COMMITTEE MEETING MINUTES

OF THE BOARD OF REGENTS

OF

THE UNIVERSITY OF TEXAS SYSTEM

May 12, 2004

Austin, Texas

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Francie A. Frederick
Counsel and Secretary to the Board
August 23, 2004

SCHEDULE OF EVENTS
Board of Regents' Meeting
May 12-13, 2004
Austin, Texas

U. T. System Administration, 201 West Seventh Street, Ashbel Smith Hall, 9th Floor, Austin, 512/499-4402

Wednesday, May 12, 2004

9:00 a.m.	Academic Affairs Committee
10:00 a.m.	Health Affairs Committee
11:30 a.m.	Finance and Planning Committee
12:30 p.m.	Lunch
1:00 p.m.	Audit, Compliance, and Management Review Committee
2:00 p.m.	Facilities Planning and Construction Committee
3:00 p.m.	Student, Faculty, and Staff Campus Life Committee
3:45 p.m.	Board Open Session/Annual Meeting with Officers of the Student Advisory Council
4:45 p.m. approximately	Adjourn
4:45 p.m. approximately	Transportation for Members of the Board to Four Seasons Hotel
6:00 p.m.	Transportation for Members of the Board to Bauer House
6:30 p.m.	Reception and dinner (Casual)* *Bauer House*
8:30 p.m. approximately	Transportation for Members of the Board to Four Seasons Hotel

Thursday, May 13, 2004

8:00 a.m.	Transportation for Members of the Board to U. T. System Administration, *Ashbel Smith Hall, 9th Floor*
8:30 a.m.	Continue Quarterly Board Meeting
11:30 a.m.	Board Executive Session (working lunch)
1:00 p.m. approximately	Reconvene in Open Session for action, if needed and Adjourn

*A small social event is planned for Wednesday, May 12, at Bauer House. Individual invitations will be sent.

MINUTES
U. T. Board of Regents
Audit, Compliance, and Management Review Committee
May 12, 2004

The members of the Audit, Compliance, and Management Review Committee of the Board of Regents of The University of Texas System convened at 1:40 p.m. on Wednesday, May 12, 2004, 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	Absent
Regent Estrada, presiding	Regent Craven
Vice-Chairman Clements	
Vice-Chairman Hunt	
Vice-Chairman Krier	
Regent Barnhill	

Also present was Counsel and Secretary Frederick.

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

The Committee recessed to Executive Session at 1:42 p.m. to the Conference Room on the 9th Floor of Ashbel Smith Hall at U. T. System pursuant to Texas Government Code Sections 551.071 and 551.074 to consider those matters listed on the Executive Session agenda as follows:

1. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers

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

   a. U. T. System: Evaluation and duties of System and component employees involved in audit and compliance functions

   b. U. T. M. D. Anderson Cancer Center: Discussion of individual personnel issues

The Executive Session ended at 2:30 p.m., and the Committee reconvened in Open Session.

1. **U. T. System: Report on Status of Sarbanes-Oxley initiative and revised Sarbanes-Oxley Action Plan**

Committee Meeting Information
Presenter(s): *Mr. Wallace and Mr. Chaffin*
Status: *Reported*

Agenda Item:

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, and Mr. Randy Wallace, Assistant Vice Chancellor - Controller and Chief Budget Officer, will update the Audit, Compliance, and Management Review Committee on the status of the initiative and the Action Plan to Implement the "Spirit" of the Sarbanes-Oxley Act of 2002, including the hiring of an independent audit firm to perform a financial statement audit of the U. T. System. The Action Plan was approved by the Audit, Compliance, and Management Review Committee on November 12, 2003.

Discussion at Meeting:

Mr. Wallace said the Chancellor requested the Action Plan adopted by the Board in November 2003 to be updated to reflect items that have been implemented and to more accurately describe other items, which have been given new and stronger direction. He said additions or corrections were sent to the Sarbanes-Oxley Ad Hoc Committee, appointed in October 2003, for review of the recommended changes.

He said a status report was provided to the Board in a separate mailing that indicated five items have been fully implemented; seven items are in process; and one item was marked red for no action taken pending an exposure draft to be received from the Governmental Accounting Standards Board (GASB) so a policy can be written for that particular item.

Mr. Wallace discussed two of the items that are in process. The first item was the independent audit for which permission is being sought from the State Auditor to issue a Request for Qualifications (RFQ) that should be received the week of May 24. The second item is the drafting of a model for component internal audit committee charters about the requirement for independent audit committee members at the component level to participate in the audits. The proposed updated action plan will be provided to the Chancellor and the Audit, Compliance, and Management Review Committee upon approval by the Sarbanes-Oxley Ad Hoc Committee.

Chancellor Yudof expressed appreciation to Mr. Chaffin, Mr. Wallace and their staff for the good job done on the Sarbanes-Oxley Action Plan. He said there is legislation pending in Congress, which extends Sarbanes-Oxley to the nonprofit sector including educational institutions, and he praised the actions of the Board.

Chairman Estrada said he is delighted the State Auditor's Office is on board with the recommendation of an independent audit and the audit is moving forward. He said an update will be provided at the next Board meeting and that the U. T. System is becoming the standard in higher education and needs to continue to lead by example.

Mr. Estrada stated component institutions have been asked to consider having an outside person not connected to the component sit on the audit committee at each institution, which some components already do. He said this is a good "best practice" for others to adopt, but there are different views so the issue will continue to be reviewed but strongly encouraged.

2. **U. T. System: Report on Management Audit of University Lands - West Texas Operations**

Committee Meeting Information
Presenter(s): *Ms. Hagara and Mr. Hartmann*
Status: *Reported*

Agenda Item:

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer; Ms. Kimberly Hagara, Assistant Director of System-wide Compliance; and Mr. Steve Hartmann, Executive Director of West Texas Operations, will report on the results of the Management Audit of University Lands - West Texas Operations.

University Lands - West Texas Operations (ULWTO), a division of the Office of Business Affairs of The University of Texas System, is responsible for managing the University Lands. This includes management in the areas of the Oil, Gas, and Mineral Interests, Surface Interests, and Accounting for University Lands revenue. Additionally, ULWTO manages the Trust Mineral interests for endowments benefiting U. T. System institutions. ULWTO has 44 budgeted employees located in Midland and Austin with an operating budget of $3.2 million for Fiscal Year 2004.

The objectives of the management review were to

- determine whether ULWTO is actively maximizing income from both the surface and minerals;

- determine whether the staffing level is appropriate;

- determine whether best practices have been applied; and

- determine whether the $4.7 million investment with the Bureau of Economic Geology (BEG) for Reservoir Characterization Studies has yielded an acceptable return on investment.

The management audit report was issued on March 29, 2004, and was sent to members of the Board on April 2.

Discussion at Meeting:

Ms. Hagara said the review was done at the request of the Chancellor and the Special Advisor to the Chancellor, and the last full management review of the West Texas Operations was approximately 10 years ago. She reported the overall finding is the organization is customer service oriented with strong people in place. Many best practices have been developed, both in processes and controls, which appear to be actively maximizing the income on the mineral interests. Staffing levels have been reduced over the last 10 years without reduction in service and/or business approach. She said best practices include sealed bids; standardized contracts; active monitoring of all leases; inspection programs; electronic reporting and electronic remittance processes; reconciliations; internal and external audits; and a periodic study of more select, unique activities.

She said the work of the reservoir characterization studies provides a possible value but is difficult to quantify due to the incremental increase in production that can be attributed to the project. She stated that West Texas Operations is doing an outstanding job.

Interim Vice Chancellor Aldridge concurred with Ms. Hagara's comments and said he looked at best practices and lease rates in particular, which compare favorably with government peers as well as private industry peers. He expressed confidence in the operation based on the report. Regent Estrada said the report is a credit to Mr. Hartmann's leadership and management. Mr. Hartmann credited his loyal and strong staff for their abilities and efforts over the years.

Regent Estrada asked about the status of communications and relations with the General Land Office (GLO), and Mr. Hartmann said his office has a good relationship with the GLO.

Chancellor Yudof said Mr. Hartmann and his staff perform a great job, and he was pleased with the audit and pleased that income is being maximized. The efficiencies within the office are obvious as reliance on computers and computer records has increased as well as reductions in personnel. He said there are developments that Mr. Aldridge is working on with regard to water resources and wind power that are not management issues but a question of public policy. The Legislature is looking at these issues and will decide, but when there are holdings of this magnitude, the issue as to what type of opportunities U. T. System pursues, and how actively, should be on the table. He asked Mr. Aldridge if there will be a report this summer outlining options for the Board, and Mr. Aldridge responded affirmatively.

Regent Estrada asked if oil stays at $40.00 per barrel, how will that affect the next lease auction? Mr. Hartmann says he hopes the auction is as successful as the last one, and there have been several good sales recently. In fact, a significantly greater amount of acreage is nominated than has been historically, and he is optimistic there will be good activity in leasing that acreage.

3. **U. T. System: Report on status of segregation of duties and Account Reconciliation Compliance**

Committee Meeting Information
Presenter(s): *Ms. Neidhart* ***Status:*** *Reported*

Agenda Item:

REPORT

Ms. Sandra Neidhart, Assistant Director of Audits, U. T. System Audit Office, will report on the results of inspections of segregation of duties and account reconciliation compliance activities at each institution. A summary of the inspections is located on Page 19 of the Agenda Book.

Discussion at Meeting:

Ms. Neidhart reported that component audit departments performed these inspections based on basic compliance elements, and the evaluation in the February report was based on those initial inspections. She said the plan is for a follow-up inspection to be performed in August to check where the components are in the process.

She said some of the responsible parties and the audit directors have been contacted for information and they are all taking this seriously, and the "red" evaluations are "yellow" at this point.

4. **<u>U. T. System: Report on System-wide Audit Activity (Red, Yellow, Green Report)</u>**

Committee Meeting Information
Presenter(s): *Mr. Chaffin* ***Status:*** *Reported*

Agenda Item:

<u>REPORT</u>

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

The second quarter activity report on the Status of Outstanding Significant Recommendations is located on Pages 20.1 - 20.4 of the Agenda Book. Additionally, a list of other audit reports that have been issued by the System-wide audit program, the State Auditor's Office, and the Comptroller of Public Accounts follows on Pages 20.5 - 20.6 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. component 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 a detailed summary of "new" significant recommendations quarterly.

Discussion at Meeting:

Mr. Chaffin said at the end of the first quarter, 86 items were open compared to 89 reported at the end of the second quarter. He said the "reds" indicate that items were added and since the numbers are basically the same, items have been implemented and taken off. He mentioned there are a couple of items awaiting funding decisions that will be implemented in Fiscal Year 2005. He said audit departments are doing an outstanding job, and management groups are taking audit recommendations seriously and implementing them in a timely manner. He said he had no concerns to report to the Board.

5. **U. T. System: Report on Audit Peer Reviews**

Committee Meeting Information
Presenter(s): *Mr. Chaffin, Mr. Peppers, and Mr. Chrissinger*
Status: *Reported*

Agenda Item:

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, will update the Audit, Compliance, and Management Review Committee on Audit Peer Review activities at U. T. System Administration and at each component.

Audit Peer Review reports will be presented by Mr. Mike Peppers, Director of Audit Services at U. T. Medical Branch - Galveston, and Mr. Mike Chrissinger, Director of Internal Audits at U. T. Pan American.

Discussion at Meeting:

Mr. Chaffin said there is a State requirement that all internal audit departments must be audited (peer review) once every three years. He said Mr. Peppers and Mr. Chrissinger have recently completed peer reviews at their respective campuses, and there has also been a follow-up peer review at U. T. System.

Mr. Peppers said the goal at U. T. Medical Branch - Galveston was to ensure the review was thorough and comprehensive and performed by a team of people from across the country that were independent and external. He said a strong endorsement and a report of full compliance with internal auditing standards was received. He noted the peer review team also made excellent recommendations for improvements to enhance the role of the audit department and the audit function and therefore enhance the department's service to component management, the Board, and the Audit, Compliance, and Management Review Committee. These recommendations are being taken seriously and action plans have been developed. Overall, the U. T. Medical Branch - Galveston audit department found the peer review to be a helpful process.

Mr. Chrissinger said the quality assurance review was led by Mr. Dexter Berger, Director of Internal Audit, Southern Methodist University; Mr. Dick Dawson, Director of Audit and Consulting Services, U. T. San Antonio; and Ms. Robin Timmins, Audit Supervisor, U. T. System. Good input was received for improvements, and they are in agreement with the management recommendations, which will be implemented.

Mr. Chaffin said implementation of a follow-up peer review has begun. He said the review was conducted by the original team, which included audit directors from the University of California System, Johns Hopkins University, and U. T. Health

Science Center - San Antonio. He noted the System Audit Office received a report of full compliance with all standards, and the team followed up on several recommendations dealing with the oversight of the internal audit function within the U. T. System.

He said the team had recommendations related to the reporting relationship between the component audit departments, the System Audit Office, and the Board of Regents. One recommendation was to ensure audit directors had the opportunity to meet with the Board, and audit directors met directly with the Board at the February 2004 Board meeting and now at this meeting. Mr. Chaffin said the team also had recommendations related to collaboration, and the System Audit Office will continue to work with component audit departments on those issues. There will be a complete, fresh peer review next year, which he will bring to the committee for selection of the peer review team members.

6. **U. T. System: Report on status of policies and procedures for the receipt, retention, and treatment of complaints received regarding internal controls or auditing matters**

Committee Meeting Information
Presenter(s): *Ms. Fisher* ***Status:*** *Reported*

Agenda Item:

REPORT

Ms. Kristi Fisher, System-wide Compliance Supervisor, will report on U. T. System policies and procedures for handling "hotline" reports of suspected non-compliance or wrongdoing. The procedures are described on Pages 22 - 24 of the Agenda Book.

Discussion at Meeting:

Ms. Fisher said one of the action steps in the Action Plan to Implement the "Spirit" of the Sarbanes-Oxley Act was to establish a confidential reporting mechanism at all components. She said all components have a hotline in place as part of their institutional compliance programs.

She said in response to the Action Plan, additional verbiage has been added to posters, Web pages, and other forms of communications to specifically direct concerns or issues involving financial reporting and auditing matters to the hotlines. She said institutionally significant hotline calls are reported to the System-wide Compliance Officer in the monthly component liaison reports.

Ms. Fisher stated that in January of this year, a compliance hotline at the System-wide compliance level was also implemented. Internal procedures for administering that hotline were included in the Agenda Book. An additional action step was to develop a Whistleblower policy with specific language on nonretaliation for reporting wrongdoing. She said the System Audit Office has worked with the Office of General Counsel and Assistant Vice Chancellor for Administration, Ms. Florence Mayne, to develop and vet a Business Procedures Memorandum (BPM) on nonretaliation, with a target implementation date of May 31, 2004.

Ms. Fisher said the overall purpose of the proposed BPM was to encourage individuals to come forward with reports of suspected wrongdoing so that institutional officials can take appropriate and early action to investigate and resolve the situation; offer protection from retaliation to individuals who, in good faith, make such reports; and ensure that individuals filing such reports are kept informed of administrative activity.

She said U. T. System's intent is to direct the institutions so that certain consistent elements will be included in policies and procedures already in place without necessarily imposing new or additional procedures. To the extent possible, elements of this policy should be integrated with existing component institution procedures and functions, and existing resources should be utilized. Further, each institution will adopt written procedures for receiving and investigating allegations of retaliation, and sample procedures have been provided to the institutions.

Ms. Fisher stated the BPM has been reviewed by U. T. System Administration officials including the Chancellor, component Compliance Officers, Chief Business Officers, and Presidents.

7. **U. T. System: Report on status of System-wide Institutional Compliance Program including Compliance Program Peer Reviews**

Committee Meeting Information
Presenter(s): *Mr. Chaffin, Ms. Nelsen*
Status: *Reported*

Agenda Item:

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, will update the Audit, Compliance, and Management Review Committee on the quarterly report of the System-wide Compliance Program, located on Pages 26 - 27 of the

Agenda Book. Activity reports are presented to the Audit, Compliance, and Management Review Committee of the Board of Regents on a quarterly basis.

Mr. Chaffin will then brief the Committee on the Compliance Program Peer Review process. Ms. Jody Nelsen, Associate Vice President for Administration and Compliance at U. T. Dallas, will discuss the results of Compliance Program Peer Reviews conducted at U. T. Dallas and U. T. Pan American.

A schedule of component peer reviews is located on Page 28 of the Agenda Book.

Discussion at Meeting:

Mr. Chaffin said the peer review concept is new to compliance not only in higher education but in the corporate world. The review is a "best practice", and the process to develop standards and guidelines has been worked on since last summer. He said the component that volunteered to have the first component peer review was U. T. Dallas.

Ms. Nelsen said reputation is one of a university's most valuable possessions and as a compliance officer, she struggles to ensure they do not become the "poster child" for the next hot noncompliance issue, while at the same time not making the compliance program an onerous and burdensome task. She said peer reviews are a method to learn how to make programs better.

She said the informal discussions with her peers at the other institutions were valuable regarding how to make programs work. For example, one of the recommendations received and being addressed is that high-risk areas need to be defined more specifically in terms of what the risks actually are and what resources are needed instead of a general area or department such as fire safety. Ms. Nelsen reported another recommendation was to have a full-time compliance officer or director of institutional compliance in place, which will help reduce the University's risks.

She said that with regard to the U. T. Pan American peer review, she was the lead person, and there was a unique element in that the institution requested a faculty member, Dr. Evelyn Hume, Professor of Accounting and Business Law, participate on the peer review team. Ms. Nelsen said the peer review team also recommended U. T. Pan American implement a full-time director of institutional compliance. In addition, she said the team made a variety of recommendations, one being a thorough bottom-up risk assessment conducted with input from all the functional areas of the University, a process that would take the attention of a full-time director. She stated the hiring of a full-time director for both U. T. Dallas and U. T. Pan American will help take the programs to the next level.

In conclusion, Mr. Chaffin said five component peer reviews have been completed. He spoke with the peer review team leader at U. T. El Paso, and the leader reported *that the compliance program is as strong as it could possibly be. He was most impressed with the culture and tone at the top. Mr. Chaffin said the compliance program is doing well.*

8. **U. T. System: Report on the 3rd Effective Compliance Systems in Higher Education Conference**

Committee Meeting Information
Presenter(s): *Ms. Fisher* ***Status:*** *Reported*

Agenda Item:

REPORT

Ms. Kristi Fisher, U. T. System-wide Compliance Supervisor, will present an overview and results of the 3rd Effective Compliance Systems in Higher Education Conference. The University of Texas System-wide Compliance Program was the primary sponsor of the event, which was held April 20 - 22, 2004, in Austin.

