

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

February 9-10, 2005

Austin, Texas

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/s/ Francie A. Frederick
Counsel and Secretary to the Board
July 20, 2005

MINUTES
U. T. Board of Regents
Audit, Compliance, and Management Review Committee
February 9, 2005

The members of the Audit, Compliance, and Management Review Committee of the Board of Regents of The University of Texas System convened at 10:05 a.m. on Wednesday, February 9, 2005, on the 9th Floor of Ashbel Smith Hall, The University of Texas System, 201 West Seventh Street, Austin, Texas, with the following members of the Committee in attendance and absent:

Attendance

Committee Chairman Estrada
Vice-Chairman Clements
Vice-Chairman Krier
Regent Craven

Absent

Vice-Chairman Hunt

Also present were Chairman Huffines, Regent Barnhill, Regent Rowling, and Counsel and Secretary Frederick.

In accordance with a notice being duly posted with the Secretary of State and there being a quorum present, Committee Chairman Estrada called the meeting to order.

1. **U. T. System: Approval to renew the contract with Ernst & Young, LLP, as the external auditor for 2005 audit of funds managed by The University of Texas Investment Management Company (UTIMCO), and to negotiate for additional audit services related to UTIMCO**

Committee Meeting Information

Presenter(s): Regent Estrada

Status: Approved

Motion: Made by Regent Estrada and carried unanimously

Agenda Item:

RECOMMENDATION

Chairman Estrada recommends approval to renew the auditing services contract with Ernst & Young, LLP, to perform audits for the fiscal year ending August 31, 2005, for funds managed by The University of Texas Investment Management Company (UTIMCO) as listed below:

- a. Permanent University Fund (PUF)
- b. The University of Texas System General Endowment Fund (GEF)
- c. Permanent Health Fund (PHF)

- d. The University of Texas System Long Term Fund (LTF)
- e. The University of Texas Short Intermediate Term Fund (SITF)

Approval is also requested for U. T. staff to negotiate and enter into a contract with Ernst & Young, LLP, to provide additional audit services related to UTIMCO, including UTIMCO's voluntary implementation of the Sarbanes-Oxley Act of 2002.

BACKGROUND INFORMATION

Fiduciary responsibility for the PUF, GEF, PHF, LTF, and SITF rests with the U. T. Board of Regents. Section 66.08 of the *Texas Education Code* requires that U. T. System have an annual financial audit performed of the PUF.

A Request for Qualifications (RFQ) was distributed by U. T. System staff in April 2003. Four proposals were received. After a review of the proposals and firm interviews by Regent Estrada and U. T. System staff, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with Ernst & Young, LLP, at the July 7, 2003 Board of Regents' meeting. The contract was for one year with a right to renew in one-year increments for four years. The contract was renewed by the Board of Regents on February 4, 2004. The fiscal year ending August 31, 2005, is the second year this contract has been up for renewal.

Discussion at meeting:

Statement and recommendation by Committee Chairman Estrada

A great deal of consideration has gone into this recommendation. The Board selected Ernst & Young to audit the Permanent University Fund in July 2003, following an RFP process. UTIMCO also selected Ernst & Young to audit the other funds they manage. That audit contract is subject to renewal.

During the RFP process for the System-wide financial audit, additional proposals were received from two firms to perform a separate audit of the UTIMCO-managed funds. Those firms were Deloitte & Touche and KPMG. In July 2004, the Board of Regents approved the hiring of Deloitte & Touche to perform the financial audit of the U. T. System financial statements for the year ending August 31, 2005. After a review of the Deloitte & Touche proposal to perform a separate financial audit of the UTIMCO-managed funds and in consultation with U. T. System and UTIMCO staff, I believe it is better for U. T. System to continue to contract with a separate external audit firm for the UTIMCO audit at this point and am recommending renewal of the Ernst & Young contract.

I am also recommending authorization for U. T. staff to negotiate and enter into a contract with Ernst & Young to provide additional audit services related to UTIMCO, including UTIMCO's voluntary implementation of the Sarbanes-Oxley Act of 2002.

Additionally, Chairman Huffines wishes to disclose that Ernst & Young is the auditor for PlainsCapital Bank. The Director of Audits and the Interim Vice Chancellor and General Counsel find no conflict for the Board to consider renewal of the Ernst & Young contract and for Chairman Huffines to participate in that action.

With that recommendation, Regent Estrada invited discussion or comment from the Committee. Vice-Chairman Krier said she had also discussed with legal counsel the fact that Ernst & Young provides auditing services for her employer, USAA. She understood that it is not a conflict but, in keeping with disclosure by Chairman Huffines, wanted to also note the fact for the record. Vice-Chairman Clements and Regent Craven also echoed their disclosure.

Vice-Chairman Krier also clarified that based on previous discussions, Deloitte & Touche would still be looking at some aspects of UTIMCO. Regent Estrada said the System-wide audit by its nature includes review of UTIMCO.

2. U. T. System: Report on the Fiscal Year 2004 Annual Financial Report including beginning balance testing performed by Deloitte & Touche, LLP

Committee Meeting Information

Presenter(s): Mr. Wallace and the following representatives from Deloitte & Touche: Mr. Roger Nanney, Mr. Rodney Lenfant, Mr. George Scott, Ms. Julia Petty and Ms. Michelle Strain

Status: Reported

Agenda Item:

REPORT

Mr. Randy Wallace, Associate Vice Chancellor - Controller and Chief Budget Officer, will discuss the overall process of the Annual Financial Report preparation and compilation, including certifications and representations made by the institutions.

Mr. Rodney Lenfant, Deloitte & Touche, LLP, will report on the work performed relating to financial statement line items that will be part of the beginning balances reported in the Fiscal Year 2005 financial statements. Additionally, he will report on the firm's plan for conducting the 2005 audit including methodology, staffing, training, and associated timelines.

The detailed Client Service Plan is attached on Pages 30.1 – 30.19 of the Agenda Book. The Engagement Objectives and Audit Approach are set forth in Section II on Pages 30.5 – 30.6 of the Agenda Book. The Audit Scope is set forth in Section III on Page 30.7 of the Agenda Book.

BACKGROUND INFORMATION

In November 2003, the U. T. System Board of Regents approved an initiative to implement the "spirit" of the Sarbanes-Oxley Act as a good faith effort toward manifesting financial accountability and compliance in the public sector. As a result, in June 2004, the Board of Regents sought proposals for a comprehensive annual financial statement audit by an independent certified public accounting firm to obtain assurance that U. T. System has a sound financial base and adequate resources to support the mission of the organization and the scope of its programs and services.

A Request for Qualifications (RFQ) was distributed by U. T. System staff in June 2004. Two proposals were received. After a review of the proposals and firm interviews by Committee Chairman Estrada and U. T. System staff, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with Deloitte & Touche, LLP, at the July 16, 2004 Board of Regents' meeting. The contract, which terminates on April 1, 2006, provides U. T. System the option to renew for two additional one-year terms.

Discussion at meeting:

Mr. Wallace discussed the process, which begins in late July or early August, used to prepare the Annual Financial Report (AFR). Workshops are held with institutional representatives and a meeting is held in Austin to review items that were problematic from the previous year and to discuss consistency issues among the institutions. Mr. Wallace reported that U. T. is required to follow generally accepted accounting principles as well as rules promulgated by the State Comptroller who is also invited to the Austin meeting to explain any changes they may have from the previous year.

He said the members of the Committee would hear from the State Auditor's Office regarding work related to the statewide consolidated annual financial report of which financials of the U. T. System are a part. Since U. T. System is a part of several different accounting systems, an Excel worksheet is prepared to consolidate the primary statements, the balance sheets, statements of changes, statements of revenues and expenses, and the cash flow statement. During the first week of September this file is sent to the institutions along with a footnote template that is the tool used to prepare the individual institution's financial reports. The institutions then submit the first draft of their AFR by October 7, which is reviewed using an extensive AFR checklist. Mr. Wallace said the checklist is automated for the most part and includes some 300 different checks. Most of the checks ensure that subsidiary schedules tie to the primary schedules but there are also some

physical checks that are reviewed on a case-by-case basis. Once the financials are reviewed, comments are sent back to institutions and corrections are made. Additionally, explanations of any significant fluctuations from the prior year are obtained and finally statements are consolidated and footnotes are finalized.

Associate Vice Chancellor Wallace discussed the representation process whereby the institutions are required to provide representation letters to U. T. System Administration. He explained there are multiple layers to the representation letters. In Fiscal Year 2004, it was optional that the institutions have their individual departments certify or represent to the chief financial officer at the institution but as a result of the Sarbanes-Oxley work, in 2005, those representations are mandatory. It will be up to the individual institutions to decide if it will be at the dean level, department level, or chair level but there will be sub-certifications required in 2005. The financial reporting officer at each institution is also required to certify in compliance with the Code of Ethics for Financial Officers and Employees as required by Business Procedures Memorandum (BPM) 70 and Mr. Wallace said he is required to sign similar representations to the State Auditor. He said he signs a letter along with Executive Vice Chancellor Kelley and the Chancellor representing the financial statements; the same as the institutions certify to U. T. System Administration. He thought that in 2005 there would be similar representations to the Deloitte auditors. Mr. Wallace stated when all review notes and audit adjustments are addressed, the consolidated financial statements are entered into the uniformed statewide accounting system on or about November 17.

Mr. Wallace said for Fiscal Year 2005, any adjustments and statutory requirements related to the audit will need to be communicated by November 1 to meet the statutory required deadline for producing the printed version of the AFR by November 20.

Committee Chairman Estrada then turned the discussion to Deloitte to explain their process to audit the U. T. System financial records for 2005.

Mr. Roger Nanney, a Vice Chairman with Deloitte & Touche, said he serves as an advisory partner to the U. T. System. He expressed appreciation for the opportunity to serve the U. T. System and he expressed Deloitte's desire to make sure they exceed the expectations. He turned the discussion over to Mr. George Scott, lead Client Service Partner, and Mr. Rodney Lenfant who serves as the audit partner to review the Client Service Plan.

Mr. Scott said the Client Service Plan for 2005 is a result of several hundred hours of work, including interviews and visits throughout the U. T. System to assemble the plan for the performance of this audit for 2005. In addition, he said this plan is the result of observing the closing process for Fiscal Year 2004. Mr. Scott introduced Ms. Julia Petty and Ms. Michelle Strain, two senior managers on the audit, and Mr. Rodney Lenfant.

Mr. Lenfant stated the objective of the audit is to express an opinion on the financial statements for the U. T. System as of and for the year ending August 2005. He referenced Page 8 in Section 7 of the Plan that explains the core of the audit approach, which is designed to detect material errors, if any, on the financial statements. In touching on the various risk assessments, Mr. Lenfant said beginning balance procedures were performed in accordance with a partnership with internal audit. He explained that a proposed adjustment to management at each of the institutions and at the U. T. System pertains to depreciation of library books. He pointed out that generally accepted accounting principals state that library books should be depreciated but as a rule, they are not, so they will be working with the State Comptroller to review the statewide policy.

Mr. Lenfant stated there are issues identified as a result of beginning balance sheet testing, such as tuition revenue and cut-off dates for recognition of revenue. With that as well the salary expense, he said, certain institutions have instruction being provided in the month of August but none of that revenue or expense is currently being recognized in the statement of operations for this fiscal year. There are various other cut-offs for approvals of expenses and accounts payable that have been identified as well at the health institutions, particularly cut-off issues relating to physician revenues.

In response to a question from Committee Chairman Estrada regarding exceptions on depreciation of library books such as the Gutenberg Bible, Mr. Lenfant said historical works of art are independent of depreciable assets. Historical works of arts also are not reported at their fair value, which is obviously priceless.

Regent Estrada asked Mr. Lenfant to explain the risk assessments on Pages 8 -10 of the Agenda Book and Mr. Lenfant said they will spend a significant amount of audit effort on these areas where there are certain estimates in the financial statements. The financial statements of the U. T. System, like any complex organization, are not always black and white, he said. There are certain estimates made by management in putting together the financial statements such as in areas of student accounts receivable, accounting for contributions and grants and contracts, and in the reserve for self-insured risks. He said the U. T. System is self-insured for a number of risks related to professional, property, casualty, and employee health. Certain actuarial evaluations and liabilities need to be recorded. He said they have their own actuarial specialists and will oversee the work done by the System's actuarial specialists in that area. He said another area of consequence and significance is on Page 10 of the Agenda Book on the very last page of the preliminary audit risk assessments that pertains to patient and physician accounts receivable for the health institutions, which comprise approximately 60% of the operations of the U. T. System. Charges are being rendered every day; collected and billed, but as everyone knows, no one actually pays that full rate. The charge might be \$100 but if Medicare or Medicaid or another third party payer provides reimbursement of \$50, that is what should be recognized. He said it becomes a significant estimate in the financial statements for all bills processed because there is not perfect knowledge of bills being generated of what the U. T. System

institutions are going to be receiving in terms of cash. As a result, there is typically a complex formula and an estimate that goes in to determining the net realizable value of what that receivable is. Of the billions of dollars in charges, sometimes it is only as little as 15% of what the charges are which will ultimately be realized in cash. He reiterated there are significant estimates made.

Vice-Chairman Krier asked for clarification of who is responsible on issues such as changing the rules on depreciation of library books and the cut-off dates? She further inquired if Deloitte & Touche staff is working with U. T. staff and stated that any legislative changes should be handled now or the issues would have to wait for two more years until the next legislative session.

Mr. Scott responded he and his team would be discussing the issues with the institutions, Associate Vice Chancellor Wallace, and with the State Comptroller's Office to decide on a course of action. Mr. Wallace confirmed he is taking responsibility for the issues and said he met last week with institutional representatives to review the issues just outlined. Mr. Wallace will be responsible to draft policies that the institutions can follow that would be centralized and made available in one place such as in a Business Procedures Memorandum (BPM) that is easily accessible and provides consistency for all institutions to follow. Mr. Wallace said the State Comptroller believes library books should be depreciated and they are conducting research because they make rules that are promulgated for the state as a whole. Mr. Wallace explained the plan is to depreciate library books over 10, 15, and 20 years but there are many decisions that are yet to be made.

Committee Chairman Estrada asked Mr. Lenfant to discuss recent developments and upcoming issues for the Committee. Mr. Lenfant said recent developments on Page 10 of the Agenda Book include the statements that have been recently promulgated by the rule-setting body for governments; the Governmental Accounting Standards Board (GASB) who issues these statements that are to be applied in the future. He mentioned the most significant for the U. T. System is Statement No. 45 that deals with accounting for health benefits being provided to retirees. He said current generally accepted accounting principals for government do not require the accrual of that estimate or liability for the healthcare costs of retirees. Once this statement is adopted effective August 31, 2008, or earlier at the option of the U. T. System, it will require a significant liability perhaps in the billions of dollars not only for the U. T. System but also for the state as a whole. Mr. Lenfant reiterated that development will have the most significant impact with a large estimate. The timeline provided by GASB provides institutions such as U. T. sufficient opportunity and time to come up with that accrual.

Chairman Huffines asked if the rule has been adopted and Mr. Lenfant confirmed the rule is adopted and promulgated. Mr. Wallace clarified there is a phase-in; the liability does not have to be brought into the books all at one time. Mr. Wallace

clarified he has discussed the issues with institutions nationwide and there is an impact on how health insurance benefits for retirees are managed, thus there is significant implication for the U. T. System.

Mr. Lenfant said in the financial accounting world for nongovernmental employers, a similar statement for financial organizations outside the public sector was adopted. A number of employers changed the rules with respect to the benefits that were provided to the retirees and that could have an impact on future decisions relative to that matter.

3. U. T. System: Report on the 2004 State Auditor's Office financial statement audits of U. T. System institutions

Committee Meeting Information

Presenter(s): Mr. Kelton Green

Status: Reported

Agenda Item:

REPORT

The State Auditor's Office is conducting a statewide financial audit on the state's Comprehensive Annual Financial Report (CAFR) for the year ended August 31, 2004. The office is required to express an opinion on major funds in addition to the overall opinion on the state's CAFR. One of those major funds is an enterprise fund that reflects the operations and balances of all Texas public universities.

Mr. Kelton Green, Managing Senior Auditor, State Auditor's Office, will provide an update on the statewide financial audit conducted for the year ended August 31, 2004. The update will highlight and discuss any issues noted at the U. T. System institutions that were part of that audit.

The State Auditor selected the following institutions for work to be performed in this financial audit:

- The University of Texas System Administration
- The University of Texas at Arlington
- The University of Texas at Austin
- The University of Texas M. D. Anderson Cancer Center
- The University of Texas Southwestern Medical Center at Dallas
- The University of Texas Medical Branch at Galveston

Discussion at meeting:

Mr. Green said the State Auditor's Office has almost completed the audit work of the U. T. System that is part of the State of Texas audit for Fiscal Year 2004. He said the work is done in accordance with generally accepted auditing standards and in accordance with standards that apply to financial audits issued by the Comptroller General of the United States. The audit bill work was conducted at U. T. System Administration, U. T. Austin, U. T. Arlington, U. T. Medical Center – Dallas, and U. T. Medical Branch - Galveston. Approximately 15 auditors were involved in the audit, which consumed about 4,500 hours, to determine whether selected line items were materially accurate as supported by the System Controller's Office. He reminded members of the Committee that the State Audit Office employs a system called ACES (audit control and evaluation system) that determines which reported amounts are significant across the state and where they need to focus their audit efforts. In total throughout the U. T. System, \$5.2 billion of capital assets, more than \$2 billion in salaries and wages, and more than \$1.6 billion in hospital revenues were audited.

Mr. Green said all internal audits were reviewed to ensure there was no duplication of internal audit efforts across the state at the U. T. institutions. Recent and pertinent reports were used, such as U. T. Arlington's audit of payroll and U. T. Southwestern Medical Center - Dallas audits of payroll and capital assets. In addition, Ernst & Young reports were used including opinions from the Permanent University Fund (PUF), Permanent Health Fund, the Long Term Fund, the General Endowment Fund, and the Short Intermediate Term Fund. Mr. Green said they also relied on the audit that Deloitte & Touche is conducting at U. T. M. D. Anderson Cancer Center. He reported that State Auditor John Keel is scheduled to sign the opinion on state's financials on February 21.

Mr. Green reported that two products resulted from this work. The first is Mr. Keel's opinion on the state's financials, and the second product is the statewide management letter which is now scheduled to be released by the end of March. Mr. Green reported the result of the work throughout the U. T. System is very positive and he mentioned that the significance level and doing the statewide audit is much higher than it would be in an audit of a single U. T. institution. He reported there would not be an audit adjustment for the U. T. numbers for the statewide report. He said in general, U. T. institutions have documented control processes and they monitor those processes to ensure assets are safeguarded and financial reports are accurate. He said there was no plan to report any U. T. issues in the statewide management letter and that a few issues identified during the field work did not result in formal findings and would be discussed with management and cleared at that level. On behalf of all the statewide auditors on this project as well as

management of the State Auditor's Office, Mr. Green expressed appreciation for the cooperation received throughout the U. T. System, specifically from Mr. Randy Wallace, Ms. Dana Malone, and Ms. Debbie Frederick in the Controller's Office, and internal audit directors and staff in the field. In addition, Mr. Green said they are committed to coordinating with Deloitte & Touche as they get further into the 2005 audit of the U. T. System.

