program on the campus of Trinity Valley Community College in Kaufman, Texas, as a part of the U. T. Arlington distance learning plan.

This well established degree program has been requested by the community primarily to serve associate degree nurses currently practicing in the area. Most of those practicing nurses are graduates of the two-year program at Trinity Valley Community College.

- d. The University of Texas at Dallas to deliver its Master of Business Administration degree program to MBNA American Bank, N.A., at its premises in Dallas, Texas, at no cost to the State as a part of the U. T. Dallas distance learning plan.

MBNA America Bank will pay the full cost of delivering this program to their employees, all of whom will be admitted to the program under the same criteria used for the regular on-campus program. Furthermore, all students in the off-campus program will have full access to library and computer services on campus.

To minimize potential delays, the appropriate Executive Vice Chancellor was authorized to approve distance learning plan requests so that the requests may be promptly forwarded to the Coordinating Board. Only courses and programs already approved for delivery on campus would be approved for inclusion in the distance learning plans. Proposals for entirely new programs will continue to be submitted for Regental approval via the regular agenda.

Upon approval by the Coordinating Board, the next appropriate catalogs published at U. T. Arlington and U. T. Dallas will be amended to reflect this action.

4. U. T. System: Repeal of Policy for Student Deposit Endowment Fund and Authorization to Dissolve Quasi-Endowments Funded with General Property Deposits.--Upon recommendation of the Academic Affairs and Health Affairs Committees, the Board:
 - a. Repealed The University of Texas System Policy for Student Deposit Endowment Fund as approved by the U. T. Board of Regents in February 1989 and amended in August 1993 and April 1994
 - b. Authorized a component institution desiring to dissolve a quasi-endowment funded with general property deposits and established pursuant to the 1989 policy or existing at the time of the February 1989 action to do so upon review and approval by the appropriate Executive Vice Chancellor and the Vice Chancellor for Development and External Relations.

In February 1989, the U. T. Board of Regents standardized procedures related to long-standing institutional practices at The University of Texas at Austin and The University of Texas at El Paso and extended the establishment of a Student Deposit Endowment Fund to all U. T. System component institutions collecting a general property deposit. Such quasi-endowments were established at all U. T. System general academic components and at The University of Texas Health Science Center at Houston.

Since 1993, following passage of House Bill 982 amending Section 54.5021 of the Texas Education Code, no further forfeited general property deposits could be added to the endowment funds. However, endowment funds in existence could be maintained. The legislation also deleted statutory language that specifically allowed direct expenses for the administration of the student deposit fund to be paid from the fund.

These statutory changes and current budgetary pressures indicate that continued maintenance of the funds may not be in the best interest of all institutions. Institutional policies will be amended to reflect this action.

5. U. T. Austin: Jack Eckerd Centennial Fellowship in Pharmacy in the College of Pharmacy - Acceptance of Pledge from the Eckerd Corporation, Clearwater, Florida, and Redesignation as the Stewart Turley/Eckerd Corporation Centennial Endowed Professorship in Pharmacy.-- Approval was given to accept a \$50,000 pledge, payable by December 31, 1998, from the Eckerd Corporation, Clearwater, Florida, for addition to the Jack Eckerd Centennial Fellowship in Pharmacy in the College of Pharmacy at The University of Texas at Austin for a total endowment of \$119,850 and to redesignate the Fellowship as the Stewart Turley/Eckerd Corporation Centennial Endowed Professorship in Pharmacy.

Although a 100% pledge is an exception to The University of Texas System Gifts Policy Guidelines, the Board accepted the pledge in order to fully recognize the Eckerd Corporation's total pledge to the College of Pharmacy at U. T. Austin, which by prior administrative approval has also funded an Endowed Presidential Scholarship. Additionally, acceptance of the pledge and redesignation of the endowment will allow the donor to honor Mr. Stewart Turley near to the time of his recent retirement as Chairman of Eckerd Corporation.

6. U. T. Austin: Approval to Accept Pledge from the Bernard and Audre Rapoport Foundation, Waco, Texas, to Establish the Bernard and Audre Rapoport Endowment for International and Multidisciplinary Studies in the College of Liberal Arts.--Upon recommendation of the Academic Affairs Committee, the Board accepted a perpetual pledge of one-sixth of the total annual distributions of the Bernard and Audre Rapoport Foundation, Waco, Texas, with the first distribution of \$500,000 payable by January 31, 1997, to establish the Bernard and Audre Rapoport Endowment for International and Multidisciplinary Studies in the College of Liberal Arts at The University of Texas at Austin.

Approximately 75% of annual endowment distributions will be used to support need-based scholarships with emphasis on supporting participation in study and research abroad opportunities. The remaining approximately 25% of annual endowment distributions will be used to support multidisciplinary study and research according to priorities set by the Dean of the College of Liberal Arts.

During each of the first four years, \$50,000 of the distributed amounts will be added to the existing Audre and Bernard Rapoport Regents Chair of Liberal Arts in the College of Liberal Arts at U. T. Austin.

7. U. T. Austin: Authorization to Establish a Master of Arts Degree in Human Resource Development Leadership and to Submit the Degree Program to the Coordinating Board for Approval (Catalog Change).--The Board, upon recommendation of the Academic Affairs Committee, established a Master of Arts degree in Human Resource Development Leadership at The University of Texas at Austin and authorized submission of the proposal to the Texas Higher Education Coordinating Board for review and appropriate action. Implementation of the program is planned for Fall 1996, or as soon thereafter as approvals may be granted. The program is consistent with U. T. Austin's Strategic Plan and approved Table of Programs.

The Master of Arts degree with a major in Human Resource Development Leadership builds upon a human resource development emphasis which has existed for over twenty years in the College of Education. This program will use existing courses and meet all of the standards generally applicable to Master of Arts degrees at U. T. Austin and will be administered by a special committee of the Graduate School comprised of faculty from the College of Education and the Graduate School of Business.

The faculty will offer all of the courses required for the degree in a special weekend format. However, students will also be able to meet all of the degree requirements with regularly scheduled classes.

Upon Coordinating Board approval, the next appropriate catalog published at U. T. Austin will be amended to reflect this action.

8. U. T. El Paso: Establishment of a Bachelor of Science Degree in Occupational Therapy and Authorization to Submit the Degree Program to the Coordinating Board for Approval (Catalog Change).--Authorization was granted to establish a Bachelor of Science degree in Occupational Therapy at The University of Texas at El Paso and to submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action. Implementation of the program is planned for Fall 1997, and the program is consistent with U. T. El Paso's Strategic Plan and approved Table of Programs.

The Bachelor of Science degree in Occupational Therapy has been a successful cooperative degree program between The University of Texas Medical Branch at Galveston and U. T. El Paso since January 1993. Administrative control of the program will be transferred to U. T. El Paso's Department of Health Sciences in the College of Nursing and Health Sciences beginning with the Fall 1997 Semester. The degree in Occupational Therapy will require 164 semester credit hours, including the core curriculum for all U. T. El Paso bachelor's degrees, and the curriculum will prepare graduates for certification by the American Occupational Therapy Certification Board and for licensure by the Texas Board of Occupational Therapy Examiners.

During the professional phase of the program, students will have three preceptorships with community agencies and/or health-care facilities. Additionally, each student is required to have two three-month fieldwork experiences under the supervision of an Occupational Therapist, Registered (OTR).

Students will be admitted to the professional sequence based on a variety of factors: grade point average in the prerequisite pre-professional courses, scores on the Health Occupations Aptitude Test, scores on an essay, and interview scores. To be considered for the program, the applicant must have a minimum cumulative grade point average of 2.7 or above on a 4.0 scale, including an average of 2.5 or above in the required biological sciences and the required behavioral sciences.

Transferring administrative control of this program from the U. T. Medical Branch - Galveston to U. T. El Paso will not change the cost of the program. It will, however, change the process by which the State appropriates funds for support of the program.

Upon approval by the Coordinating Board, the next appropriate catalog published at U. T. El Paso will be amended to reflect this action.

9. U. T. El Paso: Authorization to Establish a Master of Physical Therapy Degree and to Submit the Degree Program to the Coordinating Board for Approval (Catalog Change).--The Academic Affairs Committee recommended and the Board authorized the establishment of a Master of Physical Therapy degree at The University of Texas at El Paso with the understanding that the proposal will be submitted to the Texas Higher Education Coordinating Board for review and appropriate action. Implementation of the program is planned for Fall 1997. The program is consistent with U. T. El Paso's Strategic Plan and approved Table of Programs.

The Master of Physical Therapy has been a successful cooperative degree program between The University of Texas Medical Branch at Galveston and U. T. El Paso since May 1993. Effective with the Fall 1997 Semester, administrative control of the program will be transferred to U. T. El Paso's Department of Health Sciences in the College of Nursing and Health Sciences. The transferred Master of Physical Therapy program will require students to complete up to 92 semester credit hours of prerequisite, baccalaureate-level courses prior to entry into the professional sequence of 89 semester credit hours in the master's degree program. Students in the program will not be awarded a bachelor's degree. However, the prerequisite courses include the core curriculum required for all U. T. El Paso bachelor's degrees and some students may decide to complete a bachelor's degree prior to beginning the professional sequence.

The Master of Physical Therapy degree program requires intensive clinical practice experience in various medical facilities and include general, acute care, orthopedic, neurologic, and specialty clinical subject areas.

Transferring administrative control of this program from the U. T. Medical Branch - Galveston to U. T. El Paso will not change the cost of the program.

Upon Coordinating Board approval, the next appropriate catalog published at U. T. El Paso will be amended to conform to this action.

10. U. T. Tyler: Establishment of a Bachelor of Science Degree in Electrical Engineering, a Bachelor of Science Degree in Mechanical Engineering, and a Master of Engineering Degree and Authorization to Submit the Degree Programs to the Coordinating Board for Approval (Catalog Change).--The Board, upon recommendation of the Academic Affairs Committee, established a Bachelor of Science degree in Electrical Engineering (B.S.E.E.), a Bachelor of Science degree in Mechanical Engineering (B.S.M.E.), and a Master of Engineering (M.E.) degree at The University of Texas at Tyler and authorized submission of the proposals to the Texas Higher Education Coordinating Board for review and appropriate action. Approval of these programs will amend U. T. Tyler's Table of Programs.

The engineering programs are designed as a "partnership" between U. T. Tyler and regional public and private junior/community colleges and initially will be administered at U. T. Tyler by the Assistant Vice President for Academic Affairs for Engineering Program Development, in coordination with specific individuals at each of the participating institutions who will comprise a Northeast Texas Engineering Advisory Committee. This committee will make recommendations concerning curriculum development and program review.

The B.S.E.E. (136 semester credit hours), B.S.M.E. (133 semester credit hours), and M.E. (61 semester credit hours) degree programs share the common goal of providing theoretical and practical experiences to prepare students to become successful members of the engineering community, including licensure as a Professional Engineer.

The anticipated date for offering the first courses in the bachelor's programs is June 1997. Because of regional professional demand, the anticipated date for offering the master's-level courses is January 1997. By the fifth year of the program, U. T. Tyler expects to enroll 175 upper-division undergraduates and 42 master's-level students.

For the undergraduate programs, basic admission requirements will be the same as the general admission requirements but will include a requirement of a grade point average of 2.5 overall and the completion of certain specific courses outlined in the proposal. For the master's program, students will be required to meet the general graduate admission requirements and be required to have a satisfactory score on the General Test of the Graduate Record Examination, a bachelor's degree in engineering or a closely-related discipline with a satisfactory grade point average, and approval of the graduate program administrator.

As no engineering holdings have been added to the library in anticipation of the programs, \$250,000 in the first year has been allocated for library materials to support the new programs. For years two through five, an additional \$195,000 is budgeted for library materials. New engineering equipment and supplies will be required at an estimated cost of \$1,685,294 over the first five years.

Approximately 12,500 square feet of available space has been identified in a building on the north side of the U. T. Tyler campus. After renovation, the space will be suitable for the engineering department for the first five years. Architectural design work for the renovation is currently underway.

Funding for faculty and staff, library holdings, and supplies and equipment will be provided by \$4,325,703 of Special Item appropriations and \$1,962,154 of formula appropriations. The renovation is estimated to cost \$580,000 and will be funded from previously allocated PUF Bond proceeds.

Upon Coordinating Board approval, the next appropriate catalog published at U. T. Tyler will be amended to reflect this action.

11. U. T. Austin: Report on Amendments to Undergraduate Admissions Policy.--At the request of Committee Chairman Lebermann, President Berdahl presented a brief report on changes to The University of Texas at Austin Undergraduate Admissions Policy effective for undergraduate admission to the Summer Session 1997 and subsequent semesters or summer sessions.

President Berdahl reported that the Board had approved via Executive Committee Letter 96-21, which was formally ratified with the approval of Chancellor's Docket No. 86 on today's agenda of the Business Affairs and Audit Committee, amendments to the U. T. Austin Undergraduate Admissions Policy effective immediately with provisions applying to applicants for undergraduate admission to the Summer Session 1997 and subsequent semesters or summer sessions. He noted that the changes are designed to provide better management of the enrollment process and to control the size of the entering class consistent with the established enrollment plan for U. T. Austin.

Dr. Berdahl pointed out that U. T. Austin was running well ahead of the applications in past years and because of that the University was in danger of literally being swamped with automatic and guaranteed admissions. Under the new policy, students must have more than just good grades and test scores. The Office of Admissions will consider all prospective admissions and review a variety of factors including leadership potential, family income, parent's level of education, place of residence, and the student's three one-page essays describing their background, leadership abilities, and academic interests. For statistical purposes, a tear-off sheet specifying race and gender will be attached to the application but not used in the admission process.

President Berdahl noted that the policy is a very important step for the University as it moves into a more highly competitive environment for the best students.