Discussion at Meeting:

Regent Estrada said 178 participants attended the Conference, which was successful and he commended Ms. Fisher and the entire audit staff. He said the reviews and comments from the session were all outstanding.

ADJOURNMENT

Committee Chairman Estrada announced that the purpose for which this meeting was called had been completed, and the meeting was duly adjourned at 3:00 p.m.

MINUTES
U. T. Board of Regents
Finance and Planning Committee
May 12, 2004

The members of the Finance and Planning Committee of the Board of Regents of The University of Texas System convened at 12:00 p.m. on Wednesday, May 12, 2004, in the Board Meeting Room 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:

Vice-Chairman Hunt, presiding
Vice-Chairman Krier
Regent Barnhill
Regent Caven
Regent Huffines

Also present were Vice-Chairman Clements, Regent Estrada (for Items 3-10), and Counsel and Secretary Frederick.

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

1. U. T. System: Approval of Docket No. 117

Committee Meeting Information
Not on agenda for Committee meeting

Agenda Item:

RECOMMENDATION

It is recommended that Docket No. 117, 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.

2. U. T. System: Monthly Financial Report

Committee Meeting Information
Presenter(s): *Mr. Wallace* ***Status:*** *Reported* ***Future Action:*** *Vice-Chairman Krier asked that, when setting Committee/Board meetings, consider when this information will be ready (i.e., she said if the meeting were held a week later, the April Monthly Financial Report information would be available). (Need to coordinate with Coordinating Board deadlines.)*

Agenda Item:

The Monthly Financial Report has been prepared since 1990 to track the financial results of the U. T. System component institutions. The March Monthly Financial Report representing the operating results of the institutions is located on Pages 30.1 - 30.25 of the Agenda Book.

REPORT

The Monthly Financial Report 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.

Consistent with a request at the February 2004 U. T. Board of Regents' meeting, this Report includes the most current information available.

Discussion at meeting:

Assistant Vice Chancellor Wallace said as a result of a request by Vice-Chairman Krier at the February 4, 2004 Committee meeting, he has worked with the Board Office and component institutions to provide a more timely report. The March report provided to the Regents is the most current report, with the April report due on Monday (May 17, 2004).

Mr. Wallace reported a $942.5 million positive operating margin -- a 516% improvement from last year primarily due to the improved financial market conditions. He said all component institutions showed a positive margin over this period except for U. T. Dallas, U. T. Tyler, and U. T. Medical Branch - Galveston. Mr. Wallace explained the negative margin at U. T. Dallas is due to decreased State appropriations and increased depreciation expenses. He said U. T. Tyler plans to end the year with a positive margin based on strong enrollment growth during the summer. Mr. Wallace said even though U. T. Medical Branch - Galveston had a net loss, it is an improvement from the adjusted loss over the same period last year and *the institution is performing better financially despite significant revenue reductions by the State. Even with a projected negative margin for 2004, U. T. Medical Branch - Galveston is on plan and anticipated this reduction.*

Committee Chairman Hunt expressed his appreciation for Vice-Chairman Krier's comment on the timeliness of the report. Vice-Chairman Krier suggested that when setting future Committee/Board meeting dates it might be advisable to take into consideration when this financial information can be made available to ensure the most current numbers possible are presented to the Regents in the Agenda Book (i.e., she said if the meeting were held a week later, the April Monthly Financial Report information would have been available).

3. U. T. Board of Regents: Report on Investments for quarter ended February 29, 2004, and Performance Report by Ennis Knupp + Associates

Committee Meeting Information

Presenter(s): *Mr. Boldt and Mr. Steve Voss*
Status: *Reported*
Future Actions:

1. *Mr. Boldt is to provide returns calculated on calendar year-to-date basis.*
2. *Mr. Aldridge will coordinate work on a new executive summary for the investment and performance reports.*

Agenda Item:

REPORTS

Pages 31.1 - 31.7 of the Agenda Book contain the Summary Reports on Investments for the three months ended February 29, 2004.

Item I on Pages 31.1 - 31.2 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 8.34%. The PUF's net investment return for the 12 months ended February 29, 2004, was 31.74%. The PUF's net asset value increased by $563.8 million since the beginning of the quarter to $8,218.9 million. This change in net asset value includes increases due to contributions from PUF land receipts and net investment return, offset by a decrease for the payment of one-quarter of the PUF's annual distribution.

Item II on Pages 31.3 - 31.5 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 8.22%. The GEF's net investment return for the 12 months ended February 29, 2004, was 32.56%. The GEF's net asset value increased $291.9 million since the beginning of the quarter to $4,244.5 million.

Item III on Page 31.6 of the Agenda Book reports summary activity for the Short Intermediate Term Fund (SITF). Total net investment return on the SITF was 1.20% for the three months. The SITF's net asset value decreased by $260.3 million since the beginning of the quarter to $1,106.2 million. This decrease in net asset value includes withdrawals from the SITF and distributions.

Item IV on Page 31.7 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 component operating funds held in the Dreyfus money market fund, increased by $466.2 million to $2,274.9 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: $286.7 million versus $109.0 million at the beginning of the period; equities: $210.5 million versus $298.1 million at the beginning of the period; and other investments: $6.2 million versus $14.4 million at the beginning of the period.

A Performance Report on investments for the quarter ended February 29, 2004, as prepared by Ennis Knupp + Associates is attached on Pages 31.8 - 31.99 of the Agenda Book. (Blank pages included in the report were not copied.)

Discussion at meeting:

The University of Texas Investment Management Company (UTIMCO) President, Chief Executive Officer, and Chief Investment Officer Boldt said the information in the Agenda Book was through February and he provided updates through March for the PUF, GEF, and SITF. He noted that the trailing 12-month return of 33.4% for the PUF is possibly the largest trailing 12-month return that the PUF has ever achieved. Mr. Boldt said April was a difficult month for the markets, and that the PUF, GEF, and SITF appear to be down for the month. He added that markets continue to be tough as concern grows that the Federal Reserve Chairman may raise interest rates.

Regent Caven asked if returns were calculated on a year-to-date basis and Mr. Boldt said they were and he would provide that information.

Mr. Steve Voss of Ennis Knupp + Associates summarized highlights including changes to the investment policies for the PUF and GEF and to asset allocation targets and benchmarks. He said returns had been very strong and benchmarks were met or exceeded for all funds. Mr. Voss noted the components that had performed very well, contributing to the overall strong returns, were U.S. equities, global ex U.S. equities, absolute return hedge funds, and total fixed income. He also noted that the figures in the performance report were net of investment management fees.

Interim Vice Chancellor Aldridge reminded the Committee that as discussed at the April 29, 2004 Board meeting, an executive summary for investment and performance reports would be provided starting with the August 2004 meeting. Vice-Chairman Hunt said he would like to see the executive summary convey the same level of precision as the PUF quarterly update with a similar format. He reminded *the Board that Ennis Knupp was hired as a result of a recommendation from last year's consulting report prepared by Baker Botts. Mr. Hunt said Ennis Knupp has added value to the process and thinks they will play an important role in the new oversight procedures.*

In response to an inquiry by Chancellor Yudof on last year's positive performance, Mr. Boldt explained that the hedge funds performed so well because they take advantage of slight dislocations in the markets and this has been a very fruitful time for that in the marketplace. Committee Chairman Hunt questioned how good the proxy benchmark was for the hedge fund asset class and Mr. Boldt explained how proxies are set and agreed that the benchmark may not be correct. Regent Huffines expressed concern over the large percentage in the single largest hedge fund under the absolute strategy and Mr. Boldt said the objective across time is to reduce high levels of concentration. Regent Caven added a hedge fund return of 25% in one year is extraordinary and should be considered an anomaly and said this kind of return is unlikely in the future.

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

Committee Meeting Information
Presenter(s): *Mr. Aldridge*
Status: *Reported*

Agenda Item:

Mr. Philip R. Aldridge, Interim Vice Chancellor for Business Affairs, 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 impacts on remaining PUF debt capacity, U. T. Austin excellence funds, and the AUF balance.

REPORT

As of February 29, 2004, the market value of the PUF was $8.2 billion compared to $7.65 billion as of November 30, 2003 (Figure A on Page 32.1 of the Agenda Book). During Fiscal Year 2005, $341.2 million is expected to be distributed to the AUF, compared to $348 million in Fiscal Year 2004 (Figure B on Page 32.2 of the Agenda Book). PUF distributions to the AUF are projected to steadily increase beginning in Fiscal Year 2006. Unlike previous forecasts, PUF distributions are not projected to be capped due to constitutional purchasing power restrictions as a result of higher than expected PUF investment returns and lower than expected inflation (Figure B on Page 32.2 of the Agenda Book).

Incorporating both the updated PUF distribution forecast and the new debt structure as a result of the PUF Bonds, Series 2004A&B transaction, there is an estimated $365 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 32.3 of the Agenda Book). This PUF debt capacity includes using $55 million of AUF balances to cash defease outstanding PUF debt, similar to cash defeasance transactions previously approved by the Board. 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 32.4 of the Agenda Book).

Discussion at meeting:

Interim Vice Chancellor Aldridge reminded the Committee that the PUF quarterly update is not an investment update, but rather converts investment results into projections for PUF distribution and PUF debt capacity. He then summarized changes in the forecasted distributions from the PUF to the AUF and the impact on the remaining PUF debt capacity.

Chancellor Yudof noted a significant increase in the Library, Equipment, Repair and Rehabilitation (LERR) budget may come before the Board next year to be used for renovation and possible start-up packages for new faculty. He has asked Executive Vice Chancellor Sullivan, Executive Vice Chancellor Shine, and Assistant Vice Chancellor Wallace to consider using debt capacity as a one-time strategic expenditure allocation for new facilities.

5. U. T. Board of Regents: Approval of annual distributions from the Permanent University Fund, the Permanent Health Fund, and the Long Term Fund

Committee Meeting Information
Presenter(s): *Mr. Boldt* ***Status:*** *Approved* ***Motion:*** *Made by Regent Huffines, seconded, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor and the Interim Vice Chancellor for Business Affairs concur in the recommendation of The University of Texas Investment Management Company (UTIMCO) and the UTIMCO Board of Directors that:

a. The fiscal year distribution from the Permanent University Fund (PUF) to the Available University Fund (AUF) be decreased by 1.97% from $348,033,578 to $341,174,270 effective September 1, 2004. The distribution is an amount equal to 4.75% of the trailing 12-quarter average of the net asset value of the PUF. The decline in the distribution is a direct result of the decline in the market value of the PUF, as reflected in the trailing 12-quarter average.

b. The distribution rate for the Permanent Health Fund (PHF) remain at its current rate per unit of $0.047.

c. The distribution rate for the U. T. System Long Term Fund (LTF) be increased from $0.2645 per unit to $0.2697 per unit effective November 30, 2004.

BACKGROUND INFORMATION

For comparative purposes, the recommended distributions from the PUF, PHF and LTF represent 4.15%, 4.59%, and 4.68% of the respective funds' market value as of February 29, 2004.

The PUF Investment Policy states that the annual distribution from the PUF to the AUF shall be an amount equal to 4.75% of the trailing 12-quarter average of the net asset value of the PUF for the quarter ending February of each fiscal year. Per this formula, the amount to be distributed from the PUF for Fiscal Year 2005 is $341,174,270 as calculated below:

Quarter Ended	PUF Net Asset Value	
5/31/01	$	7,749,573,154
8/31/01		7,540,148,091
11/30/01		7,079,157,437
2/28/02		7,114,025,229
5/31/02		7,303,322,636
8/31/02		6,738,274,515
11/30/02		6,397,124,818
2/28/03		6,299,971,921
5/31/03		6,850,946,583
8/31/03		7,244,827,576
11/30/03		7,655,088,067
02/29/04		8,218,934,425
	$	86,191,394,452
Number of Quarters		12
Average Net Asset Value	$	7,182,616,204
Distribution Percentage		4.75%
FY 2004-05 Distribution	**$**	**341,174,270**

Article VII, Section 18 of the Texas Constitution requires that the amount of distributions to the AUF be determined by the U. T. Board of Regents (U. T. Board) in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of PUF investments and annual distributions to the AUF. The Constitution further limits the U. T. Board's discretion to set annual PUF distributions to the satisfaction of three tests:

1. The amount of PUF distributions to the AUF in a fiscal year must be not less than the amount needed to pay the principal and interest due and

owing in that fiscal year on PUF bonds and notes. The proposed distribution of $341,174,270 is substantially greater than PUF bonds debt service of $119,050,836 projected for Fiscal Year 2005.

System		Debt Service
U. T.	$	84,167,084
TAMU		34,883,752
Total	$	119,050,836

Sources: U. T. System Office of Finance
Texas A&M University System Office of Treasury Services

2. The U. T. Board may not increase annual PUF distributions to the AUF (except as necessary to pay PUF debt service) if the purchasing power of PUF investments for any rolling 10-year period has not been preserved. As the schedule below indicates, the average annual increase in the rate of growth of the value of PUF investments (net of expenses, inflation, and distributions) for the trailing 10-year period ended February 29, 2004, was 3.86%.

Average Annual	Percent
Rate of Total Return	9.85%
Mineral Interest Receipts	1.25%
Expense Rate	(0.12)% (1)
Inflation Rate	(2.41)%
Distribution Rate	(4.71)%
Net Real Return	**3.86%**

(1) Paid from AUF until 1/01/00

3. The annual distribution from the PUF to the AUF during any fiscal year made by the U. T. Board may not exceed an amount equal to 7% of the average net fair market value of PUF investment assets as determined by the U. T. Board, except as necessary to pay PUF bonds debt service. The annual distribution rate calculated using the trailing 12-quarter average value of the PUF is within the 7% maximum allowable distribution rate.

Value of PUF Investments (1)	Proposed Distribution	Proposed Distribution as a % of Value of PUF Investments	Maximum Allowed Rate
$7,182,616,204	$341,174,270	**4.75%**	7.00%

(1) Source: UTIMCO

The spending policy objectives of the PHF and the LTF are to:

1. provide a predictable stable stream of distributions over time;

2. ensure that the inflation-adjusted value of the distributions is maintained over the long term; and

3. ensure that the inflation-adjusted value of the assets of the PHF and the LTF, as appropriate after distributions, is maintained over the long term.

The goal is for the average spending rate of the PHF or the LTF, as appropriate, over time not to exceed the average annual investment return of such fund after inflation in order to preserve the purchasing power of such fund's distributions and underlying assets.

Unless otherwise established by UTIMCO and approved by the U. T. Board, the spending formula under the PHF Investment Policy and the LTF Investment Policy increases distributions at the rate of inflation subject to a distribution range of 3.5% to 5.5% of the average market value of the PHF assets and LTF assets for each Fund's respective trailing 12 fiscal quarters. The Investment Policies expressly reserve to the U. T. Board the ability to approve a per unit distribution amount for the PHF and the LTF, as appropriate, that, in the Board's judgment, would be more appropriate than the formula rate calculated by the spending policy provisions.

The PHF's net asset value of $785.6 million at November 30, 2003, is less than the original PHF contributions of $820.0 million due to difficult financial markets since its inception. As a consequence, the recommendation is to depart from the spending formula and not to increase the PHF rate of $0.047 per unit for Fiscal Year 2005. The PHF's average distribution rate calculated using the prior 12-quarter average value of the PHF is 5.1%, within the range of 3.5% to 5.5% set forth in the PHF Investment Policy. The recommended distribution rate of $0.047 per unit was approved by the UTIMCO Board on April 8, 2004.

In addition to the spending policy objectives for the LTF (described above), the LTF Investment Policy expressly recognizes that, under the Uniform Management of Institutional Funds Act, the U. T. Board may distribute from the LTF the net appreciation, realized and unrealized, in the fair market value of LTF assets over the historic dollar value of the Fund. At November 30, 2003, the net asset value of the LTF was $3,167.0 million. The 2.0% increase in LTF distribution rate from $0.2645 per unit to $0.2697 is recommended based on the investment policy to increase the distribution by the average rate of inflation for the trailing 12 fiscal quarters. The consumer price index for the prior three years as of November 30, 2003, was 2.0%. The LTF's average distribution rate calculated using the prior 12-quarter average value of the LTF is 5.2%, within the range of 3.5% to 5.5% set forth in the LTF Investment Policy. The recommended distribution rate of $0.2697 per unit was approved by the UTIMCO Board on April 8, 2004.

Discussion at meeting:

Mr. Boldt summarized the recommended distribution rates from the PUF, PHF, and the LTF, and explained the reason for the decline in the PUF distribution despite the increase in returns.

6. U. T. System: Authorization to establish a deferred compensation plan under Internal Revenue Code Section 457(b), to delegate authority to administer the plan, and to authorize conforming changes to Part Two, Chapter VI, Section 9 (Deferred Compensation Plan) of the Regents' Rules and Regulations (Deferred)

Committee Meeting Information

Presenter(s): *Ms. Mayne*
Status: *Deferred*
Future Action: *Analyze the issues related to the proposed deferred compensation plan (i.e., consult Employees Retirement System) and, if still recommended, come back to the Board in August.*

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Health Affairs, the Vice Chancellor for Administration, and the Interim Vice Chancellor for Business Affairs that the Board of Regents authorize the establishment of a voluntary deferred compensation plan pursuant to Internal Revenue Code Section 457(b) for all employees of the U. T. System Administration and the component institutions, to be known as UTSaver. It is further recommended that the Board delegate to the Vice Chancellor for Administration the authority for the administration of UTSaver and the power to take all action and to make all decisions and interpretations that may be necessary or appropriate to administer and maintain the plan, consistent with State and federal law.

It is further recommended that the Counsel and Secretary to the Board be authorized to make conforming changes to the Regents' Rules and Regulations to reference the plan and the delegation to the Vice Chancellor for Administration.

BACKGROUND INFORMATION

In 2003, the 78th Texas Legislature, Regular Session, enacted Senate Bill 1652, codified as Chapter 609, Subchapter D, Texas Government Code. One provision of Chapter 609 authorizes an institution of higher education to establish a deferred compensation plan for its employees pursuant to Internal Revenue Code Section 457(b).