4. U. T. System: Report on System-wide Internal Audit Activity (Red, Yellow, Green Report)

Committee Meeting Information

Presenter(s): Mr. Chaffin

Status: Reported

Agenda Item:

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, will report on System-wide audit activity (Red, Yellow, Green Report), including progress toward audit plan completion, for the first quarter of Fiscal Year 2005.

The first quarter activity report on the Status of Outstanding Significant Recommendations is set forth on Pages 32.1 - 32.4 of the Agenda Book. Additionally, a list of other audit reports issued by the System-wide audit program and the State Auditor's Office follows on Page 33 of the Agenda Book.

There are two types of audit findings/recommendations: reportable and significant. A "reportable" audit finding/recommendation should be included in an audit report if it is material to the operation, financial reporting, or legal compliance of the audited activity, and the corrective action has not been fully implemented. "Significant" audit findings/recommendations are reportable audit findings/recommendations that are deemed significant at the institutional level by each U. T. institutional internal audit committee or designee.

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

Discussion at meeting:

Mr. Chaffin reported the U. T. System Audit Office would undergo a peer review from February 28 to March 4 to be co-led by Mr. Ron Stark, State of Georgia's System; Ms. Kathy Smock, Texas A&M University System; for the first time, the audit director from Southwest Airlines; and a manager from Dell. Mr. Chaffin said the team will schedule conference calls about the audit programs with members of the Committee.

Mr. Chaffin reported on a call from a staff member of NACUBO (National Association of College and University Business Officers) asking how U. T. System is progressing in implementing the spirit of Sarbanes-Oxley. The conclusion was that U. T. is ahead of other institutions, indicating U. T. is leading the national effort. First, discussions are being held in public meetings that are webcast and available to anyone and that is unprecedented. Mr. Chaffin has been asked to participate in a panel discussion in NACUBO's annual conference on how the University is implementing the spirit of Sarbanes-Oxley. About a month ago, Executive Vice Chancellor Kelley was asked to participate and present at that same annual meeting on the Governor's fraud initiative and on U. T.'s response.

Mr. Chaffin reported the compliance program continues to thrive; the two hot topics were medical billing compliance and research time and effort. He said medical billing compliance remains difficult but resources have been put in and since the Committee's last meeting, two statewide meetings were held with billing personnel on this particular issue. Executive Vice Chancellor Sullivan and Executive Vice Chancellor Shine are leading an effort on research time and effort.

Mr. Chaffin said in the red, yellow, and green project, a significant amount of time was spent last fall working on the Deloitte audit and he echoed the cooperation between the Controller's Office, the State Auditor's Office, Deloitte & Touche, and staff in his office. There are efforts to avoid duplication of effort and people learn from each other. Institutions continue to make good progress on audit findings and recommendations. Some require an investment of funds especially in the areas of information technology and security. He said nothing in the report causes him concern and he did not have anything to bring directly to the attention of the Committee members.

Chairman Huffines asked Mr. Chaffin if he was aware of any public universities in the country having external audits like this ongoing at this time and Mr. Chaffin responded there is a possibility that could happen but for public universities and public university systems, most are also being audited in a statewide audit by the state auditors. He mentioned that the California system is probably the outlier and Mr. George Scott said Ohio, Pennsylvania, and Michigan have actually contracted for outside audit services. He said this is an evolving issue in that more and more of the major systems are looking at issuing their own stand-alone financial statements and having an outside audit done, especially in the spirit of Sarbanes-Oxley.

Prior to recessing to Executive Session, Committee Chairman Estrada recognized Ms. Toni Messer from U. T. Dallas, Mr. Ken Schroeder from U. T. Arlington, Mr. Bill Peters from U. T. El Paso, and Mr. Mike Vandervort from U. T. Austin who were in attendance.

EXECUTIVE SESSION

The Committee recessed to Executive Session at 10:45 a.m. pursuant to *Texas Government Code* Section 551.074 to consider the matter listed on the Executive Session agenda as follows:

Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees

U. T. System: Discussion with institutional auditors concerning evaluation and duties of System and institutional employees involved in audit and compliance functions

The Executive Session ended at 11:05 a.m., and the Committee reconvened in Open Session. No action was taken on the item discussed in Executive Session.

ADJOURNMENT

Committee Chairman Estrada announced that the purpose for which this meeting was called had been completed, and the meeting was duly adjourned at 11:05 a.m.

MINUTES
U. T. Board of Regents
Finance and Planning Committee
February 9, 2005

The members of the Finance and Planning Committee of the Board of Regents of The University of Texas System convened at 11:10 a.m. on Wednesday, February 9, 2005, on the 9th Floor of Ashbel Smith Hall, The University of Texas System, 201 West Seventh Street, Austin, Texas, with the following members of the committee in attendance and absent:

Attendance

Regent Rowling, presiding
Vice-Chairman Krier
Regent Barnhill
Regent Caven (for Items 7-8)

Absent

Committee Chairman Hunt

Also present were Chairman Huffines (for Items 7-8), Vice-Chairman Clements, Regent Craven, Regent Estrada, and Counsel and Secretary Frederick.

In accordance with a notice being duly posted with the Secretary of State and there being a quorum present, Acting Committee Chairman Rowling called the meeting to order. Associate Vice Chancellor Aldridge introduced Ms. Cathy Swain, Director of Investment Oversight in the Office of Finance.

1. U. T. System: Approval of Docket No. 120

Committee Meeting Information

Not on agenda for Committee meeting

Agenda Item:

RECOMMENDATION

It is recommended that *Docket No. 120*, printed on green paper at the back of the Agenda Book beginning on Page Docket - 1, be approved.

It is also recommended that the Board confirm that authority to execute contracts, documents, or instruments approved therein has been delegated to appropriate officials of the respective institution involved.

Fees, which are usually considered at the regularly scheduled Board meeting in February each year, will be submitted for Docket consideration at the special called meeting of the Board on March 10, 2005, to consider tuition and fee proposals.

2. U. T. System: Presentation of Monthly Financial Report

Committee Meeting Information

Presenter(s): Mr. Wallace

Status: Reported

Agenda Item:

REPORT

Mr. Randy Wallace, Associate Vice Chancellor - Controller and Chief Budget Officer, will present the December Monthly Financial Report (MFR), representing the operating results of the institutions, as follows on Pages 34.1 - 34.27 of the Agenda Book.

The MFR, prepared since 1990 to track the financial results of the U. T. System institutions, compares the results of operations between the current year-to-date cumulative amounts and the prior year-to-date cumulative amounts. Explanations are provided for institutions having the largest variances in Adjusted Income (Loss) year-to-date as compared to the prior year both in terms of dollars and percentages.

Discussion at meeting:

Associate Vice Chancellor - Controller and Chief Budget Officer Wallace said the December Monthly Financial Report (MFR) showed a \$137.2 million positive margin excluding realized gains for the first four months of the fiscal year and said it was a 125% improvement from last year primarily due to investment increases. He said there were three institutions that showed a year-to-date net loss. U. T. Permian Basin's year-to-date net loss was \$552,000, representing 1.6% of its budgeted revenues, due primarily to additional faculty hired to accommodate growth. U. T. Permian Basin anticipates ending the year with a \$1.7 million negative margin. U. T. Tyler's year-to-date net loss was \$734,000, representing 1.4% of its budgeted revenues, due to increased salaries and wages, increased depreciation expense, and increased interest expense. U. T. Tyler expects to end the year with a \$1.7 million margin. U. T. Medical Branch - Galveston's year-to-date net loss was \$20.9 million, representing 1.7% of its budgeted revenue, primarily due to correctional managed care. Mr. Wallace noted these three institutions would not show a net loss if depreciation were excluded. He said in the case of U. T. Medical Branch - Galveston, a \$49 million loss in noncash depreciation is included, but the institution expects to have a positive flow of \$30 million from operations.

Mr. Wallace said two institutions would have had negative margins if not for gifts received for operations. U. T. Health Center - Tyler received gifts of \$1.8 million in 2004 and a \$4 million gift in 2005, and gifts contributed \$4.2 million to its \$1.5 million positive margin. Mr. Wallace noted increases in gifts to U. T. Health Science Center - Houston contributed \$5 million to its \$1 million positive margin.

Acting Committee Chairman Rowling noted reporting of investment gains at the System level and asked what is reported for the individual institutions for net investment income and investment gains and losses. Ms. Dana Malone, Assistant Controller, responded that payments from the Long Term Fund and any other investment earnings are reported and eliminations are made at the top level so that System-wide figures are not double counted. Mr. Wallace clarified that the net investment income and investment gains and losses numbers are significant to the institutions but cannot be double counted when reported at the System level so that the income and total are not overstated. Mr. Rowling asked if these funds were separate from what is managed by UTIMCO. Mr. Kevin Hegarty, Vice President and Chief Financial Officer at U. T. Austin, responded that they are funds managed locally at the institutional level, but follow Regental Policy and use investment conduits provided by UTIMCO.

3. U. T. System: Fiscal Year 2004 Annual Financial Report

Committee Meeting Information
Presenter(s): <i>Mr. Wallace</i>
Status: <i>Reported</i>

Agenda Item:

REPORT

Mr. Randy Wallace, Associate Vice Chancellor - Controller and Chief Budget Officer, will present the unaudited Annual Financial Report (AFR) for Fiscal Year 2004 for the U. T. System, as found on Pages 35.1 - 35.101 of the Agenda Book. The Report includes Management's discussion and analysis that provides an overview of the financial position and activities of the U. T. System for the year.

The AFR is prepared in compliance with *Texas Government Code* Section 2101.011 and in accordance with the requirements established by the State Comptroller of Public Accounts, including filing annually by November 20.

Discussion at meeting:

Associate Vice Chancellor - Controller and Chief Budget Officer Wallace said the combined Annual Financial Report (AFR) includes three primary statements: the Balance Sheet; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. He said the statements are prepared in conformance with generally accepted accounting principles and noted the Management's Discussion and Analysis (MDA) on Page 35.4 of the Agenda Book, a required narrative that accompanies the basic financial statements and that is reviewed by executive management and bond counsel.

Mr. Wallace highlighted the MDA, noting that investment income totaled \$1.6 billion, a significant increase from 2003 of \$354.9 million. He said the fair value of investments was \$147.6 million as compared to \$1.2 billion in 2003. Total assets on the balance sheet increased \$3.2 billion, primarily due to financial market conditions resulting in gains in investments. Mr. Wallace reported total liabilities increased \$1.4 billion, due largely to increased securities lending and debt issuances needed to fund construction and renovation. He said bonds payable totaled \$2.5 billion and continued to reflect the highest AAA credit rating from the three major bond rating agencies.

Associate Vice Chancellor Wallace also highlighted the Statement of Revenues, Expenses and Changes in Net Assets noting that the Governmental Accounting Standards Board requires State appropriations to be considered as nonoperating income. As a result, the operating statement shows a net loss; however, that loss is covered by State appropriations of \$1.6 billion, gift contributions for operations of \$182 million, and net investment income of \$1.6 billion. Mr. Wallace said when significant recurring items are included, the U. T. System had a positive net operating margin of \$1.4 billion in 2004, an improvement of \$61 million from 2003, primarily due to investment income.

Mr. Wallace said the Statement of Cash Flows provides additional information about the U. T. System's major sources and uses of cash.

4. U. T. System: Report on the Analysis of Financial Condition for Fiscal Year 2004

Committee Meeting Information

Presenter(s): Mr. Wallace

Status: Reported

Future Actions: Look at debt burden ratio/debt service coverage ratio measure

Agenda Item:

REPORT

The Analysis of Financial Condition is a broad annual financial evaluation that rates institutions based on the factors analyzed as either "Satisfactory", "Watch", or "Unsatisfactory". The 2004 Analysis of Financial Condition that follows on Pages 36.1 - 36.57 of the Agenda Book includes an Executive Summary that may be found on Pages 36.3 - 36.7 of the Agenda Book. No institutions were rated as "Unsatisfactory" and four were rated as "Watch".

A financial analysis is performed from each institution's Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets. The ratios presented in this report are ratios commonly used by bond rating agencies, public accounting firms, and consulting firms. The following ratios were analyzed:

Operating Expense Coverage, Annual Operating Margin, Return on Net Assets, Expendable Resources to Total Net Assets, Debt Burden, Debt Service Coverage, and Full-time Equivalent Student Enrollment (academic institutions only).

The Analysis of Financial Condition has been prepared since 1995 to track financial ratios to determine if the financial condition of the institutions is improving or declining. Due to the implementation of Governmental Accounting Standards Board (GASB) Statements No. 34 and No. 35 in 2002, the basis of accounting and presentation of financial statements changed, making comparable information unavailable for periods prior to 2002. This analysis compares trends for Fiscal Years 2002 through 2004.

Discussion at meeting:

Associate Vice Chancellor - Controller and Chief Budget Officer Wallace said this report has been prepared annually since 1995 for academic and health institutions, is intended to give broad annual evaluations, and rates institutions as either "Satisfactory", "Watch", or "Unsatisfactory." He said the 2004 Analysis of Financial Condition includes three years of trend information used to make judgments.

Mr. Wallace reported all academic institutions were rated "Satisfactory" in 2004 with the exception of U. T. Permian Basin, which was downgraded to "Watch" primarily due to its operating expense coverage ratio and its operating margin. He said appropriate measures are being taken at U. T. Permian Basin. Executive Vice Chancellor Kelley added that the situation is well in hand and will continue to be monitored.

Associate Vice Chancellor Wallace reported for the health institutions, U. T. Southwestern Medical Center - Dallas, U. T. Health Science Center - San Antonio, and U. T. M. D. Anderson Cancer Center maintained a rating of "Satisfactory." He said U. T. Medical Branch - Galveston, U. T. Health Science Center - Houston, and U. T. Health Center - Tyler maintained a rating of "Watch" largely due to the volatility of the margins. Mr. Wallace said U. T. Health Science Center - Houston is on the upswing and will likely be moved to "Satisfactory" next year, provided this year has positive results.

Regent Barnhill noted significant improvement in the operating deficit for U. T. Medical Branch - Galveston and asked what could be done other than getting additional State appropriations and gifts to remedy the indigent situation. Mr. Wallace replied that managed care is being actively addressed in the current legislative session and there is a concern about the low operating expense coverage ratio. Executive Vice Chancellor Shine said there is an interest in developing more ambulatory facilities for paying patients, and a variety of managed care arrangements are being developed that could be economically desirable, particularly related to Medicaid. He said U. T. Medical Branch - Galveston is working on a series of product lines to improve referrals, particularly in its areas of expertise. Dr. Shine acknowledged problems with facilities and with the criminal justice system, but said telemedicine technology is being used for outreach in Tyler and other parts of the

state to improve the payer mix. He noted the proportion of medical indigent patients has been reduced from 38% a few years ago to 20% at this time and said the payer mix is getting better and U. T. Medical Branch - Galveston is committed to generating enough money to cover depreciation. Dr. Shine said the Sealy Foundation, which recently celebrated \$500 million of contributions to U. T. Medical Branch - Galveston since 1922, provides \$20-\$25 million per year to the institution and helps depreciation problems by providing resources for capital.

Vice-Chairman Krier said U. T. Permian Basin's "Watch" status may be ameliorated by ongoing student enrollment growth resulting in increased formula funding to help with operating expenses. She said the institution had an exceptional year of improvements in development gifts although most gifts do not go to operating expenses. Vice-Chairman Krier also said U. T. Permian Basin is primarily focused on lengthening the reserves that are less than the two months the campuses were asked to provide. Mr. Wallace added that a monitoring plan is in place and U. T. Permian Basin is making every effort to address the situation.

Acting Committee Chairman Rowling said six methods are being used to measure the institutions and asked what information is provided in the expendable resources to total net assets ratio. Ms. Dana Malone, Assistant Controller, said the more expendable funds an institution has, the better. Regent Rowling said he did not see that metric as being useful and Ms. Malone said although this is one of the measures the rating agencies look at, it is not one that U. T. System focuses on. Mr. Wallace agreed that since this measure is used by debt rating agencies, it is one that U. T. System tracks and he offered to look at the debt burden ratio/debt service coverage ratio.

5. U. T. System: Approval of additional amount of equipment financing for Fiscal Year 2005 and resolution of parity debt

Committee Meeting Information

Presenter(s): Mr. Aldridge

Status: Approved

Motion: Made by Vice-Chairman Krier, seconded by Regent Barnhill, and carried unanimously

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. Board of Regents

- a. approve an additional aggregate amount of \$23,400,000 of Revenue Financing System Equipment Financing for Fiscal Year 2005 as allocated to those U. T. System institutions set out on Page 39 of the Agenda Book; and

- b. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
- parity debt shall be issued to pay the cost of equipment including costs incurred prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System;
 - the institutions and U. T. System Administration, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt parity debt in the aggregate amount of \$23,400,000 for the purchase of equipment; and
 - this resolution satisfies the official intent requirements set forth in Section 1.150-2 of the *Code of Federal Regulations*, that evidences the Board's intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

In 1994, the U. T. Board of Regents approved the use of Revenue Financing System debt for equipment purchases in accordance with the Guidelines Governing Administration of the Revenue Financing System. Equipment financing is used for the purchase of equipment in lieu of more costly vendor financing. The Guidelines specify that the equipment to be financed must have a useful life of at least three years. The debt is amortized twice a year with full amortization not to exceed 10 years.

At the August 12, 2004 meeting, the Board of Regents approved \$86,360,000 for equipment financing in FY 2005. This agenda item requests approval of an additional aggregate amount of \$23,400,000 for equipment financing.

Further details on the equipment to be financed and debt coverage ratios for individual institutions may be found on Page 39 of the Agenda Book.

Discussion at meeting:

Associate Vice Chancellor for Finance Aldridge said this item requests approval of an additional \$23.4 million of Revenue Financing System Equipment Financing to the \$86 million approved by the Board in August 2004, for a total of approximately \$110 million. He reminded the Committee members that the equipment financing program is used in lieu of more expensive vendor financing and said the blanket approval given by the Board is used throughout the year as equipment is purchased. Mr. Aldridge said commercial paper is used to finance that equipment and the debt is fully amortized over a period of 3-10 years. He said equipment financing has been a successful program and noted this is a mid-year adjustment increase. Mr. Aldridge referenced the table on Page 39 of the Agenda Book that shows the institutions to which the increases are attributable.

6. U. T. System: Permanent University Fund quarterly update

Committee Meeting Information

Presenter(s): Mr. Aldridge
Status: Reported

Agenda Item:

Mr. Philip R. Aldridge, Associate Vice Chancellor for Finance, will update the Committee on changes in the forecasted distributions from the Permanent University Fund (PUF) to the Available University Fund (AUF) and the resulting impact on remaining PUF debt capacity, U. T. Austin Excellence Funds, and the AUF balance.