On behalf of the Board, Committee Chairman Lebermann thanked Dr. Berdahl for this very informative report.

12. U. T. System: Report on Student Costs and Student Financial Aid (Withdrawn).--Committee Chairman Lebermann reported that Chancellor Cunningham had mailed to the members of the Board a report on student costs and student financial aid for The University of Texas System component institutions and therefore no formal report would be presented at this meeting.

REPORT AND RECOMMENDATIONS OF THE HEALTH AFFAIRS COMMITTEE (Pages 43 - 73).--In the absence of Committee Chairman Loeffler who was excused because of a previous commitment, Regent Deily, a member of the Health Affairs Committee, reported that the Health Affairs Committee had met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, the actions set forth in the Minute Orders which follow were recommended by the Health Affairs Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. Health Science Center - San Antonio (U. T. Nursing School - San Antonio): Establishment of a Master of Science in Nursing Degree with a Major in Pediatric Nurse Practitioner and Authorization to Submit the Proposal to the Coordinating Board for Approval (Catalog Change).--Authorization was granted to establish a Master of Science in Nursing degree with a major in Pediatric Nurse Practitioner at the U. T. Nursing School - San Antonio of The University of Texas Health Science Center at San Antonio and to submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action. The master's degree program is consistent with the U. T. Health Science Center - San Antonio's Table of Programs and institutional plans for offering quality degree programs to meet student needs.

This degree is to be administered by the U. T. Nursing School - San Antonio within the existing Master of Science in Nursing degree program and will prepare Pediatric Nurse Practitioners in the comprehensive care of children by focusing on health maintenance and education, illness prevention, and minor chronic illness management.

The anticipated date for enrolling students in this program is Spring 1997 for the core courses and Fall 1997 for courses in the major. It is anticipated that a minimum of six students will enter the program each of the Fall and Spring Semesters for a total minimum enrollment of 36 students over the initial three-year term.

The projected cost of the program for the first three years of operation is approximately \$545,000. Alamo Area Health Education Center (AHEC) funding in the amount of \$408,547 has been requested.

Upon Coordinating Board approval, the next appropriate catalog published at the U. T. Health Science Center - San Antonio will be amended to reflect this action.

2. U. T. M.D. Anderson Cancer Center - M.D. Anderson Cancer Center Outreach Corporation (Outreach): Approval of Amendments to the Bylaws Regarding Membership of the Board of Directors; Appointment of Three New Members to Such Board; and Approval of Trademark License Agreements with Outreach and M.D. Anderson Physicians Network.-- Upon recommendation of the Health Affairs Committee and on behalf of The University of Texas M.D. Anderson Cancer Center, the Board amended Article II, Sections 1-3, and Article IV, Sections 2-5, of the Bylaws of the M.D. Anderson Cancer Center Outreach Corporation (Outreach) to read as set out below:

ARTICLE II
ACTION BY MEMBER

Section 1. Appointments. Directors of the Corporation shall be appointed in accordance with the provisions of Article IV, Section 3 of these Bylaws (the "Bylaws"). If the Member determines to create an Advisory Board, the Member shall appoint Advisory Board members in accordance with the provisions of Article VII, Section 3 of these Bylaws.

Section 2. Other Actions by Member. Any Director, however appointed, may be removed from office at any time with or without cause by the Member.

Section 3. Annual Meeting of Member. The annual meeting of the Member shall be held at such time and place as shall be designated by the Member, or, if not so designated, on the second Wednesday of the month of January of each year at the Corporation's registered office for the purpose of appointing Directors who are to be appointed by the Member as described in Article IV and Advisory Board members for the ensuing year and transacting such other business as may be properly brought before such annual meeting. No notice of such annual meetings shall be required.

ARTICLE IV
BOARD OF DIRECTORS

Section 2. Number. The Board of Directors shall consist of eleven (11) Directors. The number of Directors may be increased or decreased (provided such decrease does not have the effect of shortening the term of any incumbent Director) from time to time by amendment of the Bylaws in accordance with the provisions of Article X, provided that the number of Directors shall never be less than three (3). The Board of Directors shall include one person who is a resident of Tarrant County, Texas, and who also serves as a member of the board of directors of the Moncrief Radiation and Research Foundation. The Member may appoint

eight (8) Directors, provided that such appointments shall be subject to the prior approval of such appointments by the Board of Regents of The University of Texas System (the "Board of Regents"). The Board of Regents may appoint three (3) Directors, one of whom shall be a Regent and two of whom shall be administrative officers of The University of Texas System.

Section 3. Appointment and Term. At its annual meeting, the Member shall appoint Directors who are to be appointed by the Member. Such appointments shall be effective on the date of the next Annual Meeting (as defined in Article IV, Section 7 of these Bylaws). Each person serving as a Director shall serve until the earlier to occur of (a) the next Annual Meeting (as defined in Article IV, Section 7 of these Bylaws), or (b) such Director's death, resignation, or removal as provided in these Bylaws.

Section 4. Removal. Any Director, however appointed, may be removed from office at any time, with or without cause, by the Member.

Section 5. Vacancies. Any vacancy occurring in the office of a Director, whether by death, resignation, removal, increase in the number of Directors, or otherwise, shall be filled by the person or entity (the Member or the Board of Regents) who appointed the Director whose vacancy is to be filled.

Further, the Board appointed the following persons to serve, in addition to those heretofore approved and presently serving, on the Board of Directors for Outreach as the Directors to be named by the U. T. Board of Regents pursuant to the foregoing amendment to the Outreach Bylaws:

- a. Mrs. Linnet F. Deily, Houston, Texas (Regent)
- b. Mr. R. D. Burck, Austin, Texas (Administrative Official)
- c. Charles B. Mullins, M.D., Austin, Texas (Administrative Official).

In addition, the Board:

- a. Approved the License Agreement between the U. T. Board of Regents and M.D. Anderson Cancer Center Outreach Corporation in substantially the form set out on Pages 47 - 53
- b. Approved the First Amendment to License Agreement between the U. T. Board of Regents and M.D. Anderson Physicians Network in substantially the form set out on Pages 54 - 55.

Section 2 of Article IV of the Outreach Bylaws provides that the Outreach Board of Directors shall consist of eleven Directors. Currently only eight Directors have been appointed by the Member of Outreach (who is the President of the U. T. M.D. Anderson Cancer Center) and approved by the U. T. Board of Regents. The amendments to the Bylaws will not increase the authorized number of directors and yet will provide an opportunity for the Regents and U. T. System Administration officials to become aware of and communicate with respect to services rendered by Outreach.

At its February 1990 meeting, the U. T. Board of Regents approved a license agreement whereby Outreach was permitted to use the name and trademark "M.D. Anderson Cancer Center Outreach Corporation" in the operation of the Orlando Cancer Center in Orlando, Florida. Outreach now wishes to provide services in still other cities under the names and trademarks "M.D. Anderson Cancer Center Outreach Corporation [name of city]," etc. The License Agreement will permit such usage by Outreach and, with prior approval by the U. T. Board of Regents, by sublicensees of Outreach.

The First Amendment to License Agreement between the U. T. Board of Regents and M.D. Anderson Physicians Network permits the latter to also use the name and trademark "M.D. Anderson Cancer Center Physicians Network" for the provision of services in coordination with Outreach.

Both the new License Agreement with Outreach and the amended License Agreement with M.D. Anderson Physicians Network may be terminated upon the termination of any other agreement governing the provision of services by Outreach and Physicians Network, respectively.

LICENSE AGREEMENT

This License Agreement ("Agreement") is entered into effective as of the 1st day of **January**, 1996 (herein after referred to as EFFECTIVE DATE), between the parties hereto, who agree as follows in consideration of the mutual promises contained herein:

1. **PARTIES**

- 1.1 **The** BOARD OF REGENTS of The University of Texas System (**hereinafter** referred to as BOARD OF REGENTS) has its **principal office** at 201 West 7th **Street, Austin, Texas 78701.**
- 1.2 M. D. Anderson Cancer Center Outreach Corporation (**hereinafter** referred to as LICENSEE) has a principal place of business at 7505 South Main, Suite 500, Houston, Texas 77030
- 1.3 BOARD OF REGENTS and LICENSEE are the parties to **this** Agreement.

2. **BACKGROUND**

- 2.1 BOARD OF REGENTS owns rights in **certain** marks identified in Attachment A **hereto** now and previously used or proposed to be used by THE UNIVERSITY OF TEXAS SYSTEM and/or component institutions thereof, and has acquired public recognition and goodwill through the use of such marks.
- 2.2 LICENSEE recognizes the goodwill **appurtenant** to use of the marks and desires to obtain a nonexclusive license to utilize such marks. BOARD OF REGENTS is willing to **grant** such a license under the **terms** and conditions of this Agreement.

3. **DEFINITIONS**

- 3.1 **MARKS include trademarks and service marks.**
- 3.2 LICENSED MARKS means those marks listed in Attachment A, including common law rights, as **well** as any applications for **registration** which may be filed by BOARD OF REGENTS or registrations which may be issued to BOARD OF REGENTS covering such **marks**, whether state or federal.
- 3.3 LICENSED SERVICES means those services specified in Attachment B hereto in connection with which any of the LICENSED **MARKS** are used.
- 3.4 **TERM** means the effective period of this Agreement, which shall commence on the EFFECTIVE DATE and which shall terminate, on the twentieth (20th) anniversary of the EFFECTIVE DATE unless extended by mutual written agreement of the parties.
- 3.5 **QUALITY** means an acceptable level of quality to, in the sole judgment of, BOARD OF REGENTS.
- 3.6 LICENSED TERRITORY means the United States and its territories and possessions except for Orlando, Florida which is and shall remain the subject of a separate License Agreement effective March **1, 1990** between the parties.

4. **LICENSE GRANT**

Subject to the terms and conditions of this Agreement, BOARD OF REGENTS grants to LICENSEE the nonexclusive right and license to utilize the LICENSED MARKS in the

LICENSED TERRITORY during the TERM hereof (a) solely in connection with the LICENSED SERVICES of QUALITY, and (b) with advertising and promotional material to the extent appropriate to the provision of such services.

5. D E F A U L T

- 5.1 In the event that LICENSEE becomes insolvent, makes any assignment for the benefit of creditors, is subject to any bankruptcy or **receivership proceedings**, or fails to comply with any of its obligations under this agreement, BOARD OF REGENTS may serve on LICENSEE a notice of **default** specifying the nature of the default. If the **default** is not cured within thirty (30) days **from** service of the notice of default, this agreement shall automatically terminate upon service by BOARD OF REGENTS of a formal notice of termination.
- 5.2 LICENSEE may terminate this agreement at any time without cause by written notice to BOARD OF REGENTS.
- 5.3 Upon expiration or termination of this Agreement, all **rights** granted to LICENSEE hereunder shall cease, and LICENSEE will regain **from further** use of the LICENSED **MARKS**, or any mark or name reasonably deemed by BOARD OF REGENTS to be similar to the LICENSED **MARKS**, in connection with the provision of or promotion of services. LICENSEE acknowledges that failure to comply with this provision will result in immediate and **irreparable** harm affording injunctive and any all other appropriate relief to BOARD OF REGENTS.
- 5.4 Upon expiration or termination of this Agreement, LICENSEE shall not operate its business in any manner which would falsely suggest to the public that this Agreement is still in force or that any relationship exists between LICENSEE and BOARD OF REGENTS.

6. **SUBLICENSES**

LICENSEE shall have the right to grant sublicenses under this Agreement **only** with the prior written approval of BOARD OF REGENTS and **only** under terms at least as restrictive **as** those of this Agreement.

7. **GOODWILL IN LICENSED MARKS**

LICENSEE agrees that the essence of this Agreement is founded on the goodwill associated with the LICENSED **MARKS** and the **value** of that goodwill in the minds of the consuming public. Licensee agrees that it is critical that such goodwill be protected and enhanced and, toward this end, Licensee shall not during the TERM or **thereafter**:

- (a) attack the title or any rights of BOARD OF REGENTS in or to the LICENSED MARKS;
- (b) apply to register or maintain any application or **registration** of the LICENSED **MARKS** or any other mark **confusingly similar** thereto in any jurisdiction, domestic or foreign;
- (c) use any colorable imitation of any of the LICENSED MARKS, or any variant form (including variant design forms, logos, colors, or typestyles) of the LICENSED MARKS not specifically approved by BOARD OF REGENTS;
- (d) misuse the LICENSED **MARKS**;

- (e) take any action that would bring the LICENSED **MARKS** into public disrepute;
- (f) use the LICENSED MARKS, or any **mark** or name confusingly similar thereto, in its corporate or trade name without approval of BOARD OF REGENTS; or
- (g) **take** any action that would tend to destroy or dish the goodwill in the LICENSED **MARKS**.

8. **QUALITY CONTROL: ADVERTISING APPROVAL**

- 8.1 ALL LICENSED SERVICES shall **be** QUALITY services. LICENSEE acknowledges that if LICENSED SERVICES **were** of **inferior** quality, the **substantial** goodwill which BOARD OF REGENTS **possesses** in **MARKS** **would be impaired**. Accordiyy, LICENSEE **agrees** that **all** LICENSED SERVICES shall be of high quality.
- 8.2 **All** advertising and promotional material bearing the LICENSED MARKS **shall be** subject to **the** approval of BOARD OF REGENTS via The University of **Texas** System Office of General Counsel. LICENSEE **shall** furnish advertising and promotional materials to **the** BOARD OF REGENTS. In **addition**, LICENSEE **shall** furnish to BOARD OF **REGENTS** **one** (1) copy of any **advertisement** of LICENSED SERVICES used by LICENSEE. BOARD OF REGENTS shall have two (2) **weeks** from receipt thereof in which to reject in writing the materials. In **the absence of** rejection, or upon earlier written **acceptance**, **the** materials will be deemed as accepted. LICENSEE **shall furnish** to BOARD OF REGENTS a further sample of **advertising** if it desires to change the advertising. BOARD OF REGENTS **will have two (2) weeks to reject advertising**. Failure to reject will be deemed acceptable.