The state legislation followed the enactment of federal legislation known as the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) in 2001, which changed existing law and created an additional retirement savings opportunity for public employees. Prior to the enactment of EGTRRA, contributions to a voluntary 403(b) tax-sheltered annuity program and a voluntary 457(b) deferred compensation retirement savings program were subject to coordinated limits. This resulted in one contribution limit for both programs. EGTRRA repealed the coordinated limits for 403(b) and 457(b) programs thereby providing a separate contribution limit for each program for years beginning after December 31, 2001. Prior to the enactment of Senate Bill 1652, the only 457(b) plan option available to U. T. System employees was the deferred compensation plan provided by the Employees Retirement System of Texas known as TexaSaver. Senate Bill 1652 authorizes U. T. System to establish its own deferred compensation plan for employees. The proposed name for the plan is UTSaver. The purpose of the UTSaver deferred compensation plan is to provide employees who elect to participate in the plan the option to defer taxation on compensation subject to federal contribution limits. Employees may elect to contribute up to the maximum amount that may be deferred under the plan for the taxable year. The plan will be established pursuant to Chapter 609 of the Texas Government Code and is intended to constitute an "eligible deferred compensation plan" within the meaning of Section 457 of the Internal Revenue Code. All contributions to the plan will be employee contributions.

Discussion at meeting:

Assistant Vice Chancellor Mayne provided background on the recommendation for U. T. System to establish a 457(b) deferred compensation plan. She said a 457(b) plan is currently offered to U. T. System employees through the Employees Retirement System (ERS) of Texas. During the last legislative session, the Texas Legislature authorized institutions of higher education to implement their own 457(b) plans. Ms. Mayne said several factors considered in establishing the plan were the fact that U. T. System, as the employer, has liability for compliance with the requirements set out in the Internal Revenue Code, even though ERS administers the current 457(b) plan and U. T. System has no control over the plan; better compliance controls; operational streamlining, particularly in the transfer of data to the payroll office; improved service for employees; and better products and fees from vendors.

Vice-Chairman Krier asked about the cost to the U. T. System of administering the plan. Ms. Mayne responded that no budget had been created since the amount of staff time required to administer the proposed program will be the same as administering the current program and Interim Vice Chancellor Aldridge confirmed that the program would be handled by existing staff. Assistant Vice Chancellor Mayne added that there could be cost savings due to implementation of an electronic system in the Fall.

Vice-Chairman Krier asked if there were any problems with the performance of ERS and Ms. Mayne explained that since employees currently enroll through a Web site, they are not receiving guidance and information needed to determine deferral *amounts. Vice-Chairman Krier asked who from ERS has been involved in discussions and Ms. Mayne replied that she would get that information. Vice-Chairman Krier expressed concern that U. T. System, an educational institution, spends increasing amounts of time on adjunct issues rather than collaborating with State agencies. She requested assurance that all options have been fully explored prior to implementing this program. Interim Vice Chancellor Aldridge suggested deferring this item since it was not time sensitive and could be revisited in August without jeopardizing the program.*

Regent Estrada pointed out that the Employees Retirement System was not designed to meet the unique needs of key employees in the U. T. System in terms of compensation and personal tax shelter requests. In response to a question by Committee Chairman Hunt, Ms. Mayne said approximately 1,200 U. T. System employees are currently participating in the ERS 457(b) program and 13,000-14,000 participate in the U. T. System 403(b) plan.

Vice-Chairman Krier asked if other universities were setting up their own plan and if the Texas Higher Education Coordinating Board might set up a plan. Ms. Mayne said it was unlikely that the Coordinating Board would set up a plan and added that it is her understanding that the Texas A&M University System has engineered an electronic data capability to enable more direct communication with ERS. She explained that most other State agencies use ERS for health insurance and retirement programs, so they may already have a strong data communication system in place. Vice Chancellor Brown asked if ERS currently coordinates the 403(b) program for State employees and Ms. Mayne replied that most State employees have a 401(k) program, rather than a 403(b) program, and that 401(k) program is operated by ERS.

Committee Chairman Hunt repeated the suggestion that the item be deferred until the August meeting so that questions raised during this discussion could be analyzed and answered fully at that time. He added that the program would still be on track for a January effective date.

7. <u>U. T. Board of Regents: Adoption of Fifth Supplemental Resolution to the Master Resolution establishing the Revenue Financing System Taxable Commercial Paper Note Program and authorization for officers of U. T. System to complete all transactions related thereto</u>

Committee Meeting Information
Presenter(s): *Mr. Aldridge* ***Status:*** *Approved* ***Motion:*** *Made by Regent Huffines, seconded by Regent Estrada, and carried unanimously*

Agenda Item:

<u>RECOMMENDATION</u>

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

a. adopt the Fifth Supplemental Resolution to the Master Resolution, substantially in the form presented to the Board and as originally approved by the Board in 1996, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Revenue Financing System Taxable Commercial Paper Notes, Series B, in an aggregate principal amount not to exceed $50 million; and

b. authorize appropriate officers and employees of the U. T. System as set forth in the Fifth Supplemental Resolution to take any and all actions necessary to carry out the intentions of the U. T. Board of Regents, within the limitations and procedures specified therein; make certain covenants and agreements in connection therewith; and resolve other matters incident and related to the issuance, sale, security, and delivery of such Notes.

The Chancellor also concurs in the recommendation of the Interim Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System adopted by the U. T. Board of Regents on February 14, 1991, amended on October 8, 1993 and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as required by Section 5 of the Master Resolution, the U. T. Board of Regents resolve that:

a. sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the Board relating to the Financing System; and

b. the component institutions, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of Parity Debt.

BACKGROUND INFORMATION

The use of tax-exempt debt for projects is limited by the Internal Revenue Code to facilities employed for governmental purposes. Projects with nongovernmental or private use beyond established limits are denied the benefits of tax-exempt debt and must employ taxable debt. Taxable debt is anticipated to be issued for certain projects in the FY 2004-2009 Capital Improvement Program that will have space rented to nongovernmental entities for a period of time.

The Fifth Supplemental Resolution, which is available for review on-line at http://www.utsystem.edu/bor/AgendaBook/5-12-04Meetingpage.htm or in hard copy upon request, authorizing a Revenue Financing System taxable commercial paper note program was originally approved by the Board of Regents in November 1996. No taxable notes were issued under the program and the authorization under the Fifth Supplemental Resolution is deemed to have lapsed. The reauthorization of the Fifth Supplemental Resolution will establish an interim financing program for the projects in the FY 2004-2009 Capital Improvement Program involving nongovernmental use. Liquidity for the program will be provided by the U. T. System through an arrangement with The University of Texas Investment Management Company consistent with the provisions governing liquidity for the tax-exempt commercial paper program.

The U. T. System's Revenue Financing System tax-exempt commercial paper note program was established on April 12, 1990. Since that time, the size of the program has been increased periodically, up to the current authorization of $750 million, to meet the financing needs of the U. T. System.

The proposed Fifth Supplemental Resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

Discussion at meeting:

Interim Vice Chancellor Aldridge said there are occasions when the use of taxable debt is preferred to tax-exempt debt and the cost of taxable debt is only slightly higher than nontaxable commercial paper. He stated that in 1996, the Board approved the issuance of debt via a taxable commercial paper program and this request is for a $50 million taxable program. Regent Estrada asked if $50 million was enough, and Interim Vice Chancellor Aldridge responded that amount is sufficient for now.

8. <u>Approval to amend the Permanent University Fund and General Endowment Fund Investment Policy Statements</u>

Committee Meeting Information
Presenter(s): *Mr. Boldt*
Status: *Approved*
Motion: *Made by Regent Barnhill, seconded by Regent Huffines, and carried unanimously*

Additional Agenda Item: (not bound in the original Agenda Book but mailed to members of the Board prior to the meeting, posted with the Secretary of State, and available on yellow paper at the meeting):

<u>RECOMMENDATION</u>

The Board of Directors of The University of Texas Investment Management Company (UTIMCO) recommends that the U. T. Board of Regents approve the proposed amendments to the Asset Allocation and Policy section of the following Investment Policy Statements as set forth in congressional style on Pages 19 - 21:

a. Permanent University Fund (PUF)

b. General Endowment Fund (GEF)

It is further recommended that the U. T. Board of Regents approve the revised Exhibit A of the PUF Investment Policy Statement and the GEF Investment Policy Statement as set forth in congressional style on Page 22.

<u>BACKGROUND INFORMATION</u>

Section 3(a) of the Investment Management Services Agreement dated March 1, 1996, second amended and restated effective August 7, 2003, between the Board of Regents of The University of Texas System and UTIMCO provides that UTIMCO shall review the investment policies of the assets under its management and recommend any changes of such policies for approval by the U. T. Board of Regents. The Investment Policy Statements for the PUF and the GEF provide that UTIMCO "shall...determine specific asset allocation targets, ranges, and performance benchmarks consistent with PUF (and GEF) objectives...". The Board of Regents adopted amendments to the Investment Policy Statements for the PUF and GEF at its December 19, 2003 meeting which established new asset allocation targets for several asset categories. However, there were also changes made to performance benchmarks and asset category definitions in the revised Investment Policy Statements which the UTIMCO Board believes would have negative unintended consequences. In exercising its delegated responsibility to determine benchmarks, UTIMCO recommends the technical corrections to the PUF and GEF Investment Policy Statements set forth in this agenda item. There are no changes to any Regents-approved asset allocation targets recommended in this agenda item and there are no changes to the expected return or expected risk measures. The only recommended changes are technical corrections to benchmark categories and definitions.

The recommended changes to the PUF and GEF Investment Policy Statements segregate two individual asset categories which were grouped under broader asset classes, and provide asset definitions and benchmarks for the revised asset categories. The proposed definitional changes are reflected in Exhibit A of both the PUF and GEF Investment Policy Statements. In addition, a change in the benchmarks for Private Equity and Venture Capital asset categories as reported in Exhibit A is proposed.

During the construction of the new policy portfolio, it became apparent that two unintended consequences resulted from the movement of Real Estate Investment Trusts (REITS) and Treasury Inflation Protected Securities (TIPS) from the inflation hedge asset category to the U.S. Equities and Fixed Income categories, respectively. The benchmarks of the U.S. Equities and Fixed Income classes were not adjusted correspondingly to account for the asset allocation percentage weights of the asset categories added.

1. Under the asset classification scheme of the new Investment Policy Statement, the actual U.S. Equities portfolio for the PUF and GEF would consist of approximately 21.6% of REITS (REITS' value of $859.2 versus total U.S. Equities with REITS of $3,974.1 as of March 31, 2004) while the Benchmark for the asset class, the Russell 3000 Index, has a weight of approximately 2% in REITS. This difference in weights between the actual portfolios and the policy portfolios creates a substantial risk concentration requiring transactions totaling more than $1.5 billion to correct. In addition to the expenses associated with the transactions which would total several million dollars, there would be three additional negative effects:

    a. REITS have been an important part of the endowment funds' portfolios for more than 10 years. They are the endowments' only investment in real estate and substantially reducing this position would lower the diversification and increase the risk of the overall portfolios with no expected increase in returns.

    b. Because the proceeds of the sale of the existing REIT portfolio would be transferred from internal management to external active management, the total UTIMCO and Fund budgets would immediately increase by about 8.7% (approximately $2.7 million per year), reflecting the difference in costs between internal and external active management. In addition, total internally managed assets would be reduced by about one-third with no decrease in costs.

c. An important source of value added over the past two years, REITS managed internally by Mr. Greg Cox, Portfolio Manager - Equity Investments, would be reduced to about one-tenth of its previous weight, thus limiting UTIMCO's ability to add value in the future.

2. The second issue relates to TIPS. Although UTIMCO does not currently have a TIPS position in the endowment portfolios, the intention was to introduce TIPS as part of the portfolio allocation, and a 5% allocation was originally approved by the UTIMCO Board. However, moving TIPS to the Fixed Income category would make it unlikely that the intended 33.3% allocation to TIPS (5% for TIPS out of 15% total for fixed income) would occur since the Lehman Brothers Bond Index does not contain any TIPS in its construction. TIPS would be more appropriately measured against the Lehman Brothers US TIPS Index. Therefore, implementing the 5% allocation to TIPS intended by the Asset Allocation Policy would create a substantial risk concentration position relative to the Lehman Brothers Aggregate Bond benchmark, making it less likely that TIPS would actually be purchased under the risk budgeting procedure used by UTIMCO. This would be an unintended negative result because TIPS have unique and attractive strategic characteristics which would improve diversification and lower the overall risk of the portfolio. The Investment Policy should encourage, not discourage, a TIPS position. The changes recommended in this agenda item would encourage TIPS positions.

The changes to the Asset Allocation and Policy sections of the PUF and GEF Investment Policy Statements are proposed to correct the negative unintended consequences.

Clarification on the use of the Venture Economics Benchmark for the Private Capital asset category is also proposed. During the recently completed Asset Allocation Review process, a new benchmark based on Venture Economics data was approved. The UTIMCO Board approved the use of Venture Economics' Vintage Year Venture Capital Index for the benchmark of Venture Capital and the use of Venture Economics' Vintage year Private Equity Index for Private Equity. At the time of the approval, the UTIMCO Board noted that staff would have to determine the most appropriate way to incorporate the Venture Economics benchmark into the endowment policy portfolio benchmark. The incorporation of Private Capital returns into the overall policy portfolio presents technical challenges due to differences in the methodology used to calculate return.

The best solution to the technical challenges is to use the Venture Economics' Periodic IRR Index for the entire Private Capital asset category rather than separate indices for venture capital and private equity. Although still not a perfect solution to the benchmarking problems of private equity, the Venture Economics Index does have an important characteristic necessary in any good benchmark: high correlation with the actual portfolio segment for which it has been selected as the benchmark.

The table below indicates the correlation of actual private equity returns in the endowment funds with the Venture Economics Index over individual 1, 3, and 5-year periods over the past 10 years:

Correlation Coefficients	UTIMCO and Venture Economics
1 Year	0.9229
3 Years	0.8931
5 Years	0.9520

Correlation coefficients are statistical measures of how closely two variables change as measured at different points in time. A correlation coefficient of 1.0 indicates the two variables are moving in exact lockstep; a correlation coefficient of 0.0 indicates the two variables are moving completely independently. The high correlation measures above for the historical returns of the private capital portfolios and the Venture Economics benchmark indicate that the Venture Economics benchmark should be an effective benchmark for the endowments' private capital investments.

The UTIMCO Board of Directors approved the proposed amendments to the Investment Policy Statements for the PUF and GEF, and the revised Exhibit A of these Investment Policy Statements, on May 6, 2004.

Asset Allocation and Policy

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. Specific asset allocation positions may be changed from time to time, within the ranges specified in Exhibit A, based on the economic and investment outlook.

PUF [GEF][1] assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

A. U.S. Equities - U.S. equities represent ownership in U.S. companies that are traded in public markets~~.~~: ~~Equities include stocks that are further identified by size of the company and are classified as large capitalization, medium capitalization, and small capitalization. U.S. equities may further be delineated by style (growth or value). Warrants, rights, options, futures and hedge funds are also included if the underlying assets are equities. In addition, Derivative Applications approved by the UTIMCO Board that serve as a U.S. equity substitute will be classified as U.S. equities. Equities provide both current income and growth of income.~~

Traditional U.S. Equities – Traditional U.S. equities include common stocks and derivatives based on common stocks including warrants, rights, options, exchange traded funds, and futures. In addition, Derivative Applications approved by the UTIMCO Board that serve as a U.S. Equity substitute will be classified as traditional U.S. equity. Equities provide both current income and growth of income.

REITS – REITS are real estate investment trusts. REITS are companies which own, and in most cases operate, income producing real estate.

B. Global ex U.S. Equities – Global ex U.S. equities represent ownership in global companies that are traded in public markets. The global ex U.S. markets include established and emerging markets. ~~Equities include stocks that are further identified by size of the company and are classified as large capitalization, medium capitalization, and small capitalization. Global ex U.S. equities may further be delineated by style (growth or value) or region (Latin America, Asia etc.) or state of economic development (Emerging Markets).~~ Warrants, rights, options, exchange traded funds, and futures ~~and hedge funds~~ are also included if the underlying assets are equities. In addition, Derivative Applications approved by the UTIMCO Board that serve as a Global ex U.S. equity substitute will be classified as Global ex U.S. equities. Equities provide both current income and growth of income.

[1] Reference for GEF policy only

C. Hedge Funds – Hedge funds are broadly defined to include nontraditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable.

Equity Hedge Funds – Equity hedge fund investments include U.S. and international long/short equity strategies. These strategies attempt to exploit profits from stock selection skills by taking long and short positions in various equity securities. These strategies may also include fund of hedge fund investments. Equity hedge fund investments are made through private placement agreements.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage and event driven strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income and convertible securities markets. Event driven strategies attempt to exploit discreet events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include fund of hedge fund investments. Absolute return hedge fund investments are made through private placement agreements.

D. Private Capital - Private Capital investments include the illiquid debt and equity securities of private or publicly-traded companies. Private Capital investments consist of two sub-asset class categories: Venture Capital and Private Equity.

Venture Capital – Venture capital investments consist of investments in companies, both U.S. and non-U.S. that are in the early stages of development. Venture Capital investments are held either through limited partnership or as direct ownership interests.

Private Equity – Private Equity investments consist of investments in the equity securities of private businesses, both U.S. and non-U.S., that are considered to be in the post-start-up phase and that are profitable and generating income. Private Equity investments are held either through limited partnerships or as direct ownership interests. The classification of private equity also includes mezzanine and opportunistic investments. Mezzanine consists of investments in funds that make subordinated debt or minority equity investments in private companies. Opportunistic investments are limited to illiquid assets and may include distressed debt or secondary private equity partnerships.

E. Commodities – Natural resource investments which include oil and gas interests, commodities, and other hard assets.

F. Fixed Income – Fixed income investments include debt issued by the U.S. Treasury, various government agencies and domestic and foreign corporations.

Traditional Fixed Income - The principal securities include bonds, notes, bills and mortgage and asset-backed securities. ~~Fixed income investments also include hedge funds if the underlying assets are fixed income investments, and treasury inflation protected securities (TIPS) which are marketable securities with a return linked to the inflation rate.~~ In addition, Derivative Applications approved by the UTIMCO Board that serve as a fixed income substitute will be classified as traditional fixed income.

TIPS - TIPS are treasury inflation protected securities which are marketable securities with a return linked to the inflation rate.