REPORT

A summary of the assumptions used in calculating the PUF debt capacity is provided on Page 40.1 of the Agenda Book. As of November 30, 2004, the market value of the PUF was \$8.6 billion compared to \$8.1 billion as of August 31, 2004 (Figure A on Page 40.2 of the Agenda Book). During Fiscal Year 2005, \$341.2 million will be distributed to the AUF, compared to \$348 million in Fiscal Year 2004 (Figure B on Page 40.3 of the Agenda Book). PUF distributions to the AUF are projected to steadily increase beginning in Fiscal Year 2006 and are not projected to be capped due to constitutional purchasing power restrictions.

There is an estimated \$334 million of additional debt capacity through Fiscal Year 2010 beyond the PUF projects currently approved, assuming a 8.36% investment return (Figure C on Page 40.4 of the Agenda Book). This PUF debt capacity incorporates the \$100 million Library, Equipment, Repair and Rehabilitation (LERR) appropriation for Fiscal Year 2005. PUF debt capacity is affected by various factors, some of which are determined by the Board while others are dependent on future market conditions (Figure D on Page 40.5 of the Agenda Book).

Discussion at meeting:

Associate Vice Chancellor for Finance Aldridge said this item is a quarterly update of the Permanent University Fund (PUF) as well as the debt capacity of that Fund. He reported the PUF increased in value for the quarter from \$8.1 billion to \$8.6 billion. Mr. Aldridge said assumptions have not changed in calculating debt capacity and he referenced the chart on Page 40.2 of the Agenda Book showing an increase in the market value of the PUF and an increase in distributions over time.

He then referenced the chart on Page 40.3 of the Agenda Book showing the translation of the increases in market value to projected increases in the distributions. Mr. Aldridge said the distribution paid this fiscal year to the Available University Fund (AUF) was \$341.2 million; a \$355.8 million distribution is expected for next year, an increase of almost \$15 million; and a \$386 million distribution is projected for the following year. He said improving market conditions over the last two years are starting to be translated more directly into the trailing 12-quarter average for the distribution calculation.

Associate Vice Chancellor Aldridge said the slide on Page 40.4 of the Agenda Book shows calculation of debt capacity for the PUF. He said the total capacity over the next six years is approximately \$334 million, and the current debt capacity is approximately \$200 million. He noted improved market conditions translate into PUF debt capacity.

Mr. Aldridge said the chart on Page 40.5 of the Agenda Book shows sensitivities in PUF debt capacity to major assumptions such as the excellence fund, the PUF distribution rate, and the PUF investment return. He said all those factor into the model and a decline in the PUF going forward would eliminate debt capacity.

Acting Committee Chairman Rowling asked what would happen if the calculation were to go negative and the funds declined? Mr. Aldridge replied that a zero debt capacity would be reported and a recommendation would be made that the Board not approve PUF debt for projects. He added this was the case for four quarters in a row last year. Executive Vice Chancellor Kelley said this is one of the reasons a balance is kept in the AUF.

7. U. T. System: Report on Revenue Financing System debt capacity

Committee Meeting Information

Presenter(s): Mr. Aldridge

Status: Reported

Future Actions: Mr. Aldridge to supply a breakdown of other funding sources noted on the chart on Page 41.10 of the Agenda Book.

Agenda Item:

REPORT

Following the PowerPoint presentation on Pages 41.1 - 41.25 of the Agenda Book, Mr. Philip R. Aldridge, Associate Vice Chancellor for Finance, will update the Committee on the status of Revenue Financing System debt capacity, including proposed changes to the minimum credit standards for accessing Revenue Financing System debt.

Discussion at meeting:

Using a PowerPoint presentation, Associate Vice Chancellor for Finance Aldridge said the two primary debt programs are the Permanent University Fund (PUF) and Revenue Financing System (RFS). He said unlike the PUF program that only has 13 institutions as members, all institutions are eligible to be members of the RFS program. Mr. Aldridge said the RFS has the highest rating, AAA, and at the end of the calendar year, there was approximately \$2.5 billion of RFS debt outstanding. He compared this to less than \$1 billion of outstanding PUF debt at that point in time and said Tuition Revenue Bonds are issued as RFS debt. Mr. Aldridge said every time the Board approves a project that has RFS debt associated with it, the Board makes two findings of fact: (1) the U. T. System has the ability to repay the debt, and (2) the institution that is sponsoring the project has the ability to repay its own debt.

Mr. Aldridge discussed strengths and risks to the credit profile from a ratings agency perspective. The strengths noted were (1) growth and enrollment, (2) a diversified revenue stream, (3) strong private sector support, and (4) a strong balance sheet. He then noted one of the significant risks associated with the credit profile is capital growth. Chancellor Yudof said there is concern among the presidents that Tuition Revenue Bond (TRB) funding for the next biennium would put the burden on the institutions by deducting from other parts of the appropriations bill, resulting in the institutions having to pay off those bonds and take funding from other sources. He asked what the impact would be on the risk factors and ratings if that were to occur? Mr. Aldridge responded it would be catastrophic and added that the State did not fully fund TRBs last session, but the U. T. System had enough funding for its TRBs. He said if the State did not fulfill its commitment, there would be a significant impact on all higher education ratings.

Acting Committee Chairman Rowling asked if the revenue stream is taken to the public market and the bonds are sold based on the tuition rate, and whether the State funded those bonds. Mr. Aldridge responded that the State reimburses debt service on TRBs and U. T. System depends on the State to fulfill its obligation. He added the portion of the Capital Improvement Program (CIP) that is funded with debt increased significantly since 1999 and 60% of the CIP is debt funded. Regent Rowling asked if most of the other funding sources noted on the chart on Page 41.10 of the Agenda Book were gifts. Mr. Aldridge replied they are a combination of approximately 20 different sources, including gifts, and offered to supply a breakdown of those sources. Chancellor Yudof added that some of those would be revenues from the activity that would offset the debt.

Mr. Aldridge reviewed the debt service profile and reported that the U. T. System is rapidly approaching \$250 million of annual debt service for the RFS debt program and said it is currently at approximately \$160-\$170 million. He said greater use of debt translates into a declining debt service coverage ratio and pointed out the long-term declining trend which means there is less operating margin compared to debt service over time. Mr. Aldridge said the accounting has changed from an operating margin coverage of debt service to a cash flow coverage and depreciation is now factored in. He said the trend remains a declining debt service coverage rather than a decline in operating performance, and a greater utilization of debt resulting in greater debt service.

Associate Vice Chancellor Aldridge said steps taken to mitigate the negative credit trend include refunding almost \$700 million of RFS debt in the last two years, resulting in savings of \$33.5 million. Additionally, adjustments were made to credit standards, and the debt portfolio was changed to issue longer term debt while reducing the average yield of fixed rate debt from 5.1% to 4.04%. He said the institutions benefit from lower interest rates over time.

Mr. Aldridge said going forward, the focus will be on three ratios, the first being debt service coverage ratio. Chancellor Yudof pointed out that one of the benefits of being part of the U. T. System is the financial advantage of the AAA rating. Mr. Aldridge agreed and added that no institution on its own would have an AAA rating. He said the second ratio is debt burden (debt service), which is principle and interest as a percentage of the total operating expenses, and the third ratio is expendable resources, the funds available to retire debt in an emergency situation.

Mr. Aldridge said these three ratios are being used as thresholds the institutions must meet to determine debt capacity. He summarized by saying a low investment rate standard is being set for the institutions based on market principles and the ratios include TRBs. He said the U. T. System is a strong credit, has additional capacity as a system, has a \$5 billion CIP, and has \$1 billion of debt to issue. Mr. Aldridge also said debt service will grow, there are several projects the institutions would like to fund, and debt is an attractive source of funding. He noted rates are low and it is a good time to issue debt. Executive Vice Chancellor Kelley pointed out although some of the institutions have weaker ratios, if they are able to generate returns covering the debt service, it opens up new avenues for them.

Acting Committee Chairman Rowling said the length of 12 years for average maturity was wise in the increasing rate environment. Mr. Aldridge said he plans to come back in the future with a debt overview related to portfolios and how debt is managed. Chairman Huffines asked if there had been any feedback from the rating agencies related to audit compliance or external audits. Mr. Aldridge replied the feedback has generally been positive, with rating agencies reporting that the U. T. System is a well-managed system. Regent Estrada noted that ratios and formulas alone cannot be relied upon and said the credit standards outlined are solid, well thought out, and will serve the U. T. System well.

8. U. T. Board of Regents: Report on Investments for quarter ended November 30, 2004, Liquidity Profile, and Performance Report by Ennis Knupp + Associates

Committee Meeting Information

Presenter(s): Mr. Boldt, Mr. Steve Voss

Status: Reported

Agenda Item:

REPORTS

Pages 42.1 - 42.7 of the Agenda Book contain the Summary Reports on Investments for the three months ended November 30, 2004.

Item I on Pages 42.1 - 42.2 of the Agenda Book reports summary activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the three months was 7.23% versus its composite benchmark return of 5.58%. The PUF's net asset value increased by \$560.3 million since the beginning of the quarter to \$8,648.2 million. This change in net asset value includes increases due to contributions from PUF land receipts and net investment return.

Item II on Pages 42.3 - 42.5 of the Agenda Book reports summary activity for the General Endowment Fund (GEF), the Permanent Health Fund (PHF), and Long Term Fund (LTF). The GEF's net investment return for the three months was 7.39% versus its composite benchmark return of 5.58%. The GEF's net asset value increased \$296.1 million since the beginning of the quarter to \$4,503.7 million.

Item III on Page 42.6 of the Agenda Book reports summary activity for the Short Intermediate Term Fund (SITF). Total net investment return on the SITF was .34% for the three months versus the SITF's performance benchmark of negative .28%. The SITF's net asset value increased by \$21.0 million since the beginning of the quarter to \$1,199.0 million. This increase in net asset value was due to net contributions to the SITF.

Item IV on Page 42.7 of the Agenda Book presents book and market value of cash, debt, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus money market fund, increased by \$225.1 million to \$2,518.9 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$56.6 million versus \$56.1 million at the beginning of the period; equities: \$217.3 million versus \$325.0 million at the beginning of the period; and other investments: \$.1 million versus \$16.1 million at the beginning of the period.

The November 30, 2004, PUF and GEF Combined Liquidity Profile is attached on Page 42.8 of the Agenda Book.

An Executive Summary of the Performance Report on investments for the quarter ended November 30, 2004, as prepared by Ennis Knupp + Associates is attached on Pages 42.9 - 42.16 of the Agenda Book.

Discussion at meeting:

UTIMCO President, Chief Executive Officer, and Chief Investment Officer Boldt said statistics through November were contained in the Agenda Book and he gave an update through December. He said it has been a good period for the endowment funds and noted the funds were up 2.4% for December, bringing the Permanent University Fund (PUF) up 9.9% for the fiscal year and 14.2% for the calendar year. Mr. Boldt said the PUF was up 19.2% compounded for the last two calendar years and it has been a remarkable year for the capital markets. He said at the end of December, the PUF had moved to an all-time high of \$8.8 billion, but he predicts a lower return environment in the next year or two.

Vice-Chairman Krier asked if January was a lower return time and Mr. Boldt responded that the figures were not all in, but he thought the total funds would be down one-half of 1%. He said with the well-diversified portfolio, it would take something fairly catastrophic in the financial markets to have a significantly bad month. Chancellor Yudof remarked on the good asset diversification and noted these gains were not coming from the domestic equity markets. Mr. Boldt replied that over the last year, the highest nominal returns were in U.S. equities, international equities, and hedge funds, and hedge funds and fixed income were the largest value-added gains. He explained that when the dollar is weak, Euro investments become more valuable, contributing to positive international investment gains.

Chairman Huffines noted that hedge funds and private capital were low at the end of November and asked if that is expected to continue. Mr. Boldt responded that U. T. System would like to be at the benchmark for private capital, but the amount of money returned from private capital partnerships over the last two quarters has been the largest in history, about \$450 million, and it is difficult to reinvest the money as fast as it is being returned. He said the same issue applies to the hedge funds and it takes a long time to work through the due diligence process. Regent Rowling noted that 5.4% of private capital was returned for the quarter; an outperformance of the

benchmark and an excellent return. Mr. Boldt added there were some questions on disclosure issues, making it more difficult at the present to get money back out. Regent Rowling asked if there was any hesitancy or resistance while this disclosure issue is pending and Mr. Boldt replied yes, UTIMCO has been turned down by four funds. He said private funds cannot deal with the uncertainty of the situation.

Chairman Huffines commended Mr. Boldt on the excellent results and Acting Committee Chairman Rowling concurred it was a great report.

Mr. Steve Voss of Ennis Knupp + Associates said on an absolute basis, the results have been very attractive for the last quarter and have also been attractive on a relative basis in terms of meeting benchmarks. He said the information on Page 42.11 of the Agenda Book summarizes asset allocation compliance and he mentioned the difficulty in staying in compliance in the venture capital investments area. Mr. Voss reported one of the subcomponents, non-U.S. developed equity, was slightly out of the compliance range, but total global ex-U.S. equities were within the range. He also reported traditional fixed income was weighing in at 9.6% from its target of 10%. Chancellor Yudof asked if that was a result of too much cash coming in or if those decisions could be made expeditiously and Mr. Voss replied that fixed income is a very liquid investment and there could have been a timing issue between reporting cycles. He concluded by saying results have been quite good. Chairman Huffines asked if there were any issues of concern at this juncture. Mr. Voss replied there is a fair amount of work ahead on reviewing policy related to asset allocation and that process would be reported back to the Committee.

ADJOURNMENT

Regent Rowling announced that the purpose for which this meeting was called had been completed, and the meeting was duly adjourned at 12:00 p.m.

MINUTES
U. T. Board of Regents
Academic Affairs Committee
February 9, 2005

The members of the Academic Affairs Committee of the Board of Regents of The University of Texas System convened at 12:40 p.m. on Wednesday, February 9, 2005, on the 9th floor of Ashbel Smith Hall at The University of Texas System, 201 West Seventh Street, Austin, Texas, with the following members of the committee in attendance:

Attendance

Vice-Chairman Krier, presiding
Regent Caven
Regent Craven
Regent Estrada
Regent Rowling

Also present were Chairman Huffines, Vice-Chairman Clements, Regent Barnhill, and Counsel and Secretary Frederick.

In accordance with a notice being duly posted with the Secretary of State and there being a quorum present, Committee Chairman Krier called the meeting to order.

Executive Vice Chancellor Sullivan introduced two new staff members in the Academic Affairs Office. Mr. Jeff Cole has a bachelor's degree in history from the University of Wisconsin, Madison, and a master's degree in public affairs from the LBJ School at U. T. Austin. He has worked as a higher education analyst the last 12 years in the State Comptroller's Office analyzing budgets, conducting biannual performance reviews, and developing policy initiatives. Mr. Cole also conducted the annual surveys of tuition and fees, and Executive Vice Chancellor Sullivan said he will also be analyzing tuition and fees at U. T. System.

The other new staff member, Ms. Roberta Rincón, has a bachelor's degree in civil engineering from U. T. Austin and an MBA from Arizona State. She has worked as a business analyst in the high-tech sector and as a highway design engineer for the Texas Department of Transportation. Most recently, Ms. Rincón worked in the Office of Campus Planning for the Texas Higher Education Coordinating Board. Executive Vice Chancellor Sullivan said she will need Ms. Rincón to do analysis on the work force because student enrollment growth means there is also a need to grow various kinds of employment.

1. U. T. System: Reports from institutional presidents

Committee Meeting Information

Presenter(s): *Presidents of academic institutions*

Status: *Reported*

Agenda Item:

REPORT

The academic presidents will report briefly on new developments taking place at each campus. These oral reports may include any areas such as new research grants, significant collaborations with external agencies, or any other topic deemed to be important by the academic president. This is a quarterly update to the Academic Affairs Committee of the U. T. Board of Regents.

Discussion at meeting:

Regent Krier invited presidents of the institutions to their "minute at the mike".

President García said U. T. Brownsville is the recipient of a \$3.6 million grant from the National Institutes of Health that will strengthen the research infrastructure in the biomedical area and allow hiring of new faculty. Also, U. T. Brownsville has received a small grant from the Texas Parks and Wildlife that gives matching dollars for developing a project on the water equivalent to Town Lake in Austin, which might be referred to as "Resaca Lake". The third campus highlight during this period was the U. T. Brownsville mariachis performing at the Texas Black Tie and Boots inaugural ball at the invitation of Mr. Bill Shute, Vice Chancellor for Federal Relations.

Provost Richard Jarvis said U. T. El Paso was pleased and proud to host the official lighting of the new high capacity fiber link, Internet2, a not-for-profit research consortium, and a corresponding academic research network in Mexico consisting of more than 70 Mexican universities and research centers.

President Mabry said U. T. Tyler finished the baseball/softball fields and prepared for groundbreaking of two buildings.

President Cárdenas said she threw out the first pitch at the opening baseball game for U. T. Pan American. The highlight during this period, though, was a trip to Dallas with 72 engineering students. Regent Estrada hosted a reception that included major donors and corporate executives in the Dallas area. The company executives showed enthusiasm for U. T. Pan American students and seemed eager to create partnerships that went beyond scholarships and went into the area of research. Dr. Cárdenas and the students also visited Lockheed Martin. The engineering program has graduated 480 students and about 200 of them currently work in the Dallas area at prominent corporations such as Lockheed Martin, Raytheon, Texas

Instruments, and Rolls Royce. The possibilities presented by that trip and seeing the pride of alumni employed there and the pride in their University, was the highlight of the last three months.

President Watts said U. T. Permian Basin had its inaugural baseball game, and it was the first game played on the new baseball field. He reported good enrollment this spring, noting it was the fourth or fifth spring in a row with record enrollment. President Watts explained he and some of his staff were involved in a listening tour of West Texas that is building a foundation for a long-range planning effort at the University. They are considering how the University can better serve the educational needs and economic development of the region. So far they have visited about 15 communities in West Texas, and they plan to visit six more. It has been inspirational, he said, to learn about the needs and visions of these communities.

President Watts also took the opportunity to correct press reports suggesting a Leonardo Da Vinci bridge project was being considered at U. T. Permian Basin in Lubbock. There is no plan to build a branch campus in Lubbock, and if a Da Vinci bridge is built, it will be in Odessa. U. T. Permian Basin has received a Texas Parks and Wildlife grant that will pay approximately 10% of the minimal cost of construction of the proposed bridge.

Regent Estrada said he attended the groundbreaking in December for the newest phase of student housing for U. T. Permian Basin and remarked on the tremendous outpouring of support for the institution in Odessa.

In the absence of President Larry Faulkner, Provost Sheldon Ekland-Olson talked about the recent official opening of the Watergate Papers with a follow-on symposium at U. T. Austin. Another highlight for U. T. Austin is that people are now moving into the new neural-molecular science building. Provost Ekland-Olson said the chances for success have been enhanced by the STARS program, and he thanked the Board of Regents for putting that in place.

Another highlight for U. T. Austin stemmed from the competition for a memorial in Pennsylvania for Flight 93 on September 11. Of the original pool of about 1,000 proposals, the design submitted by Dr. Frederick Steiner, Dean of the School of Architecture, and his team was one of the final five announced two days ago. This is a prestigious and honorable recognition. Refinements of the proposals will proceed and the final announcement will be made in the next few months.