9. **MARKING**

LICENSEE agrees **that it will** designate the LICENSED SERVICES in a **manner as specified from** time to time in writing by BOARD OF REGENTS to **indicate** the rights of BOARD OF REGENTS in the LICENSED **MARKS including registration** status of the LICENSED **MARKS** and **that** the services are provided **pursuant to license**.

10. **INDEMNITY/HOLD HARMLESS**

- 10.1 LICENSEE **agrees** that it is wholly responsible for all services provided by it, including all LICENSED SERVICES, and that BOARD OF REGENTS shall have no liability for any services, including any LICENSED SERVICE, provided by LICENSEE or by **the sublicensee** of LICENSEE. LICENSEE **indemnifies** and holds **harmless** BOARD OF REGENTS and **the** officers, employees, and agents thereof, **from** any claims, demands, causes of actions and damages, including reasonable attorney's fees, caused or **arising** out of LICENSEE% provision of professional services, including LICENSED SERVICES.
- 10.2 INDEMNITY. To the extent authorized by the **Constitution** and the laws of the State of Texas, the BOARD OF REGENTS indemnifies and holds harmless LICENSEE and the officers, employees **and** agents, thereof, **from** any claims, demands, causes of action, and damages including reasonable attorneys' fees, based solely on an alleged **infringement** by LICENSEE of the claimant's trademark or trade name directly resulting **from** the use by LICENSEE of a LICENSED MARK.

1 1 . **NOTICES**

Any notices, statements, payments, or reports required by this Agreement shall be deemed served when deposited in the United States mail, first class postage prepaid, certified or registered mail, return receipt requested and addressed as follows:

IF TO LICENSEE: M. D. Anderson Cancer Center
Outreach Corporation
7505 South Main, Suite 500
Houston, Texas 77030
Attn: President

BOARD OF REGENTS: Intellectual Property Section
office of General Counsel
The University of Texas System
201 west 7th street
Austin, Texas 78701

1 2 . **STATUS OF PARTIES**

This Agreement is not intended to create, and shall not be interpreted or construed as creating, a partnership, joint venture, agency, employment, master and servant, or similar relationship between BOARD OF REGENTS and LICENSEE or the sublicensee, and no representation to the contrary shall be binding upon BOARD OF REGENTS.

1 3 . **BINDING EFFECT**

This Agreement shall be binding upon and inure to the benefit of BOARD OF REGENTS and LICENSEE and their respective successors, assigns, executors, heirs, and personal representatives.

1 4 . **LAW GOVERNING**

This Agreement shall for all purposes be governed by and interpreted and enforced in accordance with the laws of the State of Texas. LICENSEE hereby agrees that any action arising out of this Agreement shall be litigated under the laws of the State of Texas in a court of competent jurisdiction in Travis County, Texas, and LICENSEE hereby agrees to submit to the jurisdiction of the courts of the State of Texas and to obtain the sublicensee's consent to submit to the jurisdiction of the courts of the State of Texas, and that service of process by certified mail, return receipt requested, shall be sufficient to confer in personam jurisdiction over LICENSEE or the sublicensee. LICENSEE agrees that the terms of this paragraph will be a part of the sublicense.

1 5 . **MISCELLANEOUS**

15.1 The provisions of this Agreement are severable. and if any provision shall be held illegal, invalid, or unenforceable, such holding shall not affect the legality, validity, or enforceability of any other provision. Any such illegal, invalid, or unenforceable provision shall be deemed stricken herefrom as if it had never been contained herein, but all other provisions shall continue in full force and effect.

- 15.2 As used herein, the **term** LICENSEE **shall** include the **plural** as well as the singular, the **masculine** and feminine genders, and corporations, **partnership**, and other business entities as well as individuals.
- 15.3 Except for the License Agreement effective March **1, 1990** between the parties, this Agreement contains the entire Agreement between the parties with respect to the subject matter hereof and supersedes **any** prior Agreements between the parties, written or oral, with respect to such subject matter,
- 15.4 This Agreement may not be amended modified, or rescinded except by a written Agreement executed by BOARD OF REGENTS and LICENSEE.

EXECUTED BY BOARD OF REGENTS and LICENSEE effective **as** of the day and year **first** above written, in duplicate copies, each of which shall be deemed an original.

THE BOARD OF REGENTS OF THE
UNIVERSITY OF TEXAS SYSTEM

M. D. ANDERSON CANCER
CENTER OUTREACH CORPORATION

By: _____

By: _____

Name: Ray **Farabee**

Name: Robert N. Shaw

Title: Vice Chancellor and General Counsel

Title: President and Chief Executive Officer

Date **Signed:** _____

Date Signed: _____

Approved as to Form:

UT System
office of General Counsel

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ATTACHMENT A

LICENSED MARKS ARE:

1. M. D. Anderson Cancer Center Outreach Corporation
2. M. D. Anderson Cancer **Center** Outreach **Corporation** _____*
3. M. D. **Anderson** Outreach Corporation _____*
4. M. D. Anderson Outreach _____*

- **Denotes** that a geographical place name may be inserted.

ATTACHMENT B

LICENSED SERVICES ARE:

In accordance **with** LICENSEE's purposes **and** emphases on the clinical, educational and scientific aspects of cancer care, the following services may be provided by LICENSEE in connection with the LICENSED MARKS listed in Attachment A:

1. Cancer Care Services provided in **Surgery**, Medicine, Radiotherapy, Diagnostic **Imaging**, Laboratory Medicine, Pathology, Pediatrics, Cancer Prevention, Nursing and **Pharmacy**;
2. Cancer Research Services; **and**
3. Cancer Education Services.

FIRST AMENDMENT TO
LICENSE AGREEMENT

The Board of Regents of The University of Texas System (the "BOARD OF REGENTS") and M. D. Anderson Physicians Network, a Texas **nonprofit corporation** ("MDAPN"), enter into this First Amendment to License Agreement ("**AMENDMENT**") effective as of the ___ day of _____, **1996** for the purposes herein set forth. Except as otherwise **provided** herein, the **defined** terms used in this AMENDMENT shall have the meanings assigned to **them** in that certain LICENSE **AGREEMENT** (the "**LICENSE AGREEMENT**") entered into by the BOARD OF REGENTS and MDAPN **effective** as of the ___st day of _____, **1996**. The BOARD OF REGENTS and MDAPN are **referred** to collectively herein as the PARTIES.

WHEREAS, the BOARD OF REGENTS owns rights in certain marks used by The University of Texas System and or component institutions;

WHEREAS, the PARTIES entered into the LICENSE AGREEMENT in order that the BOARD could grant to MDAPN a non-exclusive license to utilize LICENSED **MARKS** under the terms and conditions of the LICENSE AGREEMENT;

WHEREAS, **Attachment A** of the LICENSE AGREEMENT **describes** the LICENSED MARKS that MDAPN has a **nonexclusive** license to **utilize**; and

WHEREAS, the PARTIES desire to amend Attachment A to include an additional Licensed Mark that MDAPN shall have a non-exclusive license to utilize.

NOW THEREFORE, in consideration of the mutual covenants and agreements contained herein the PARTIES agree as follows:

1. **Attachment A** shall be amended to provide as follows:

LICENSED MARKS ARE:

M. D. Anderson Physicians Network

M. **D.** Anderson Cancer Center Physicians Network

IN WITNESS WHEREOF, the PARTIES have caused this AMENDMENT to be executed in multiple originals, to **be** effective as of the day **and** the **year first** above written.

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

By: _____
Name: _____
Title: _____
Date Signed: _____

M. D. ANDERSON PHYSICIANS NETWORK

By: _____
Name: **Robert N. Shaw**
Title: President and **Chief Executive Officer**
Date Signed: _____

Approved **as** to Form:

U.T. System
Office of General counsel

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3. U. T. Southwestern Medical Center - Dallas: Approval of a Nonbinding Agreement in Principle Related to the Consolidation of Clinical Services Among U. T. Southwestern Medical Center - Dallas, Children's Medical Center of Dallas, Parkland Memorial Hospital, and Zale Lipshy University Hospital, Inc.--Regent Deily reported that since the Material Supporting the Agenda was distributed, an emergency item had been posted with the Secretary of State regarding the proposed approval of a nonbinding Agreement in Principle related to the consolidation of clinical services among The University of Texas Southwestern Medical Center at Dallas, Children's Medical Center of Dallas, Parkland Memorial Hospital, and Zale Lipshy University Hospital, Inc.

Noting that the Board had a preliminary briefing on this matter earlier in the day, Regent Deily called on President Wildenthal to outline the purpose of this proposed agreement and its role in preparing U. T. Southwestern Medical Center - Dallas for the challenge of the managed care marketplace.

President Wildenthal noted that the executive leadership of the four aforementioned entities has analyzed and discussed options to more closely align the four institutions and decided to sign a nonbinding Agreement in Principle to evidence their commitment to pursue integration, realizing that extensive integration will help these important community resources to continue to thrive and realize their vital community missions of clinical care, education, and research. Dr. Wildenthal pointed out that the provision of health care for the future will be centered on preventive and ambulatory types of care, as well as on hospital stays. As managed care continues to penetrate the Dallas market, hospitals will face severe overcapacity and cost pressures, which will in turn reduce utilization rates, put pressure on financial performance, and likely force significant bed closures. Some Dallas area physicians will face a lessening demand for their services which will ultimately force some specialists from the market.

Dr. Wildenthal noted that, if the four institutions are to continue to fulfill their respective missions in this changing marketplace, they face a tremendous challenge to improve performance across a number of dimensions. Given this challenge, the status quo will not prevail. Costs must be reduced as the market requires, and as the market becomes more competitive, the four institutions must also improve their productivity and attractiveness to patients, physicians, and payors. Although integration alone will not fully meet these challenges, the four institutions firmly believe that integration will contribute significantly to their ability to achieve the improvements that they must make over the next several years. The direct benefits of consolidation include cost savings and a modest improvement in the ability to attract patients to integrated health care.

Following President Wildenthal's comments, Regent Deily reported that the Board had received a timely request from Ms. Mary Stretcher, a nurse practitioner at the U. T. Southwestern Medical Center - Dallas, to address

the Board on this matter and she had been allocated eight minutes to speak on the impact such a consolidation might have on the wages, benefits, and job security of U. T. Southwestern Medical Center - Dallas employees.

Ms. Stretcher thanked the Board for the opportunity to address this matter and indicated there had been a lack of communication with the faculty and staff of U. T. Southwestern Medical Center - Dallas regarding the proposed consolidation of these entities. Ms. Stretcher reviewed in detail several sections of the Agreement in Principle, which had been executed by the executive leadership of the four institutions on June 17, 1996, citing the impact such a consolidation might have on the wages, benefits, and job security of the employees at U. T. Southwestern Medical Center - Dallas. She noted that the proposed effort to reorganize the clinical services of these four institutions into a single integrated provider of health services to the North Texas region will affect not only physicians but cleaning staffs, clerks, LVNs, counselors, lab technicians, etc., and expressed hope that these types of jobs would not be eliminated nor their benefits reduced.

Ms. Stretcher pointed out that the lack of communication between the U. T. Southwestern Medical Center - Dallas administration and faculty and staff related to this proposed consolidation creates a morale problem and could cause accelerated attrition.

Following these presentations, the Board, upon recommendation of the Health Affairs Committee, approved the nonbinding Agreement in Principle among U. T. Southwestern Medical Center - Dallas, Children's Medical Center of Dallas, Parkland Memorial Hospital, and Zale Lipshy University Hospital, Inc. as set forth on Pages 58 - 69. It was noted that the nonbinding nature of the Agreement in Principle would require that any contractual arrangement resulting from the negotiations under the Agreement in Principle would require the further approval of the U. T. Board of Regents.

AGREEMENT IN PRINCIPLE

EXECUTED BY
THE EXECUTIVE LEADERSHIP
OF
CHILDREN'S MEDICAL CENTER OF DALLAS,
PARKLAND MEMORIAL HOSPITAL,
THE UNIVERSITY OF TEXAS SOUTHWESTERN HEALTH SYSTEMS, INC.,
THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS
AND
ZALE LIPSHY UNIVERSITY HOSPITAL, INC.

JUNE 17, 1996

This Agreement in Principle is executed and delivered by the executive leaders of **each** of CHILDREN'S MEDICAL CENTER OF DALLAS ("**Children's**"), PARKLAND MEMORIAL HOSPITAL ("Parkland"), THE UNIVERSITY OF TEXAS SOUTHWESTERN HEALTH SYSTEMS, INC., THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER AT DALLAS ("**UTSW**" or the "**Medical School**") and ZALE LIPSHY UNIVERSITY HOSPITAL, INC. ("**Zale Lipshy**") as a statement of their agreement **as to** (i) **the** broad principles that they intend to follow in leading their respective institutions in a **sustained** effort to **reorganize their clinical operations** into a single **integrated** provider of **health** services to the North Texas region (**the** "**Resulting Institution**"), (ii) their **commitment** to use their best efforts to obtain **the prompt ratification** of this **Agreement** by **their respective boards** of directors and (iii) their commitment to pursue the implementation of the objectives set forth in this Agreement **as** promptly and completely as is **practicable** and **consistent** with their legal **authority** to do **so**.