EXHIBIT A

POLICY TARGETS, RANGES AND PERFORMANCE OBJECTIVES

Expected Annual Return (%)	**8.36**
Downside Deviation (%)	**4.22**
Standard Deviation (%)	**10.30**

	Percent of Portfolio (%)		
Asset Category	**Policy Targets**	**Policy Ranges**	**Benchmarks**
US Equities:	**25.0**	**15 to 45**	Combination benchmark: 80% Russell 3000 Index plus 20% Wilshire Associates Real Estate Securities Index ~~Russell 3000 Index~~
Traditional US Equities	20.0	15 to 45	Russell 3000 Index
REITS	5.0	0 to 10	Wilshire Associates Real Estate Securities Index
Global ex US Equities:			MSCI All Country World Index ex US
Non-US Developed Equity	10.0	5 to 15	
Emerging Markets Equity	7.0	0 to 10	
Total ~~Traditional~~ Equity	**42.0**	**20 to 60**	
Equity Hedge Funds	10.0	5 to 15	90 Day T-Bills + 4%
Absolute Return Hedge Funds	15.0	10 to 20	90 Day T-Bills + 3%
Total Hedge Funds	**25.0**	**15 to 25**	
Venture Capital	6.0	0 to 10	~~Venture Economics Vintage Year Venture Capital Index~~
Private Equity	9.0	5 to 15	~~Venture Economics Vintage Year Private Equity Index~~
Total Private Capital	**15.0**	**5 to 15**	Venture Economics' Periodic IRR Index
Commodities	**3.0**	**0 to 5**	GSCI minus 1%
Fixed Income:	**15.0**	**10 to 30**	Combination benchmark: 66.7% Lehman Brothers Aggregate Bond Index plus 33.3% Lehman Brothers US Tips Index ~~Lehman Brothers Aggregate Bond Index~~
Traditional Fixed Income	10.0	10 to 30	Lehman Brothers Aggregate Bond Index
TIPS	5.0	0 to 10	Lehman Brothers US Tips Index
Cash	**0.0**	**0 to 5**	90 Day T-Bills

Discussion at meeting:

Committee Chairman Hunt stated this was a late supplemental item and was before the Board on yellow paper. Mr. Boldt said changes to the PUF and GEF Investment Policy Statements were necessitated by asset allocation changes and stressed that the recommendations are not a change in intent, but are benchmark changes to move Real Estate Investment Trusts (REITS) and Treasury Inflation Protected Securities (TIPS) to the U.S. Equities and Fixed Income categories. Committee Chairman Hunt commented that this item was passed by the UTIMCO Board and is a technical correction to better line up the benchmark with the portfolio for the PUF and GEF policies approved by the U. T. Board of Regents on December 19, 2003.

Mr. Mike Sebastian of Ennis Knupp said decisions about the benchmark would depend on whether there would be a regular review of asset allocation and said he recommends this review. He said there are two issues: (1) having a separate policy allocation and benchmark for fixed income (TIPS); and (2) having a separate U.S. equities category for REITS. Mr. Sebastian added that a benchmark risk is something that needs to be taken out to add value. Committee Chairman Hunt said in order to avoid being overweighted, there need to be other objectives, so it is appropriate to have a specific benchmark for REITS.

In response to an inquiry by Vice-Chairman Krier, Committee Chairman Hunt said these concerns were shared with the UTIMCO Board that voted unanimously to pass the item along to the U. T. Board of Regents. Vice-Chairman Krier asked if the asset allocation changes would lead to a change in projected performance results. Mr. Hunt replied there would be no change in the expected return or the expected risk and reiterated that this was just a technical correction.

9. **Approval to amend the Short Intermediate Term Fund Investment Policy Statement**

Committee Meeting Information
Presenter(s): *Mr. Boldt* ***Status:*** *Approved with amendments to leave in the phrase "and maintenance of adequate SITF liquidity" and add "SITF" before "Policy Portfolio" in the second paragraph of the policy* ***Motion:*** *Made by Regent Barnhill, seconded by Regent Huffines, and carried unanimously* ***Future Actions:*** *1. Per Vice-Chairman Krier, revise the Short Intermediate Term Fund (SITF) Investment Policy Statement to leave in the phrase "and maintenance of adequate SITF liquidity" and add "SITF" before "Policy Portfolio" in the second paragraph of the policy.* *2. Ensure language is included in the next (annual) review of the investment policy statements regarding specific benchmarks.*

Additional Agenda Item: (not bound in the original Agenda Book but mailed to members of the Board prior to the meeting, posted with the Secretary of State, and available on yellow paper at the meeting):

RECOMMENDATION

The Board of Directors of The University of Texas Investment Management Company (UTIMCO) recommends that the U. T. Board of Regents approve the proposed amendments to the Investment Objectives section of the Short Intermediate Term Fund (SITF) Investment Policy Statement as set forth as follows in congressional style:

SITF Investment Objectives

The primary investment objective shall be to provide both income through investment in high grade fixed income and floating rate obligations and capital appreciation when consistent with income generation. ~~, reasonable preservation of capital and maintenance of adequate SITF liquidity. In seeking to achieve its objectives, the SITF shall attempt to minimize the probability of a negative total return over a one-year period.~~ Within the exposure limits contained herein, investments shall be diversified among authorized asset classes and issuers (excluding the U.S. Government) in order to minimize portfolio risk for a given level of expected return. This objective will be achieved by adding value through active management including duration and yield curve management, sector rotation, security selection, and cost efficient trading.

Achievement of this objective shall be defined by a fund return over a market cycle in excess of the Short Term Fund ("STF") and the Policy Portfolio benchmark. ~~and the average return of the median manager of the MorningStar universe of government bond funds restricted to an average maturity of less than or equal to three years.~~ The SITF will attempt to achieve a return in excess of the STF primarily through a longer average maturity/duration and through UTIMCO active portfolio management efforts. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect SITF asset allocation policy targets.

It is important to note that the SITF return will be more volatile than the STF fund returns, and under very unusual capital market conditions, the total return of the SITF could be negative over a 12-month period.

BACKGROUND INFORMATION

Section 3(a) of the Investment Management Services Agreement dated March 1, 1996, second amended and restated effective August 7, 2003, between the Board of Regents of The University of Texas System and UTIMCO provides that UTIMCO shall review the investment policies of the assets under its management and recommend any changes of such policies for approval by the U. T. Board of Regents.

The recommended changes are to clarify the investment objectives of the SITF Investment Policy. The UTIMCO Board of Directors approved the proposed amendments to the SITF Investment Policy Statement on May 6, 2004.

Discussion at meeting:

Committee Chairman Hunt said this additional item, before the Board on yellow paper, cleans up the SITF Investment Policy Statement and clarifies the investment objectives of the policy. He gave a brief history on the performance of the Fund since its inception in 1993. Mr. Boldt said the UTIMCO staff was charged with clearing up ambiguities in the investment policy statement, and in consultation with the Chief Business Officers (CBOs), removed potentially conflicting language to minimize the probability of a negative total return over a one-year basis. Additionally, language was added so the CBOs would have a vehicle for additional return over and above what could be earned in the Short Term Fund through active management and through longer duration in the portfolio.

In response to an inquiry by Vice-Chairman Krier, Mr. Boldt explained policy portfolio benchmarks. Vice-Chairman Krier questioned deletion of the phrase "reasonable preservation of capital" and expressed concern that legislative history was being created that indicated there was no need to be concerned about the reasonable preservation of capital. Following a lengthy discussion, it was decided to proceed with deletion of that phrase but to leave in the phrase "and maintenance of adequate SITF liquidity" and add "SITF" before "Policy Portfolio" in the second paragraph of the policy.

Interim Vice Chancellor Aldridge said there is a requirement that the investment policies be reviewed annually, so the entire policy will be reviewed between now and August. He added that this is more of an interim change for this section of the policy. Vice-Chairman Krier asked that specific language be included in the next (annual) review of the investment policy statements.

10. Presentation of Restatement of Historical Endowment Policy Portfolio Returns

Committee Meeting Information

Presenter(s): *Mr. Boldt*
Status: *Reported*
Future Actions:

1. *Have U. T. System staff and UTIMCO staff review possible presentations of restatement of historical endowment policy portfolio returns and how footnoted statements would look.*
2. *Vice-Chairman Krier asked that the State Auditor be consulted as this was "started by their original audit findings".*

Additional Agenda Item: (not bound in the original Agenda Book but mailed to members of the Board prior to the meeting, posted with the Secretary of State, and available on yellow paper at the meeting):

The Board of Directors of The University of Texas Investment Management Company (UTIMCO) presents the Report below on the Restatement of Historical Endowment Policy Portfolio (EPP) and Returns for the Permanent University Fund (PUF) and the General Endowment Fund (GEF) as an information item to the U. T. Board of Regents. The EPPs are the policy benchmarks against which the returns of the PUF, GEF, the Long Term Fund (LTF), and the Permanent Health Fund (PHF) are measured. The establishment of EPPs for the PUF and GEF and monitoring performance of the Funds relative to stated objectives are delegated to UTIMCO by the Investment Policy Statements of the PUF and GEF.

The UTIMCO Board of Directors approved the Restatement of Historical Endowment Policy Portfolio Returns for the PUF and GEF on May 6, 2004.

REPORT

The reasonableness of the historical benchmark returns has been questioned by the State Auditors as well as others. The State Auditors report, A Report Comparing Texas's Five Largest Long-Term Investment Funds, issued February 2003, noted that the PUF and LTF underperformed when compared with the returns of their policy index and briefly discussed the reasons. In response in the comment section, UTIMCO agreed that it would attempt to deal with several technical benchmark issues in order to provide more accurate performance comparisons in the future.

UTIMCO has now completed a thorough review of the asset class weights and benchmarks used in the establishment of EPPs. The overall issues with the EPPs were:

- With the first Policy Portfolio published in 1997, return for periods prior to 1997 were calculated using the policy portfolio allocation which existed in 1997, not to policy allocations that actually existed in the prior periods. In periods after 1997, the target weights approved by the UTIMCO Board were used immediately in calculating EPP returns rather than incorporating a phase-in period.

- Establishing the same target weights in a single EPP for the PUF and LTF/GEF without consideration that the PUF was not managed as a total return fund prior to November 1999 although the LTF/GEF was managed as a total return fund.

- Appropriateness of the benchmarks used for Private Capital in the EPPs.

Issues:

- With the first Policy Portfolio published in 1997, return for periods prior to 1997 were calculated using the policy portfolio allocation which existed in 1997, not to policy allocations that actually existed in the prior periods. In periods after 1997, the target weights approved by the UTIMCO Board were used immediately in calculating EPP returns rather than incorporating a phase-in period.

EPP returns are calculated on a monthly basis by multiplying the policy weights of each asset category with Asset Allocation Policy times the return for the benchmark index defined for each asset category and summing the results. UTIMCO began reporting EPP returns in 1997. At that time, the method used to calculate EPP returns prior to 1997 was to apply the asset allocation targets in existence in 1997 to selected benchmark returns in previous years. In years subsequent to 1997, it was standard procedure to apply then-current asset allocation targets to then-defined benchmarks. As asset allocation targets were changed through time, the changes were reflected immediately in the EPPs. Because benchmark changes were reflected immediately in historical EPPs but actual portfolios changed more gradually as investments were made at a measured pace, particularly in the relatively illiquid alternative asset categories, there was often a mismatch between the composition of the benchmark portfolio and actual portfolios, and hence differences in actual versus policy index returns. In periods where the benchmark returns of the illiquid asset categories are increasing rapidly relative to other categories in the policy portfolio, the comparison between actual returns and policy portfolio returns will be unrealistically biased in favor of the policy benchmark portfolio return. Of course, the opposite bias would occur in the opposite market conditions. The combination of these two factors incorrectly biased return comparisons for both the LTF/GEF and the PUF relative to the Policy Portfolio.

- Establishing the same target weights in a single EPP for the PUF and LTF/GEF without consideration that the PUF was not managed as a total return fund prior to November 1999 although the LTF/GEF was managed as a total return fund.

Before the passage of the constitutional amendment in November 1999, achievement of the PUF's investments objectives was substantially hindered by the inability to make distributions to the Available University Fund on a total return basis. The objective of preserving the purchasing power of the distribution stream subordinated the PUF's allocation among various asset classes to the production of current income to meet distribution needs. In the environment of low or declining interest rates which has existed in the past several years, a higher than optimal percentage of PUF investment assets were allocated to higher-yielding, fixed income securities in order to maintain distributions on a level-dollar basis. Throughout the 1980s and through 1992, in order to maintain above average payout rates, the majority of the LTF/GEF was invested in fixed income securities. After 1992, a more aggressive asset rebalancing program was put into place. Under the amended provisions of the Texas Uniform Management of Institutional Funds Act, which were amended in 1993, the Board of Regents was permitted to adopt a total return investment strategy. The Board of Regents adopted a total return spending policy in February of 1995 and recommended a long-term equity allocation goal to be achieved in five years. Accordingly, the LTF/GEF portfolio often differed in composition as compared to the PUF over the period 1993 through 1999. Therefore, it is inappropriate to compare past results of the PUF and LTF/GEF to the same policy benchmark. Because the 1999 Constitutional amendment converted PUF distributions to a total return basis, recent results are identical for the PUF and LTF/GEF benchmarks.

- Appropriateness of the benchmarks used for Private Capital in the EPP.

In the State Auditor's report, the benchmark utilized for Private Capital was an absolute return of 17%. The 17% was established by applying a 400-500 basis point premium to an estimated public markets return of 12%-13%. This static benchmark proved to be problematic given the reality of dynamic public market returns. To improve the benchmark, the Wilshire 5000 plus 4% was implemented in August 2002 to replace the static 17%. Although an improvement over the 17%, the Wilshire 5000 plus 4% is still problematic over shorter periods as a result of the inherent valuation lag between the private markets and the public markets.

The third item, the appropriateness of the benchmark for Private Capital, has been problematic since the inception of the asset class, not just for UTIMCO but for all other investment funds benchmarking a similar private capital portfolio. It has been recognized by the UTIMCO Board for some time that the previous benchmarks used were not appropriate for comparison, especially over periods of less than 10 years. In fact, the private equity industry uses an entirely different method of calculating returns than the traditional public markets industry. The challenge for funds incorporating both private equity and public market assets has been, and continues to be, to integrate the two different return calculation methodologies to produce a composite return for the funds. In situations where returns are evaluated only over very long time periods such as 10 years, a public markets based proxy such as Wilshire 5000 plus 4% might be appropriate. However, for short time period comparisons such as 1 to 5 years, the use of a more direct measure of the actual conditions in the private equity market is essential to avoid inappropriate conclusions. An important function of a policy benchmark is to provide a reliable yardstick for observers to judge how well UTIMCO management is performing relative to reasonable objectives. These comparisons are often made over periods as short as one year or less. Therefore, the proxy benchmarks, such as Wilshire 5000 plus 4%, and the flat rate benchmark, such as 17%, are inappropriate for the shorter term evaluations and may result in incorrect conclusions by these observers. As the table below indicates, both the flat 17% and the Wilshire 5000 + 4% benchmarks have low correlations to the actual historical private capital returns in the endowment portfolios.

Correlation Coefficients	UTIMCO and Venture Economics	UTIMCO and Wilshire +4%	UTIMCO and 17%
1 Year	0.9229	0.5162	0.0000
3 Years	0.8931	0.8882	0.0291
5 Years	0.9520	0.9710	0.0000

Correlation coefficients measure the statistical tendency of two variables to move in tandem over certain time periods. Two variables moving in perfect synchronization (but not necessarily at the same level) would have a correlation coefficient of 1.0; two variables with no relationship would have a correlation coefficient of 0.0. The table shows correlation coefficients for the actual UTIMCO private capital returns and returns for three benchmarks for all 1, 3, and 5 year time periods over the past 10 years. Returns for a well defined benchmark will have a relatively high correlation with the actual portfolio returns being evaluated by the benchmark. Note that the flat 17% is a poor benchmark over all time periods. The Wilshire 5000 + 4% benchmark has a high correlation for longer periods such as 5 years, but is a poor choice for shorter time periods. Only the Venture Economics Index meets the criteria of having high correlations across all time periods.

The Venture Economics Index has an important additional advantage relative to the Wilshire 5000 + 4% proxy benchmark. Since all private capital portfolios have well known valuation issues in calculating interim performance results, comparing actual private capital returns in the endowment portfolios to the Wilshire-based proxy index, which as a public markets index has no such valuation issues, could magnify the effects of the valuation issues. On the other hand, comparing the endowment funds' private capital results to the Venture Economics Index, which has the same valuation issues since it is based on all private capital investments in the marketplace, would effectively offset the valuation problems, and thus provide a more reliable measure of the relative performance of the private capital portion of the endowment portfolios.

UTIMCO recognizes that it is unusual to restate EPP or benchmark returns. However, this restatement addresses errors in the construction of the EPP and inappropriate benchmark selections. Because UTIMCO regularly provides returns for periods including one month, one quarter, one year, three years, five years and ten years, it is important not only to adopt appropriate benchmarks for future returns, but to restate prior benchmark returns as well so that observers have a correct basis for comparison not only prospectively, but for the past as well. The problems with phase-ins of asset allocation changes will be treated carefully in the future, but adjustments to past benchmark returns are necessary for data integrity. Because both the PUF and GEF are now total return Funds, there will be no need to maintain different EPPs in the future, however, because historical returns are shown for periods before 1999, it will be necessary to show two distinct historical EPP return series until at least 2009. The private capital benchmark issue is so severe, and would result in materially misleading comparisons over shorter term time periods, that, in UTIMCO's opinion, the change to the Venture Economic Index is essential for both future and past comparisons.

It is important to note that accounting rules recognize and require restatement in accounting situations similar to this. Accounting Principles Board (APB) pronouncements #9 and #20 address changes and corrections to previously reported information. Generally, these pronouncements state that if the impact of the restatement would be material, which is the case with the performance difference in this scenario, restatement is required.