President Spaniolo announced a multimillion dollar National Science Foundation grant in physics, and said the other awardee of this grant was Harvard. U. T. Arlington is excited about this grant, and this prestigious award speaks very well of the Physics faculty and will be a building block kind of grant for the Physics Department.

U. T. Arlington recently reviewed a sports expansion proposal that included the possibility of bringing back football after 20 years. After a lot of review and discussion, U. T. Arlington decided not to return to football in the immediate future. The idea will be reconsidered in five years. The critical need for U. T. Arlington right now is the creation of a special events center. The project is in the planning stage.

President Jenifer said U. T. Dallas has been busy in recent months with the visits of presidential candidates.

U. T. Dallas has been involved in various competitions over the years, and though the chess team has done well, only recently did they earn their first outright victory in the Pan American Intercollegiate Team Chess Championship, a feat that enabled them to reclaim the number one ranking in the Western Hemisphere.

President Jenifer also spoke about chess-playing at U. T. Dallas in general, describing it as an international game played by serious people, and quite often played by serious students. U. T. Dallas has three grand masters and the world's leading young chess player -- the top chess player in high school who outranks Bobby Fischer at the same age -- will be joining the student body in Fall 2005. Developing chess-playing on the U. T. Dallas campus was a commitment made many years ago, and it has fit in well with the mission and scope of the University. President García has initiated an interesting chess program at U. T. Brownsville too, and one of the top players for U. T. Dallas graduated from U. T. Brownsville last year. In addition to chess competitions, U. T. Dallas asks players to start a chess team in an inner-city school.

Vice-Chairman Krier and Executive Vice Chancellor Sullivan presented President Jenifer with a certificate of appreciation signed by the Chancellor and the presidents. Dr. Sullivan thanked Dr. Jenifer for everything he had done for U. T. Dallas and the U. T. System. President Jenifer acknowledged the support he has received from U. T. System.

President Romo said Dr. Donald Da-Hsiang Lien, Professor of Economics in the College of Business at U. T. San Antonio, was named top finance researcher in the world. The rankings were provided by the SIRCA financial ranking system. Dr. Yiuman Tse, Professor of Finance, was ranked in the same study in the top 20. Dr. Romo also said Dr. Steve Murdock, a U. T. San Antonio faculty member, was recently listed as one of the most influential Texans in "Texas Monthly".

2. U. T. System: Report on FY 2004 post-tenure review

Committee Meeting Information

Presenter(s): Dr. Teresa Sullivan

Status: Reported

Future Actions: Prior to 2006, revisit post-tenure review reporting process with respect to ethnicity and gender per question from Regent Rowling

Agenda Item:

REPORT

Executive Vice Chancellor Sullivan will report on the Fiscal Year 2004 post-tenure review using the attachment on Pages 43.1 – 43.2 of the Agenda Book. **[A revised post-tenure review report is attached on Pages 7 - 8.]**

Discussion at meeting:

Executive Vice Chancellor Sullivan said in accordance with State law, the Board of Regents developed a process for reviewing tenured faculty members for satisfactory completion of their duties every six years. The annual report provided in the Agenda Book requires one correction because the unsatisfactory rating attributed to U. T. Brownsville was last year, not this year. For this year, 239 men and 75 women were reviewed and regarded as performing well.

Executive Vice Chancellor Sullivan asked U. T. Austin Provost Sheldon Ekland-Olson to comment on why there are so few unsatisfactory ratings in the post-tenure reports. Provost Ekland-Olson said the question had been asked whether there is a connection between the prospect of post-tenure review and the probability of retirement or resignation. He said from his experience there is an apparent link between post-tenure review and the probability of retirement or resignation. When the post-tenure review process started he was Dean of the College of Liberal Arts at U. T. Austin and on average 11 faculty members per year retired or resigned. The first year the post-tenure review was introduced, however, that number doubled and 22 members of the College of Liberal Arts faculty left. Between 1998-1999 and 2003-2004 there have been 18 unsatisfactory findings. Faculty members judged unsatisfactory are given a remedial plan that includes advice on how to improve teaching and other constructive suggestions. Thus far, three faculty members have successfully completed the remedial plan, five are in the process of working on the remedial plan, and 10 resigned from the University. Post-tenure review is working in the sense that procedures are in place and it is done routinely with about one-sixth of the faculty each year. There does seem to be a connection between post-tenure review and the probability of retirement from the University.

Vice-Chairman Krier asked if the correlation existed between retirement and performance even for those people who were not actually reviewed. Provost Ekland-Olson said he believes colleagues not performing as well as they might chose not to go through the public procedure of post-tenure review.

Executive Vice Chancellor Sullivan said she attended a workshop of department chairs at U. T. Austin that also provided insight into the tenure review process. When an unsatisfactory rating is expected, seasoned department chairs said it is likely the faculty member might be called in and told about the upcoming negative rating. The department chair would tell the faculty member that the report of "unsatisfactory" would go to the dean the next day unless a retirement letter is received before that time. Sometimes people offered that choice might go ahead and resign rather than have the embarrassment of being regarded unsatisfactory.

Regent Rowling asked if the enabling legislation required reports to include gender and ethnicity data. Executive Vice Chancellor Sullivan said legislation did not require that gender and ethnicity be presented in the post-tenure reports. That information was provided at the request of the Board of Regents who wanted to see if there were patterns of bias in reviews. She indicated the Regents have discretion to change the format of the post-tenure report.

Committee Chairman Krier said she has not seen a pattern in the years she has been on the Board and Executive Vice Chancellor Sullivan said she has not seen a pattern either. Chairman Krier suggested the format might be reconsidered.

Regent Rowling asked if there were a reason for the format based on past usage or experience. Executive Vice Chancellor Sullivan explained the post-tenure review was a fairly recent process, and the data was included because there was a sense that was something that should be monitored as a new process was implemented.

Regent Krier thanked Regent Rowling for raising the issue, and suggested the format might be reconsidered. However, Regent Estrada added some perspective on the issue by explaining that over the years the U. T. System has given enhanced attention to a diversified faculty. By experience the older, more tenured faculty members, department chairs, and deans tended to be predominately white males, and the review process had them evaluating young, newly minted professors who include ethnic and racial minorities. Regent Estrada said there is value to tracking the numbers in the post-tenure review process so patterns do not start developing whereby the group responsible for evaluations seems to single out a particular group. The current format also allows for noticing at a glance if all the unsatisfactory ratings might be directed toward a particular gender or ethnic group.

Regent Craven also supported continuing to include ethnicity and gender data in the format of the post-tenure review reports.

(See related Item 3 on Page 6 of the Health Affairs Committee Minutes.)

**U. T. System Academic Institutions
2003-2004 Post-Tenure Review Report**

During Fiscal Year 2004, 316 tenured faculty members at the nine academic institutions were subject to post-tenure review. Of the 316 faculty members subject to review, 314 (or 99.37%) were evaluated as Performing Well and 2 (or .63%) received an Unsatisfactory evaluation.

The following summary tables provide additional details of the post-tenure review results for academic year 2003-2004.

Summary Post-Tenure Review Results

	Total Subject to Review	Total Performing Well	Total Additional Support or Marginal	Total Unsatisfactory
U. T. Arlington	47	47	0	0
U. T. Austin	131	129	0	2
U. T. Brownsville	15	15	0	0
U. T. Dallas	25	25	0	0
U. T. El Paso	32	32	0	0
U. T. Pan American	15	15	0	0
U. T. Permian Basin	2	2	0	0
U. T. San Antonio	34	34	0	0
U. T. Tyler	15	15	0	0
Total	316	314	0	2

Post-Tenure Review Results by Gender

	Subject to Review		Performing Well		Needs Additional Support or Marginal		Unsatisfactory	
	Male	Female	Male	Female	Male	Female	Male	Female
U. T. Arlington	38	9	38	9	0	0	0	0
U. T. Austin	98	33	96	33	0	0	2	0
U. T. Brownsville	11	4	11	4	0	0	0	0
U. T. Dallas	20	5	20	5	0	0	0	0
U. T. El Paso	26	6	26	6	0	0	0	0
U. T. Pan American	12	3	12	3	0	0	0	0
U. T. Permian Basin	1	1	1	1	0	0	0	0
U. T. San Antonio	24	10	24	10	0	0	0	0
U. T. Tyler	11	4	11	4	0	0	0	0
Total	241	75	239	75	0	0	2	0

Post-Tenure Review Results by Ethnicity

	Total Subject to Review					Performing Well				
	White	Black	Hispanic	Asian	Other	White	Black	Hispanic	Asian	Other
U. T. Arlington	41	0	1	4	1	41	0	1	4	1
U. T. Austin	117	2	8	4	0	115	2	8	4	0
U. T. Brownsville	10	1	4	0	0	10	1	4	0	0
U. T. Dallas	20	1	0	4	0	20	1	0	4	0
U. T. El Paso	24	0	5	2	1	24	0	5	2	1
U. T. Pan American	11	0	4	0	0	11	0	4	0	0
U. T. Permian Basin	2	0	0	0	0	2	0	0	0	0
U. T. San Antonio	28	0	4	2	0	28	0	4	2	0
U. T. Tyler	14	0	0	0	1	14	0	0	0	1
Total	267	4	26	16	3	265	4	26	16	3

	Needs Additional Support or Marginal					Unsatisfactory				
	White	Black	Hispanic	Asian	Other	White	Black	Hispanic	Asian	Other
U. T. Arlington	0	0	0	0	0	0	0	0	0	0
U. T. Austin	0	0	0	0	0	2	0	0	0	0
U. T. Brownsville	0	0	0	0	0	0	0	0	0	0
U. T. Dallas	0	0	0	0	0	0	0	0	0	0
U. T. El Paso	0	0	0	0	0	0	0	0	0	0
U. T. Pan American	0	0	0	0	0	0	0	0	0	0
U. T. Permian Basin	0	0	0	0	0	0	0	0	0	0
U. T. San Antonio	0	0	0	0	0	0	0	0	0	0
U. T. Tyler	0	0	0	0	0	0	0	0	0	0
Total	0	0	0	0	0	2	0	0	0	0

PRESENT STATUS OF EACH UNSATISFACTORY PERFORMANCE:

U. T. Austin: (1 Professor, 1 Assoc. Professor). The two faculty members with an unsatisfactory review have established a professional development plan as a result of the review process.

3. **U. T. Austin: Elementary Charter School Permanent Facility - Amendment of the FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include project**

Committee Meeting Information

Presenter(s): Provost Sheldon Ekland-Olson

Status: Approved

Motion: Made by Regent Estrada, duly seconded by Regent Caven, and carried unanimously

Agenda Item:

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Faulkner that the U. T. Board of Regents amend the FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include the Elementary Charter School Permanent Facility project at The University of Texas at Austin at a preliminary project cost of \$4,500,000 with funding from Gifts.

Architecturally or Historically Significant:

Yes No

Project Delivery Method: Construction Manager at Risk

Substantial Completion Date: July 2007

Total Project Cost:

Source
Gifts

Proposed
\$4,500,000

BACKGROUND INFORMATION

U. T. Austin requests approval to include the project to provide a permanent structure on the Elementary Charter School property at 2200 East Sixth Street, Austin, Texas. The facility will house administrative and shared use functions including office space, a multipurpose room (cafeteria/assembly), a kitchen, a library, a gymnasium, and storage area.

The University of Texas Elementary Charter School opened in August 2003 in modular buildings to provide pre-kindergarten, kindergarten, and first grade classrooms, as well as common use and administrative support space. Additional modular facilities were installed in 2004 to provide second grade classrooms, a library, and special education space. Plans are currently under way to provide additional modular space for third grade classrooms.

This proposed off-cycle project has been approved by U. T. System staff and meets the criteria for inclusion in the Capital Improvement Program.

Discussion at meeting:

Associate Vice Chancellor Sid Sanders said approval of this Agenda Item would allow U. T. Austin to look at the cost of constructing a permanent structure on the site of the Elementary Charter School and would allow hiring a design team to prepare a preliminary design, and then U. T. Austin could proceed as appropriate depending on the cost. He said the dollar amount given was just a placeholder number because the actual cost is not known at this time. In response to a question from Vice-Chairman Krier, Associate Vice Chancellor Sanders confirmed the item would come back to the Board for approval once funding and scope are determined.

Vice-Chairman Clements asked if this building would replace the modular structures on site now. Mr. Sanders said this would be in addition to those structures and though it would likely outlast the current structures, it is intended as an enhancement, not a replacement.

4. U. T. Dallas: Authorization to establish Master of Science and Doctor of Philosophy degree programs in Materials Science and Engineering

Committee Meeting Information

Presenter(s): President Jenifer

Status: Approved

Motion: Made by Regent Craven, seconded by Regent Estrada, and carried unanimously

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and President Jenifer that authorization be granted to establish a Master of Science degree and a Doctor of Philosophy degree in Materials Science and Engineering at The University of Texas at Dallas; to submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action; and to authorize the Executive Vice Chancellor for Academic Affairs to certify on behalf of the U. T. Board of Regents that relevant Coordinating Board criteria for approval by the Commissioner of Higher Education have been met. In addition, the Coordinating Board will be asked to change the U. T. Dallas Table of Programs to reflect authorization for the proposed degree programs.

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

BACKGROUND INFORMATION

Program Description

The interdisciplinary Materials Science and Engineering programs at U. T. Dallas will emphasize teaching and research in the following areas: 1) nanostructured materials; 2) electronic, optical, and magnetic materials; 3) biomimetic materials; 4) polymeric materials; 5) micro electro mechanical systems; 6) organic electronics; and 7) advanced processing and characterization of modern materials. The proposed degree programs will be administered by the Erik Jonsson School of Engineering and Computer Science and will utilize faculty, proven courses, and facilities of both the Jonsson School and the School of Natural Sciences and Mathematics. The proposed model is similar to the Materials Science program at U. T. Austin and, like that program, the proposed degree programs will draw upon current centers of excellence in biology, chemistry, electrical engineering, nano-science, and physics. Graduates of the program are expected to go into the workforce to create new jobs, promote economic development, and use science and technology to improve society. A minimum of 60 semester credit hours beyond the master's will be required for the proposed Ph.D. degree. The proposed M.S. degree will require 33 semester credit hours and will be available to students who do not complete the Ph.D., but who have completed specified coursework to qualify for the master's degree. Implementation of the degrees is anticipated during the 2005-2006 academic year.

Program Quality

The Erik Jonsson School of Engineering and Computer Science currently offers interdisciplinary Ph.D.s in Computer Engineering and in Telecommunications Engineering. In addition, the school offers Ph.D. degrees in Computer Science, Software Engineering, and Electrical Engineering. The School of Natural Sciences and Mathematics offers Ph.D. degrees in Biology with a major in Molecular and Cell Biology, Chemistry, Geosciences, Mathematical Sciences with a major in Applied Mathematics, Mathematical Sciences with a major in Statistics, and Physics. A total of 20 current faculty members will participate as affiliated faculty in the delivery of the proposed new graduate programs. Three new full-time equivalent faculty members are projected to be added during years two and three. Fourteen new, organized courses will be added and phased into the offerings over the first five years.

Materials Science and Engineering is a significant part of the growth of graduate scientific research at U. T. Dallas. In August 2003, the State of Texas committed \$50 million in State of Texas Economic Development funds for U. T. Dallas as part of a government-university-industry project to place the next Texas Instruments manufacturing plant in Richardson, Texas. This proposal to offer M.S. and Ph.D. degrees in Materials Science and Engineering is part of this economic development plan, and the graduates of the Materials Science and Engineering program are expected to play a key role in the economic competitiveness of not only the Texas Instruments facility, but also in the Dallas/Fort Worth region in the State of Texas

and the nation. These programs strategically fit with existing centers of excellence in biology, chemistry, electrical engineering, nanoscience, and physics at U. T. Dallas. In particular, the field of Materials Science and Engineering has been encouraged in recent reports from important external experts such as the Washington Advisory Group.

Cost

Estimated expenditures for the first five years of the proposed programs are \$1,520,925. This includes new costs of \$990,125 for faculty salaries, \$270,816 for administration, \$194,988 for clerical staff, and \$64,996 for supplies and materials.

Discussion at meeting:

President Jenifer introduced Professor Duncan MacFarlane and volunteered him to answer any questions but said this degree was part of the strategy of "Project Emmitt" to start new programs and to build strength in research. President Jenifer said this program also addresses one of the concerns of the Washington Advisory Group report that indicated U. T. Dallas was too narrowly focused and needed to add new engineering programs. This degree program fits in nicely with current programs and is the ideal thing to do. U. T. Dallas will have to recruit few faculty members because the program involves other faculties throughout the University.

5. U. T. Pan American: Authorization to purchase the real property and improvements located at 2402 South U.S. Highway 281, Edinburg, Hidalgo County, Texas

Committee Meeting Information

Presenter(s): President Cárdenas

Status: Approved

Motion: Made by Regent Estrada, duly seconded, and carried unanimously

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Cárdenas that authorization be granted by the U. T. Board of Regents, on behalf of U. T. Pan American, as set forth on Page 47 of the Agenda Book.

- a. purchase the real property and improvements located at 2402 South U.S. Highway 281, Edinburg, Hidalgo County, Texas, at a price not to exceed the fair market value as determined by independent appraisals, plus all due diligence expenses, closing costs, and other costs and

expenses to complete the acquisition of the property as deemed necessary or advisable by the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate;

- b. submit the acquisition to the Texas Higher Education Coordinating Board for approval, if necessary; and
- c. authorize the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to execute all documents, instruments, and other agreements, and take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations.

BACKGROUND INFORMATION

The subject property, consisting of approximately 0.69 acres with a 3,721 square foot former McDonald's restaurant and 25 paved parking spaces, is adjacent to the U. T. Pan American Annex, a 70,000 square foot facility on the south side of the City of Edinburg, Texas that houses varied programs, computerized testing rooms, and the institution's high school to university services function.

U. T. Pan American wishes to purchase the real property and improvements as the site and facility to house a U. T. Pan American Go Center, an initiative of the Texas Higher Education Coordinating Board, to assist high school students through the process of applying for admission to an institution of higher education.

The transaction will be a bargain sale, with McDonald's Corporation making a gift of a portion of the purchase price. The remaining portion will be funded with Unexpended Physical Plant Reserves. Additionally, McDonald's Corporation will give U. T. Pan American a credit at closing of a portion of the purchase price as a donation to the Go Center.

The terms and conditions of the purchase are as reflected in the summary of the transaction below:

Transaction Summary

Institution:	U. T. Pan American
Type of Transaction:	Purchase (bargain sale)
Property:	0.69-acre tract of land and improvements (currently vacant)
Address:	2402 South U.S. Highway 281, Edinburg, Hidalgo County, Texas

Seller: McDonald's Corporation

Purchase Price: \$100,000

Appraised Value: \$240,000 (Joe W. Patterson, MAI, April 5, 2004)
\$260,477 (Hidalgo County Appraisal District, 2004)

Source of Funds: Unexpended Physical Plant Reserves held for future planned capital projects

Closing: On or about May 1, 2005

Use of Property: Establishment of a U. T. Pan American Go Center, a college recruiting center. The property will be restricted to prohibit use as a restaurant for the first 20 years.