Background

Over the last three months, the leadership of **Children's, Parkland, UTSW** and **Zale Lipshy** has **analyzed** and discussed options to more closely align the four institutions. After **considerable** scrutiny, the executive leadership of each institution has decided to sign this nonbinding Agreement in **Principle** to **evidence** their commitment to pursuing **integration**. The **leadership** of each institution has agreed that extensive integration will help their **important community resources** to continue to thrive **and** realize their **vital** community missions of **clinical** care, education, and research. It is **expected that** the **four** institutions **will seek to obtain** the ratification of this **Agreement** by their respective **boards** on or **before** August 31, 1996, and that they will **at the** same time continue to **define and** resolve integration issues such that a binding definitive Integration Agreement will be prepared and executed **on** or **before** December 31, 1996, which **will set forth all** material **terms** to govern **the process** described in this Agreement in Principle.

Rationale for Integration

The provision of health care for the future will be centered on preventive and ambulatory types of care, as well as on hospital stays. As managed care continues to penetrate the Dallas market, hospitals will face severe overcapacity and cost pressure, which will in turn reduce utilization rates, put pressure on financial performance, and likely force significant bed closures. Some Dallas area physicians will face a lessening demand for their services and required performance improvements, which will ultimately force some specialists from the market. Given the significant reliance on government funds by each of the four institutions, changes in government policy may also threaten their patient base and revenues.

If the four institutions are to continue to fulfill their respective missions in this changing marketplace, they face a tremendous challenge to improve performance across a number of dimensions. Given this challenge, the status quo will not prevail. Costs must be reduced as the market requires. (In other market areas, health care institutions have been pressured to cut costs by as much as 20 to 30 percent to remain competitive.) As the market becomes more competitive, the four institutions must also improve their productivity and attractiveness to patients, physicians and payors. This will require improvements in the effective utilization of physicians, staff and other resources across all four institutions, the alignment of interests and incentives between hospitals and physicians, both UTSW faculty and private practice, and an increasing emphasis on patient-centered care. Lastly, access to existing patients must be maintained while steps are taken at the same time to expand services to more of the North Texas community that is in need of health care. These actions are necessary to ensure the ability of the integrated Resulting Institution to provide the high quality, cost-effective, medical care, medical education, and medical research that the North Texas community deserves.

Although integration alone will not fully meet these challenges, the four institutions firmly believe that integration will contribute significantly to their ability to achieve the improvements that they must make over the next several years. The direct benefits of integration include cost savings and a modest improvement in the ability to attract patients to integrated health care. Integration will also give rise to significant indirect benefits as it establishes momentum to carry through operational improvements, streamlined decision making among the four institutions, better alignment and coordination of clinical services across the four institution, and facilitates the creation of incentives to support physician productivity. The four institutions strongly agree that for the Resulting Institution to achieve long-term success, it must pursue broader alliances with other health care systems in Dallas and surrounding areas. These broader alliances will be pursued immediately upon execution of this Agreement in Principle.

Key Elements of the Proposed Integration

The Resulting Institution will incorporate essentially all of the operations of Children's, Parkland and Zale Lipshy, and the clinical operations of UTSW. The Resulting Institution will manage the clinical activities of UTSW physicians, who will continue to be employed by UTSW. The physician group practice which coordinates the clinical activities of UTSW physicians will commit their services to the Resulting Institution as the primary focus of their clinical services

pursuant to a long-term **agreement** that will **assure the** availability of this key **resource** to the Resulting **Institution**. Existing joint programs with **unaffiliated** hospitals **involving UTSW** faculty **members will be continued**, and the Resulting **Institution will be** offered the initial opportunity to sponsor services that **are** proposed to be made the subject of future joint **programs**. **Participation of UTSW** physicians in joint **programs** with **unaffiliated** hospitals **will be incorporated within** the physician **compensation** policies established by **UTSW** and the Resulting Institution **and will not be competitive with or disassociated from them**.

The Resulting Institution and **UTSW** will jointly **assure the continuation** of medical education and **research** within the **Resulting Institution's clinical environment through** close coordination of **leadership** and **decision** making roles. The **four** institutions **recognize** that in order to **succeed, the** Resulting Institution must produce quality **clinical** outcomes **within** a cost **structure** that is competitive with alternative systems. **The** four institutions **agree that** medical education and research, **as** conducted within the Resulting Institution, must be structured to support **this** objective. All clinical **services** at campus sites will continue to **serve** as part of the **primary** teaching program at **UTSW**, and all physician **appointments** for **clinical** services at campus sites **will continue to require** a faculty appointment (paid or volunteer) at **UTSW**.

In order to simplify the decision making processes, the Resulting Institution will **be** directed by **a** single Board of Directors that will be responsible for preserving and **carrying out** the **respective** missions of the four institutions. **The** Resulting **Institution will be led** by one Chief Executive **Officer**, who **will** have **administrative** authority for clinical activities across the **four** institutions. **The Chief Executive** Officer will consult with **the** administration of the Medical School to **assure coordination** of the Resulting Institution's support of **both** clinical activities **and** **medical** education **and** research.

The four institutions recognize the importance of relationships between **the** Resulting Institution and **physicians** throughout **the community**, and **affirm** the importance of these relationships to **the** success of the mission of **the** Resulting **Institution**. These relationships **are** particularly critical to the mission of **Children's**. **The** four institutions **will** commit **an** increasing effort **to** broadening relationships with **other** health **care** systems **and** with private **practice** physicians as **opportunities** present themselves, and expect this commitment to be **carried on** by the Resulting **Institution and the** Medical School.

Structure for Leadership **and** Decision **Making**

The **successful integration** and **operation** of the **Resulting** Institution will require **a** **structure** for **leadership** and **decision** making that **recognizes** and **harmonizes** the differing but complementary **requirements** of the clinical practice of medicine and the operation of a teaching and **research** institution. This will be **achieved** through **the** careful selection of the Board members **and** senior management **who** will oversee the Resulting **Institution and** by establishing **a** clear **delineation** of lines of authority with **regard** to the **management** of clinical and academic **functions within** the Resulting Institution and **the** Medical School.

Management Structure

The **Resulting Institution** will be led by a single Chief Executive **Officer** who will exercise **authority** over the **process** of integration and the **clinical operations** of the **Resulting Institution** that is **comparable to the extent** of the authority of the **current** chief executive officers who supervise the **three hospitals** and the *Medical School's* **clinical services**. This will include the **authority** to **commit the entire Resulting Institution** to **agreements** with respect to the pricing, availability and **management** of services. The **administration** of the **Medical School** will **continue** to **exercise a similar** level of **authority** over the teaching and **research functions** of the **Medical School**. The **appointment and supervision** of joint appointments is **discussed** below.

It is expected that the **Resulting Institution** will organize **around** a number of operating divisions that may track the **current organizations** of the four institutions or that may track **specific services across** multiple **facilities**. The **Board** may delegate **responsibility** to the Board of Directors and **executives** of these operating divisions, For example, a **separate pediatric** division will be **established** and its head will report to the Chief Executive **Officer** of the **Resulting Institution**. The pediatric division will be **responsible** for the operation of Children's and the **establishment** of policy for **management** of a new **pediatric physician group practice** organization, which is described more **fully** below at "Relationship with Physician Practice Groups." The pediatric division will maintain **distinct** medical **staff** governance and will **have** the ability to **form alliances with, contract with, and purchase private practice** physician **practices**, subject to **approval** by the **Board** and **Chief Executive Officer** of the **Resulting Institution**. All **other** decisions about the pediatric and **adult organizations** will be made by the **Chief Executive Officer** and/or the **Board** of the **Resulting Institution**.

Board Selection and Authority

The four **institutions** will designate the initial **members** of the Board of Directors, and its **interim Chairman**, to act on behalf of the **Resulting Institution** and to help guide the process of integration. The **initial** group of five to seven **candidates** will be designated as promptly as **practicable** after the execution of **this Agreement in Principle**. The initial **Board members** will thereafter **select** additional **members**, who together will comprise a **nine to eleven** member **proposed Board** of the **Resulting Institution**. The **proposed Board** will act in an **advisory** capacity until **this Agreement in Principle** is **ratified** by each of the **four institutions**. At that **time they** will begin to act as the Board of the **Resulting Institution**. The **members** of the **Board** will not **represent** any one of the four institutions as **such**; they will be **persons** having a strong interest in the **mission** of the **Resulting Institution**, which will **incorporate** the missions of **each** of the four **institutions**, and will **include persons** sensitive to the diversity of the **North Texas** population. The **full Board**, when appointed, will **select** a **Chairman**. The **Board** of the **Resulting Institution** will be **self-perpetuating**.

Once the **Board** of the **Resulting Institution** is **established**, it will **immediately** proceed to **select** the **Chief Executive Officer** (or **interim Chief Executive Officer**) if the four **institutions** have not **already** done so. The existing boards of the four institutions and their management will,

after executing this Agreement in Principle, begin to assign to the Board of the Resulting Institution responsibility for oversight of the process of integration and the integrated operation of the four institutions as rapidly as is feasible.

Once the final Integration Agreement is executed, the Board will have all authority to manage the Resulting Institution that is not expressly reserved as retained authority of the current boards of the four institutions. The current boards of the four institutions will continue to exist to carry out functions that by law or agreement of the parties do not pass to the Board of the Resulting Institution. These functions may include advisory and fundraising responsibilities (e.g., solicitation and deployment of donated funds) in addition to other responsibilities the Board of the Resulting Institution may choose to delegate (e.g., if appropriate, oversight of day-to-day operations of a particular division of the Resulting Institution within the budgets approved by the Chief Executive Officer and Board). For example, within the pediatric division, the Children's board will perform the duties delegated by the Board of the Resulting Institution, which may include review of hospital operating and capital budgets, oversight of fundraising, responsibility for medical staff credentialing, regulatory, and statutory functions such as JCAHO reporting, and input into the selection of the chief pediatric administrator.

The final Integration Agreement will delegate all management decisions of the four institutions relating to clinical services to the integrated Board to the extent permitted by law. To the extent that modification of existing law or regulations is required to effectively create the new integrated Board and to endow it with the powers contemplated herein the parties will cooperate in pursuing such modifications.

Clinical Leadership and Decision Making

Inasmuch as the campus hospitals and clinics of the Resulting Institution are the primary teaching sites for the Medical School, it is intended that the physician leadership positions for campus clinical services within the Resulting Institution will be held by the Medical School's corresponding academic clinical leaders or their designees, which in the case of the pediatric division are expected to include private practice physicians. The administration of the Resulting Institution and the administration of the Medical School will share the responsibility and authority for identifying, recruiting, defining job duties and expectations, funding and evaluating the clinical leadership performance of these individuals.

The Chief Executive Officer of the Resulting Institution or his/her designee will serve as a voting member of search committees for new clinical department chairmen at the Medical School, along with appropriate other people from the Medical School, and must reach concurrence on the permanent selection. The dean of the Medical School will appoint the department chairman after concurrence is reached, and the chairman or his/her designee will serve as chief-of-service for the corresponding department or service of each hospital and clinic.

Both the Chief Executive Officer or his/her designee and the chief pediatric administrator or his/her designee will serve as voting members of the search committee for the chairman of

pediatrics, and must reach **concurrence** on the permanent selection. The dean of the Medical School will **appoint the chairman** of **pediatrics** after concurrence is reached, and the **chairman** will **serve as** chief of the **pediatric service** at all **campus** hospitals and clinics and **as** chief-of-staff at **the** pediatric division.

With regard to the clinical **leadership and** service duties of the **chief-of-staff** at the **pediatric division**, the **Chief Executive Officer**, the **chief** pediatric **administrator**, the dean of the Medical School, and the executive **vice president** for clinical **affairs** of the Medical School will share **the** authority to **set** performance **standards**, **evaluate performance**, and approve salary adjustments and bonuses associated with **the** chief-of-staff's **clinical leadership** and service.

The chief pediatric **administrator** and the Chief Executive Officer of the Resulting Institution have the authority to suspend **the** chief-of-staff at the pediatric division for cause based on **documented** poor **performance**. Termination requires concurrence by the Medical School administration.

If any conflicts **between** the Resulting Institution and the **Medical** School concerning clinical **leadership** and decision making are not resolvable **through internal** mechanisms, external mediation or, to the extent legally permissible, binding **arbitration**, involving one or more unbiased third parties, including individuals with **experience** and **expertise** in the areas **involved**, will be **utilized**. **The Resulting Institution** and the **Medical School** will share the **common** costs of mediation or arbitration **equally**, and each party will pay its **own** individual expenses.

Relationship with Physician Practice Groups

A key **asset** of the Resulting **Institution** will be its **affiliation with** the physician group practice **sponsored** by UTSW (the "UTSW Physician Practice"). A separate pediatric **group** practice **organization** (the "**Pediatric Physician Practice**") will be created **for the** pediatric division, which will include both **UTSW** physicians and private practice pediatric physicians from the **North Texas** market. The **membership requirements**, **governance** and **compensation** policies for **these** practice groups will be **similar** to **present** arrangements, but **will** be modified in several respects to advance the objectives of the Resulting Institution. A preliminary **framework** expressing some of the organizational relationships **between** the **components** of the Resulting Institution **and these** practice groups is reflected on Annex A.

Board Composition. The sole member of **the** UTSW Physician Practice **will** be UTSW, and **the** UTSW Physician Practice **will** continue to be governed by a board of directors comprised of UTSW faculty physicians (the "**UTSW Physician Board**") chaired by the Executive Vice President for Clinical **Affairs** of UTSW. The UTSW **Physician** Board **will** be continue to be appointed by UTSW (in consultation **with** the Chief Executive **Officer** and Board of **the** Resulting Institution). The sole member of **the** **Pediatric** Physician Practice will be **the** **Resulting** Institution; and **the** Pediatric Physician Practice will be **governed** by a board of directors (the "**Pediatric Physician Board**") of whom one half **will** be private practice physicians who are members of the Pediatric Physician practice (**selected** by the private practice physicians from among designated specialties) and one **half** will be UTSW **full-time** faculty **members** (selected by

UTSW from among designated specialties, including some designated service chiefs). The size and specialty distribution of the Pediatric Physician Board will be determined by the Resulting Institution, in consultation with the chief pediatric administrator and the administrator for physician services. The Resulting Institution will appoint the Chairman of the Pediatric Physician Board from among its members.