The rules from the Association for Investment Management Research (AIMR) regarding benchmark constructions and restatement are less clear. UTIMCO requested an opinion from AIMR regarding the appropriateness of restating benchmarks and received the following reply:

> "Please see Standard 5.A.7., which provides, in part, that if the firm changes the benchmark that is used for a given composite in the performance presentation, the firm must disclose both the date and the reasons for the change.
>
> A benchmark can serve as a tool that measures the firm's effectiveness in implementing a style or strategy, or it can serve as the defining style to which the portfolios in the composite are managed. If a change in the benchmark represents a change in the composite's investment style or strategy, the firm must create a new composite.
>
> If the investment management style has not changed but the firm believes a new benchmark is a more appropriate comparative measure for the composite, the firm must explain in the composite presentation its reasons for changing the benchmark. In most cases, the firm should change the benchmark going forward and not change historical presentations of the original benchmark. However, because benchmarks are continually evolving, if the firm deems the new benchmark to be a better representation of an investment strategy, the firm may consider changing the benchmark retroactively. Firms must disclose any changes to the benchmark over time. The firm must disclose the date the benchmark is changed and the reason it has been retroactively applied. In addition, firms are encouraged to continue to present

> the old benchmark. Changes to the benchmark primarily intended to make historical performance look better by lowering the benchmark return, violate the spirit of the Standards."

For the reasons identified earlier, UTIMCO believes that the benchmark changes indicated would provide a much more accurate and reliable representation of the endowment funds investment strategy both prospectively and retrospectively, are not being done primarily to make investment results look better, meet both Accounting Principles Board and AIMR standards for being retroactively applied, and are therefore appropriate and in the best interests of the endowment funds.

The specific actions taken to restate EPP returns were:

- To correct the issues of using 1997 asset allocation targets for all prior Policy Portfolio calculations, not incorporating appropriate phase-in periods, and establishing the same target weights for the PUF and GEF/LTF, UTIMCO staff consulted Board of Regents and UTIMCO Board minutes and materials to determine the policy provisions in place through the period under review. Quarterly reports from 1992 through the current period were accumulated to determine actual asset allocations for the PUF and LTF/GEF for the same quarterly periods as the policy allocations. The PUF and LTF/GEF were treated differently in regards to a phase-in. Based on the fact that PUF was restrained due to the distribution of income requirement, the benchmark weights were phased in more closely with actual percentage weights of the PUF. In the asset classes, such as the Private Capital area, where it was not possible to build a portfolio immediately, LTF/GEF asset allocations were phased in straight-line over time periods that were deemed reasonable in consideration of the time it would take to adjust the actual Fund allocation to reflect those changes. The benchmark indices used in the calculations were those approved in the Policy statements except for Private Capital. By the year 2000, the benchmarks have been completely phased in.

- To correct the problem with the Private Capital benchmark, the prior period benchmark indices were replaced with the Venture Economics Periodic IRR index. This replacement occurred in both the PUF and LTF/GEF policy portfolios beginning with 1993.

The results of these restatements are indicated in the table below for several periods ending February 29, 2004:

	Periods Ended February 29, 2004 (Returns for Periods Longer Than One Year are Annualized)						
	One Month	Three Months	Six Months	One Year	Three Years	Five Years	Ten Years
Permanent University Fund	2.49	8.34	15.49	31.74	5.29	6.05	9.74
Permanent University Fund Policy Portfolio	1.36	5.50	10.64	21.34	1.63	5.12	10.48
General Endowment Fund	2.33	8.22	15.61	32.56	5.89	N/A	N/A
Permanent Health Fund	2.31	8.15	15.45	32.31	5.74	N/A	N/A
Long Term Fund	2.31	8.14	15.45	32.38	5.81	7.56	10.44
General Endowment Fund Policy Portfolio	1.36	5.50	10.64	21.34	1.69	5.34	10.44
Policy Portfolio Before Restatement	1.36	6.12	11.89	27.38	4.21	5.37	10.41

The general form of performance reporting, including a footnote indicating that benchmarks were restated and offering restatement details and prior Policy Portfolio returns, is presented as follows:

	Periods Ended February 29, 2004 (Returns for Periods Longer Than One Year are Annualized)						
	One Month	Three Months	Six Months	One Year	Three Years	Five Years	Ten Years
Permanent University Fund	2.49	8.34	15.49	31.74	5.29	6.05	9.74
Permanent University Fund Policy Portfolio *	1.36	5.50	10.64	21.34	1.63	5.12	10.48
General Endowment Fund	2.33	8.22	15.61	32.56	5.89	N/A	N/A
Permanent Health Fund	2.31	8.15	15.45	32.31	5.74	N/A	N/A
Long Term Fund	2.31	8.14	15.45	32.38	5.81	7.56	10.44
General Endowment Fund Policy Portfolio *	1.36	5.50	10.64	21.34	1.69	5.34	10.44

* Policy Portfolio returns for the PUF and GEF were restated in 2004 to correct errors in benchmark construction and calculation. Results were restated for all periods beginning June 1993. The complete details of the restatement as well as prior Policy Portfolio returns are available upon request.

If additional information is requested, a document in the form of Attachment A will be provided.

UTIMCO requested Bruce Myers of Cambridge Associates, Inc. to review the methodology and supporting calculations and documentation and opine on restatement of EPPs. Mr. Myers explained that although it may not be general industry practice to restate benchmarks, he concurred with this retroactive restatement and the methodology used since it corrected errors in the construction of the historical EPP returns and would result in a more fair and accurate representation of historical relative performance for the endowment funds.

Attachment A

Procedures Used to Restate Prior Policy Portfolio Returns

Policy Portfolio returns for all periods beginning June 1993 were restated in 2004 to correct three technical errors in previously reported Policy Portfolio returns:

1. UTIMCO began publishing Policy Portfolio returns in 1997. At that time, Policy Portfolio returns for periods prior to 1997 were calculated using the policy asset allocation targets in place in 1997 rather than the actual approved allocations in prior years. In addition, when changes were made in asset allocation targets subsequent to 1997, those changes were implemented immediately in calculating Policy Portfolio returns, despite that fact that the changes might take years to actually implement especially in less liquid asset categories. As a result, prior Policy Portfolio returns did not accurately reflect either the true Asset Allocation Policies in place at each point in time in history or the practical implementation of those Policies. In order to correct these errors, UTIMCO analyzed Board of Regents' minutes, UTIMCO Board minutes, and actual quarterly asset statements for the PUF and GEF/LTF for the period 1992 through 2003. Changes in Policy Allocations for liquid asset categories such as public equities and bonds were implemented almost immediately in the LTF/GEF's Policy Portfolio. However, changes in allocations to the LTF/GEF's private equity and hedge funds were phased in on a straight-line basis over time periods that were deemed reasonable to reflect the actual time it would take to implement those changes in the actual endowment portfolios. The PUF was phased in more closely aligned with actual asset allocation due to the restraints placed on it from the distribution requirements. A senior consultant at Cambridge Associates reviewed the phase-in procedures and found them to be reasonable.
2. Since the time it began reporting Policy Portfolio returns in 1997, UTIMCO has reported a single Policy Portfolio return for each time period for comparison to both the PUF and GEF/LTF. However, prior to Texas State Proposition 17 in 1999, the PUF asset allocation was constrained by the necessity to maintain a relatively level annual distribution which could be paid only out of current income. Proposition 17 converted the PUF to a so-called “total return” basis in which distributions could be paid out of either income or principal. The GEF/LTF had paid distributions on a “total return” basis since 1987. In a period of generally declining interest rates over the late 1990’s, the PUF was forced into asset allocation positions that differed substantially from stated Investment Policy Targets which were apparently set without consideration of the income requirements (there was no differentiation in Asset Allocation Policy for the PUF and the GEF/LTF) in order to meet income requirements to pay distributions. To correct this error in Policy Portfolio construction, the phase-in process described above was done differently for the PUF Policy Portfolio than for the GEF/LTF Policy Portfolio, resulting in different returns for the two benchmarks. Phase-ins for the PUF were defined to more closely mirror the actual holdings in the PUF since the need to generate current income sometimes precluded a smooth linear phase-in as used in the case of the GEF/LTF. A senior consultant from Cambridge Associates reviewed the assumptions for both the PUF and GEF/LTF and found them to be appropriate.
3. Like many investors in the private capital asset category, UTIMCO has had difficulty determining an appropriate benchmark for the asset category. Over the 1993 through 2004 time period, UTIMCO has used at various times a flat 17% benchmark, a Wilshire 5000 +4% benchmark, and has recently adopted the Venture Economics Periodic IRR Index to evaluate actual private capital performance. Both the flat 17% benchmark and the Wilshire 5000 + 4% proxy benchmark have serious flaws. An essential trait of any appropriate benchmark is that returns for the benchmark should have a high degree of correlation with the actual returns of the portfolio to which the benchmark is being used as a comparison. As the table on the following page indicates, the flat 17% and Wilshire 5000 + 4% benchmarks fail this essential test, especially over shorter time frames. These correlation measures were calculated from actual data over the 1993 to 2003 time period.

Correlation Coefficients	UTIMCO and Venture Economics	UTIMCO and Wilshire +4%	UTIMCO and 17%
1 Year	0.9229	0.5162	0.0000
3 Years	0.8931	0.8882	0.0291
5 Years	0.9520	0.9710	0.0000

While the Wilshire proxy benchmark might be appropriate for longer term time periods such as 5 to 10 years, it is clearly not appropriate over shorter time periods such as one year. The flat 17% benchmark is not appropriate over any time period. On the other hand, the Venture Economics Index passes this important test over all time periods. Since we know that this Index has been a good benchmark over the ten-year period that historical results are provided by the statistics above, the Venture Economics Index has been applied retroactively as the private capital asset category benchmark.

The composite result of the restatements of historical Policy Portfolio returns are indicated in the table below. The table also presents Policy Portfolio returns under the prior methods of calculation.

	Periods Ended February 29, 2004 (Returns for Periods Longer Than One Year are Annualized)						
	One Month	Three Months	Six Months	One Year	Three Years	Five Years	Ten Years
Permanent University Fund	2.49	8.34	15.49	31.74	5.29	6.05	9.74
Permanent University Fund Policy Portfolio	1.36	5.50	10.64	21.34	1.63	5.12	10.48
General Endowment Fund	2.33	8.22	15.61	32.56	5.89	N/A	N/A
Permanent Health Fund	2.31	8.15	15.45	32.31	5.74	N/A	N/A
Long Term Fund	2.31	8.14	15.45	32.38	5.81	7.56	10.44
General Endowment Fund Policy Portfolio	1.36	5.50	10.64	21.34	1.69	5.34	10.44
Policy Portfolio Before Restatement	1.36	6.12	11.89	27.38	4.21	5.37	10.41

Discussion at meeting:

In response to an inquiry by Regent Estrada, Committee Chairman Hunt explained that the Restatement of Historical Endowment Policy Portfolio and Returns for the Permanent University Fund and the General Endowment Fund, a late item before the Board on yellow paper, has no impact on actual results or comparison to peers. He cited issues related to the restatement: (1) making the policy portfolio established in 1997 retroactive for the 10 years prior to UTIMCO's creation; (2) changing the PUF to be managed as a total return fund; and (3) the need to develop benchmarks in the private equity area, a relatively new asset class. Mr. Hunt emphasized that the restatement has nothing to do with real returns, but rather compares performance with the policy for the last 10 years. Committee Chairman Hunt said he favored applying best practices retroactively and including extensive footnotes so it is fully understood what the benchmarks were, what they are going forward, and what the differences are. He said the restatement was passed by the UTIMCO Board last week and some people have expressed doubts about it. Because the restatement covers three years prior to establishment of UTIMCO and five years under different management at UTIMCO, Committee Chairman Hunt believes this *is a policy decision at The University of Texas level and a portrayal of long-term experience in managing its funds and how real performance is compared against policy benchmarks.*

Regent Estrada and Regent Huffines said they support going forward with the restatement, but do not support making it retroactive. Mr. Steve Voss of Ennis Knupp + Associates acknowledged that it is unusual to change benchmarks retro-actively but would advocate a retroactive change if there were a clear mistake made in application of benchmark and policy and the historic record can prove the mistake.

Chairman Hunt questioned the consequences of converting from one benchmark to another once a high rate of return is embedded and not making it retroactive. He reminded the Committee that this was an informational item that had been passed by the UTIMCO Board and suggested that the U. T. System staff and UTIMCO staff revisit the issue and consider how footnoted statements would look.

Vice-Chairman Krier asked that the State Auditor be consulted as this was "started by their original audit findings".

Mr. Boldt said it is important to remember that the endowment portfolio returns are created as the best representation of how money is managed, but there are errors in how the policy portfolio was constructed. Committee Chairman Hunt asked that best practices be looked at and brought back before the Committee.

ADJOURNMENT

Committee Chairman Hunt announced that the purpose for which this meeting was called had been completed, and the meeting was duly adjourned at 1:40 p.m.

MINUTES
U. T. Board of Regents
Academic Affairs Committee
May 12, 2004

The members of the Academic Affairs Committee of the Board of Regents of The University of Texas System convened at 9:10 a.m. on Wednesday, May 12, 2004, in the Board Meeting Room 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 and absent:

Attendance	Absent
Vice-Chairman Krier, presiding	Regent Craven
Regent Caven	Regent Huffines
Regent Estrada	

Also present were Vice-Chairman Hunt, 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, Chairman Krier called the meeting to order.

1. U. T. Board of Regents: Approval to amend the Regents' Rules and Regulations regarding academic titles (Part One, Chapter III, Section 1, Subsection 1.6, Subdivision 1.62)

Committee Meeting Information
Presenter(s): *Dr. Sullivan*
Status: *Approved*
Motion: *Made by Regent Estrada, seconded by Regent Caven, 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 Health Affairs, and the Vice Chancellor and General Counsel that the Regents' Rules and Regulations, Part One, Chapter III, Section 1, Subsection 1.6, Subdivision 1.62, regarding academic titles, be amended to add a new Item (d) to Subparagraph 1.624 as set forth on the following page in congressional style and to renumber current Item (d) as Item (e).

Sec. 1. <u>Appointments</u>

. . .

1.6 <u>Appointment of Faculty</u>

. . .

1.62 <u>Academic Titles</u>

. . .

1.624 . . .

(d) <u>Adjoint Professor, Adjoint Associate Professor and Adjoint Assistant Professor</u>

<u>These titles may be used by the component institutions to designate faculty who serve the institution in cooperative or joint programs pursuant to a memorandum of understanding, cooperative research and development agreement, or similar partnership instrument. Persons holding these titles will be employees of and compensated by the partnership organization. They will not be deemed employees of the component institution. They will, however, have the same obligations, responsibilities, and authority as regular faculty employed directly by the component institution when performing faculty functions pursuant to the agreement. Appointments will usually be part-time for the purpose of supervising theses and dissertations or for teaching highly specialized courses. The term of the appointment shall be specified in the agreement with the partner organization.</u>

<u>BACKGROUND INFORMATION</u>

The addition of the Adjoint prefix for academic titles in the Regents' <u>Rules and Regulations</u>, Part One, Chapter III, Section 1, Subsection 1.6 will allow U. T. component institutions to designate individuals as faculty members with similar obligations, responsibilities, and authority as regular faculty, who are employees of partnership entities in joint or cooperative research and instructional programs. Adjoint faculty will not be deemed employees of the component institution nor will they be eligible for tenure status.

Discussion at meeting:

Executive Vice Chancellor Sullivan said the request to add the "adjoint" title to the Regents' <u>Rules and Regulations</u> stems from a proposed affiliation between the physics department at U. T. San Antonio and Southwest Research Institute (SRI) *and would provide SRI physicists with a title more in line with what is used at a national laboratory. Committee Chairman Krier said that the title "adjunct" could still be used as needed and confirmed with President Romo that this addition meets U. T. San Antonio's needs.*

2. U. T. Arlington: Authorization to purchase real property at 415 South Oak Street, Arlington, Tarrant County, Texas; and approval of parity debt

Committee Meeting Information
Presenter(s): *President Spaniolo* ***Status:*** *Approved* ***Motion:*** *Made by Regent Caven, seconded by Regent Estrada, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Interim Vice Chancellor for Business Affairs, and President Spaniolo that the U. T. Board of Regents:

a. authorize the Executive Director of Real Estate to take all steps necessary to purchase the property located at 415 South Oak Street, Arlington, Tarrant County, Texas, and to execute all documents related thereto; 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 acquisition 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. Arlington, 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 $1.3 million.

BACKGROUND INFORMATION

U. T. Arlington is requesting Board of Regents' approval to purchase the Aquarius Apartment property located at 415 South Oak Street in Arlington. The subject property consists of a 52-unit apartment complex on a 0.9986-acre site that lies within the Board of Regents' approved Campus Master Plan boundaries and is identified in the approved Campus Master Plan as a "First Priority Acquisition". It also lies within the legislatively approved zone for campus land acquisitions.

The current owner has agreed to sell the property at its appraised market value of $1.3 million. Upon acquisition, the apartments will be added to the U. T. Arlington facilities inventory and will help to satisfy the current demand for university-owned housing. The terms and conditions are as reflected in the transaction summary below:

Transaction Summary

Component:	U. T. Arlington
Type of Transaction:	Purchase
Property Name:	Aquarius Apartments
Property Address:	415 South Oak Street
Type of Property:	52-unit apartment complex
Year Built:	Approximately 1971
Site:	45,300 square feet (0.9986 acres)
Improvements:	32,056 gross square feet 31,446 rentable square feet
Parking:	76 spaces
Purchase Price:	$1.3 million
Price Per Unit:	$25,000
Price Per Rentable S.F.:	$41.34
Appraised Value:	$1.3 million (Hanes Appraisal Company, James S. Hanes, MAI, December 19, 2003)

Discussion at meeting:

President Spaniolo said the property is an apartment complex within the Campus Master Plan boundaries and the legislatively approved zone for campus land acquisitions. U. T. Arlington would like to acquire the property and make renovations and upgrades for University housing. He said this is consistent with what has been done in recent years to add to the number of units for student housing either on or immediately adjacent to campus.

3. <u>U. T. Arlington: Determination of necessity and authorization to acquire real property located at 124 Southdale Drive, Arlington, Tarrant County, Texas, by purchase or condemnation, if necessary</u>

Committee Meeting Information
Presenter(s): *President Spaniolo* ***Status:*** *Approved* ***Motion:*** *Made by Regent Caven, seconded by Regent Estrada, and carried unanimously*

Agenda Item:

<u>RECOMMENDATION</u>

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Interim Vice Chancellor for Business Affairs, and President Spaniolo that authorization be granted by the U. T. Board of Regents, on behalf of U. T. Arlington, to:

a. determine that it is necessary for U. T. Arlington to acquire, through condemnation proceedings if necessary, the real property and improvements located at 124 Southdale Drive, Arlington, Tarrant County, Texas, at a price not to exceed its fair market value as determined by an independent appraisal or by the determination of the court; and

b. authorize the Executive Director of Real Estate to execute all documents, instruments, and other agreements, and to initiate a condemnation action of the subject property, if necessary, through the U. T. System Office of General Counsel and the Office of the Attorney General of the State of Texas, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations.