Discussion at meeting:

President Cárdenas introduced Mr. James R. Langabeer, Vice President for Business Affairs at U. T. Pan American, who described this item as a special offer from McDonald's for a property adjacent to the U. T. Pan American Annex. The original appraisals ranged from \$240,000 - \$260,000 and at that price the University was not interested. McDonald's came back and offered the property for \$100,000. Upon closing, McDonald's agreed to return \$30,000 of that \$100,000 so that U. T. Pan American could develop a Go Center, a program that supports "Closing the Gaps." The Go Center will offer information about higher education to high school students in the area.

Committee Chairman Krier asked whether the donation came from the franchisee or from the corporation and learned it is coming from the McDonald's Corporation.

6. U. T. Tyler: Discussion of compact priorities

Committee Meeting Information
Presenter(s): President Mabry
Status: Reported

Agenda Item:

REPORT

President Mabry and Executive Vice Chancellor Sullivan will lead a discussion about compact priorities for The University of Texas at Tyler as set out in the compact on Pages 49.1 - 49.23 of the Agenda Book. Dr. Mabry's PowerPoint presentation is on Pages 49.24 - 49.28 of the Agenda Book.

BACKGROUND INFORMATION

The U. T. System Institution Compacts were sent to the Board of Regents in early September 2004. The compact process was first introduced by Chancellor Yudof at the December 2002 meeting of the Board. The compacts have been integrated into the accountability and strategic framework for the U. T. System.

The compacts are written agreements, between the Chancellor and the presidents of each of the academic and health institutions that summarize the institution's major goals and priorities, strategic directions, and specific tactics to achieve its goals.

These compacts reflect the unique goals and character of each institution, highlighting action plans, progress, and outcomes. Faculty, staff, and students helped to create these compacts, so that a shared plan and vision resulted. The U. T. System Administration's commitment of resources and time to support each institution's initiatives is included in every compact.

Covering the fiscal years ending 2005 and 2006, the compacts were completed in Summer 2004. They will be updated annually; updates for the second year of the cycle will be completed in August 2005.

To enhance understanding of the compacts, compact priorities for each institution will be discussed at Board meetings in the coming year.

Discussion at meeting:

Executive Vice Chancellor Sullivan explained the compact process was initiated by Chancellor Yudof and the Board of Regents and was designed to be a more or less annual mutual information process in which the priorities of an individual campus become discussed and established. Ideally, the compact process becomes part of longer range planning efforts for the institution and informs the way a president spends his/her discretionary time. Dr. Geri Malandra, Associate Vice Chancellor for Institutional Planning and Accountability, has been the key driver at System for developing the compacts. Dr. Sullivan and Dr. Malandra recently completed visits with each academic campus to have midyear reviews and understand where each institution was at with the compact process. Dr. Sullivan said she believes it is valuable for the Regents to hear about the priorities from the campus, but acknowledged it would be overwhelming to learn about all nine at one time. Therefore, each meeting of the Academic Affairs Committee will have one president provide a compact process presentation, starting with President Mabry today.

President Mabry said the compact process involves several elements including accountability and performance reports as well as strategic planning. The compact process is a good management tool to help reach strategic goals.

Dr. Mabry said U. T. Tyler needs to enable and encourage growth, increase faculty research, and play an important role in improving the economy of East Texas, a region that has lagged behind some of the rest of the state economically. He emphasized the compact requires not only prioritizing large goals, but also requires developing specific, measurable objectives such as enrollment targets, the number of students who transferred from junior colleges, retention rates, and recruiting. A number of strategies for each objective was identified, such as adding to the financial aid budget, completing buildings, and increasing library hours. Additional library hours are a student-satisfaction issue.

Ensuring close alignment with the strategic plan, monitoring of accomplishments, and allowing extensive consultations are other benefits of the compact process said President Mabry. U. T. Tyler had a significant community-involved strategic planning process in Calendar Year 1999 and the compact process provided a way for U. T. Tyler to extend that process that will serve until a complete rework of the plan is completed. U. T. Tyler also found the compact process useful in the budgeting process.

President Mabry said he sought to commit a critical mass of people on campus to knowing where U. T. Tyler was headed, and the compact process has had a positive influence on the monitoring process. Evaluations of Vice Presidents and directors have become an important way to manage the University through extensive involvement and goal-setting. Initially this process was led by the Provost but it has also involved deans, the faculty senate, and people at outlying sites in Palestine and Longview.

President Mabry also expressed some concerns about the compact process. He said not everything is about the numbers because measuring morale and momentum for a start-up university such as U. T. Tyler also matters. He said he encourages people to ask questions if anything in the accountability reports or in the compact seemed odd. In many situations, understanding the numbers depends on definitions and how they are used. For example, there is a fairly high administrative cost at U. T. Tyler, which the Chancellor has noted. This relatively high cost has to do, at least in part, with the size and age of an institution. Larger schools have lower administrative costs than smaller schools. As the denominator at U. T. Tyler gets larger, the administrative costs will decrease. He spoke about the anomaly that the Organization of Business Offices requires equipment and furniture to be included in administrative costs. Since U. T. Tyler has been opening a new building every year for a while, including the price of the new equipment and furniture drives up the administrative costs. The internal auditor at U. T. Tyler insists on adhering to such requirements, but not every university follows the same rules so the comparisons may not be equal.

Committee Chairman Krier asked if the format for the compacts fits in with the planning process and President Mabry responded that the format was outstanding and did not create problems.

Vice-Chairman Krier also commented on the discussion of challenges and problems and the issue of the Coordinating Board's classification of schools. She commended the U. T. Tyler report for presenting solutions to problems. One goal of the compact process was to help create a set of priorities that could be revisited when considering the addition of new programs. Regent Krier also commended President Mabry for looking at programs that might not be needed.

Regent Rowling asked if the 38 acres mentioned in the compact as a priority had been dealt with previously by the Board. President Mabry said the Board had approved the purchase of 11 acres, and someone has come forward to pay for the purchase.

Regent Rowling also asked about the two tracts mentioned in the compact -- a 38-acre tract and an 8-acre tract. President Mabry clarified U. T. Tyler did not have the 26 acres between the housing development and the corner that the campus owns. There are other tracts U. T. Tyler would like to have as well, but that tract is critically important.

Regent Rowling also noted the compact mentioned the establishment of doctoral programs at U. T. Tyler as a very high priority, and he asked what ongoing work was taking place to see that priority realized. President Mabry said he is aware that legislators are working on a bill in the House and the Senate.

Executive Vice Chancellor Shine called attention to Section III.A. of the compact, which discusses the collaboration with U. T. Health Center - Tyler. This Section provides a clear description of how U. T. Tyler plans to proceed in its collaboration and is helpful at a System level to understand the situation and the goals. Having points explicitly written tends to avoid confusion, and Dr. Shine commended President Mabry and his colleagues for including that section, which is consistent with recommendations in the Washington Advisory Group report. Committee Chairman Krier asked if the two campuses had an exchange of compacts, and President Calhoun advised the U. T. Health Center - Tyler compact mirrors what is in the U. T. Tyler contract with respect to this particular issue.

Chancellor Yudof said the compact is a device to extrapolate from the accountability report into the operations of each campus. The compact is a way to keep issues on a president's radar screen and allows for monitoring against work plans to ensure strategic objectives are reflected in how the president spends his/her time. For campuses that do not have strategic plans or for those that have not formulated a strategic plan in recent years, the compact is a good way to build to a strategic plan. Without the compact, there is a danger that the strategic plan might be "pie in the sky" and disconnected from resources. When someone wants to build a building and asks for a Permanent University Fund allocation, for example, the U. T. System and the Board can refer to the compact and determine if there is follow-through on what was said a year or so ago. If there is an inconsistency, then maybe the compact should be changed or perhaps there is a need to think through the funding request more carefully.

7. U. T. Tyler: Recommended appointment of Dr. James H. Stewart, Jr., as President Emeritus

Committee Meeting Information

Presenter(s): President Mabry

Status: Approved

Motion: Made by Regent Craven, seconded by Regent Estrada, and carried unanimously

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and President Mabry that authorization be granted to appoint Dr. James H. Stewart, Jr., as President Emeritus at The University of Texas at Tyler. Approval of this recommendation is being requested in accordance with the Regents' *Rules and Regulations*, Series 20301, relating to honorary titles.

BACKGROUND INFORMATION

Dr. James H. Stewart, Jr., served as President of U. T. Tyler and its predecessors, Tyler State College and Texas Eastern University, from 1972-1981. He earned bachelor's, master's, and doctoral degrees from the University of North Texas and served 45 years in higher education and public education before retiring in 1999.

Dr. Stewart became president of Tyler State College on September 1, 1972, and, as the first employee, began the challenging task of developing the only public degree-granting institution of higher education in the 14-county East Texas Planning Region. Upon assuming the presidency, Dr. Stewart set out to accomplish two major goals: to establish a higher education program based upon the principle of academic excellence, and to build a functional, efficient, and aesthetically-pleasing campus and physical plant.

During his presidency, Dr. Stewart led the University through four major construction contracts totaling more than \$21 million on the current 200-acre site.

Enrollment increased under his leadership from 176 in Spring 1973 to 1,900 in Spring 1981. The first commencement ceremony was held in May 1974 to honor nine graduating students, and 183 students graduated in May 1981, the same semester that Dr. Stewart announced his retirement.

At the time he retired, U. T. Tyler had over 250 employees, state appropriations of \$5,696,263, student enrollment over 1,900, and a range of 48 bachelor's degrees and 14 master's degrees. The University was accredited by the Southern

Association of Colleges and Schools and the Texas Education Agency; specific programs were accredited by the National Accrediting Agency for Clinical Laboratory Sciences and the Texas Board of Nurse Examiners.

President Stewart successfully addressed the challenges of a founding president and met his initial goals by creating efficient and beautiful physical facilities and by leading Tyler State College, Texas Eastern University, and U. T. Tyler to a high level of academic excellence.

He and his wife, Colleen, remain active supporters of U. T. Tyler.

ADJOURNMENT

Committee Chairman Krier announced that the purpose for which this meeting was called had been completed, and the meeting was duly adjourned at 1:45 p.m.

MINUTES
U. T. Board of Regents
Health Affairs Committee
February 9, 2005

The members of the Health Affairs Committee of the Board of Regents of The University of Texas System convened at 1:40 p.m. on Wednesday, February 9, 2005, on the 9th Floor of Ashbel Smith Hall, The University of Texas System, 201 West Seventh Street, Austin, Texas, with the following members of the committee in attendance:

Attendance

Vice-Chairman Clements, presiding
Vice-Chairman Krier
Regent Caven
Regent Craven
Regent Rowling

Also present were Chairman Huffines, Regent Barnhill, Regent Estrada (for Items 2-5), and Counsel and Secretary Frederick.

In accordance with a notice being duly posted with the Secretary of State and there being a quorum present, Committee Chairman Clements called the meeting to order.

1. **U. T. System: Reports from institutional presidents on new developments at campuses**

Committee Meeting Information

Presenter(s): Presidents of health institutions

Status: Reported

Agenda Item:

REPORT

The health presidents will report briefly on the progress of a new major development at each campus. These oral reports may include areas such as new research grants, significant collaborations with external agencies, or other topics deemed to be important by a president.

Discussion at meeting:

Committee Chairman Clements said the first order of business was to hear reports from institutional presidents about new developments on their campuses. She said each president has been asked to briefly describe one new development that would be of general interest to the Committee.

President Mendelsohn reported on three new facilities opened in the last three months at U. T. M. D. Anderson Cancer Center. The George and Cynthia Mitchell Basic Sciences Research Building will share a joint graduate school with U. T. Health Science Center - Houston. The Ambulatory Clinical Building will increase ambulatory clinic space by over 50%; will take care of patients with breast, ovarian, and prostate cancer; and will have an outpatient surgery unit with modern equipment for radiation therapy and diagnostic imaging. The Cancer Prevention Building houses behavioral sciences and epidemiological research clinics, houses the cancer prevention clinical program, and has a new conference facility in which a national conference has already been held. Committee Chairman Clements said she was glad to see these buildings coming to fruition.

President Cigarroa stated partnerships with the academic campuses are an important part of the strategic plan of the Board and the compacts and he said a joint computational biology program has been established between U. T. San Antonio and U. T. Health Science Center - San Antonio that will increase the research enterprise at both campuses. He also spoke to the importance of mentorship and reported a summer mentorship program has been established with U. T. San Antonio. Finally, Dr. Cigarroa reported that U. T. Health Science Center - San Antonio has acquired a designation of a national center of excellence for women's health and noted again the importance of partnerships and building bridges with sister campuses. Executive Vice Chancellor Shine noted funds allocated from the liability insurance program were used in support of the computational biology program, fellowships, and collaboration.

President Calhoun reported U. T. Health Center - Tyler was selected to lead one of the four national centers on tuberculosis (TB) management and control through a \$7.5 million contract with the Centers for Disease Control. He said partners in this endeavor include the Texas Department of State Health Services, U. T. Health Science Center - San Antonio, and the School of Public Health at U. T. Health Science Center - Houston. Dr. Calhoun said 14 states in the central United States will be managed and the first year of work will include a needs assessment of the region, medical and public health consultative services, regional TB education and training, and identifying the regional capacity to appropriately manage TB. He said the team will be led by a group of researchers in the pulmonary and infectious disease areas and will join two other centers on the campus. Committee Chairman Clements congratulated President Calhoun on this important step forward and said she hopes U. T. Health Center - Tyler receives more publicity on this venture.

President Willerson reported U. T. Health Science Center - Houston has raised \$190 million of its \$200 million goal on the campaign that began in November 2002. He said a research facility for genomic and proteomic discovery in stem cell work is being built and some of the world's best scientists are being interviewed. Dr. Willerson reported 100,000 square feet of new research space is being built at the medical schools in recovery from Tropical Storm Allison and said a new building for imaging cardiovascular disease and cancer will be built in partnership with General Electric. He reminded the Committee of the recently approved affiliation with the Texas Heart Institute that gives the Board an advisory role in selecting leaders and in reviewing research and educational programs and that gives the Institute access to State funding. Dr. Willerson said the Texas Heart Institute has the only Food and Drug Administration approved protocol in the U.S. and is treating patients with severe heart failure with the patients' own bone marrow derived stem cells. He also reported on the acquisition, with the help of the legislature, of the Hermann Professional Building. Committee Chairman Clements asked if federal funds were being used for the stem cell research project and President Willerson replied that the program is hospital-funded with no charge to the patients. He said U. T. Health Science Center - Houston is currently competing for a National Institutes of Health (NIH) grant and hopes to acquire funding from the legislature and through endowments for a stem cell center. President Mendelsohn clarified federal funds can be used to support adult stem cell research, but there are rules related to the use of embryonic stem cells.

President Stobo reported construction is continuing on the Galveston National Biocontainment Laboratory with a projected completion and opening date of June 2008. He said the Laboratory is a 180,000-square foot facility devoted to research in biodefense and infections and will be a national resource. Dr. Stobo said public comment was closed out on the environmental impact statement, and the report is being compiled at the NIH and should be ready by approximately March 2005. He said groundbreaking can begin if the ruling is favorable, and in the meantime, the site is being prepared. President Stobo also announced the appointment of Valerie Parisi, M.D., M.P.H., as Dean of the School of Medicine and said U. T. Medical Branch - Galveston was fortunate to have her.

President Wildenthal said since the last Committee meeting, U. T. Southwestern Medical Center - Dallas has completed its largest research building and occupancy will begin at the end of February 2005. He said half of the \$240 million project was funded with Tuition Revenue Bonds and Permanent University Funds and the other half was funded through private donations. Dr. Wildenthal said the \$500 million campaign has now exceeded the \$400 million mark.

Executive Vice Chancellor Shine noted in 2004, the presidents led the health institutions to the achievement of over \$1 billion in sponsored research. He said a celebration dinner would be held on February 21 in conjunction with a science

symposium, and noted Dr. Elizabeth Nabel, Director of the National Heart, Lung, and Blood Institute, will be the speaker at that dinner. Dr. Shine extended an invitation to all Board members to attend.

Executive Vice Chancellor Shine also noted one of the biggest challenges being confronted is a proposal the legislative Appropriations Committee is considering that Tuition Revenue Bonds no longer be funded separately by the State, but instead become part of the operating cost of the institutions. He said the effect of this proposal would be to dramatically inhibit the ability to create new buildings and said this is one of the most important policy and economic issues to be addressed as U. T. System moves forward with "Closing the Gaps."

2. U. T. System: Recommended appointment of Charles B. Mullins, M.D., as Executive Vice Chancellor for Health Affairs Emeritus

Committee Meeting Information

Presenter(s): Dr. Shine

Status: Approved

Motion: Made by Vice-Chairman Krier, seconded by Regent Caven, and carried unanimously

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs that authorization be granted to appoint Charles B. Mullins, M.D., as Executive Vice Chancellor for Health Affairs Emeritus at The University of Texas System Administration. Approval of this recommendation is being requested in accordance with the Regents' *Rules and Regulations*, Series 20301, relating to honorary titles.

BACKGROUND INFORMATION

Dr. Mullins obtained his bachelor's degree from North Texas State University and a medical degree in 1958 from The University of Texas Southwestern Medical School. From 1959 to 1962 he was a flight surgeon in the United States Air Force. Dr. Mullins performed his residency in internal medicine and fellowship in cardiology at Parkland Memorial Hospital in Dallas, and in 1966 began his academic career at U. T. Southwestern Medical School, rising to the rank of Professor of Medicine. From 1977-1979 he was Associate Dean for Clinical Affairs and Director of Medical Affairs at Parkland Memorial Hospital, and from 1979-1981, he was Chief Executive Officer of Parkland Hospital and the Dallas County Hospital District.

On September 1, 1981, Dr. Mullins was named Executive Vice Chancellor for Health Affairs of The University of Texas System and served in this capacity until August 31, 2001. On January 31, 2005, Dr. Mullins retired from U. T. Southwestern Medical Center - Dallas as Professor of Medicine, culminating a distinguished medical career as a researcher, teacher, cardiologist, and administrator. Upon his retirement, Dr. Mullins was appointed Professor Emeritus of Internal Medicine. Approval of President Wildenthal's recommendation that Dr. Mullins be appointed Ashbel Smith Professor Emeritus is included on Page Docket 38 of the Agenda Book. (See Item 1 on Page 34 of the Finance and Planning Committee section of the Agenda Book related to approval of the Docket.)

Dr. Mullins is author or coauthor of more than 100 publications, including research publications, reviews, editorials, books, and abstracts. He is a fellow of the American College of Physicians, American Heart Association Council on Clinical Cardiology, and American College of Cardiology. Dr. Mullins is a distinguished alumnus of the University of North Texas. He was a trustee of the Baylor College of Dentistry and Chairman of the Board of Governors of the American College of Cardiology. He has been a member of a variety of gubernatorial and legislative committees on medical issues and is a member of 14 professional societies and organizations.