Administrative Structure. The UTSW Physician Practice will be administered by the administrator for physician services (presently the Executive Vice President for Clinical Affairs), who will report to the Chief Executive Officer of the Resulting Institution and to the UTSW administration, as well as to the UTSW Physician Board. Clinical department chain will report to the administrator for physician services with regard to clinical matters and to the UTSW administration with regard to academic matters. The administrator for physician services will be the principal interface on behalf of the Medical School with the Chief Executive Officer of the Resulting Institution for purposes of determining the number, variety and deployment of adult medicine physicians within the Resulting Institution. The administrator for physician services will interface on behalf of the Medical School with the Chief Executive Officer of the Resulting Institution, the chief pediatric administrator and the Pediatric Physician Board for purposes of determining the number, variety and deployment of pediatric physicians within the pediatric division.

The administrator for physician services will be the Principal administrator for adult physician services at non-hospital based practice locations, and will also be the principal administrator for non-hospital based adult and mixed practice facilities. The administrator for physician services will have the responsibility for initiating, Proposing and negotiating contracts for adult physician services, and will work in collaboration with the Chief Executive Officer and division administrators to devise global contracts. The Chief Executive Officer and Board of the Resulting Institution will have the final authority to enter into contracts for physician and hospital services. The UTSW Physician Practice and the Pediatric Physician Practice will be expected to provide the physician services required for negotiated contracts and other necessary physician services. If either of the Physician Practices is unable or fails to provide such services, the Resulting Institution may contract with outside physicians to secure such services, which will be effected through the administrator for physician services under the direction of the Chief Executive Officer of the Resulting Institution

Compensation. UTSW faculty members will be compensated by UTSW with respect to their clinical and academic activities. The Resulting Institution will contract with UTSW to provide appropriate compensation for physician services through UTSW, and will assure that clinical compensation is identified as such and flows through to physicians on the basis set by the Chief Executive Officer of the Resulting Institution, as described in greater detail below at "Physician Deployment and Incentives." Private practice physicians who are members of the Pediatric Physician Practice will be compensated directly through it, while compensation that would otherwise be payable to UTSW faculty members will be paid to UTSW by contract and distributed to the faculty physicians by it in accordance with its agreement with the Resulting Institution. Compensation paid to UTSW for clinical services performed by UTSW physicians within the Pediatric Physician Practice will be similar to compensation paid for similar work in

similar **specialties** to private practice physicians within **the** Pediatric Physician Practice; private pediatric practitioners and **UTSW** Pediatric Practitioners will be treated similarly with regard to restrictions against (or **opportunities** to) practice outside the Pediatric Physician Practice, and with regard to **obligations** for on-call duty and **charity-case** responsibilities.

The Chief Executive Officer of the Resulting Institution will establish policies to assure **that** compensation of physicians is handled consistently across **the** Resulting Institution so as to **create effective incentives** without **creating inappropriate internal** competition between or within departments.

Financial Integration

The objectives of the financial **integration** of the four institutions into **the** Resulting institution are to create an organization **that will** (i) retain all operating **income and** expenses of **the clinical operations** now **conducted** by each of **them separately**, (ii) **present** its **financial** position and results on a consolidated basis, (iii) have the ability to plan for and **fund** all capital **requirements** of **the** Resulting Institution, (iv) manage all **clinical** operations of **the four institutions**, (v) **have full hiring/review** authority over the employees supporting clinical operations and (vi) have the authority and resources to continue the missions of the four institutions.

The **financial integration** of the four institutions into **the** Resulting Institution will be **accomplished** by **the** combination of **the** operating assets and liabilities of **Children's, Zale Lipshy** and **UTSW (primarily the Aston Center and UTSW Health Services)**, and **related** indebtedness. The **Resulting** Institution will enter into a **40** year lease of Parkland's assets, will assume certain of **its** liabilities, and will execute a **40** year contract with the Dallas County Hospital District to provide **uncompensated** (indigent) care. Parkland's employees would continue to be employed by **Parkland**, but would **be** supervised by **the** Resulting Institution.

The boards of **each** of the four institutions (or **their** respective foundations) may retain certain assets that **are not necessary** for the **adequate capitalization** and liquidity of the Resulting Institution. **These** retained **assets** will continue to be applied to **the** advancement of the **respective missions** of **the** four institutions. The four **institutions** will agree **that the** retained assets will **not** be applied to support competing **health care** systems, and specified **assets** may be designated for support of **the** Resulting Institution **in areas** where known or special needs are identified. It is expected that **while** the boards that are currently responsible for **these retained assets** will continue to manage and apply **them**, **fund raising efforts** by each of **them** after the **organization** of the **Resulting** Institution will be **focused** on financial support for the Resulting Institution.

The board of the Dallas County Hospital District (**the** "District") will continue its **responsibility** for **recommending** to **the** Dallas County Commissioners Court **the** tax rate for **the** District. Tax proceeds will be applied to payment under the **contract** between the District **and the Resulting Institution** for the provision of **uncompensated** (indigent) care. This board of the District will be responsible for monitoring the performance of the **Resulting** Institution to assure

that it is providing **the** availability, quality and **cost effectiveness** of medical services required by **the** contract.

Physician Deployment and **Incentives**

It will be **the responsibility** of the **management** of the Resulting Institution to **specify** the **clinical** support **required** at each hospital to **ensure** high quality, **cost-effective**, patient-centered **care** (e.g., **number** and type **of** physicians, **number** of hours **spent** in clinical **practice**, individuals who **will** provide care). The **Medical School administration will specify** the **clinical** education support required at **each** hospital and will **be** responsible for the cost thereof to the **extent** that **the** desired level of **education** support is **inconsistent** with the Resulting Institution's requirements for **financial** viability.

The Resulting Institution will track the **services performed** by individual **private and faculty** physicians (e.g., **number** of patients seen, tests ordered, outcomes)).

The Resulting institution will **contract** with the **Medical School** to provide funds for, and to **clearly** delineate the **clinical** portion of, **the compensation** of individual faculty physicians (**plus** appropriate overhead) based on their clinical productivity and **efficiency**, while the Medical School will **retain** responsibility for providing compensation and overhead **expenses** relating to teaching and **research**. **The Resulting Institution** will establish a **consistent set** of policies with regard to **the** management and compensation of physicians, which will be implemented across all four institutions and will apply to **all** physicians and practice groups. These policies may be varied **within** operating divisions, subject to the oversight of **the** Board of the Resulting Institution. The pediatric division **will** propose policies to be applicable to physicians practicing within that division which are consistent with the objectives of the Resulting Institution.

Each of **the** four institutions will support the group's efforts to **further strengthen** and broaden relationships with private physicians, and **specifically** will continue to support the **current** joint policy of **maintaining the** role of private practice physicians at **the** pediatric division as a **critical part** of **its staffing structure**.

Each of the four institutions will begin **immediately** to **aggressively** implement the objectives **expressed** in this Section.

Broader alliances

Each of **the** four institutions **agrees** that broader local and regional **alliances are** necessary to **ensure** their health and that **these** broader alliances should be pursued **immediately** following execution of this Agreement in Principle.

Affiliations beyond the **four** institutions will **be determined** in **the** near term by the four institutions working together. Once the proposed Board of **the** Resulting Institution is in place, it will be responsible for **leading** the negotiations for **affiliations** beyond the four institutions.

Each of the four **institutions** agrees that it **will** not enter **into** any significant alliances or major contracts **with** other parties in **the** near term without **the concurrence** of each of **the** others. **Once a definitive Integration Agreement** is concluded, **the** proposed **Board** and the Chief **Executive** Officer of the Resulting **Institution** will **be responsible** for negotiation and approval of all such **agreements**.

Immediately **upon execution** of this letter, **discussions** will be initiated **with the other** members of the Dallas Teaching Hospital **Consortium**, which **includes** Baylor, **Harris Methodist, Methodist, Presbyterian, Scottish Rite** and the VA hospital, to **determine their interest** in seeking to **align with** the Resulting **Institution**. If expressions of interest **are** received from **one or more of** these institutions, their inclusion in **the** process contemplated by **this Agreement** in Principle will **be aggressively** pursued. **Discussions with other** regional **hospitals** identified and agreed to by the four **institutions** may **begin concurrently**.

Interim Operations Coordination

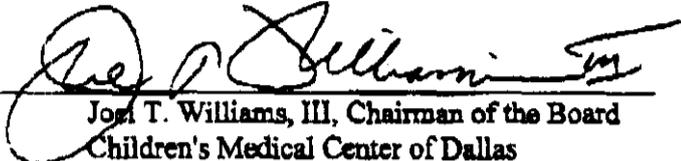
The four **institutions** will form an interim **operations** committee to coordinate operations activities of all four **institutions** prior to **selection of an integrated management team**. This committee will include **the** Chief Operating **Officer of Children's**, the Chief **Operating** Officer of **Parkland**, the Executive Vice President for Clinical **Affairs** of **UTSW** and **the** Chief Executive **Officer** of **Zale Lipshy**.

The committee will meet **weekly** to discuss all important operations decisions (**e.g.**, capital expenditures in excess of **\$250,000, major outside contracting**) and to stimulate and initiate **cost** reduction **and** productivity improvement **programs**.

Each of **the undersigned** acknowledges that **this Agreement in Principle** is not intended to create a binding **agreement** enforceable **against their** respective **institutions**. A **binding agreement** will only exist when a written document setting **forth** its **terms** is executed by **each institution** **after all** necessary approvals **have** been obtained. In **the case** of **UTSW**, it is understood that **the** approval of the Board of Regents of The University of Texas System must be obtained **before** the definitive Integration Agreement **can** be signed. In the case of **Parkland**, it is understood that the approval of both the District board **and** the Dallas County **Commissioners** Court must be obtained **before the definitive** Integration Agreement **can** be **executed on behalf** of **the** District. Each of **the** undersigned intends **to** proceed **immediately** to seek the ratification of the principles set forth in **this Agreement** by **their** respective boards and any further authorization they may deem **advisable** to permit **their continued** involvement in, and **financial** support for, the process set forth in **this Agreement**. It is also **expected that discussions** to further develop and **refine the** issues addressed by this Agreement **will** continue at the same time so as to meet **the expressed** desire of each **institution** to complete **this** process as **rapidly** as is **practicable**. Any of the four institutions may withdraw from this process at any time upon ten days written notice to each of **the other** institutions.

Each of **the undersigned representatives** of **the** four institutions commits to apply his or her **best** efforts to the achievement of **the objectives** set forth in **this Agreement in Principle**.

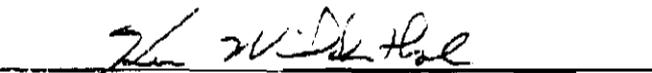
EXECUTED in Dallas, **Texas**, this 17th day of June, 1996.


Joni T. Williams, III, Chairman of the Board
Children's Medical Center of Dallas


George D. Farr, President and CEO
Children's Medical Center of Dallas


Pat Cotton Chairman of the Board
Parkland Memorial Hospital


Ron Anderson, M.D., Chief Executive Officer
Parkland Memorial Hospital


Kern Wildenthal, M.D., Ph.D., President
The University of Texas
Southwestern Medical Center at Dallas
The University of Texas
Southwestern Health Systems, Inc.

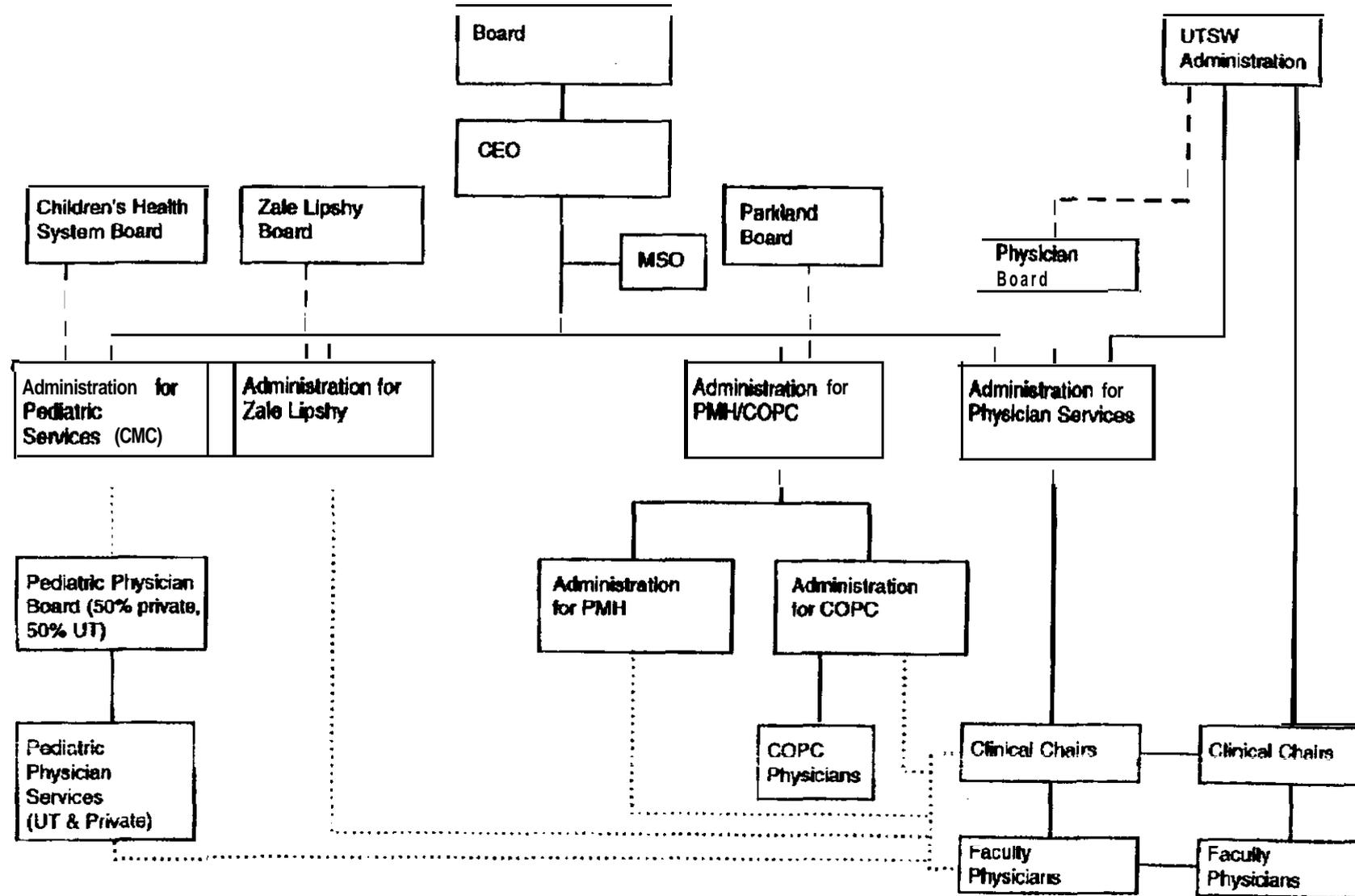

Donald Zale, Chairman of the Board
Zale Lipshy University Hospital, Inc.