[See Item 4 on Page 70 of the Agenda Book related to proposed construction of Student Apartments.]

BACKGROUND INFORMATION

The subject property is located within the land acquisition boundary authorized by the Texas Legislature in 1967, and is legally described as Lot 3, Block 2, Southdale Addition to the City of Arlington, Tarrant County, Texas. U. T. Arlington's highest independent appraisal of the property is $66,000, well below the owner's asking price of $120,000. The property consists of a lot containing approximately 9,450 square feet, and a nonowner occupied house containing 852 square feet. After acquisition, U. T. Arlington intends to demolish the improvements and use the land as part of a site on which to construct new student housing units (Silver Stone Apartments) that are included in the approved FY 2004-2009 Capital Improvement Program. The schedule for this apartment project includes a construction start date of September 1, 2004, and a completion date of July 2005. The property acquisition terms and conditions are as reflected in the transaction summary below:

Transaction Summary

Component:	U. T. Arlington
Type of Transaction:	Purchase or Condemnation
Property Address:	124 Southdale Drive
Type of Property:	Single Family Residential (nonowner occupied)
Year Built:	Approximately 1955
Site:	9,450 square feet
Improvements:	852 square feet
Purchase Price:	Fair market value (as determined by independent appraisals or by the court)
Source of Funding:	Local Fund Balances
Appraised Value:	$66,000 (Dennis Jorgensen, SRA, January 23, 2004)
Asking Price:	$120,000

Discussion at meeting:

President Spaniolo said acquisition of the property was needed to proceed with new apartments. Due to a disagreement in the purchase price based on the appraisal, there was a possibility of condemnation proceedings. However, all issues have now been resolved and the property is ready to close.

4. U. T. Austin: LBJ Plaza Renovation/Lady Bird Johnson Center - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include project

Committee Meeting Information

Presenter(s): *President Faulkner*
Status: *Approved*
Motion: *Made by Regent Estrada, seconded by Regent Caven, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Interim 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 LBJ Plaza Renovation/Lady Bird Johnson Center project at U. T. Austin.

Architecturally or Historically Significant: (Note: Item is before the Board; see Item 1 on Page 67 of the Agenda Book.)

Project Delivery Method: Construction Manager at Risk

Substantial Completion Date: February 2007

Total Project Cost:

Source	Current	Proposed
Grants	-	$15,000,000
Unexpended Plant Funds		$15,000,000
		$30,000,000

Project Description: This project consists of the rehabilitation and modification of the elevated plaza and drainage system surrounding the LBJ Library, which has leaked for many years. Finishes in the lecture hall and auditorium of the building, which have been damaged by water infiltration, will be repaired. The 1,000-seat LBJ Auditorium will be modified to allow for a better setting for smaller events. Additionally, a portion of the elevated plaza will be replaced with a garden and amphitheater honoring Lady Bird Johnson.

This project is required to repair the cause of serious water damage that is degrading exterior structural components and interior finishes. Several pieces of the exterior travertine cladding have fallen from the building because of water infiltration and a corroded support system. The drainage system is undersized and improperly designed, contributing to the water infiltration. The new Lady Bird Johnson Center and Amphitheater would eliminate part of the plaza that leaks and provide a more functional space between the LBJ Library and the LBJ School of Public Affairs. Federal funding will be provided in association with the LBJ Library, a federal facility.

This 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:

President Faulkner said this is a complex project because the LBJ Library is a federal asset and U. T. Austin shares responsibility with the U.S. National Archives and Records Administration for maintenance of the facility. He summarized the major repairs needed, emphasizing the urgency since there are safety concerns. Additionally, President Faulkner said the LBJ Foundation would like to create a garden and amphitheater honoring Mrs. Johnson and said Senator Hutchison is working on obtaining federal funds for the project.

Committee Chairman Krier confirmed that tuition dollars would not be used for this project. In response to an inquiry from Regent Krier, President Faulkner gave details about the proposed plan for the amphitheater and said the LBJ Auditorium would still accommodate large as well as small events. Committee Chairman Krier suggested collaborating with the Lady Bird Johnson Wildflower Center to create the garden in Mrs. Johnson's honor since the Center is such an important part of her legacy.

Chancellor Yudof congratulated President Faulkner on moving the LBJ Plaza Renovation/Lady Bird Johnson Center project along to correct longstanding problems and to protect this heritage. He also said it was noteworthy that President Faulkner was bringing in federal government funds to support this project.

5. U. T. Dallas: Approval of Ph.D. in Geospatial Information Sciences

Committee Meeting Information

Presenter(s): *President Jenifer*
Status: *Approved*
Motion: *Made by Regent Caven, 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 Doctor of Philosophy (Ph.D.) in Geospatial Information Sciences at U. T. Dallas and to submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action. 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

Powerful new technologies have emerged in recent years to collect, store, manage, analyze, and utilize information regarding the features of the Earth's surface and to combine these with other types of social, economic, and environmental information. These technologies include geographic information systems, the global positioning system, and satellite based remote sensing, and are utilized in many ways such as digital maps in rental and delivery vehicles; management and maintenance of city infrastructure, regional agriculture, and forest lands; policing of communities; and the conduct of modern warfare.

Program Quality

Twelve full-time tenured and tenure-track faculty from the School of Social Science, the Department of Geosciences, and the Department of Computer Science will form the core of the program. These faculty currently support the existing Master of Science in Geographic Information Sciences, as well as the Master of Science and Ph.D. degrees in Computer Science and Geosciences. In addition, two full-time tenure-track faculty will be added to support the proposed program. Part-time faculty are not currently used in the existing Master of Science in Geographic Information Sciences and are not projected for the proposed doctoral program. No graduate student assistants will be used to teach courses; however, graduate assistants will be required for computer support.

Program Cost

Estimated expenditures for the first five years of the proposed Ph.D. in Geospatial Information Sciences total $640,435. This includes $236,436 in new faculty salaries; $180,564 for new graduate assistants; $119,456 for new library and information technology resources; $43,000 for supplies, materials, and equipment; $32,606 for clerical support; and $28,373 for new program administration costs.

U. T. Dallas will commit $374,762 of existing resources from a combination of interest income and general, non-state institutional funds in addition to $265,673 in formula funding to finance the first five years of the program.

Discussion at meeting:

President Jenifer said several years ago the Board approved an increase in the number of Ph.D.s with the advice that they were to be built on strong Master's programs. Committee Chairman Krier asked Dr. Jenifer if he thought students would be interested in the proposed Ph.D. program and he replied they would due to U. T. Dallas' strong Master’s program in the School of Social Sciences. Executive Vice Chancellor Sullivan added that this is a doctoral degree that plays well to the strengths of U. T. Dallas, is a perfect fit for faculty, and will produce very strong graduates.

6. **<u>U. T. Dallas: Authorization to purchase land and improvements located at 2200 Mockingbird Lane, Dallas, Dallas County, Texas</u>**

Committee Meeting Information
Presenter(s): *President Jenifer, Mr. Jim Wilson* ***Status:*** *Approved* ***Motion:*** *Made by Regent Estrada, seconded by Regent Caven, and carried unanimously*

Agenda Item:

<u>RECOMMENDATION</u>

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Interim Vice Chancellor for Business Affairs, and President Jenifer that authorization be granted by the U. T. Board of Regents, on behalf of U. T. Dallas, to:

a. purchase the land and improvements located at 2200 Mockingbird Lane, Dallas, Dallas County, Texas;

b. acknowledge the purchase price is less than the fair market value as determined by independent appraisals;

c. submit a request to the Texas Higher Education Coordinating Board for approval of the transaction, if necessary; and

d. authorize the Executive Director of Real Estate to execute all documents, instruments, and other agreements, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations.

<u>BACKGROUND INFORMATION</u>

U. T. Dallas wishes to acquire the subject property to expand operations and space for the Center for BrainHealth, which was established as a component of the teaching and research activities of the Callier Center for Communication Disorders in 1999. The Center has grown beyond the capacity of that facility, which cannot be expanded due to the constrained site. The property is in close proximity to the Imaging Center at U. T. Southwestern Medical Center - Dallas, facilitating access to users of the BrainHealth Center and promoting future development of collaborative research efforts of U. T. Dallas, U. T. Southwestern Medical Center - Dallas, and U. T. Arlington in the areas of cognitive neuroscience and imaging.

The property is being purchased from Forest Properties, L.P., for $3.3 million. In the event that the closing occurs on or before July 1, 2004, the purchase price will be reduced by $100,000. Mr. Joe M. Graham of Graham Investments, Inc., who represented the University, will receive a commission from the seller out of the proceeds from the sale. The seller may claim a tax deduction for a bargain sale to the University. The terms and conditions of this purchase are as reflected in the transaction summary below:

Transaction Summary

Component:	U. T. Dallas (Center for BrainHealth)
Type of Transaction:	Purchase
Property Address:	2200 Mockingbird Lane
Type of Property:	Office building, surface parking, and surplus land
Year Built:	1970
Site:	Approximately 3.546 acres
Improvements:	45,809 net leasable square feet
Parking:	134 spaces
Purchase Price:	\$3.2 million if purchased by July 1, 2004 \$3.3 million if purchased after July 1, 2004
Price Per Rentable S.F.:	\$72.50 before July 1, 2004 \$74.76 after July 1, 2004
Appraised Value:	\$3.3 million by Mark Donoho, MAI, dated April 2004 \$3.9 million by Harry B. Hunsicker, MAI, dated April 2004
Broker:	Mr. Joe Graham, Graham Investments, Inc., 3% by seller
Source of Funds:	Private gifts

Discussion at meeting:

President Jenifer noted the success of the Center for BrainHealth and said the director of that Center has been instrumental in garnering support from the philanthropic community of Dallas for the program. He said the property to be purchased is close to the downtown area and U. T. Southwestern Medical Center - Dallas, facilitating collaboration in the health-related field. Committee Chairman Krier confirmed that this purchase will be entirely paid for with private funds and noted that is an impressive fact.

Mr. Jim Wilson, Executive Director of Real Estate, said the property is an especially fortunate real estate acquisition because of its proximity to U. T. Southwestern Medical Center - Dallas which shares its imaging center with U. T. Dallas. He said the building to be purchased is substantial and although it will require some renovation, it will also provide a ready access for collaborations between the two institutions.

7. U. T. Dallas: Authorization to amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to reduce the total project cost for the Founders/Founders Annex/Berkner Renovation; approval to purchase real property located at 17919 Waterview Parkway, Dallas, Dallas and Collin Counties, Texas; and approval to add the renovation project and purchase to the CIP

Committee Meeting Information
Presenter(s): *President Jenifer, Mr. Jim Wilson*
Status: *Approved*
Motion: *Made by Regent Estrada, seconded by Regent Caven, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Interim Vice Chancellor for Business Affairs, and President Jenifer that authorization be granted by the U. T. Board of Regents, on behalf of U. T. Dallas, to:

a. amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to reduce the total project cost for the Founders/Founders Annex/Berkner Renovation at U. T. Dallas as follows:

	From	To
Permanent University Fund (PUF) Bond Proceeds	$15,000,000	$ 5,300,000
Tuition Revenue Bond Proceeds	$21,993,750	$21,993,750
	$36,993,750	$27,293,750

b. approve the addition of the 17919 Waterview Parkway project to the CIP;

c. approve the transfer of funds of $9,700,000 from PUF Bond Proceeds for the purchase of the real property and the renovation project;

d. purchase the real property and improvements located at 17919 Waterview Parkway, Dallas, Dallas and Collin Counties, Texas, at a total price of $6,000,000 plus related closing costs;

e. submit a request to the Texas Higher Education Coordinating Board for approval of the transaction; and

f. authorize the Executive Director of Real Estate to execute all documents, instruments, and other agreements, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations.

BACKGROUND INFORMATION

U. T. Dallas wishes to acquire the land and facility directly across the street west of the campus, Waterview Parkway, to use for research space for the Schools of Natural Sciences, Mathematics, Engineering, and Computer Science. The property is being purchased from First Industrial Texas, L.P., for $6,000,000. The proposed source of acquisition funding is a reallocation of PUF Bond Proceeds previously approved for the Founders/Founders Annex/Berkner Renovation project. U. T. Dallas plans to relocate most of the occupants from the Founders area into the 17919 Waterview Parkway facility and other campus areas. The project will be added to the CIP as a purchase and renovation project, with a breakdown of $6,000,000 for the purchase, $2,950,000 for renovations, and $750,000 for equipment and furnishings. The furnishings and equipment that are installed, wired, and operational for immediate occupancy will be purchased separately for $750,000, based on the total value determined by U. T. Dallas. Purchase and occupation of this building will allow for the needed fire and life safety improvements to the Founders, Founders Annex, and Berkner buildings.

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

Transaction Summary

Component:	U. T. Dallas
Type of Transaction:	Purchase
Property Address:	17919 Waterview Parkway
Type of Property:	Two-story office/flex building
Seller:	First Industrial Texas, L.P.
Contract Price:	$6 million ($83.43 per square foot)

Appraised Value:	\$5.7 million (Mark Donoho Co., February 17, 2004) \$6 million (Land America Commercial Services, February 17, 2004)
Construction:	Concrete, slab with concrete and steel bar joists and I-beam columns; brick, concrete, and tinted glass panels
Property Size:	4.885 acres (212,790 square feet)
Parking:	216 surface parking spaces
Flood Hazard:	Outside of federally designated flood area
<u>Equipment</u>:	Being purchased separately by U. T. Dallas
Description:	Furnishings and equipment that are installed, wired, and operational
Contract Price:	\$750,000
Valuation (UTD):	\$750,000

Discussion at meeting:

President Jenifer provided general background on the repairs needed to the Founders, Founders Annex, and Berkner buildings and said purchase of the new property would provide space for the occupants of the Founders area during the renovation project. He said that \$10 million in Permanent University Funds of the \$37 million originally allocated for the renovation project would be used for the purchase and renovation of the new building.

Mr. Wilson said the building to be acquired on Waterview Parkway is directly across the street from U. T. Dallas. He said this is a good transaction because the current supply in Dallas is far below the inflation cost.

8. U. T. Pan American: Child Development Center - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include project; appropriation of funds and authorization of expenditure; and authorization of institutional management

Committee Meeting Information
Presenter(s): *President Nevárez*
Status: *Approved*
Motion: *Made by Regent Estrada, seconded by Regent Caven, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Interim Vice Chancellor for Business Affairs, and President Nevárez 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 Child Development Center project at U. T. Pan American.

Architecturally or Historically Significant: (Note: Item is before the Board; see Item 1 on Page 67 of the Agenda Book.)

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: June 2006

Total Project Cost:

Source	Current	Proposed
Unexpended Plant Funds	-	$1,594,000

Additional Recommendations:

a. approve a preliminary project cost of $1,594,000 with funding from Unexpended Plant Funds;

b. appropriate funds and authorize expenditure of $1,594,000 from Unexpended Plant Funds; and

c. authorize U. T. Pan American to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts.

Project Description: This facility will be constructed for approximately 140 children of students, faculty, and staff. The location will be adjacent to the existing Education Complex and will allow academic observation and facilitate applied research programs.

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

This 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:

President Nevárez summarized the project and said the architectural design will be similar to other campus facilities. He said child care has been a priority and the location of the new facility will provide easy access for students and faculty. Committee Chairman Krier confirmed that the project would be managed at the campus level. Executive Vice Chancellor Sullivan noted the facility will provide an opportunity for unobtrusive observation by college students who are studying development psychology or early childhood education. Committee Chairman Krier added that this is an excellent example of the U. T. System's commitment to K-16 learning.

9. U. T. San Antonio: Approval to enter into a collaborative agreement with the City of San Antonio to expand the Downtown Campus through an exchange of three parcels of land and to engage in a long-range plan for the Institute of Texan Cultures; and authorization to acquire the leasehold interest in the improvements located at 301 South Frio Street, San Antonio, Bexar County, Texas

Committee Meeting Information
Presenter(s): *President Romo*
Status: *Approved*
Motion: *Made by Regent Caven, seconded by Regent Estrada, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Interim Vice Chancellor for Business Affairs, and President Romo that authorization be granted by the U. T. Board of Regents, on behalf of U. T. San Antonio, to:

a. finalize a formal resolution between the Board and the City of San Antonio to embody the points summarized in the transaction summary attached on the following page;

b. exchange a 6.0027-acre tract out of the Institute of Texan Cultures campus, San Antonio, Bexar County, Texas, for two tracts of land located at 700 West Commerce Street and 301 South Frio Street in San Antonio, with each of the parties responsible for their respective expenses to complete the transactions;

c. authorize the Executive Director of Real Estate to enter into an agreement to purchase the leasehold interest in the improvements located at 301 South Frio Street in San Antonio for a price not to exceed the fair market value as determined by independent appraisers;

d. submit requests to the Texas Higher Education Coordinating Board for approval of the transactions, if necessary;

e. authorize the Chancellor to execute a formal resolution that summarizes the collaborative agreement between the Board of Regents and the City of San Antonio as outlined on Pages 54 - 55 of the Agenda Book; and

f. authorize the Executive Director of Real Estate or the Interim Vice Chancellor for Business Affairs to execute all documents, instruments, and other agreements, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations.

BACKGROUND INFORMATION

The Executive Director of Real Estate has negotiated an agreement to expand the Downtown Campus of U. T. San Antonio by exchanging a surplus 6.0027-acre tract of land with facilities out of the campus of the Institute of Texan Cultures for two tracts of land across the street from the Downtown Campus. One of the tracts to be acquired on behalf of U. T. San Antonio is a parking lot with a vacant drive-thru bank facility; the other is improved with a 91,650 square foot office building and paved parking lot. The parking lot will be used for parking until funding is obtained to construct additional classrooms and offices. The existing office building will be converted to exclusive use by the University as quickly as the existing leases terminate. Funding for costs associated with the exchanges of land will be from Local Fund Balances, with funding for the purchase of the leasehold interest to be paid with Revenue Bond Proceeds.