Discussion at meeting:

Committee Chairman Clements said Dr. Mullins served U. T. Southwestern Medical Center - Dallas and the U. T. System for 39 years and it was an honor to propose this title be bestowed on him.

Executive Vice Chancellor Shine said he has known Dr. Mullins for 25 years and Dr. Mullins is a distinguished cardiologist who played a major role as Director of the Parkland Hospital District in Dallas and served 20 years as U. T. System Executive Vice Chancellor for Health Affairs. He said Dr. Mullins has been named Ashbel Smith Professor Emeritus and the appointment is well-deserved.

President Wildenthal added he has known Dr. Mullins for 42 years and Dr. Mullins has served well, faithfully, and ably. He said the U. T. System recognition is well-earned. Committee Chairman Clements agreed the appointment was a well-deserved honor.

3. U. T. System: Report on FY 2004 post-tenure review

Committee Meeting Information

Presenter(s): Dr. Shine

Status: Reported

Agenda Item:

REPORT

Executive Vice Chancellor Shine will report on the Fiscal Year 2004 post-tenure review using the attachment on Pages 52.1 - 52.2 of the Agenda Book.

Discussion at meeting:

Executive Vice Chancellor Shine said the post-tenure review process was discussed at some length earlier at the Academic Affairs Committee meeting (see Item 2 on Page 5 of the Academic Affairs Committee Minutes) and he summarized the results of the report for the health institutions. He said 179 individuals were reviewed, 174 were performing well, four were identified as requiring additional support, and one was evaluated as unsatisfactory. Dr. Shine said the individual evaluated as unsatisfactory was strong as a teacher and as a clinician, but was not meeting the creative goals of the institution. He said this individual will continue to teach and see patients, but not in a tenure-track position. Executive Vice Chancellor Shine reminded the Committee of unusual features in the health institutions such as the seven-year contract U. T. M. D. Anderson Cancer Center has for tenure rather than a lifetime appointment. He added U. T. Health Center - Tyler will likely submit a similar proposal. Dr. Shine emphasized the most crucial decision in an individual's academic career is whether or not tenure is awarded. He cited a study at the University of California in which the single most predictor of an individual's long-term contribution was the ease in which the tenure decision was made. Dr. Shine said the post-tenure review process and the tenure process are rigorous, but result in getting good people. He noted some individuals retire, resign, or move into another position when the upcoming tenure review results will not be favorable. Executive Vice Chancellor Shine said information on gender and ethnicity is useful in determining if women and minority faculty need cultivating. He said he and the president of Texas Tech University held a successful session on mentoring for minority faculty and Dr. Shine indicated he would be pleased to do something similar at the U. T. System campuses.

Chairman Huffines asked for elaboration on how the tenure process at U. T. System is more rigorous than others. Executive Vice Chancellor Shine explained that tenure varies from institution to institution. He said in most private institutions when an individual is awarded tenure, that is the end of the evaluation. However, there is more accountability in public institutions, and Dr. Shine said the U. T. System is in

a relatively small group of institutions that do an intensive review every six years of individuals who have been tenured to see how those individuals are performing.

Vice-Chairman Krier asked who came to the mentoring forum and Dr. Shine responded the group included mentors and mentees; approximately two-thirds were underrepresented minorities and the remaining one-third were senior individuals interested in mentoring or who worked in offices involving mentoring. He said many young people do not know how to find a mentor and the forum was able to help them understand there are different kinds of mentors, help them identify someone they would want as a mentor, and help them discover strategies for getting individuals to mentor them. Vice-Chairman Krier asked if any follow up was done to see if the mentoring process is being encouraged and Dr. Shine responded no formal program is in place but it would be interesting to talk to some of the young attendees to see if the recommended strategies worked. He said the strategies are quite simple and it was not necessary that a mentor be the same ethnicity or gender as the mentee.

Chairman Huffines asked how the seven-year tenure contract has worked for U. T. M. D. Anderson Cancer Center. President Mendelsohn said the process is similar to the U. T. System process and a review is performed every five years on those with tenure. He said the process has not affected recruiting and the purpose is not to clean house, but to give individuals extra incentive. Committee Chairman Clements asked if any academic institutions followed this process and Executive Vice Chancellor Sullivan responded there were none in the U. T. System. Counsel and Secretary Frederick noted years ago U. T. Permian Basin had term tenure.

Chancellor Yudof pointed out a major difference between the academic and health institutions is that salaries for academic-tenured individuals typically are budgeted from a State source. He said the health institutions generally have a higher percentage of tenured individuals due to the different nature of the funding sources.

Executive Vice Chancellor Shine said the Faculty Advisory Council (FAC) has expressed concern about whether an individual with a tenured title also has a tenured salary. He said that is appropriate at the academic institutions, but at the health institutions where salaries are generated by clinical activities and research, there need to be opportunities for adjusting salaries for tenured faculty who are not productive. Dr. Shine said the FAC has generally accepted this explanation and the campuses are working to define a base salary and anything above the base salary would vary according to productivity.

President Calhoun mentioned upon approval from the Chancellor and the Executive Vice Chancellor for Health Affairs, a proposal would be coming before the Board in the next few months to offer tenure on the U. T. Health Center - Tyler campus. He said because U. T. Health Center - Tyler does not have a medical school, term tenure will likely be patterned after the U. T. M. D. Anderson Cancer Center process. Dr. Calhoun said only a portion of salary would be covered under tenure.

4. U. T. System: Report on the Chancellor's Health Fellows

Committee Meeting Information

Status: Deferred

Agenda Item:

REPORT

The Chancellor has approved an initiative proposed by the Executive Vice Chancellor for Health Affairs. This initiative, known as the Chancellor's Health Fellows, is intended to encourage faculty participation, bring added value, and enhance collaborations.

After consultation with the presidents, Dr. Shine was authorized to appoint up to four Fellows during a one-year period, which began April 1, 2004. Each Fellow will be awarded a \$25,000 academic enhancement fund, which can be used for appropriate research and educational purposes. Salary support will not be provided. In subsequent years, a simple application process in well-defined areas may be instituted. Fellows will be faculty members, selected for their expertise, who are willing to facilitate System-wide efforts to enhance achievements in selected areas.

This year, Fellows have been appointed in the areas of

- a. Medical Education: L. Maximilian Buja, M.D., Executive Vice President for Academic Affairs at The University of Texas Health Science Center at Houston, serves as the first Chancellor's Health Fellow for one year beginning April 1, 2004. Among his responsibilities is the organization of a University of Texas System Symposium on Innovations in Medical Education held in October 2004. This event focused on medical student undergraduate education with an emphasis on experiences with interdisciplinary education involving other members of the health-care professions. The goal of this conference was to bring together faculty and staff from the six health institutions who have a special interest and involvement in medical education so that information and ideas could be exchanged and the mission of medical education advanced throughout the U. T. System.
- b. Quality of Care and Patient Safety: Sharon Martin, M.Ed., MT.(AFCP)SC, Vice President for Quality Management at The University of Texas M. D. Anderson Cancer Center, is the appointed chair for this important issue. The purpose of this fellowship is to create a multidisciplinary program focused on intensive care unit (ICU) quality initiatives that will enhance patient safety, utilization of resources, and health-care provider satisfaction. In addition, the fellowship will facilitate collaboration among

participating institutions to improve practices through shared knowledge. The ultimate goal is to create an infrastructure for an enduring program of collaborative quality improvement among University of Texas health-care ICU personnel, including the establishment of a website to facilitate knowledge sharing.

- c. Science: Allan Brasier, M.D., Leon Bromberg, M.D., Professor in Internal Medicine; Senior Scientist at the Sealy Center for Molecular Science; and Associate Director at the Proteomics Center at The University of Texas Medical Branch at Galveston, will lead the first U. T. System Science Symposium on Molecular Medicine on February 21-22, 2005. The goal of this symposium is to bring together active scientists in the selected field from both the health and academic campuses to facilitate collaborations and to highlight Texas science.
- d. A fourth Fellow will be appointed later in this fiscal year.

5. U. T. Southwestern Medical Center - Dallas: Discussion of compact priorities

Committee Meeting Information

Presenter(s): Dr. Wildenthal, Dr. Shine

Status: Reported

Agenda Item:

REPORT

President Wildenthal and Executive Vice Chancellor Shine will lead a discussion about compact priorities for U. T. Southwestern Medical Center - Dallas as set out in the compact on Pages 54.1 - 54.17 of the Agenda Book.

BACKGROUND INFORMATION

The U. T. System Institution Compacts were sent to the Board of Regents in early September 2004. The compact process was first introduced by Chancellor Yudof at the December 2002 meeting of the Board. The compacts have been integrated into the accountability and strategic framework for the U. T. System.

The compacts are written agreements, between the Chancellor and the presidents of each of the academic and health institutions, that summarize the institution's major goals and priorities, strategic directions, and specific tactics to achieve its goals.

These compacts reflect the unique goals and character of each institution, highlighting action plans, progress, and outcomes. Faculty, staff, and students helped to create these compacts, so that a shared plan and vision resulted. The U. T. System Administration's commitment of resources and time to support each institution's initiatives is included in every compact.

Covering the fiscal years ending 2005 and 2006, the compacts were completed in Summer 2004. They will be updated annually; updates for the second year of the cycle will be completed in August 2005.

To enhance understanding of the compacts, compact priorities for each institution will be discussed at Board meetings in the coming year.

Discussion at meeting:

Executive Vice Chancellor Shine said it has been a productive experience visiting the campuses to discuss compacts and said the health institutions differ from the academic institutions. He said most of the health campuses had long-term strategic plans and the compacts have added alignment. Dr. Shine said the result has been very constructive and he called on President Wildenthal for an update on the compact at U. T. Southwestern Medical Center - Dallas.

President Wildenthal said instead of a comprehensive overview, he would provide a concrete example of one of the compact priorities at U. T. Southwestern Medical Center - Dallas. He said the compact process was viewed as an opportunity to supplement and enhance rather than duplicate the six-year long-range planning process already in place. Dr. Wildenthal said the long-range process focused on goal and priority setting whereas the compact has an 18-24 month time frame and focuses on implementation. He said the compact covers the three or four most important issues involving the institution's executive leadership. As an example, Dr. Wildenthal focused on acquisition of the St. Paul University Hospital and Zale Lipshy University Hospital and their integration into the structure, governance, and operation of U. T. Southwestern Medical Center - Dallas. President Wildenthal said the implementation plan differs from the strategic plan in that it has elements of a timetable and benchmarks of the progress and conclusion. Additionally, the implementation plan includes assignment of responsibilities and the role the U. T. System will play. Dr. Wildenthal said U. T. Southwestern Medical Center - Dallas alone could not have succeeded in the St. Paul and Zale Lipshy acquisitions because of political, legal, financial, and bond indebtedness implications requiring concurrence and expertise of a broader constituency. He said the compact process provided an impetus and an opportunity to set defined patterns of what needed to be done at U. T. Southwestern Medical Center - Dallas as well as at U. T. System. Dr. Wildenthal said the acquisition was concluded January 1, 2005, and the first payroll for the 2,200 new hospital employees was done January 14, 2005. He said the planning process works, the results of the integration have been satisfactory, and employee morale is up.

Chancellor Yudof said this is a good example of how planning exercises fit together. He said it is good to be opportunistic, but press releases, work plans, intermediate plans, and long-term strategic objectives have to be in alignment.

Executive Vice Chancellor Shine noted there are significant differences between academic and health campuses. He said because the health campuses deliver products and have a narrower mission than the academic campuses, an integrated approach that involves everyone in the planning process is important.

ADJOURNMENT

Committee Chairman Clements announced that the purpose for which this meeting was called had been completed, and the meeting was duly adjourned at 2:40 p.m.

MINUTES
U. T. Board of Regents
Facilities Planning and Construction Committee
February 9, 2005

The members of the Facilities Planning and Construction Committee of the Board of Regents of The University of Texas System convened at 2:45 p.m. on Wednesday, February 9, 2005, on the 9th Floor of Ashbel Smith Hall, The University of Texas System, 201 West Seventh Street, Austin, Texas, with the following members of the committee in attendance and absent:

Attendance

Chairman Barnhill, presiding
Vice-Chairman Clements
Regent Caven
Regent Estrada

Absent

Vice-Chairman Hunt

Also present were Vice-Chairman Krier, Regent Craven, and Counsel and Secretary Frederick.

In accordance with a notice being duly posted with the Secretary of State and there being a quorum present, Committee Chairman Barnhill called the meeting to order.

1. **U. T. System: Consideration of designation of the U. T. Austin Elementary Charter School Permanent Facility project as architecturally or historically significant**

Committee Meeting Information

Presenter(s): Mr. Sidney J. Sanders, Associate Vice Chancellor, Facilities Planning and Construction

Status: Not designated as architecturally or historically significant

Motion: Made by Regent Estrada, seconded by Vice-Chairman Clements, and carried unanimously

Agenda Item:

RECOMMENDATION

It is recommended that the Committee review the following project scheduled for architectural selection for possible designation as architecturally or historically significant pursuant to the Regents' *Rules and Regulations*, Series 80302:

U. T. Austin

Elementary Charter School Permanent Facility

Proposed Project Cost: \$4,500,000

Anticipated Delivery Method: Construction Manager at Risk

Request Direct Appointment of Architect

Discussion at meeting:

Mr. Sanders said they are ready to go forward and hire the architectural firms and prepare a preliminary design and budget for this building. Mr. Sanders said that he is required by rules to make sure the Regents did not want to participate in the selection and if there was no consideration for that, they will immediately move forward with the selection.

2. U. T. Arlington: Deferred Maintenance/Capital Renewal Projects - Amendment of the FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost; approve transfer of funds; and reduce total project cost for the Brick Repairs - Pickard Hall and College of Business Administration

Committee Meeting Information

Presenter(s): Mr. Sidney J. Sanders, Associate Vice Chancellor, Facilities Planning and Construction

Status: Approved

Motion: Made by Regent Estrada, seconded by Vice-Chairman Clements, and carried unanimously

Agenda Item:

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Spaniolo that the U. T. Board of Regents approve the recommendations for the Deferred Maintenance/ Capital Renewal Projects at The University of Texas at Arlington as follows:

Project Number: 301-168

Architecturally or Historically Significant: Yes No

Institutionally Managed: Yes No

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: August 2006

Total Project Cost: Deferred Maintenance/Capital Renewal Projects	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Permanent University Fund Bond Proceeds	\$2,119,134	\$2,229,976

Total Project Cost: Brick Repairs – Pickard Hall and COBA	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Permanent University Fund Bond Proceeds	\$8,057,599	\$7,946,757

- a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to increase the total project cost by \$110,842
- b. approve the transfer of Permanent University Fund Bond Proceeds in the amount of \$110,842 from the Brick Repairs - Pickard Hall and College of Business Administration (COBA) project; and
- c. reduce the total project cost for the Brick Repairs - Pickard Hall and COBA.

BACKGROUND INFORMATION

Previous Board Actions

Deferred Maintenance/Capital Renewal Projects: On May 8, 2003, the project was included in the CIP with a preliminary project cost of \$1,405,354 with funding from Permanent University Fund (PUF) Bond Proceeds. On February 4, 2004, the total project cost was increased to \$2,119,134 with funding from the PUF.

Brick Repairs - Pickard Hall and COBA: On February 10, 2000, the project was included in the CIP with a preliminary project cost of \$12,500,000 with funding from the PUF. On September 14, 2000, the Chancellor approved the design development and increasing the Total Project Cost to \$13,068,800 with additional funding of \$568,800 from Tuition Revenue Bond Proceeds. On May 8, 2002, the total project cost was reduced to \$9,462,953. On May 8, 2003, the total project cost was reduced to \$8,057,599.

Project Description

U. T. Arlington is requesting the transfer of the remaining \$110,842 of PUF from the Brick Repairs - Pickard Hall and COBA project that has been completed to the Deferred Maintenance/Capital Renewal Projects. The additional funds will be used to address additional fire and life safety issues.

The Deferred Maintenance/Capital Renewal Projects address exterior masonry repairs to University Hall, chiller replacements at the Automation and Robotics Research Institute (ARRI) (Fort Worth Riverbend Campus), and elevator renewals and replacements.

Discussion at meeting:

Mr. Sanders said U. T. System had an original project several years ago to proceed with capital renewal of major repairs in Pickard Hall. He said the project closed out and was funded by \$12.5 million of Permanent University Funds (PUF).

Mr. Sanders said the campus transferred the balance to another collection of projects for Deferred Maintenance and Fire, Life and Safety. He said the project is now completed and there is \$110,842 of PUF left over that they would like to roll forward to another small scale Deferred Maintenance/Capital Renewal type project. He said this is a request to continue leaving the PUF funds in a Deferred Maintenance Project on the campus.

3. U. T. Austin: Biomedical Engineering Building - Removal of Student Health Center Building

Committee Meeting Information

Presenter(s): *Mr. Sidney J. Sanders, Associate Vice Chancellor, Facilities Planning and Construction*

Status: *Approved*

Motion: *Made by Regent Estrada, seconded by Vice-Chairman Clements, and carried unanimously*

Agenda Item:

REPORT

Mr. Sidney J. Sanders, Associate Vice Chancellor for Facilities Planning and Construction, will report that a portion of the site preparation for the Biomedical Engineering Building project at U. T. Austin involves the demolition of the former Student Health Center building. The building does not have a historical designation and no formal approvals for demolition are required.

Discussion at meeting:

Mr. Sanders presented a PowerPoint on the Biomedical Engineering Building as set forth on Pages 5 - 8. He explained this building will require the removal of an existing building built in the 1950s.

Mr. Sanders explained there are no practical or cost effective ways to do any sort of adaptive reuse and that there will have to be major work done on the outside. He also stated the building is not architecturally or historically significant. He said inside tells the real story and with the low ceiling heights, it is not ADA compliant. The elevators, doorways, and corridors would have to be widened, but there is not sufficient space to do this. The fire, life and safety is minimal and requires upgrading. Mechanically, the building is completely worn out. Mr. Sanders said a modern, major lab building, which requires about a 16 feet floor to ceiling clearance, cannot fit in the existing frame. There are quarter lines going through so when the building starts to come down this summer he did not want anybody to be surprised or wonder why we were not trying to reuse what may superficially look like a perfectly good building. He said the actual need for the Biomedical Engineering Building will come forward later in the 2005 Calendar Year.