Robert B. Smith, President and CEO
Zale Lipshy University Hospital, Inc.

Annex A

GROUP PRACTICE LEADERSHIP MODEL - PROPOSAL

PRELIMINARY



4. U. T. Board of Regents: Adoption of Resolutions of Appreciation Honoring President and Mrs. Charles A. LeMaistre on the Occasion of Dr. LeMaistre's Retirement from the Presidency of the U. T. M.D. Anderson Cancer Center and Appointment as President-Emeritus Effective September 1, 1996.--Regent Deily reported that it was her personal pleasure -- both as the stand-in for the Chairman of the Health Affairs Committee and as the Houston-based Regent -- to offer resolutions of appreciation to President and Mrs. Charles A. LeMaistre as Dr. LeMaistre approaches his retirement as President of The University of Texas M.D. Anderson Cancer Center.

Regent Deily pointed out that Dr. and Mrs. LeMaistre have been partners in distinguished service to The University of Texas System in a series of very responsible positions and in a variety of geographical settings. Mrs. Deily then called Regent Temple, a member of the Health Affairs Committee, to the podium and on behalf of the Health Affairs Committee presented the following (Pages 71 - 73) resolutions of appreciation -- first to Mrs. LeMaistre and then to Dr. LeMaistre -- recognizing the role of each in the recent history of the U. T. System.

Regent Deily also presented to Dr. LeMaistre the more traditional resolution which traces the highlights of his distinguished career in the U. T. System and which the Regents had signed as an expression of appreciation and best wishes in his retirement.

Following a standing ovation, Dr. and Mrs. LeMaistre graciously accepted these accolades and expressed appreciation to the Board for the opportunity to serve the U. T. System.

Board of Regents
The University of Texas System
Resolution of Appreciation

WHEREAS, Joyce Trapp LeMaistre has made immeasurable contributions to The University of Texas System during the 37 years that her husband, Dr. Charles A. LeMaistre, has served with distinction in major academic and administrative positions:

WHEREAS, Mrs. LeMaistre's unconditional support of Dr. LeMaistre's career as a physician, educator and administrator allowed him to embrace increasing professional challenges at The University of Texas Southwestern Medical School in Dallas, The University of Texas System Administration in Austin and The University of Texas M.D. Anderson Cancer Center in Houston;

WHEREAS, Her strong faith, high moral values and collegiate preparation in elementary education sustained Mrs. LeMaistre as she provided a loving home environment in which the couple's four children could thrive and pursue individual interests;

WHEREAS, After Dr. LeMaistre was named Vice Chancellor for Health Affairs of The University of Texas System in 1966, Mrs. LeMaistre became active in the Austin Natural Science Association Guild, the Woman's Auxiliary to the Travis County Medical Society, the Settlement Club and the Women's Symphony League of Austin, and also served on the Board of the Fine Arts Society of Texas;

WHEREAS, Upon being appointed Chancellor of The University of Texas System in 1971, Dr. LeMaistre and his family became the first residents of the Bauer House, where over the next seven years Mrs. LeMaistre graciously hosted scores of official events and warmly welcomed thousands of guests, including many international dignitaries;

WHEREAS, During Mrs. LeMaistre's tenure on the Board of the Austin Presbyterian Seminary from 1977 to 1986, she chaired the Curriculum and Faculty Committee, served on the Presidential Search Committee to choose a new President for the Seminary and was a member of the Seminary Covenant Review Team between the Presbyterian Synod of Red River and the Seminary;

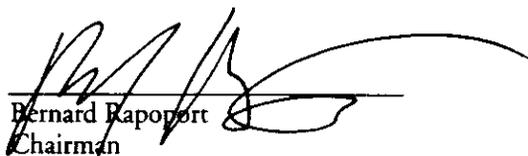
WHEREAS, Mrs. LeMaistre became active in the First Presbyterian Church of Houston, the Harris County Medical Society Auxiliary and the Women's Fund after Dr. LeMaistre was named President of The University of Texas M.D. Anderson Cancer Center in 1978; and

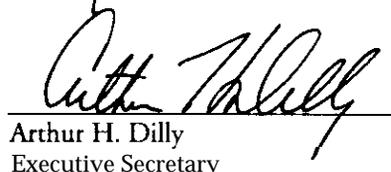
WHEREAS, In recent years, Mrs. LeMaistre has enhanced her expertise in growing orchids and African violets and has spent increasing time with the couple's four adult children and six growing grandchildren, of whom she is justifiably proud; now, therefore, be it

RESOLVED, That the Board of Regents expresses its deep appreciation to Mrs. LeMaistre for her dedicated service to and support of The University of Texas System; and, be it further

RESOLVED, That the original of this Resolution of Appreciation be presented to Mrs. LeMaistre as an outward token of the gratitude of the Board of Regents of The University of Texas System, and that a copy be spread upon the Minutes of this meeting so that those who come in the future will know of her invaluable service.

Adopted by unanimous vote this 8th day of August 1996


Bernard Rapoport
Chairman


Arthur H. Dilly
Executive Secretary

Board of Regents
The University of Texas System
Resolution of Appreciation

WHEREAS, Dr. Charles A. LeMaistre has served The University of Texas System with exceptional effectiveness and admirable distinction for 37 years;

WHEREAS, Dr. LeMaistre began his association with The University of Texas System in 1959 as a Professor of Internal Medicine at UT Southwestern Medical School in Dallas, where he was a compassionate and dedicated physician who treated patients with chest diseases and supervised the training of medical residents and fellows;

WHEREAS, Serving on the first U.S. Surgeon General's Advisory Committee on Smoking and Health, which in 1964 identified cigarettes as a major health hazard, resulted in Dr. LeMaistre becoming one of the world's most articulate authorities on the harmful effects of tobacco;

WHEREAS, Dr. LeMaistre held an important administrative assignment as Associate Dean of UT Southwestern Medical School in Dallas in 1965 and, the following year, became Vice Chancellor for Health Affairs of The University of Texas System to direct a major expansion of the U.T. System's Health Professions Education Programs;

WHEREAS, During his tenure as Chancellor of The University of Texas System from 1971 to 1978, Dr. LeMaistre led an impressive expansion of University of Texas components that included new Health Science Centers in Houston and San Antonio including the State's only School of Public Health in Houston, as well as establishment of The University of Texas at San Antonio, The University of Texas at Dallas and The University of Texas of the Permian Basin in Odessa;

WHEREAS, Dr. LeMaistre's visionary leadership as President of The University of Texas M.D. Anderson Cancer Center in Houston since 1978 has significantly expanded services to Texans with cancer and greatly enhanced the institution's international reputation as a mecca for cancer care, productive research, exemplary teaching and innovative cancer prevention programs;

WHEREAS, In guiding M.D. Anderson during its period of greatest growth, Dr. LeMaistre assembled an extraordinary team of faculty, staff, volunteers and generous supporters who shared a common commitment to reduce the toll that cancer takes on Texans and people throughout the world;

WHEREAS, Dr. LeMaistre brought honor and prestige to The University of Texas System while serving in many leadership positions in Houston, Texas and the nation including president of the Damon Runyon-Walter Winchell Cancer Fund from 1979 to 1983, national president of the American Cancer Society in 1986, and chairperson of the National Aeronautics and Space Administration/National Institutes of Health Joint Advisory Committee on Biomedical and Behavioral Research from 1992 to 1995; and

WHEREAS, Dr. LeMaistre will retire as only the second full-time President of The University of Texas M.D. Anderson Cancer Center on August 31, 1996; now, therefore, be it

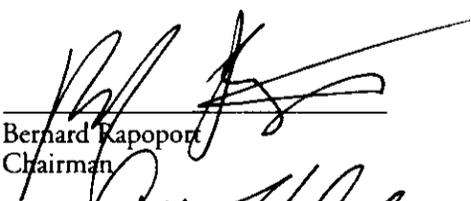
RESOLVED, That the Board of Regents expresses its deep appreciation to Dr. LeMaistre for his remarkable contributions and his legacy of excellence to The University of Texas System; and, be it further

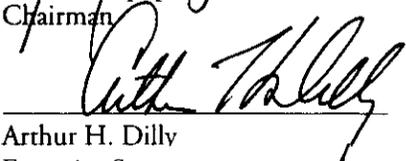
RESOLVED, That the Board of Regents gratefully acknowledges Dr. LeMaistre's high standards of integrity, unconditional loyalty and wise counsel during the past 37 years; and, be it Further

RESOLVED, That, in recognition of his distinguished service to The University of Texas M.D. Anderson Cancer Center, the Board of Regents is pleased to bestow upon Dr. LeMaistre the honorary title of President Emeritus effective September 1, 1996; and, be it further

RESOLVED, That the original of this Resolution of Appreciation be presented to Dr. LeMaistre as an outward token of the esteem and gratitude of the Board of Regents of The University of Texas System, and that a copy be spread upon the Minutes of this meeting so that those who come in the future will be aware of his invaluable service.

Adopted by unanimous vote this 8th day of August 1996


Bernard Rapoport
Chairman


Arthur H. Dilly
Executive Secretary



Certificate of Appreciation

The Board of Regents

Expresses to

Charles A. LeMaistre, M.D.

Its Deep Appreciation for His Distinguished Service to

The University of Texas System

In particular, the Board is especially grateful for his wise counsel, exceptional ability, professional integrity, and significant vision as he served The University of Texas System with dedication and loyalty in a series of leadership positions.

The University of Texas Southwestern Medical School

Professor of Internal Medicine, 1959-1978
Medical Director, Woodlawn Hospital, Chest Division, 1959-1965
Associate Dean, 1965-1966

The University of Texas System Administration

Vice Chancellor for Health Affairs, 1966-1968
Executive Vice Chancellor for Health Affairs, 1968-1969
Deputy Chancellor, 1969-1970
Chancellor-Elect, July-December 1970
Chancellor, 1971-1978

The University of Texas System Cancer Center

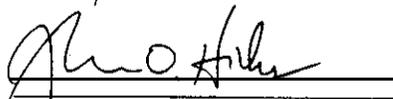
President, 1978-1988
Professor of Medicine, 1978-1988

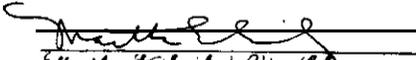
The University of Texas M. D. Anderson Cancer Center

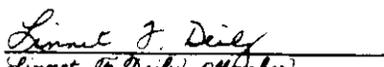
President, 1988-1996
Professor of Medicine, 1988-1991
Professor of Cancer Prevention, 1991-1996

Adopted by unanimous vote this 8th Day of August 1996


Bernard Rapaport, Chairman

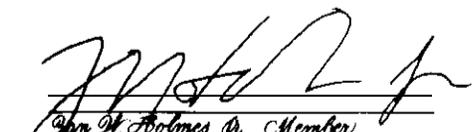

Thomas O. Hicks, Vice-Chairman

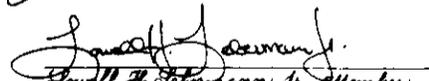

Martha C. Smiley, Vice-Chairman


Linnet F. Deily, Member

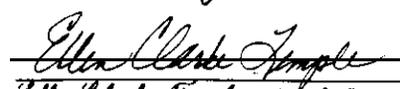

Donald L. Evans, Member

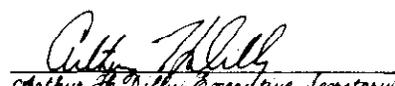



John W. Holmes, Jr., Member


Lowell H. Sebornann, Jr., Member


Tom Loeffler, Member


Ellen Clarke Temple, Member


Arthur H. Dilly, Executive Secretary

REPORT AND RECOMMENDATIONS OF THE FACILITIES PLANNING AND CONSTRUCTION COMMITTEE (Pages 74 - 88).--Committee Chairman Temple reported that the Facilities Planning and Construction Committee had met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, all actions set forth in the Minute Orders which follow were recommended by the Facilities Planning and Construction Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. Austin - Memorial Stadium West Side Renovation (Redesignated as Texas Memorial Stadium, Renovation and Expansion of West Grandstand) (Project No. 102-861): Approval of Preliminary Plans; Authorization to Prepare Final Plans and Specifications; Submission of the Project to the Coordinating Board; Advertisement for Bids and Executive Committee Award of Contracts; Appropriation Therefor; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--Following a brief overview by President Berdahl, Mr. Mike Holleman, representing the Project Architect, Heery International, Inc., Atlanta, Georgia, presented the preliminary plans and specifications for Memorial Stadium West Side Renovation at The University of Texas at Austin to the Facilities Planning and Construction Committee.