Summary of Proposed Real Estate Transactions

Exchanges of real property

Board of Regents to City of San Antonio:

Land:	6.0027 acres out of the Institute of Texan Cultures campus in Hemisfair Park in San Antonio, Texas
Improvements:	3 vacant buildings (former exhibit space for Hemisfair)
Current use:	Parking, surplus storage, and open space
Appraised value:	$2.09 million per Dugger, Canaday, Grafe, Inc. (March 24, 2004)

City of San Antonio to Board of Regents:

- Tract A: 2.077 acres at 700 West Commerce Street in San Antonio, Texas

  Improvements: Paved parking lot with approximately 300 spaces and a vacant drive-thru bank facility

  Current use: Public parking

  Appraised value: $1.72 million per Dugger, Canaday, Grafe, Inc. (February 11, 2004)

- Tract B: Leased fee interest in 5.297 acres of land at 301 South Frio Street in San Antonio, Texas

  Improvements: Not part of this transaction (see below)

  Current use: Leased for office building and paved parking lot

  Appraised value: $430,000 per Dugger, Canaday, Grafe, Inc. (January 13, 2004)

Counsel and Secretary's Note: The San Antonio City Council approved this land swap at its meeting on April 15, 2004.

Purchase of leasehold interest

Location: 301 South Frio Street, San Antonio, Texas

Improvements: 91,650 square foot office building with paved parking lot (approximately 300 spaces)

Current use: Leased to San Antonio Business Technology Center, L.P., which in turn leases it to multiple subtenants. U. T. San Antonio currently leases 20,573 square feet of space in the building.

Appraised value: $7.3 million per Dugger, Canaday, Grafe, Inc. (January 8, 2004)

Discussion at meeting:

President Romo discussed population growth on campus and limited expansion opportunities. He said U. T. San Antonio began a collaboration with the City of San Antonio for a land swap involving eight acres and said the acquisition will provide space for the School of Architecture, ranked 9th in the nation in serving Hispanics. Dr. Romo said this is a win-win situation and no money would be exchanged. Committee Chairman Krier asked that appreciation be conveyed to the City of San Antonio for this collaboration.

10. U. T. San Antonio: Authorization to establish a Master of Social Work degree

Committee Meeting Information
Presenter(s): *President Romo* ***Status:*** *Approved* ***Motion:*** *Made by Regent Estrada, seconded by Regent Caven, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and President Romo that authorization be granted to establish a Master of Social Work (MSW) degree program at U. T. San Antonio; 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 Board of Regents that relevant Coordinating Board criteria for approval by the Commissioner of Higher Education have been met.

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

BACKGROUND INFORMATION

Program Description

The proposed program will be offered by the Department of Social Work in the College of Public Policy. The program is designed to prepare students for advanced placement in social service agencies as direct service providers or in administrative or community building capacities. In addition, this program will prepare students to effectively address the pressing needs of linguistically and culturally diverse populations in San Antonio and the surrounding region within an interdisciplinary and interprofessional practice context.

Consistent with the Council on Social Work Education's (CSWE) accreditation standards, the program requires 36 semester credit hours of coursework beyond the bachelor's degree for students who have earned the Bachelor of Social Work (BSW) degree from an accredited college/university and 60 semester credit hours of coursework beyond the bachelor's degree for students who have not earned the BSW degree. Students would be able to specialize in one of two areas: Direct Practice, which focuses on delivering individual, family, and group services through an agency; and Macro Practices, which focuses on supervision/management, policy practice, and community building.

Program Quality

The Chair of the newly-formed Department of Social Work began his appointment in Fall 2003. Six full-time equivalent (FTE) faculty members must be assigned to the delivery of the proposed MSW program for the program to be eligible to receive CSWE accreditation. A minimum of two additional full-time Social Work faculty members are expected to be hired to begin in the 2004-2005 academic year, with three additional full-time Social Work faculty members expected to be hired to begin their appointments by Fall 2005. Two additional full-time faculty members will be hired by year five. The eight FTE members of the Social Work faculty will form the core of the program. Five additional tenured or tenure-track faculty members from other departments will contribute to the program's delivery.

The Department of Social Work is located in the College of Public Policy that is housed in the newly constructed Durango Building at the U. T. San Antonio Downtown Campus. The College has assigned a full office suite to the Department of Social Work, and sufficient space is available for office and classroom needs. The Downtown Campus offers adequate computing facilities and audio-visual resources to meet the anticipated needs of the program. No new facilities or renovations of existing facilities are required.

Cost

Estimated expenditures for the first five years of the proposed Master of Social Work program total $2,691,700. This includes $1,779,000 in new faculty salaries; $375,000 for program administration; $52,500 for new graduate assistants; $192,200 for new library and information technology resources; $68,000 for supplies, materials, and equipment; and $225,000 for clerical support.

U. T. San Antonio will commit $1,040,700 of existing resources in addition to $1,651,000 in formula funding to finance the first five years of the program.

Discussion at meeting:

President Romo introduced Dr. Guy Bailey, Provost, who said a Master's in Social Work has been the single most requested program by students. He said the program would enable U. T. San Antonio to place students in medical social work areas at U. T. Health Science Center - San Antonio for their internships.

Regent Estrada asked if Our Lady of the Lake University offers a doctoral program in Social Work and Dr. Bailey replied that Our Lady of the Lake offers a Master's in Social Work. Dr. Bailey said that Our Lady of the Lake is supportive of U. T. San Antonio's program proposal and the two institutions will collaborate by allowing students to take courses at either university. President Romo added that Our Lady of the Lake was initially opposed to the proposal, but after a series of meetings is now supportive. Committee Chairman Krier noted that this was another great example of collaboration.

11. U. T. San Antonio: Recreation and Athletics Facilities - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include project

Committee Meeting Information
Presenter(s): *President Romo* ***Status:*** *Approved* ***Motion:*** *Made by Regent Estrada, seconded by Regent Caven, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Interim Vice Chancellor for Business Affairs, and President Romo 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 Recreation and Athletics Facilities project at U. T. San Antonio.

Architecturally or Historically Significant: (Note: Item is before the Board; see Item 1 on Page 67 of the Agenda Book.)

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: July 2007

Total Project Cost:

Source	Current	Proposed
Revenue Financing System Bond Proceeds	-	$12,000,000
Gifts		$ 3,000,000
Unexpended Plant Funds		$ 1,500,000
Grants		$ 1,500,000
		$18,000,000

Project Description: This project proposes upgrades and additions to the recreation and athletics facilities at U. T. San Antonio to include a new track and soccer stadium, baseball and softball field improvements, and additional recreation and sports fields. The debt for the Revenue Financing System Bond Proceeds will be repaid from student fees.

This 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:

Committee Chairman Krier noted that the proposal has now been approved by a student referendum and President Romo added that it had been approved by a substantial margin of 63%. Dr. Romo explained that this is a campus life initiative that would not only benefit U. T. San Antonio students, but also local high school students. President Romo said that U. T. San Antonio hosts the largest regional cross-country meet in the State of Texas with approximately 7,000 participants, so the facilities will be very well used.

12. U. T. El Paso: Authorization to accept invitation from Conference USA and to negotiate and finalize terms of athletic conference membership

Committee Meeting Information
Presenter(s): *President Natalicio*
Status: *Approved*
Motion: *Made by Regent Estrada, seconded by Regent Caven, and carried unanimously*

Additional Agenda Item (not bound in the original Agenda Book but mailed to members of the Board prior to the meeting, posted with the Secretary of State, and available on yellow paper at the meeting):

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and President Natalicio that authorization be granted to U. T. El Paso to accept an invitation from Conference USA (C-USA) to become a member in 2005 and that Chancellor Yudof and President Natalicio be authorized to negotiate and finalize terms and conditions for such membership.

BACKGROUND INFORMATION

U. T. El Paso joined the Western Athletic Conference (WAC) in 1967, one year after winning the National Collegiate Athletic Association (NCAA) Championship in men's basketball, and one year after changing its name from Texas Western College to The University of Texas at El Paso.

U. T. El Paso's 37-year tenure as a WAC member has offered many benefits, including enduring relationships with fellow WAC institutions during the first 25 years of its membership. During the past decade, however, the WAC experienced considerable instability, growing from eight member institutions to 16, including four former Southwest Conference institutions (Rice University, Southern Methodist University, Texas Christian University, and the University of Tulsa) as well as California State University, Fresno; San Jose State University; and the University of Nevada at Las Vegas in 1996. In 1999, the WAC returned to an eight-member configuration, when the Mountain West Conference was established by former WAC institutions Brigham Young University; University of Utah; Colorado State University; the University of Wyoming; Air Force Academy; the University of New Mexico; University of Nevada at Las Vegas; and San Diego State University. This instability was exacerbated in 2003, when Rice University, Southern Methodist University, and the University of Tulsa announced they would leave the WAC in 2005 to become members of C-USA.

The pending departure of these three "eastern" members of the WAC was particularly disturbing to U. T. El Paso, because their participation had enabled U. T. El Paso to compete regularly in Texas, especially in the Dallas and Houston areas, where there are large concentrations of U. T. El Paso alumni.

As conference alignments continue to shift, C-USA provides a stable home for U. T. El Paso's 16 athletic teams and significantly enhances the University's potential for additional postseason play and for increased revenue streams for its athletics programs. C-USA has an eight-year agreement (initiated in 2001) with ESPN that incorporates television coverage by ESPN, EPSN2, ESPN Regional Television, ABC Sports, ESPN.com, and ESPN Classic. In addition, the conference has tie-ins with five football bowl games.

By playing in the Central, Mountain and Eastern time zones as part of C-USA, U. T. El Paso will gain more exposure where large segments of the University's recruiting and alumni base reside. Beyond the substantial advantages for alumni membership and recruiting, U. T. El Paso will also benefit from increased exposure in Texas newspapers.

U. T. El Paso's Miners will be grouped in C-USA's Western Division with the University of Houston, Rice University, Southern Methodist University, Tulane University, and the University of Tulsa. The conference sponsors 19 sports and since its inception has fielded 34 NCAA Tournament teams in men's basketball, 34 NCAA Tournament teams in women's basketball, 22 bowl teams in football, and 23 NCAA Tournament teams in volleyball. In addition, 27 men's and women's soccer teams and softball teams have earned NCAA Tournament bids.

Discussion at meeting:

President Natalicio said the media has given this proposal high visibility and expressed appreciation to the Board for considering the item on short notice. She summarized the reasons for leaving the Western Athletic Conference and said joining Conference USA would provide increased revenue, higher visibility, the opportunity to recruit players in Texas, and the ability to maintain contact with alumni.

In response to a question by Executive Vice Chancellor Sullivan, President Natalicio said membership in Conference USA is a good fit because the 16 U. T. El Paso sports teams fall within the 19 sports sponsored by Conference USA. Additionally, Dr. Natalicio said travel costs would be reduced, especially in the nonrevenue sports.

Committee Chairman Krier asked if Conference USA would be strong enough to continue if any team left and Dr. Natalicio replied that Conference USA has both an eastern and a western division, so they have other options within the time zone. Committee Chairman Krier said she was impressed with how broadly this issue had been explored. Dr. Natalicio said they have had tremendous alumni support, positive comments from the media, and support from their coaches but they were very careful in their analysis since athletics is a very fragile environment to manage.

Regent Estrada commended Dr. Natalicio for her leadership on this issue and for her role in research development for the Washington Advisory Group report.

ADJOURNMENT

Committee Chairman Krier announced that the purpose for which this meeting was called had been completed, and the meeting was duly adjourned at 9:50 a.m.

MINUTES
U. T. Board of Regents
Health Affairs Committee
May 12, 2004

The members of the Health Affairs Committee of the Board of Regents of The University of Texas System convened at 10:00 a.m. on Wednesday, May 12, 2004, in the Board Meeting Room 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 and absent:

Attendance	Absent
Vice-Chairman Clements, presiding	Regent Craven
Regent Caven	
Regent Huffines	
Regent Krier	

Also present were Vice-Chairman Hunt, Regent Barnhill, 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, Chairman Clements called the meeting to order.

1. U. T. M. D. Anderson Cancer Center: Brain Suite - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include project; appropriation of funds and authorization of expenditure; and authorization of institutional management

Committee Meeting Information
Presenter(s): *Mr. Sidney J. Sanders, Assistant Vice Chancellor, Facilities Planning and Construction*
Status: *Approved*

Agenda Item:

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Interim Vice Chancellor for Business Affairs, and President Mendelsohn that the U. T. Board of Regents approve the recommendations for the Brain Suite project at U. T. M. D. Anderson Cancer Center as follows on Page 2.

Architecturally or Historically Significant:	Yes ☐ No ☒		
Project Delivery Method:	Competitive Sealed Proposals		
Substantial Completion Date:	December 2004		
Total Project Cost:	Source	Current	Proposed
	Hospital Revenues	-	$2,800,000

Recommendations:

a. amend the FY 2004-2009 CIP and the FY 2004-2005 Capital Budget to include the Brain Suite at a preliminary project cost of $2,800,000 with funding from Hospital Revenues;

b. appropriate funds and authorize expenditure of $2,800,000 from Hospital Revenues; and

c. authorize U. T. M. D. Anderson Cancer Center to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts.

Project Description:

U. T. M. D. Anderson Cancer Center has identified an opportunity to import a new technology to improve the treatment of brain tumors. Brain Suite is a neurosurgical operating room that provides and fully integrates all relevant surgical and diagnostic tools, including Magnetic Resonance Imaging (MRI), to treat complicated neurosurgical cases. Brain Suite provides benefits for tumor resection and intraoperative diagnostic imaging and also opens up new avenues of scientific research for the Neurosurgical Department. Through the integration of a high-field magnetic resonant scanner into the operating room, new paradigms, protocols, and surgical procedures can be examined.

This project would best be managed by the U. T. M. D. Anderson Cancer Center Facilities Management personnel who have the experience and capability to manage all aspects of the work.

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

2. U. T. Health Science Center - Houston: Authorization to acquire real property located at 6410 and 6414 Fannin Street, Houston, Harris County, Texas; and parity debt

Committee Meeting Information

Presenter(s): *Dr. Willerson and Mr. Jim Wilson*
Status: *Approved*
Motion: *Made by Regent Huffines, seconded by Regent Caven, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Interim Vice Chancellor for Business Affairs, and President Willerson that authorization be granted by the U. T. Board of Regents, on behalf of U. T. Health Science Center - Houston, to:

a. purchase the real property improvements located at 6410 and 6414 Fannin Street, Houston, Harris County, Texas, at a price of $31 million;

b. appropriate funds and authorize the expenditure of $19.55 million from Tuition Revenue Bond Proceeds and $11.45 million from Revenue Financing System Bond Proceeds;

c. lease on a long-term basis, the 3.0195-acre site on which the improvements are located;

d. authorize the Executive Director of Real Estate (subject to approval by the Office of General Counsel) to complete ground lease negotiations; to execute all documents, instruments and agreements; and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations; and

e. submit the proposed transactions to the Texas Higher Education Coordinating Board for approval, if necessary.

The Chancellor also concurs in the recommendation of the Interim Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993 and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative, the U. T. Board resolve that:

a. parity debt shall be issued to pay the acquisition cost, including any costs prior to the issuance of such parity debt;

b. sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System;

c. U. T. Health Science Center - Houston, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of parity debt in the aggregate amount of $31 million.

BACKGROUND INFORMATION

Section 55.1732 (a)(11) of the Texas Education Code authorizes the Board of Regents to issue $19.55 million of Tuition Revenue Bonds on behalf of U. T. Health Science Center - Houston "to construct or purchase a classroom building that includes facilities for clinical teaching and clinical research."

To accomplish this purpose, U .T. Health Science Center - Houston wishes to purchase the Hermann Professional Building and Parking Garage, which is located at 6410 and 6414 Fannin Street in Houston, Texas, from its current owner, the Memorial Hermann Healthcare System (MHHS). The subject property consists of a 14-story medical office tower containing 308,155 gross square feet (293,481 net rentable square feet) and an attached 1,416-space parking garage containing 463,303 gross square feet, plus an additional 26,697 net rentable square feet of office space on the first floor. The site contains approximately 3.02 acres. The property lies within the boundaries of the Texas Medical Center directly across the street from the U. T. Health Science Center - Houston Medical School Building and Memorial Hermann Hospital (the institution's primary teaching hospital).

Together with its not-for-profit healthcare corporation, University of Texas Physicians, U. T. Health Science Center - Houston currently occupies approximately 51% of the Hermann Professional Building on a lease basis. Combined with space currently utilized by MHHS clinics and private physicians who also participate in the teaching of medical residents, a substantial portion of the property is already being used for U. T. Health Science Center - Houston mission-related clinical teaching and clinical research purposes. Acquisition of the property will allow the institution to maintain its long-term clinical teaching and research relationship with MHHS while reducing expenses through the elimination of current lease obligations. While the U. T. Health Science Center - Houston intends to fully utilize the facility for its own use, it expects that portions of the building and garage will continue being leased to MHHS, private physicians, and a limited number of nonmedical tenants until such spaces are needed by the institution.

The $31 million purchase price for the medical office tower and parking garage is supported by independent MAI appraisals. The sources of acquisition funding are $19.55 million of Tuition Revenue Bond Proceeds and $11.45 million of Revenue Financing System Bond Proceeds. Debt service on the $11.45 million of Revenue Financing System debt will be repaid by net revenues from the project and by practice plan income derived from ambulatory clinics. Annual debt service on the $11.45 million in Revenue Financing System Bond Proceeds is projected to be $922,714. The debt service coverage for the project is expected to be at least 2.9 times.

Because MHHS will not agree to sell land in close proximity to its main hospital site, the land will be leased, rather than sold, to the U. T. Board of Regents for the benefit of U. T. Health Science Center - Houston. The primary term of the lease will be 50 years. The Board of Regents will have options to extend the lease for a second term of 50 years and a third term of 25 years.

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

<u>Transaction Summary</u>

Component:	U. T. Health Science Center - Houston
Property Name:	Hermann Professional Building & Garage
Property Address:	6410 & 6414 Fannin Street, Houston, Texas
Type of Transaction:	Office building and parking garage improvements purchase and ground lease of real property
Seller/Ground Landlord:	Memorial Hermann Healthcare System (“MHHS”)
Buyer/Ground Tenant:	U. T. System Board of Regents (“UT”)
Purchase Price:	$31 million for the office building and garage
Ground Rent:	$590,000 per year (beginning in second year)
Lease Term:	50 years
Extension Options:	1st extension: 50 years 2nd extension: 25 years
Rent Escalation:	5% every 5 years during the primary term of the ground lease 4% every 5 years during the extension terms
Ownership of Improvements:	U. T. will own the improvements during the term of the lease and any extensions. Improvements will revert to MHHS at the expiration or termination of the ground lease.