THE UNIVERSITY OF TEXAS SYSTEM

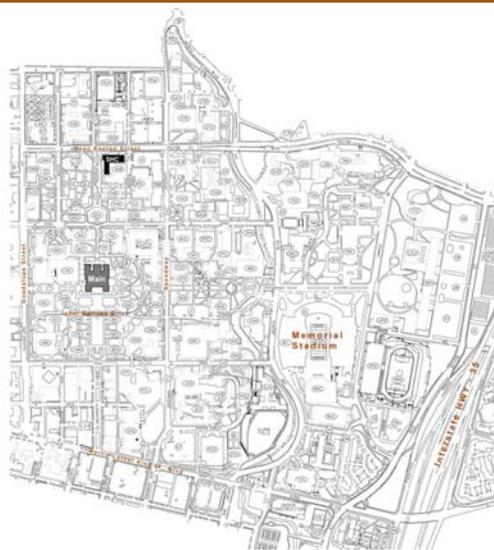
Biomedical Engineering Building Removal of Student Health Center Building

February 9, 2005

Office of Facilities Planning and Construction



Campus Map



2



Exterior Image



- Completed in 1950 as a Student Health Center
- Exterior Envelope Needs Major Repair
- Steel Casement Windows are not Energy Efficient
- Building not Listed as Architecturally or Historically Significant

3



Interior Image



- 1950's Student Health Center Vintage
- Low Ceilings, Small Rooms
- Masonry Interior Walls and Major Plumbing Throughout
- No Handicapped Access Compliance in Building
- Limited Fire Safety Systems Currently in Building

4



Interior Image

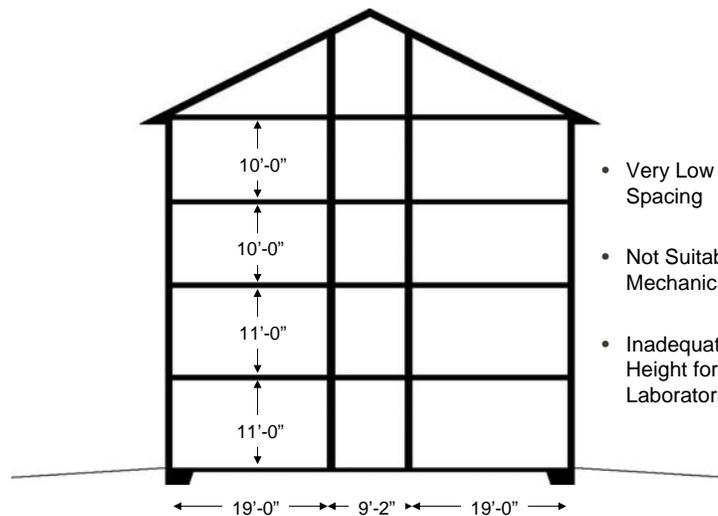


- Mechanical, Electrical Plumbing Systems Require Replacing
- Substantial Code Compliance Remediation Required
- Hazardous Materials Requiring Removal and Disposal

5



Typical Plan

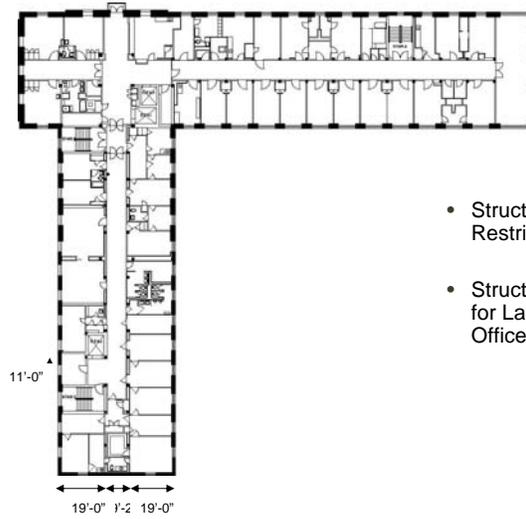


- Very Low Floor-to-Floor Spacing
- Not Suitable for Modern Mechanical Systems
- Inadequate Floor-to-Floor Height for Modern Laboratories

6



Building Section



- Structural Grid is very Restrictive in all Dimensions
- Structural System not Suitable for Labs, Classrooms, or Offices

7

4. U. T. Brownsville: Campus Master Plan Update

Committee Meeting Information

Presenter(s): *Mr. Sidney J. Sanders, Associate Vice Chancellor, Facilities Planning and Construction and Dr. Juliet V. García, President of The University of Texas at Brownsville*

Status: *Report*

Agenda Item:

Dr. Juliet V. García, President of The University of Texas at Brownsville, and Mr. Sidney J. Sanders, Associate Vice Chancellor, Office of Facilities Planning and Construction, with the assistance of campus planning consultant, 3DI, will present a video illustrating the highlights of the 2005 Campus Master Plan for U. T. Brownsville and Texas Southmost College. The presentation will show the potential build-out capacity of the campus over a planning horizon of 15 to 20 years. The presentation will also include recent and projected trends in enrollment.

REPORT

U. T. Brownsville and Texas Southmost College have experienced substantial growth in enrollment over the last several years. The proposed Campus Master Plan will outline the potential future development of the campus to accommodate growth in enrollment. This will include architectural guidelines, vehicular and pedestrian circulation, opportunities for redevelopment and expansion as well as redefined functional zoning of the campus. The original Campus Master Plan was prepared in 1985 and revised in 1990, 1995, and 2000.

The previous master plan delineated a 321-acre campus. The campus has now grown to 382 acres with the acquisition of a portion of the Fort Brown Peninsula and the former Amigoland Mall.

The goal of this Campus Master Plan is to guide the development and placement of buildings, streets, infrastructure, and landscaping to support the mission and expected growth at U. T. Brownsville.

Discussion at meeting:

Mr. Sanders said the item is a master plan that 3DI, a major architectural planning firm, conducted for U. T. Brownsville. He called on Dr. García and Mr. Andrés Andújar, lead planner with 3DI, to introduce the plan. Dr. García presented a video titled, "Master Plan 2020."

Mr. Sanders said if any of the projections come true and they are fairly consistent with what the U. T. System has seen from the Coordinating Board when a study was done a year ago for U. T. Brownsville, the infrastructure that is going to be required in the next decade is staggering. He said what is important to understand is that most of the non-auxiliary infrastructure has come from Tuition Revenue Bonds that

the Board had heard about some of earlier today. He said Tuition Revenue Bonds are about the only way that non-auxiliary infrastructure gets built on academic campuses. And if that gets curtailed, then there are not going to be places for students coming to an institution like U. T. Brownsville. Mr. Sanders said this is his assessment after having looked at the problem for quite awhile.

Vice-Chairman Krier responded by saying the video was impressive and asked if the road goes through the campus, and if it was a public road, or would U. T. Brownsville have control of access to the road?

Dr. García answered no, the road was University Boulevard, a road that is now open to the public.

Vice-Chairman Krier asked if University Boulevard goes directly to the main campus, and if it continued through the campus? Dr. García said the road goes through housing to the peninsula area and onto the main street of downtown Brownsville. She said it is a City of Brownsville road.

Regent Krier asked if this road had increased traffic.

Dr. García said the Texas Department of Transportation (TxDOT) would not put in a street light or a road until the road had traffic. She said you cannot have traffic until you have a road, and you cannot have street lights without traffic. She said U. T. Brownsville had to prove that there will be enough traffic to put up a street light, because some of the parking is going to be on the other side of University Boulevard. She said this was the beginning and that there was a lot of access and a lot of people using the road on a daily basis.

Vice-Chairman Krier asked Dr. García if she thought this was a positive and not a negative and asked if traffic was not creating any problems.

Dr. García said to initially try to draw the Boulevard on the outer edge of the campus was much further to go and much more money. She said U. T. Brownsville then decided it was not their money so they were trying to help TxDOT design something that would work for them. She said this was the best compromise and said it is a beautiful boulevard, and with the safety features of lights and pedestrian crossings, that it will work out well.

Regent Barnhill said the plan was nicely done and asked if all Board members had a copy of the Master Plan (a copy of the 2020 Master Plan and Architectural Design Guidelines is on file in the Office of the Board of Regents).

Dr. García thanked Mr. Andújar, saying the team was creative and innovative, and the community effort that went into this was fantastic and it simply would not have happened without their expertise.

5. U. T. Dallas: Center for BrainHealth - Amendment of the FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost and approval to revise funding sources

Committee Meeting Information

Presenter(s): Mr. Sidney J. Sanders, Associate Vice Chancellor, Facilities Planning and Construction

Status: Approved

Motion: Made by Regent Estrada, seconded by Vice-Chairman Clements, and carried unanimously

Agenda Item:

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Jenifer that the U. T. Board of Regents approve the recommendations for the Center for BrainHealth project at The University of Texas at Dallas as follows:

Project Number: 302-193

Architecturally or Historically Significant: Yes No

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: January 2007

Total Project Cost:	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Gifts	\$5,000,000	\$ 6,000,000
	Revenue Financing System Bond Proceeds		\$ 4,000,000
	Permanent University Fund Bond Proceeds		<u>\$ 1,000,000</u>
			\$11,000,000

- a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to increase the total project cost; and
- b. revise the funding sources.

BACKGROUND INFORMATION

Previous Board Action

On November 13, 2003, the project was included in the CIP with a preliminary project cost of \$5,000,000 with funding from Gifts.

Project Description

U. T. Dallas received a \$5,000,000 gift from a private donor to support the acquisition of a building to house the Center for BrainHealth. The purchase of the building in the amount of \$3,200,000 was completed in July 2004. The remaining funding of \$1,800,000 from Gifts will be used for renovation.

Additionally, the total project cost will be increased from \$5,000,000 to \$11,000,000. The renovation work to the building, which contains 45,500 gross square feet, will provide office and laboratory space for 50 research projects and remediation of environmental issues. The Center, which conducts innovative research and provides clinical services for a variety of brain disorders including brain injury, Alzheimer's disease, and stroke, will provide clinical interventions and long-term follow-up care.

The additional funding of \$1,000,000 from Permanent University Fund Bond Proceeds (Library, Equipment, Repair and Rehabilitation) is associated with Project Emmitt, a \$3 billion, five-year program for research, development, and manufacturing. As part of the program, the Erik Jonsson School of Engineering and Computer Sciences is forming a new department that will focus on the engineering aspects of the biological sciences. The Center for BrainHealth will facilitate interactions with members of the engineering faculty.

Discussion at meeting:

Regent Estrada asked if the revenue bonds would be issued this current fiscal year and if this is authorization to put this on the cue.

Mr. Sanders said U. T. System probably would not get to the point where they will be ready to issue those bonds simply because construction will not be ready for several months. He said the Office of Finance will issue some short-term debt to cover construction costs and only when they finish it will they turn and issue the permanent debt. He clarified the request is not for authorization to issue the debt at this point in time.

6. U. T. El Paso: Biosciences Facility - Amendment of the FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost; approval to revise funding source; and appropriation of funds and authorization of expenditure

Committee Meeting Information

Presenter(s): Mr. Sidney J. Sanders, Associate Vice Chancellor, Facilities Planning and Construction

Status: Approved

Motion: Made by Regent Estrada, seconded by Vice-Chairman Clements, and carried unanimously

Agenda Item:

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Natalicio that the U. T. Board of Regents approve the recommendations for the Biosciences Facility project at The University of Texas at El Paso as follows:

Project Number: 201-114

Architecturally or Historically Significant: Yes No

Project Delivery Method: Construction Manager at Risk

Substantial Completion Date: April 2006

Total Project Cost:	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Tuition Revenue Bond Proceeds	\$12,750,000	\$12,750,000
	Permanent University Fund Bond Proceeds	\$ 8,500,000	\$ 8,500,000
	Revenue Financing System Bond Proceeds	\$ 5,750,000	\$ 5,750,000
	National Institutes of Health Grant		\$ 3,500,000
		\$27,000,000	\$30,500,000

- a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to increase the total project cost;
- b. revise the funding source; and
- c. appropriate funds and authorize expenditure of funds.

BACKGROUND INFORMATION

Previous Board Actions

On November 8, 2001, the project was included in the CIP with a preliminary project cost of \$19,250,000 with funding of \$12,750,000 from Tuition Revenue Bond Proceeds and \$6,500,000 from Permanent University Fund Bond Proceeds. On May 8, 2002, the Board approved increasing to the total project cost to \$25,000,000 with additional funding of \$5,750,000 from Revenue Financing System Bond Proceeds. On August 8, 2002, the Board approved design development plans. On May 8, 2003, the Board approved increasing the total project cost to \$27,000,000 with additional funding of \$2,000,000 from Permanent University Fund Bond Proceeds.

Project Description

U. T. El Paso requests approval to include the funding of \$3,500,000 from the National Institutes of Health for completion of additional research space in areas of the building that were scheduled to be shelled. The facility is a new, five-story building of

approximately 84,000 gross square feet and includes site development and extension of site utilities. The project showcases the research activities of the Department of Biological Sciences and provides state-of-the-art space dedicated to laboratories, animal facilities that include a vivarium and aquatic facility, a biosafety level 3 laboratory, support facilities and offices, and offices for the Border Biomedical Research Institute.

Discussion at meeting:

Mr. Sanders said the shell was recently completed for this building and was not completely finished out. He said a National Institutes of Health grant added \$3.5 million to take the total project costs from \$27 million to \$30.5 million. He said this will allow the finishing out of the shell space created in the original building, and the finish out of all the laboratories while the contractor is on board.

Regent Barnhill asked Mr. Sanders how frequently he needs to request additional money for various projects, and Mr. Sanders explained it is common to request money for shell spaces particularly in research buildings that require heavy infrastructure. He said real estate is usually so precious that the shell is often overbuilt.

7. U. T. San Antonio: Recreation and Athletic Facilities - Amendment of the FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to decrease total project cost; authorization of institutional management; appropriation of funds and authorization of expenditure; and resolution regarding parity debt

Committee Meeting Information

Presenter(s): Mr. Sidney J. Sanders, Associate Vice Chancellor, Facilities Planning and Construction

Status: Approved

Motion: Made by Regent Estrada, seconded by Vice-Chairman Clements, and carried unanimously

Agenda Item:

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Romo that the U. T. Board of Regents approve the recommendations for the Recreation and Athletic Facilities project at The University of Texas at San Antonio as follows:

Project Number: 401-210

Architecturally or Historically Significant: Yes No

Institutionally Managed: Yes No

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: August 2006

Total Project Cost:	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Revenue Financing System Bond Proceeds	\$12,000,000	\$1,900,000
	Gifts	\$ 3,000,000	
	Unexpended Plant Funds	\$ 1,500,000	
	Grants	<u>\$ 1,500,000</u>	
		\$18,000,000	

- a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to decrease the total project cost;
- b. authorize U. T. San Antonio to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts;
- c. appropriate and authorize expenditure of funds; and
- d. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
 - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;
 - sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System; and
 - U. T. San Antonio, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt parity debt in the aggregate amount of \$1,900,000.

BACKGROUND INFORMATION

Debt Service

The \$1,900,000 debt service in Revenue Financing System debt will be repaid from net operating revenues of recreation sports. Total annual debt service on the project is estimated at \$158,991. Overall debt service coverage for recreation sports is expected to average 1.59 times from FY 2005 through 2010.

Previous Board Actions

On May 13, 2004, the project was included in the Capital Improvement Program (CIP) with a preliminary project cost of \$18,000,000 with funding of \$12,000,000 from Revenue Financing System Bond Proceeds, \$3,000,000 from Gifts, \$1,500,000 from Unexpended Plant Funds, and \$1,500,000 from Grants.

Project Description

U. T. San Antonio is requesting institutional management of a reduced project scope to construct three additional intramural fields and support facilities to include utilities, lighting, accessible pedestrian walkways, and landscaping. The balance of the project will be added as a new project in the future.

U. T. San Antonio Facilities Management personnel have the experience and capability to manage all aspects of the work.

Discussion at meeting:

Mr. Sanders said the dramatically reduced scope of this project is for minimal recreational infrastructure. He said the main project would be put on hold because of other financial stresses.

8. U. T. Austin: Honorific naming of the field laboratory building at the Stengl "Lost Pines" Biological Station in Bastrop, Texas, as the Lorraine F. Wyer Residential Laboratory

Committee Meeting Information

Presenter(s): *Mr. Sidney J. Sanders, Associate Vice Chancellor, Facilities Planning and Construction*

Status: *Approved*

Motion: *Made by Regent Estrada, seconded by Vice-Chairman Clements, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Vice Chancellor for External Relations, the Executive Vice Chancellor for Business Affairs, and President Faulkner that the U. T. Board of Regents approve the naming of the field laboratory building at the Stengl "Lost Pines" Biological Station in Bastrop, Texas, as the Lorraine F. Wyer Residential Laboratory.

BACKGROUND INFORMATION

The U. T. Austin College of Natural Sciences operates a biological field station in Bastrop, Texas. In 1992, Dr. Lorraine I. "Casey" Stengl, a physician and U. T. Austin graduate, donated the land for the 208-acre Stengl "Lost Pines" Biological Station. Dr. Stengl more recently donated \$300,000 for the construction of new facilities at the biological station. The funds were used to build a 1,300 square foot greenhouse and an approximately 1,500 square foot custom field laboratory building that provides teaching and research space, as well as overnight accommodations for biological sciences students and researchers. Dr. Stengl also contributed \$100,000 to an endowment, named the Stengl-Wyer Endowment, to support the field station. Dr. Stengl is committed to the success of the field station and would like the new field laboratory building to be dedicated in honor of her longtime friend, Ms. Lorraine F. Wyer.

The field laboratory building includes a multipurpose room that is large enough to accommodate a classroom setting or generic research space and is connected via a breezeway to bedrooms, a bath, and laundry facilities. The field laboratory building opened on October 1, 2004.

Dr. Stengl has a long-standing history of friendship, involvement, and philanthropy with U. T. Austin. She earned a Bachelor of Science (Secondary School Education) and a Bachelor of Arts (Chemistry) from U. T. Austin in 1939. She has created three endowments that benefit the College of Natural Sciences. In addition to the Stengl-Wyer Endowment, she established the Lorraine I. Stengl Endowment Fund and the Zoology Scholarship Endowment for Excellence. She has also contributed to other endowments at U. T. Austin. Dr. Stengl is a member of the Chancellor's Council, the Littlefield Society, and the Texas Leadership Society. She was inducted into the College of Natural Sciences Hall of Honor in 1996. Her gifts to U. T. Austin total more than \$1.8 million.

Ms. Wyer has a deep interest in the biological field station and has worked with Dr. Stengl over the last 10 years to ensure that the Bastrop property would become the functional laboratory area that it is today. Her broad occupational history includes work as an accountant, emergency medical technician, home builder, and family farmer. She also is cofounder of the Senior Ladies Golf Association of Texas.

The proposed naming of the field laboratory building at the Stengl "Lost Pines" Biological Station in Bastrop, Texas, to recognize the distinguished service of Dr. Lorraine F. Wyer is consistent with the Regents' *Rules and Regulations*, Section 80307, relating to honorific namings of facilities.

9. U. T. Permian Basin: Honorific Naming of the Falcon's Nest housing as The A. C. and Melba Bassett Falcon's Nest

Committee Meeting Information

Presenter(s): Dr. Watts, President of The University of Texas of the Permian Basin

Status: Approved

Motion: Made by Regent Estrada, seconded by Vice-Chairman Clements, and carried unanimously

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Vice Chancellor for External Relations, and President Watts that the U. T. Board of Regents approve the naming of the Falcon's Nest at U. T. Permian Basin as The A. C. and Melba Bassett Falcon's Nest.

BACKGROUND INFORMATION

The Falcon's Nest was the first apartment-style student housing complex constructed on the U. T. Permian Basin campus. The three-section complex was built in 1996 by The Bassett Construction Company. U. T. Permian Basin would like to recognize the contributions of Mr. A. C. "Johnny" and Melba Bassett by naming the complex as The A. C. and Melba Bassett Falcon's Nest.