Based upon this presentation, the Board, upon recommendation of the Facilities Planning and Construction Committee:

- a. Approved redesignation of Memorial Stadium West Side Renovation as Texas Memorial Stadium, Renovation and Expansion of West Grandstand at U. T. Austin and approved preliminary plans and specifications at an estimated total project cost of \$14,000,000
- b. Authorized preparation of final plans and specifications
- c. Authorized submission of the project to the Texas Higher Education Coordinating Board
- d. Upon completion of final review, authorized the Office of Facilities Planning and Construction to advertise for bids and the Executive Committee to award all contracts associated with this project within the authorized total project cost
- e. Appropriated \$14,000,000 from Revenue Financing System Bond Proceeds.

Following a presentation by Mr. John Roan, Assistant Vice Chancellor for Finance for The University of Texas System, related to the qualifications of this project for the U. T. System Revenue Financing System and in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and upon delivery of the Certificate of an Authorized Representative as set out on Page 76, the Board resolved that:

- a. Parity Debt shall be issued to pay the project's cost including any project costs paid 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. Austin, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its Direct Obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of Parity Debt in the amount of \$14,000,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

The FY 1996-2001 Capital Improvement Program (CIP) was adopted by the U. T. Board of Regents in August 1995, and amended in February 1996, to include a project for Memorial Stadium West Side Renovation at U. T. Austin at an estimated preliminary cost of \$14,000,000.

Preliminary plans and specifications have been prepared for a project comprised of two fundamental elements:
(1) repair and renovation of the West Grandstand and
(2) construction of luxury suites.

One element of the project involves repair and renovation of the lower West Grandstand structure including improved mechanical, electrical, and plumbing systems which support enhanced stadium facilities and services planned for the public concourses and circulation areas. Application of waterproofing material to the stadium west upper-deck structure is also planned, as well as structural testing of the integrity of the north grandstand and implementation of determined essential repairs.

The second element involves construction of 12 luxury suites situated between the lower and upper-deck west stands at Level 8 of L. Theo Bellmont Hall. A complement of 6 suites with service accommodations is planned both north and south of the existing press box and

camera deck. Suite floor areas will range from approximately 450 to approximately 1,000 square feet and will provide individual fixed-type seating for 12 and 22 spectators, respectively. New connecting corridors will require reconfiguration and redistribution of certain existing educational and general academic space within Belmont Hall in order to effect access from the Level 8 elevator lobby to each set of suites and provide regulated life-safety emergency egress requirements.

This project, which is included in the FY 1996-2001 Capital Improvement Program and the FY 1996 and FY 1997 Capital Budget at a total project cost of \$14,000,000, will be funded from Revenue Financing System Bond Proceeds which will be amortized as detailed in the Capital Improvement Program.

Debt for the project may require the issuance of both tax-exempt and taxable bonds. The use of taxable bonds arises due to the nature of the lease options associated with the luxury skyboxes. The forecasts assume the issuance of \$10,000,000 in tax-exempt bonds and \$4,000,000 in taxable bonds. The debt is to be repaid from existing and additional receipts collected by the Department of Intercollegiate Athletics for Men.

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 adopted by the Board on February 14, 1991, and amended on October 9, 1993 (the "Master Resolution"), do hereby execute this certificate for the benefit of the U. T. Board of Regents pursuant to Section 5 (a) (ii) of the Master Resolution in connection with the authorization by the U. T. Board of Regents to issue "Parity Debt" pursuant to the Master Resolution to finance the construction cost of the Texas Memorial Stadium, Renovation and Expansion of West Grandstand project at U. T. Austin, and do certify that to the best of my knowledge, the U. T. Board of Regents is in compliance with all covenants contained in the Master Resolution, First Supplemental Resolution Establishing an Interim Financing Program, the Second Supplemental Resolution, the Third Supplemental Resolution, and the Fourth Supplemental Resolution and is not in default of any of the terms, provisions, and conditions in said Master Resolution, First Supplemental Resolution, Second Supplemental Resolution, Third Supplemental Resolution, and Fourth Supplemental Resolution as amended.

EXECUTED this 8 day of August, 1996


Assistant Vice Chancellor for Finance

2. U. T. Dallas: Appropriation of \$2,900,000 from Permanent University Fund Bonds - Special Program and \$900,000 from Revenue Financing System Bonds - Special Program for the Campus Equipment and Rehabilitation Project; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--Upon recommendation of the Facilities Planning and Construction Committee, the Board appropriated \$2,900,000 from Permanent University Fund Bonds - Special Program and \$900,000 from Revenue Financing System Bonds - Special Program for the Campus Equipment and Rehabilitation Project at The University of Texas at Dallas.

In compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and upon delivery of the Certificate of an Authorized Representative as set out on Page 78, the Board resolved that:

- a. Parity Debt shall be issued to pay the project's cost including any related project costs paid 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 Board relating to the Financing System
- c. U. T. Dallas, 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 \$900,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

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 adopted by the Board on February 14, 1991 and amended on October 8, 1993 (the "Master Resolution"), do hereby execute this certificate for the benefit of the Board of Regents pursuant to Section 5 (a) (ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity Debt" pursuant to the Master Resolution to finance the Campus Equipment and Rehabilitation at U. T. Dallas, and do certify that to the best of my knowledge the Board of Regents is in compliance with all covenants contained in the Master Resolution, First Supplemental Resolution Establishing an Interim Financing Program, Second Supplemental Resolution, the Third Supplemental Resolution and the Fourth Supplemental Resolution, and is not in default of any of the terms, provisions and conditions in said Master Resolution, First Supplemental Resolution, Second Supplemental Resolution, the Third Supplemental Resolution and the Fourth Supplemental Resolution as amended.

EXECUTED this August day of 1 9 9 6

John A. Roan
Assistant Vice Chancellor for Finance

3. U. T. Dallas - Surface Parking Lot: Authorization to Prepare Final Plans, Bidding, and Award of Contracts with Management by the Office of Facilities Planning and Construction; Submission of the Project to the Coordinating Board; Appropriation Therefor; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--The Board, upon recommendation of the Facilities Planning and Construction Committee:
- a. Authorized preparation of final plans, bidding, and award of all contracts within the authorized total project cost for Surface Parking Lot at The University of Texas at Dallas with management by the Office of Facilities Planning and Construction
 - b. Authorized submission of the project to the Texas Higher Education Coordinating Board
 - c. Appropriated \$500,000 from Revenue Financing System Bond Proceeds and \$300,000 from Auxiliary Enterprise Balances for a total project cost of \$800,000.

In compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and upon delivery of the Certificate of an Authorized Representative as set out on Page 80, the Board resolved that:

- a. Parity Debt shall be issued to pay the project's cost including any project costs paid 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. Dallas, 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 for the construction cost of the Surface Parking Lot in the amount of \$500,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

This project will construct a parking lot adjacent to the Special Events Center at U. T. Dallas. The design of the facility will be integrated into the ongoing design process of the Activities Center.

This project is included in the FY 1996-2001 Capital Improvement Program and the FY 1996 and FY 1997 Capital Budget at a total project cost of \$1,600,000. The project cost will be reduced to \$800,000 and will be funded by \$500,000 in Revenue Financing System Bond Proceeds and \$300,000 in Auxiliary Enterprise Balances thereby amending the Capital Improvement Program to reflect the revised total project cost.

The Revenue Financing System Bonds are to be repaid from parking and traffic revenues at U. T. Dallas.

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 adopted by the Board on February 14, 1991, and amended on October 8, 1993 (the "**Master** Resolution"), do hereby execute this certificate for the benefit of the U. T. Board of Regents pursuant to Section 5 (a) (ii) of the Master Resolution in connection with the authorization by the U. T. Board of Regents to issue "Parity **Debt**" pursuant to the Master Resolution to finance the construction cost of the Surface Parking Lot project at U. T. Dallas, and do certify that to the best of my knowledge, the U. T. **Board** of Regents is in compliance with all covenants contained in the Master Resolution, First Supplemental Resolution Establishing an Interim Financing Program, the Second Supplemental Resolution, the Third Supplemental Resolution, and the Fourth Supplemental Resolution and is not in default of **any** of the terms, provisions, and conditions in said Master Resolution, First Supplemental Resolution, Second Supplemental Resolution, Third Supplemental Resolution, and Fourth Supplemental Resolution as amended.

EXECUTED this d 8 y o f August 9 9 6

John A. Roan
Assistant Vice Chancellor for Finance

4. U. T. El Paso: Authorization to Amend the FY 1996-2001 Capital Improvement Program to Include a Cogeneration Plant and Upgrade of Utility Infrastructure.--Approval was given to amend the FY 1996-2001 Capital Improvement Program to include a project for the Cogeneration Plant and Upgrade of Utility Infrastructure at The University of Texas at El Paso at an estimated total project cost of \$30,700,000 to be financed by Revenue Financing System Bond Proceeds or third-party debt provided by an outside source.

U. T. El Paso currently purchases thermal energy services from Lone Star Energy. This contract will end in August 1997. At that time, under the terms of the contract, ownership of the plant will revert to U. T. El Paso. The existing plant is 25 years old and is in need of substantial renovation and upgrade. The project will consist of replacement of chillers and boilers and the addition of a cogeneration capacity which will allow U. T. El Paso to generate on campus the electricity required by the institution. Also included in the project will be the renovation and expansion of the existing thermal energy distribution system. The end result of the project will be a plant with the increased capacity required by campus expansion and significantly improved operating efficiency.

This project will be implemented using a design build contract as authorized by Senate Bill 726. This legislation permits institutions of higher education to enter into agreements with Energy Service Contractors (ESCO) to design and build energy conservation projects in which the ESCO must guarantee that energy savings will cover all the costs associated with the project including design, construction, project management, and financing. Senate Bill 726 also states that an institution's utility appropriations will not be decreased over the life of the project and further specifies that the project must be fully amortized within a ten-year period.

The project will be funded by either Revenue Financing System Bond Proceeds or third-party loans. The debt service for the bonds will be funded by the energy savings resulting from the project. These savings will be guaranteed by the contractor under the terms and conditions of an energy performance contract.

5. U. T. Pan American - International Trade and Technology Building (Project No. 901-854): Approval of Preliminary Plans; Authorization to Prepare Final Plans, Bidding, and Award of Contracts with Management by the Office of Facilities Planning and Construction; Submission of the Project to the Coordinating Board; and Appropriation Therefor.--Following a brief overview by President Nevarez, the preliminary plans for the International Trade and Technology Building at The University of Texas - Pan American were presented to the Facilities Planning and Construction Committee by Mr. Jack Solka, representing the Project Architect/Engineer, Bennett Martin and Solka, Corpus Christi, Texas.

Based on this presentation and upon recommendation of the Facilities Planning and Construction Committee, the Board:

- a. Approved preliminary plans for the International Trade and Technology Building at U. T. Pan American at an estimated total project cost of \$3,150,000
- b. Authorized preparation of final plans, bidding, and award of all contracts within the authorized total project cost with management by the Office of Facilities Planning and Construction
- c. Authorized submission of the project to the Texas Higher Education Coordinating Board
- d. Appropriated \$2,250,000 from Gifts and Grants and \$900,000 from Higher Education Assistance Fund Balances for a total project cost of \$3,150,000.

The International Trade and Technology Building will be a central resource to promote international trade through the use of technology. Businesses and governments, both foreign and domestic, will access a variety of managerial, research, and technical services designed to promote international commerce.

The center will serve as the nucleus of an international business network established for regional, state, and national job creation, income growth, and economic development.

This project is included in the FY 1996-2001 Capital Improvement Program and FY 1996 Capital Budget at a preliminary project cost of \$3,000,000. Following preparation of the project program and development of preliminary plans, the appropriate total project cost was determined to be \$3,150,000 and the Capital Improvement Program is amended to reflect this new total project cost. The project will be funded by a \$2,250,000 grant from the Economic Development Administration (U. S. Department of Commerce) and \$900,000 from Higher Education Assistance Fund Balances.

6. U. T. Southwestern Medical Center - Dallas - North Campus Phase III (Project No. 303-859): Approval of Preliminary Plans; Authorization to Prepare Final Plans, Bidding, and Award of Contracts with Management by the Office of Facilities Planning and Construction; Appropriation Therefor; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--Following opening remarks by President Wildenthal, the preliminary plans for the North Campus Phase III at The University of Texas Southwestern Medical Center at Dallas were presented to the Facilities Planning and Construction Committee by Mr. Jim Wright, representing the Project Architect, Page Southerland Page, Dallas, Texas.

Based upon this presentation, the Board, upon recommendation of the Facilities Planning and Construction Committee:

- a. Approved preliminary plans for North Campus Phase III at U. T. Southwestern Medical Center - Dallas at an estimated total project cost of \$52,000,000
- b. Authorized preparation of final plans, bidding, and award of all contracts within the authorized total project cost with management by the Office of Facilities Planning and Construction
- c. Appropriated \$21,900,000 from Revenue Financing System Bond Proceeds, \$20,000,000 from Permanent University Fund Bond Proceeds, and \$10,100,000 from Gifts and Grants for a total project cost of \$52,000,000.

In compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and upon delivery of the Certificate of an Authorized Representative as set out on Page 84, the Board resolved that:

- a. Parity Debt shall be issued to pay the project's cost including any project costs paid 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. Southwestern Medical Center - Dallas, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its Direct Obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of

Parity Debt for the construction cost of the North Campus Phase III in the amount of **\$21,900,000**

- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

North Campus Phase III is planned as a lo-story research and clinical facility which will consist of seven floors of clinics, research laboratories, animal resources, and a Radiation Oncology facility over three levels of parking, as well as an expansion of the thermal energy plant. At this time, only the fifth and sixth floors, approximately 61,000 gross square feet, will be completed for Psychiatric Outpatient Clinics and Laboratories. The remaining five floors will remain shelled. It is expected that three of these floors will house Radiation Oncology and biomedical research laboratories. The fourth floor of shelled space will provide space for a cancer clinic and animal resources. At this time, it is anticipated that the fifth floor of shelled space will be unassigned academic space.

This project is included in the FY 1996-2001 Capital Improvement Program and the FY 1996 and FY 1997 Capital Budget at an estimated project cost of **\$52,000,000**. To maintain the proposed construction schedule, the institution submitted this project to the Texas Higher Education Coordinating Board for approval at its July 1996 meeting.

The Revenue Financing **System** Bonds will be repaid from patient-care income and indirect cost recovery revenues.

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** adopted by the **Board** on February 14, 1991, and amended on October **8**, 1993 (the "Master Resolution"), do hereby execute this certificate for the benefit of the U. T. Board of Regents pursuant to Section 5 **(a) (ii)** of the Master Resolution in connection with the authorization by the U. T. Board of Regents to issue "Parity **Debt**" pursuant to the Master Resolution to finance the construction cost of North Campus Phase III at U. T. Southwestern Medical Center - Dallas, and do certify that to the best of my knowledge, the U. T. Board of Regents is in compliance with all covenants contained in the Master Resolution, First Supplemental Resolution Establishing an Interim Financing Program, the Second Supplemental Resolution, the Third Supplemental Resolution, and the Fourth Supplemental Resolution and is not in default of any of the terms, provisions, and conditions in said **Master** Resolution, First Supplemental Resolution, Second Supplemental Resolution, Third Supplemental Resolution, and Fourth Supplemental Resolution as amended.

EXECUTED this 8 day 1 of August 9

6

John D. Roan
Assistant Vice Chancellor for Finance

7. U. T. Medical Branch - Galveston - Partial Remodel of McCullough Building (Project No. 601-839): Advertisement for Bids and Executive Committee Award of Contracts; Appropriation Therefor; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--Upon recommendation of the Facilities Planning and Construction Committee, the Board:
- a. Authorized the Office of Facilities Planning and Construction upon completion of final plans to advertise for bids and the Executive Committee to award all contracts associated with the Partial Remodel of McCullough Building at The University of Texas Medical Branch at Galveston within the authorized total project cost
 - b. Appropriated \$5,319,600 from Revenue Financing System Bond Proceeds for total project funding and reimbursed the U. T. Medical Branch - Galveston \$300,000 previously appropriated from Unexpended Plant Funds for fees and administrative expenses through completion of final plans.

In compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and upon delivery of the Certificate of an Authorized Representative as set out on Page 86, the Board resolved that:

- a. Parity Debt shall be issued to pay the project's cost including any project costs paid 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. Medical Branch - Galveston, 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 for the construction cost of the Partial Remodel of McCullough Building in the amount of \$5,319,600
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

The Partial Remodel of McCullough Building will accommodate the needs of the Radiation Therapy Department to improve waiting and exam areas, provide space for a new simulator, and bring together staff who are currently dispersed across campus.

This project is included in the FY 1996-2001 Capital Improvement Program and the FY 1996 and FY 1997 Capital Budget with funding in the amount of \$4,919,600 from Revenue Financing System Bond Proceeds and \$400,000 from Educational and General Funds.

Approval of this item amends the Capital Improvement Program to reflect the change in funding sources as noted above. The Revenue Financing System Bonds will be repaid from patient-care income.

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 adopted by the Board on February 14, 1991, and amended on October 8, 1993 (the "Master Resolution"), do hereby execute this certificate for the benefit of the U. T. Board of Regents pursuant to Section 5 (a)(ii) of the Master Resolution in connection with the authorization by the U. T. Board of Regents to issue "Parity Debt" pursuant to the Master Resolution to finance the construction cost of the Partial Remodel of McCullough Building project at U. T. Medical Branch - Galveston, and do certify that to the best of my knowledge, the U. T. Board of Regents is in compliance with all covenants contained in the Master Resolution, First Supplemental Resolution Establishing an Interim Financing Program, the Second Supplemental Resolution, the Third Supplemental Resolution, and the Fourth Supplemental Resolution and is not in default of any of the terms, provisions, and conditions in said Master Resolution, First Supplemental Resolution, Second Supplemental Resolution, Third Supplemental Resolution, and Fourth Supplemental Resolution as amended.

EXECUTED this 6 day of August, 1996

Assistant Vice Chancellor for Finance

8. U. T. Medical Branch - Galveston: Approval to Name St. Mary's Hospital as Rebecca Sealy Hospital (Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Subsection 1.1, Naming of Buildings) and Approval of Plaque Inscription.--Through the generosity of The Sealy & Smith Foundation for the John Sealy Hospital, Galveston, Texas, The University of Texas Medical Branch at Galveston is now the owner of the former St. Mary's Hospital, Galveston, Texas. A condition of the sale was that the institution could no longer use the "St. Mary's" name.

In accordance therewith, the Board, upon recommendation of the Facilities Planning and Construction Committee:

- a. Named the facility purchased as St. Mary's Hospital at the U. T. Medical Branch - Galveston as the Rebecca Sealy Hospital pursuant to the Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Subsection 1.1 relating to naming of buildings
- b. Approved the inscription set out below for a plaque to be placed on the building in keeping with the standard pattern approved by the U. T. Board of Regents in June 1979.

REBECCA SEALY HOSPITAL
1996

BOARD OF REGENTS

Bernard Rapoport Chairman	William H. Cunningham Chancellor, The University of Texas System
Thomas O. Hicks Vice-Chairman	Thomas N. James President, The University of Texas Medical Branch at Galveston
Martha E. Smiley Vice-Chairman	
Linnet F. Deily	
Donald L. Evans	
Zan W. Holmes, Jr.	
Lowell H. Lebermann, Jr.	
Tom Loeffler	
Ellen Clarke Temple	

9. U. T. Health Science Center - Houston: Authorization to Name the Doctors Center Building the University Center Tower (Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Subsection 1.1, Naming of Buildings) and Approval of Plaque Inscription.--The Facilities Planning and Construction Committee recommended and the Board:
- a. Approved the name of the facility purchased as the Doctors Center Building at The University of Texas Health Science Center at Houston as the University Center Tower pursuant to the Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Subsection 1.1 relating to naming of buildings
 - b. Approved the inscription set out below for a plaque to be placed on the building in keeping with the standard pattern approved by the U. T. Board of Regents in June 1979.

UNIVERSITY CENTER TOWER
1996

BOARD OF REGENTS

Bernard Rapoport Chairman	William H. Cunningham Chancellor, The University of Texas System
Thomas O. Hicks Vice-Chairman	M. David Low President, The University of Texas Health Science Center at Houston
Martha E. Smiley Vice-Chairman	
Linnet F. Deily	
Donald L. Evans	
Zan W. Holmes, Jr.	
Lowell H. Lebermann, Jr.	
Tom Loeffler	
Ellen Clarke Temple	

* * * * *

At the conclusion of the Facilities Planning and Construction Committee meeting, Committee Chairman Temple reported that at today's (August 8) meeting the Board had approved a recommendation from the Executive Committee to award three (3) general construction contracts which included a 19.6% participation by Historically Underutilized Businesses, 7.4% by women-owned firms and 12.2% by minority-owned firms. In addition, five (5) architect/engineer contracts have been awarded since the last meeting and these indicate a 24.9% participation by Historically Underutilized Businesses, 3.0% by women-owned firms and 21.9% by minority-owned firms.

RECONVENE.--At 4:15 p.m., the Board reconvened as a committee of the whole to consider those items remaining on the agenda.

EXECUTIVE SESSION OF THE BOARD OF REGENTS

Chairman Rapoport reported that the Board had met in Executive Session in Room 301 of the Administration Building to discuss matters in accordance with Texas Government Code, Chapter 551, Sections 551.071, 551.072, and 551.074. In response to Chairman Rapoport's inquiry regarding the wishes of the Board, the following action was taken:

U. T. System: Approval of Personnel Aspects of the Operating Budgets for the Fiscal Year Ending August 31, 1997, Including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans and Authorization for the Chancellor to Make Editorial Corrections Therein.--Upon motion of Vice-Chairman Smiley, seconded by Regent Temple, the Board:

- a. Approved the personnel aspects of the Operating Budgets for The University of Texas System for the Fiscal Year ending August 31, 1997, Including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans
- b. Authorized the Chancellor to make editorial corrections in these budgets and for subsequent adjustments to be ratified by the U. T. Board of Regents through the institutional Dockets as appropriate to Docket requirements.

See Page 28 for approval of non-personnel aspects of the Fiscal Year 1997 Operating Budgets.

REPORT OF BOARD FOR LEASE OF UNIVERSITY LANDS

Regents Rapoport and Lebermann, as members of the Board for Lease of University Lands, submitted the following report on behalf of that Board:

Report

The Board for Lease of University Lands met on May 14, 1996, at the Center for Energy and Economic Diversification in Midland, Texas, for a general business meeting and to hold Regular Oil and Gas Lease Sale No. 89 and Frontier Oil and Gas Lease Sale No. 89-A on Permanent University Fund lands.

Following is a report on the results of the lease sales:

- a. Regular Oil and Gas Lease Sale No. 89:
50,596 acres of Permanent University Fund lands were nominated for lease. Bonuses in the amount of \$3,626,370 were paid for leases covering 43,141 acres. No bids were received on 7,455 acres.
- b. Frontier Oil and Gas Lease Sale No. 89-A:
All available Frontier acreage (467,926 acres in El Paso, Hudspeth, and Terrell Counties) was offered for lease. No bids were received.

Following is a report on the general business meeting:

- a. Approved the Minutes of the Board for Lease meeting of November 14, 1995
- b. Approved tracts offered and opening of bids received for the Regular Oil and Gas Lease Sale No. 89 and the Frontier Oil and Gas Lease Sale No. 89-A
- c. Approved the recommended procedures and terms for Regular Oil and Gas Lease Sale No. 90 and Frontier Oil and Gas Lease Sale No. 90-A to be held on November 12, 1996
- d. Received a report on the take in-kind crude oil sale held April 17, 1996, and approved continuation of the take in-kind crude oil royalty program as currently managed. The take in-kind crude oil program now represents approximately 60% of University royalty oil production. Since the program's inception in 1990, there has been a total net revenue enhancement of \$5,070,743.
- e. Received a report on the take in-kind gas royalty sale held December 1, 1995, and approved continuation of the take in-kind gas royalty program as currently managed. The take in-kind gas royalty program represents approximately 7% of University royalty gas production.

- f. Authorized preparation of proposed legislation, as necessary, to permit the Board for Lease to allow annual reports and payments by operators for leases from which royalties are below a certain amount
- g. Authorized the opening of bids for the next lease sale in Midland on November 11, 1996. Award of winning bids will be at the business meeting of the Board for Lease to be held November 12, 1996, in Austin. From this time forward, the Board for Lease alternately will hold its general meetings in connection with the lease sales in Midland and Austin.
- h. Approved all high bids received for acreage offered in the Regular Oil and Gas Lease Sale No. 89 and the Frontier Oil and Gas Lease Sale No. 89-A. Tie bids received for a tract in Andrews County were rejected.

REPORT OF SPECIAL COMMITTEE

U. T. Board of Regents - Report from Santa Rita Award Committee: Authorization to Present 1996 Santa Rita Award to Lieutenant Governor Bob Bullock, Austin, Texas.--Chairman Rapoport presented the following report of the Santa Rita Award Committee (composed of Regents Holmes, Rapoport, and Temple):

Report

On behalf of the Santa Rita Award Committee, composed of Regents Holmes, Temple, and myself, I am pleased to recommend a recipient for the Santa Rita Award.

At the outset of this report, may I remind the Board that this award is the highest honor that is bestowed by the Board of Regents. It is presented on an occasional rather than a regular basis, and it is subject to very specific criteria and guidelines.

Since the first Santa Rita Award was made in 1968, only fourteen individuals have been deemed worthy of this exceptional recognition. The last award was presented in 1994 to Mr. Jack S. Blanton of Houston.

The criteria for selection include such factors as:

- A demonstrated concern for the principles of higher education generally.
- A deep commitment to the furtherance of the purposes and objectives of The University of Texas System.

- A record of commitment to securing appropriate financial support for the System from both the public and private sectors.
- A demonstrated record of participation in the affairs of the System which serves as a high example of selfless and public-spirited service.

Your committee believes that the distinguished record of service to Texas higher education and to the component institutions of the U. T. System by Lieutenant Governor Bob Bullock more than meets the criteria for this recognition, and we recommend that he be recognized as the 1996 recipient of the Santa Rita Award.

We recommend also that the award be bestowed upon Governor Bullock at an appropriate ceremony to be held this fall, at which we may acknowledge the scope and depth of his contributions to many, many aspects of the growth and development of the U. T. System and higher education throughout Texas.

Without objection, the Board unanimously endorsed the recommendation of the Santa Rita Award Committee.

SCHEDULED MEETING.--Chairman Rapoport announced that the next scheduled meeting of the U. T. Board of Regents would be held on November 14, 1996, at The University of Texas Southwestern Medical Center at Dallas.

ADJOURNMENT.--There being no further business, the meeting was adjourned at 4:20 p.m.

/s/ Arthur H. Dilly
Executive Secretary

August 19, 1996