Mr. Johnny Bassett was responsible for spearheading an affordable housing project in Odessa after World War II. He made it possible for hundreds of families to realize the dream of owning their own homes. He and his partners built seven houses a week to meet the demand and helped to spur the growth of Odessa in the late 1940s. He built and operated four Best Western motels in Texas and was organizing director of over 20 corporations in Odessa including the American Bank of Commerce and Home Savings & Loan Association. He supported and helped establish The College Fund of Ector County Scholarship Foundation. Mr. Bassett's family is in the process of establishing a \$220,000 endowed scholarship in the names of A. C. "Johnny" and Melba Bassett at U. T. Permian Basin with proceeds from The College Fund of Ector County Scholarship Foundation.

The proposed naming of the Falcon's Nest housing at U. T. Permian Basin to recognize the distinguished service of Mr. A. C. "Johnny" and Melba Bassett is consistent with the Regents' *Rules and Regulations*, Section 80307, relating to honorific namings of facilities.

10. **U. T. M. D. Anderson Cancer Center: Authorization to rename pediatric services at the institution as The Children's Cancer Hospital at The University of Texas M. D. Anderson Cancer Center**

Committee Meeting Information

Presenter(s): Mr. Leon J. Leach, Executive Vice President at The University of Texas M. D. Anderson Cancer Center

Status: Approved

Motion: Made by Regent Estrada, seconded by Vice-Chairman Clements, and carried unanimously

REVISED AGENDA ITEM:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and President Mendelsohn that the Board authorize U. T. M. D. Anderson Cancer Center to rename pediatric services at the institution as The Children's Cancer Hospital at The University of Texas M. D. Anderson Cancer Center.

BACKGROUND INFORMATION

U. T. M. D. Anderson Cancer Center has long been recognized for its superior cancer treatment and research. However, market research conducted by outside experts identifies a perception among consumers that U. T. M. D. Anderson Cancer Center is designed primarily for adult cancer treatment.

No other pediatric oncology inpatient care facility in Texas offers children access to the quality and depth of pediatric oncological expertise as does U. T. M. D. Anderson Cancer Center. To meet its mission to provide the best cancer care possible to patients of all ages, U. T. M. D. Anderson Cancer Center has determined it should designate its pediatric services as The Children's Cancer Hospital at The University of Texas M. D. Anderson Cancer Center, a designation that communicates to the world that U. T. M. D. Anderson Cancer Center has a specific pediatric inpatient facility and serves to better inform families of their choices in pediatric cancer care and of the specific resources focused on caring for children with cancer.

At U. T. M. D. Anderson Cancer Center, children are hospitalized in the 26-bed George E. Foreman Child and Adolescent inpatient unit located on the 9th floor of the Albert B. and Margaret M. Alkek Hospital. The unit is self-contained and includes two nurse stations; a pharmacy; nutrition support; educational, vocational, and therapeutic counseling rooms; a large indoor playground; a library; and a facility for parents/families that includes a kitchen and laundry room. It is staffed continuously by pediatric oncologists, nurses, fellows, residents, interns, and child life staff. Children requiring intensive care are treated in the Level II Pediatric Intensive

Care Unit (ICU) located on the 7th floor of the Alkek Hospital. Three pediatric intensivists manage a four-bed pediatric ICU. Pediatric specialists from U. T. Health Science Center - Houston consult for and treat children whose conditions also include cardiac, pulmonary, kidney, and infectious disease problems.

All ambulatory care is provided in the Robin Bush Child and Adolescent Clinic located on the 7th floor of the R. Lee Clark Clinic Building. The new clinic is composed of 10 exam rooms, a treatment room, a 10-bed Pediatric Ambulatory Treatment Center for chemotherapies and other infusions, and a 50-seat waiting room.

The naming of pediatric services in this way will not require a separate billing number, a separate license or a separate administrative structure. The Children's Cancer Hospital at The University of Texas M. D. Anderson Cancer Center will use the same pathology/laboratory, diagnostic, nutrition and pharmacy services at U. T. M. D. Anderson Cancer Center as well as the same patient business services, informatics and facilities support. However, such a designation will convey to the public that a complete pediatric cancer center exists within the institution.

Discussion at meeting:

Committee Chairman Barnhill referred members of the Board to the revised Agenda Item before them on yellow paper. He said Dr. Shine had advised him that the intention was to rename all pediatric services at U. T. M. D. Anderson Cancer Center as The Children's Cancer Hospital at The University of Texas M. D. Anderson Cancer Center and that clarification was included in the revised Agenda Item.

Regent Barnhill said Dr. Shine was present at the meeting and he also called on Mr. Leon J. Leach, Executive Vice President at The University of Texas M. D. Anderson Cancer Center, who said the naming was primarily a marketing strategy since people did not realize that M. D. Anderson is for children too. This is not renaming of the inpatient George Foreman unit nor a renaming of the outpatient Robin/Bush clinic. Naming the global services as The Children's Cancer Hospital will get that name out to the public and get more recognition for what the institution does for children.

11. U. T. Health Science Center - Houston: Honorific Naming of the Building to House the Brown Foundation Institute of Molecular Medicine for the Prevention of Human Diseases as the Fayez S. Sarofim Research Building

Committee Meeting Information

Presenter(s): Dr. Willerson, President of The University of Texas Health Science Center at Houston

Status: Approved

Motion: Made by Regent Estrada, seconded by Vice-Chairman Clements, and carried unanimously

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Vice Chancellor for External Relations, and President Willerson that the U. T. Board of Regents approve the naming of the building to house the Brown Foundation Institute of Molecular Medicine for the Prevention of Human Diseases as the Fayez S. Sarofim Research Building.

BACKGROUND INFORMATION

Mr. Fayez S. Sarofim has been a longtime supporter of U. T. Health Science Center - Houston. He recently pledged \$25 million over 10 years to the institution for the New Frontiers Campaign. The first payment of \$2.5 million was accepted by the U. T. Board of Regents at the May 2004 meeting. The gift was made anonymously but the donor has agreed to the request that his name be disclosed for this recommendation.

Mr. Sarofim is Chairman and President of Fayez Sarofim & Company, an investment firm he founded. After completing a B.A. in food technology at the University of California at Berkeley in 1948 and an M.B.A. at Harvard in 1951, he worked as a pension fund advisor at Anderson Clayton before launching his company in 1958. He now manages \$37 billion in investments for clients such as Ford Motor Co., Rice University, University of Houston, and the Museum of Fine Arts. He also manages five Dreyfus Mutual Funds.

Mr. Sarofim serves on the boards of Kinder Morgan, Unitrin Inc., and Argonaut Group, Inc., and is a limited partner in the Houston Texans pro football team and Brera Capital Partners. In 1997, he was inducted into the Texas Business Hall of Fame.

Mr. Sarofim's community involvement is extensive. He serves as a trustee of the Sarofim Foundation, The Greentree Fund, the Edward P. and Raye G. White Charitable Trust, the Texas Heart Institute, and Memorial Sloan-Kettering Cancer Center. He is also involved with the Houston Ballet Foundation, The Rockefeller University Council, the Houston Symphony Society, and the Artisan Network.

Mr. Sarofim's previous gifts to U. T. Health Science Center - Houston total \$13,200, including \$10,000 for internal medicine. He has also given \$190,000 to the Hermann Eye Fund to endow the Fayez Sarofim Distinguished Professorship in Ophthalmology.

The terms of the gift state that the funds shall be used to help develop a stem cell research center in the Institute of Molecular Medicine, including the recruitment and retention of a scientific leader for the center and their research operations. All stem cell research will be in accordance with applicable federal guidelines.

The proposed naming of the building that will house the Brown Foundation Institute of Molecular Medicine for the Prevention of Human Diseases to recognize the generous gift from Mr. Sarofim is consistent with the Regents' *Rules and Regulations*, Series 80307, relating to honorific namings of facilities and institutional guidelines.

Discussion at meeting:

Dr. Willerson said he is grateful to Mr. Sarofim for the \$25 million gift to support the stem cell work and to support the Institute of Molecular Medicine building that will be about 240,000 square feet, and should be completed later this year. He said Mr. Sarofim's gift was critical and generous. Dr. Willerson mentioned Mr. Sarofim being a great friend of the university and that Mr. Sarofim is agreeable with this naming.

ADJOURNMENT

Committee Chairman Barnhill announced that the purpose for which this meeting was called had been completed, and the meeting was duly adjourned at 3:30 p.m.

MINUTES
U. T. Board of Regents
Student, Faculty, and Staff Campus Life Committee
February 10, 2005

The members of the Student, Faculty, and Staff Campus Life Committee of the Board of Regents of The University of Texas System convened at 9:05 a.m. on Thursday, February 10, 2005, on the 9th Floor of Ashbel Smith Hall, The University of Texas at System, 201 West Seventh Street, Austin, Texas, with the following members of the committee in attendance:

Attendance

Committee Chairman Craven
Vice-Chairman Clements
Vice-Chairman Hunt
Regent Barnhill
Regent Estrada

Also present were Chairman Huffines; Vice-Chairman Krier; Regent Caven; Ms. Sandee Goertzen, Chair, Employee Advisory Council; Dr. James Bartlett, Chair, Faculty Advisory Council; Mr. Josh Warren, Chair, Student Advisory Council; and Counsel and Secretary Frederick.

In accordance with a notice being duly posted with the Secretary of State and there being a quorum present, Committee Chairman Craven called the meeting to order.

**U. T. System: Discussion and review regarding tuition and fees
consultation processes**

Committee Meeting Information

Presenter(s): Dr. Ambrosino, Dr. Bartlett, and Mr. Warren
Status: Discussed

Agenda Item:

PURPOSE

Executive Vice Chancellor Sullivan will lead a discussion on the consultation processes used to develop proposed tuition and fee plans. Dr. Sullivan will be joined by Dr. Rosalie Ambrosino, Vice President for Student Affairs, U. T. San Antonio; Dr. James Bartlett, Chair of the Faculty Advisory Council; and Mr. Josh Warren, Chair of the Student Advisory Council. Proposed tuition and fee plans will be submitted to the Board of Regents for review and approval on March 10, 2005.

BACKGROUND INFORMATION

Chancellor Yudof requires each U. T. institution to engage in a consultation process with students, faculty, and administrative staff in the development and formulation of tuition and fee proposals and recommendations. On November 18, 2003, the Board reviewed and approved proposed tuition and fee plans from the institutions effective January 23, 2004.

Discussion at meeting:

Committee Chairman Craven called the meeting of the Student, Faculty, and Staff Campus Life Committee to order and welcomed Mrs. Sandee Goertzen, Dr. James Bartlett, and Mr. Josh Warren. She said the Committee would discuss the consultation process used to develop proposed tuition and fee plans that will be submitted to the Board for review and approval at the Special Called Meeting on March 10. Regent Craven mentioned she would like the meeting to be informal and interactive and she asked Executive Vice Chancellor Sullivan to outline the consultation process and welcomed comments throughout the discussion.

Dr. Sullivan said the panel discussion is intended to provide members of the Board background about how the consultation process on the tuition and fees proceeded this year. Chancellor Yudof had asked each president to consult widely on campus before proposing changes to tuition and fees and Dr. Sullivan remarked that the way that happens on different campuses obviously differs.

Dr. Sullivan said there is an opportunity to hear from people who participated in the process and she asked Mr. Warren to talk from a student's perspective. She said that last year, Mr. Warren was the President of the Student Body at U. T. Arlington, and this year he is Chair of the U. T. System Student Advisory Council. She said he has had broad exposure to how students get involved in the tuition process. Dr. Sullivan then introduced Dr. Bartlett, a faculty member at U. T. Dallas, and also Chair of the U. T. System Faculty Advisory Council, who would talk about the interest of faculty in this process. Dr. Sullivan said Dr. Ambrosino, who is chair of the process at U. T. San Antonio, would talk from an administrator's perspective including how the process is organized to have the widest possible input.

Mr. Warren stated he was thankful for the opportunity to discuss the process with the Regents. He said he thought all students of the U. T. System institutions had been watching the process closely. Mr. Warren said student involvement has varied from campus to campus as each institution is different and that, in fact, was one of the strengths of the process. At U. T. Arlington, he said he was surprised last year when Vice President of Student Affairs, Dr. Kent Gardner, and Interim President Sorber announced there would be a tuition increase at U. T. Arlington and they asked him for ideas on the structure of a committee to study the increase. Mr. Warren said they were able to design a committee that was composed of a majority of students, was chaired by himself and this year, is chaired by the current student body president. He said students had the opportunity to have a voice in the consultation

process and their involvement was important, especially in terms of realizing that if they had to take out a student loan, education is a solid investment. Mr. Warren said the process helped students understand the needs of the university including providing raises to faculty and staff.

Dr. Sullivan thanked Mr. Warren for sharing his views and she asked Dr. Bartlett to talk about the process from a faculty perspective particularly since a lot of people do not understand why faculty would have an interest in this since they do not actually pay the tuition, but they do see the results of the tuition.

Dr. Bartlett said he thought there are two reasons. One is basically knowledge or expertise and the other is that faculty members are shareholders. With respect to knowledge, faculty members are familiar with the courses and the person hours involved. They also know which courses can be taught the same way semester after semester, and which courses need new preparations. Faculty members are also aware if there have not been salary increases in a long time. On the stakeholders' side, he said many faculty members spend a major part of their lives at a single university, teaching, conducting research, and administering. Everything that is affected by tuition affects their lives as faculty members, such as their ability to hire new faculty, the level of administrative and research support, and teaching modes. He said faculty members need to feel like they deliver a great product at a reasonable, fair price. And if faculty members do not know how the price is determined or what goes into the price, they cannot develop a feeling for that. So he thinks it is important for that reason as well that faculty members be involved in the process.

Tuition can also affect student progress if tuition is too high. For example, students might be working more and cutting back on their course load and not completing their degrees on time. Furthermore, Dr. Bartlett said tuition can affect the morale and attitude of the students particularly in the way tuition rates are established.

Dr. Bartlett mentioned there was involvement and interaction in the tuition consultative process at U. T. Dallas from various faculty groups and student groups. He said the faculty and the student groups worked out a system that was agreed on that he thought was productive.

Dr. Sullivan called on Dr. Ambrosino who said she co-chaired the committee at U. T. San Antonio with assistance from the President's Office. They decided the process needed to be inclusive but since tuition and fees impact U. T. San Antonio's students more than anyone else, the committee needed to be student-driven. She said there were 22 committee members, including 13 students who represented a broad group from student government and members of the Progressive Student Organization who started out opposed to any kind of tuition or fee increase, but U. T. San Antonio thought it was important that their voice be at the table. She thought the balance between non-traditional students and traditional students was important and the role of the administrators was to focus on the developmental issues of the students. In the end, Dr. Ambrosino said the U. T. San Antonio Provost told the students at their

last meeting that they know more about tuition, the tuition process, and formula funding than most of the people in the State of Texas including many of the legislators. She thought that was important because the students understand a lot about the institution's needs and also about the tuition-setting process. The students are very poised right now, she said, to look at issues not just about tuition, flexibility, and fees but also about state funding. U. T. San Antonio has a group that is organizing to go to the legislature and talk about the needs of higher education from their perspective.

Dr. Ambrosino said she thought this was important because administrators see their role as being critical not just in terms of tuition and fees at U. T. San Antonio but the broader issues about the importance of higher education in the state. In addition, as an administrator, she thought it important to involve other administrators. She said U. T. San Antonio's Vice President for Business Affairs and the Provost had been instrumental parts of this process and the students have commented about the opportunity to have the informal dialogue. She said it was not so much administrators, faculty, students, the president of the alumni association, and other constituency groups sitting around the table, but a team of people looking at what U. T. San Antonio needed for their university. She commented that discussion of the educational process is not setting something in concrete and then getting the students to rubber stamp it. It is really a process.

Regent Barnhill asked if the legislature came out short on funds, would the students and the members of the various committees be receptive again to a possible increase in tuition? Mr. Warren responded he thought initially the reaction will vary from institution to institution but he would encourage students to talk to the legislature. He said he refers students to a website to find out when the next elections would be held, who voted for and against, etc. He thought this was the sort of education that is also important in this process.

Dr. Ambrosino responded by saying that she thinks Mr. Warren's point is important because she thinks students are starting to push back and see there needs to be more emphasis placed on higher education in this state.

Chancellor Yudof thanked the panel for their participation and said he was impressed that on a number of campuses the students were in the majority in these committees. He commended the students for their careful review and agreed with Mr. Warren that there are different solutions on different campuses. The Chancellor said he did want to say that U. T. System is hopeful about the legislative session and that a major part of U. T. System's problem is that in the last four years the System has 14% more students on a full-time equivalent basis with projections for 20% more students in the next biennium. He factored in enrollment growth and tuition increases across the nine academic campuses and U. T. System is up about 1% in instructional revenues to spend per student. He said the problem surfaces when the institutions need to add more faculty members, or the institutions need more advisors, or more people to package financial aid. When the institution needs, in the

case of U. T. San Antonio, more classroom space and more laboratory space, it takes more people to take care of it. U. T. System is optimistic the legislature will recognize that, but the biggest driver for U. T. System is simply enrollment growth.

Chairman Huffines asked how students have responded to some of the incentives from the institutions to try to help them graduate earlier and on time and Mr. Warren said at U. T. Arlington, the current incentive is basically a rebate program. At first there was confusion about how it worked and there were technical glitches but he knew many students had taken advantage of the rebate.

Dr. Sullivan elaborated that U. T. Arlington offered a discount for students who paid on time. The number of "late pays" was cut in half, resulting in a cost savings because not as much time was spent in collections. She thought students are sensitive to even fairly small price changes. She said the number of semester credit hours are going up which suggests the incentive to take more credit hours is working.

Chairman Huffines said he agrees the U. T. System is one of the leaders in the nation in the tuition consultative process and he emphasized Chancellor Yudof set up this structure to be effective. Vice-Chairman Krier said even as leaders, the Board of Regents can learn from others and she said the most consistent feedback she has received from students on all campuses has been the concern about budgeting and planning ahead. She said she talked with Executive Vice Chancellor Sullivan about the approach used at Texas A&M University where tuition would be raised only for new students and limiting the increase for those who were already there. She thought that was something the Board of Regents and U. T. System should at least continue to explore.

Committee Chairman Craven thanked the panel for their presentations and said this discussion sets the tone for the March Board meeting on tuition and fees. She complimented Chancellor Yudof for recognizing that the campuses are different, that the process needs to be totally inclusive, and that everyone on each campus is important. She thanked the Chancellor for his leadership and thanked people on the campuses for participating in the discussions. Dr. Craven also thanked presidents for their support. She said she thought as long as U. T. System moves along whether it is talking about tuition today or another problem tomorrow, U. T. System knows they have covered the whole campus quality of life and that the more this dialogue continues to be a positive one towards critical thinking and problem solving, involving all who are impacted, the U. T. System will continue to be a leader in many ways.

ADJOURNMENT

Chairman Craven announced that the purpose for which this meeting was called had been completed, and the meeting was duly adjourned at 9:30 a.m.