Ownership of Land:	MHHS
Current Use:	14-story medical office building
Improvements:	Building: 308,155 gross square feet (293,481 net rentable square feet) Parking Garage: 1,416 spaces (463,303 gross square feet) plus 26,697 net rentable square feet of office space
Year Constructed:	1948 (office building substantially renovated in 2000-2004)
Remaining Economic Life of Improvements:	50 years (per appraisal)

Discussion at meeting:

President Willerson said the institution has never owned a clinic building, making it unique among the U. T. health science centers but the legislature had granted $19.55 million in Tuition Revenue Bonds to purchase or build such a facility. After considering options, the institution decided to purchase the Hermann Professional Building, an old building that has been renovated and is well-known in Houston. He said the purchase price for the building and garage is $31 million and that rent for current space in the building could now be made part of the purchase price. He said the institution spends $3 million/year to rent space for physicians. Dr. Willerson said the garage generates revenue of $2-$3 million a year and that overall, $150 million over 50 years is expected to be generated in clinical revenues. He clarified the request to the Board is $11.45 million in Revenue Financing System Bond Proceeds and regrets that the institution will not own the facility after 125 years since the land is being leased. (Memorial Hermann Healthcare System will not agree to sell the land that is in close proximity to its main hospital site.)

In response to a question from Regent Huffines about revenue of the parking garage, Dr. Willerson confirmed the garage nets $2-3 million a year. Vice-Chairman Krier asked if the current arrangement was satisfactory and President Willerson said there are advantages of owning the space as opposed to the current arrangement of renting and he hopes to operate an overnight stay facility sometime. President Willerson predicted that patients will be largely seen in outpatient clinics in the next decade, that large hospitals will be dinosaurs, and that most health care will be done by intervention. Regent Krier expressed concern about control of the lease and Dr. Willerson responded that the Regents have the sole authority to renew the lease at the end of the first term and that Hermann is not involved.

Executive Vice Chancellor Shine clarified that not only is health care moving increasingly to the ambulatory environment, but medical education is as well and the project has important educational implications in this regard in addition to issues *related to patient care. He said there would be opportunities for creative approaches to joint ventures with Hermann Hospital which otherwise would not be feasible. Dr. Willerson pointed out that growth of clinical research would follow that same direction.*

Regent Caven asked if there would be more renovations needed to the building and Dr. Willerson agreed there would be some but it would not be overwhelming. In response to a question from Regent Caven on the name of the building, President Willerson said the name of Hermann Professional Building would be retained but the name of The University of Texas would be prominent.

Chancellor Yudof said the original asking price was higher and congratulated Dr. Mike McKinney, Senior Executive Vice President and Chief Operating Officer, and Dr. Willerson for negotiating a better price.

Vice-Chairman Krier asked if the numbers work better under the proposed arrangement than under the current arrangement and Dr. Willerson explained that rent is paid now, that the space is not under the institution's control, and the institution cannot set the rules about how the patients are seen. Interim Vice Chancellor Aldridge clarified adding the ground lease ($11.4 million) to the purchase of the building and garage ($31 million) would make a total price of $42 million that is still an attractive arrangement and will generate a positive cash flow.

3. U. T. Health Center - Tyler: Health Clinic on U. T. Tyler campus - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to include project

Committee Meeting Information
Presenter(s): *Mr. Sidney J. Sanders, Assistant Vice Chancellor, Facilities Planning and Construction*
Status: *Approved*

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Health Affairs, the Interim Vice Chancellor for Business Affairs, and President Calhoun that the U. T. Board of Regents amend the FY 2004-2009 Capital Improvement Program (CIP) and the FY 2004-2005 Capital Budget to include the Health Clinic project at U. T. Health Center – Tyler as follows on Page 8.

Architecturally or Historically Significant:	(Note: Project is before the Board; see Item 1 on Page 67 of the Agenda Book.)
Project Delivery Method:	Competitive Sealed Proposals
Substantial Completion Date:	July 2006

Total Project Cost:

Source	Current	Proposed
Revenue Financing System Bond Proceeds	-	$3,500,000

Project Description:

The Health Clinic will be located on the U. T. Tyler campus. This project proposes to construct a 10,000 gross square foot, one-story facility incorporating outpatient clinic facilities for the general public, faculty, staff, and students of U. T. Tyler. The facility will include examination rooms, nurse and clerical work areas, medical records storage, teaching and testing areas, waiting rooms, and staff offices. An additional parking area will also be constructed adjacent to the facility.

U. T. Health Center – Tyler currently operates and leases two facilities in south Tyler and has been exploring different options for consolidating operations into one facility. This possibility, combined with the need to provide student, faculty, and staff health care on the U. T. Tyler campus, provides justification for a more permanent investment. In addition to being able to serve a greater patient population in the new facility, U. T. Health Center – Tyler also expects overhead costs to be decreased as a result of the combined operation with the debt for financing repaid from patient care income. Furthermore, operations at this facility will provide an on-campus teaching forum for education and clinical research for students.

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

Discussion at meeting:

Following a brief overview of the project by Assistant Vice Chancellor Sanders, President Calhoun said he and President Mabry (U. T. Tyler) have discussed provision of health-care services to U. T. Tyler students. He said U. T. Health Center –Tyler leases two facilities in south Tyler that are not within easy walking distance of the campus. The facilities are small, and in disrepair. Both Dr. Calhoun and Dr. Mabry spoke about the mutual benefit to both institutions – to provide health services to U. T. Tyler students, faculty, and staff as well as to citizens of south Tyler and to provide opportunities for collaboration with the U. T. Tyler Nursing School, in training (as a faculty practice facility), in ambulatory education, in social services, and in enhanced research opportunities.

4. **<u>U. T. M. D. Anderson Cancer Center: Determination of necessity and authorization to acquire three parcels of real property, through purchase or condemnation, in the expansion zone known as the Mid-campus Area, specifically 1303 Eaton Street, 7123 Selma Street, and 7213 Cecil Street, Houston, Harris County, Texas</u>**

Committee Meeting Information
Presenter(s): *Dr. Mendelsohn, President, U. T. M. D. Anderson Cancer Center, and Mr. Jim Wilson, Executive Director of the U. T. System Real Estate Office*
Status: *Approved*

Agenda Item:

<u>RECOMMENDATION</u>

The Chancellor concurs in the recommendation of the Interim Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and President Mendelsohn that authorization be granted to:

a. acquire the property located at 1303 Eaton Street, 7123 Selma Street, and 7213 Cecil Street, Houston, Harris County, Texas, through purchase or condemnation proceedings, if necessary, at prices not exceeding fair market values as determined by independent appraisals or by determinations of the courts; and

b. authorize the Executive Director of Real Estate to execute all documents, instruments and other agreements, and subject to consent by the Executive Vice Chancellor for Health Affairs, to initiate condemnation actions of the subject properties, if necessary, through the U. T. System Office of General Counsel and the Office of the Attorney General of the State of Texas, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendation.

<u>BACKGROUND INFORMATION</u>

By House Bill 1840 passed by the 76th Texas Legislature in 1999, a geographical expansion area was created for U. T. M. D. Anderson Cancer Center, referred to as the Mid-campus Area. The Cancer Center has immediate needs to use the Mid-campus Area for a building site and the creation of a public roadway connection between the main hospital complex and the U. T. Research Park.

Historically, much of the Mid-campus Area was divided into relatively small parcels with numerous owners. U. T. M. D. Anderson Cancer Center has for many years been systematically assembling larger tracts of land through negotiated purchases within the area. There now remain specific parcels that the institution must acquire in order to provide a building site for administrative operations critical to support its research, patient care, and education missions. Further, a relocated roadway connection between the main campus and the U. T. Research Park is needed in order to enable the Cancer Center to continue with its master planned campus development.

The critical parcels that U. T. M. D. Anderson Cancer Center seeks to acquire at this time are generally described as follows:

Location	Land Size	Current Use
Parcel 1 1303 Eaton, Lots 8-12, Block 17, Institute Addition	18,500 sq. ft. .425 acres	24 Unit Apartment Complex
Parcel 2 7123 Selma, Lots 8 and 9, Block 20, Institute Addition	15,500 sq. ft. .355 acres	Two Lots with House
Parcel 3 7213 Cecil, Lot 8, Block 21, Institute Addition	5,000 sq. ft. .115 acres	One Lot with House

In the event U. T. M. D. Anderson Cancer Center is unsuccessful in acquiring the remaining properties through good faith negotiations, in accordance with the Resolution adopted by the Board of Regents on March 11, 2004, the institution is requesting authority to condemn the properties at fair market values as determined by the courts, subject to first obtaining the consent of the Executive Vice Chancellor for Health Affairs prior to initiating such condemnation actions.

Discussion at meeting:

Dr. Mendelsohn said there has been progress in developing the south campus as a research park. He said it is critical to connect the main campus in the Texas Medical Center with the area to the south and it is also critical that there be space to build some small buildings to house administrators as that space is currently being leased.

Mr. Dan Fontaine, Senior Vice President and Chief Legal Officer at U. T. M. D. Anderson Cancer Center, said he corresponded with each of the three property owners in the acquisition area on March 22 and had attached a copy of the resolution approved by the Board of Regents on March 11, 2004, regarding approval for U. T. M. D. Anderson Cancer Center to make all reasonable efforts to negotiate the purchase of the three remaining parcels of land necessary to complete the Mid-campus Acquisition Program. He then provided details of the status of the negotiations as follows:

- *Mrs. Lee owns the largest property known as Mrs. Lee's apartment complex (1303 Eaton Street). Mrs. Lee is represented by counsel. Her attorney contacted Mr. Fontaine on March 24 to say he wanted a particular appraiser used and following agreement by Mr. Fontaine, the property was appraised at approximately $500,000 more than the property had been appraised at 14 months previously. Nevertheless, that amount was transmitted to Counsel for Mrs. Lee and only four days ago after no response, the attorney wrote to ask for the opportunity to quiz his own appraiser.*

- *The two lots at 7123 Selma Street are owned by Mr. Sweny who called Mr. Fontaine on approximately April 5 to indicate that he would get back with him on the name of an appraiser. After Mr. Fontaine again attempted to contact Mr. Sweny by phone and e-mail, Mr. Sweny called Mr. Fontaine approximately one week ago to indicate he still did not have the name of an appraiser and asked if they were talking to other property owners in the area. Mr. Fontaine said he said that, as he pointed out in his correspondence, the property is in an acquisition district designated by the legislature and that yes, they were talking to all remaining property owners in the area. In less than seven hours following that conversation, Mr. Fontaine received a fax from Mrs. Lee's attorney indicating he and Mr. Sweny were discussing Mr. Fontaine's correspondence. Mr. Fontaine said there is still no approval of an appraiser from Mr. Sweny who has not been heard from.*

- *Mrs. Worthey has signed receipt for two certified letters dated March 22 and April 4 from Mr. Fontaine regarding acquisition of a house she owns in the acquisition district (7213 Cecil Street). Despite leaving a phone number on Mr. Fontaine's answering machine, Mr. Fontaine has been unable to reach Mrs. Worthey.*

Mr. Fontaine asked the Board for approval to begin condemnation proceedings if indeed negotiations with these three property owners are not possible. He clarified that the institution began contact with the property owners last September indicating a desire to reach some agreement and Mr. Wilson clarified the U. T. System Office of Real Estate actually began contact with the first property owner in 1997. Vice-Chairman Krier clarified that contact may have been made but discussions were not being held since the owners were not necessarily communicating and that they were *trying to obtain the best price possible for their property. Mr. Fontaine said he wanted something such as approval of condemnation to backstop the process so that the issue could be brought to the table to reach a settlement.*

Regent Huffines clarified that the motion indicated that the institution would come back to Dr. Shine to authorize the ultimate utilization of the condemnation authority. Regent Huffines further explained that Mr. Jim Wilson wrote in a memo regarding condemnation that once the Board approves the use of condemnation, a settlement is usually received within a few days. Regent Krier offered that at that time, they could mediate with property owners rather than follow an expensive process.

5. U. T. Health Center - Tyler: Appointment of Ronald F. Garvey, M.D., as President Emeritus

Committee Meeting Information
Presenter(s): *Dr. Calhoun, President, U. T. Health Center - Tyler*
Status: *Approved*
Motion: *Made, seconded, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and President Calhoun that authorization be granted to appoint Ronald F. Garvey, M.D., President Emeritus at The University of Texas Health Center at Tyler. Approval of this recommendation is being requested in accordance with the Regents' Rules and Regulations, Part One, Chapter II, Section 21, relating to honorary titles. It is recommended this appointment take place retroactively starting February 1, 2003.

BACKGROUND INFORMATION

Ronald Francis Garvey was born May 4, 1928, in Olean, New York, the son of a physician and nurse. He received his undergraduate degree from Harvard College and a Doctor of Medicine from the University of Buffalo School of Medicine. His postgraduate clinical training included an internship and residency at Parkland Memorial Hospital in Dallas in 1960.

Dr. Garvey served in the United States Air Force as a flight surgeon, achieving the rank of Captain. His distinguished career includes positions of Professor of Surgery at U. T. Southwestern Medical Center - Dallas. He was team physician for the Dallas Cowboys professional football team from 1963-1972. Before his recruitment to U. T. Health Center - Tyler, he was president and CEO of Zale Lipshy University Hospital in Dallas.

He was a member of the Board of Regents of Texas Women's University and has served on a number of other organizations' board of directors. Dr. Garvey earned a Master's in Business Administration from the University of Dallas in 1986 and was named a university Distinguished Alumnus in 1998. He has many distinguished publications and awards.

As Acting Director of U. T. Health Center - Tyler from 1997-1998, Dr. Garvey became the first President of the institution in 1998. During his tenure at the Health Center, he focused on the financial performance of the institution, dramatically improved its financial picture, and successfully led the initiative to obtain funding for a $12 million expansion of the Center for Biomedical Research. Dr. Garvey retired as president in October 2002, after five years of exemplary service to the people of East Texas.

6. <u>U. T. System: Issues in Graduate Medical Education</u>

Committee Meeting Information
Presenter(s): *Dr. Shine*
Status: *Reported*

Agenda Item:

<u>REPORT</u>

Dr. Kenneth Shine, Executive Vice Chancellor for Health Affairs, will report on issues in Graduate Medical Education using the PowerPoint presentation attached on Pages 66.1 – 66.21 of the Agenda Book.

Discussion at meeting:

Committee Chairman Clements commended Dr. Shine on his presentation of the medical programs at the component institutions at the Chancellor’s Council meeting last week. Dr. Shine, in turn, applauded the faculty who made the presentations, pointing out that two of the six faculty members were women who had advanced to full professorship positions and for that, he complimented them.

Dr. Shine said there is renewed interest in graduate medical education issues in the legislature and until recently there was a national perception that there are sufficient physicians in the U.S. but the evidence in the last several years indicates there could be shortages of 60,000 physicians. Further, he wanted to let members of the Board know that he was asked in the House to make recommendations on how to deal with issues in graduate medical education and he sought their advice and counsel.

Dr. Shine clarified he was speaking about a theme related to the health of Texans and was not just speaking for the U. T. System. He also wanted the members of the Board to know that the Texas Medical Association testified in the Senate in support of the recommendations.

Following Dr. Shine's PowerPoint presentation, President Stobo said without a robust graduate medical education program, the University could lose the cutting edge in innovation since many of the most innovative faculty come to the academic health centers to teach students in residence.

Chancellor Yudof raised questions related to the cost of educating medical students ($47,000 annually) and residents ($15,000/year) and data concerning the numbers of medical school graduates and resident graduates staying to practice in state and whether residents who come from out of state stay to practice in the state. Dr. Shine replied that approximately 56% of graduates of Texas medical schools and 57% of all residents eventually remain to practice in Texas.

Following comments from President Calhoun, Dr. Shine said having training programs around the state is valuable because people commonly go from the training program into practice in the same area. President Cigarroa endorsed this concept specifically in terms of the strength of the Regional Academic Health Center (RAHC) to establish residencies that is a key way to alleviating medically underserved regions of the state.

7. U. T. Southwestern Medical Center - Dallas: Briefing on the rationale for possible acquisition of St. Paul and Zale Lipshy University Hospitals

Committee Meeting Information
Presenter(s): *Dr. Wildenthal, President, U. T. Southwestern Medical Center - Dallas*
Status: *Reported*

Additional Agenda Item (not bound in the original Agenda Book but mailed to members of the Board prior to the meeting, posted with the Secretary of State, and available on yellow paper at the meeting).

REPORT

President Wildenthal will brief the Board regarding the need for U. T. Southwestern Medical Center - Dallas to purchase the St. Paul and Zale Lipshy University Hospitals following the PowerPoint presentation attached on Pages 66a.1 – 66a.8 of the yellow paper item and as attached on Pages 15.1 – 15.8.

Discussion at meeting:

Dr. Wildenthal clarified that the form the transaction would take would be a gift from University Medical Center to U. T. Southwestern Medical Center - Dallas at a net asset value of $14-15 million. He hopes issues will be resolved in time to bring the item forward for the Board's consideration in August 2004. In response to Vice-Chairman Krier's question regarding the governing board, President Wildenthal responded the Board of Regents would be the ultimate governance authority for Southwestern's hospitals in much the same way they are responsible for Galveston's hospital, Tyler's hospital, and M. D. Anderson's hospital.

Chancellor Yudof said he wants to be sure the hospitals will be well managed and President Wildenthal said that is his concern as well.

ADJOURNMENT

Committee Chairman Clements announced that the purpose for which this meeting was called had been completed, and the meeting was duly adjourned at 11:45 a.m.

Rationale for Acquisition of St. Paul and Zale Lipshy University Hospitals

UT Southwestern
Medical Center

Presentation to Regents
May 12, 2004

History of the UTSW-University Hospital Relationship

- Growth of the UTSW private-referral practice in the 1980s creates the need for a university hospital
- Zale Lipshy University Hospital is created as a separate 501(c)(3) corporation to "serve the needs of UT Southwestern."
- In 1998-1999, Zale Lipshy is at capacity and a 4-story expansion plan is developed.
- Following the request of key St. Paul physician leaders for UTSW to "buy and manage" St. Paul, UTSW purchases the real estate and equipment of St. Paul and leases the hospital entity to Zale Lipshy University Medical Center, Inc. to manage in December 2000.
- St. Paul viewed as a superior long-term option for expansion of the UTSW patient-care mission; Zale Lipshy expansion more expensive and limited in terms of future growth.

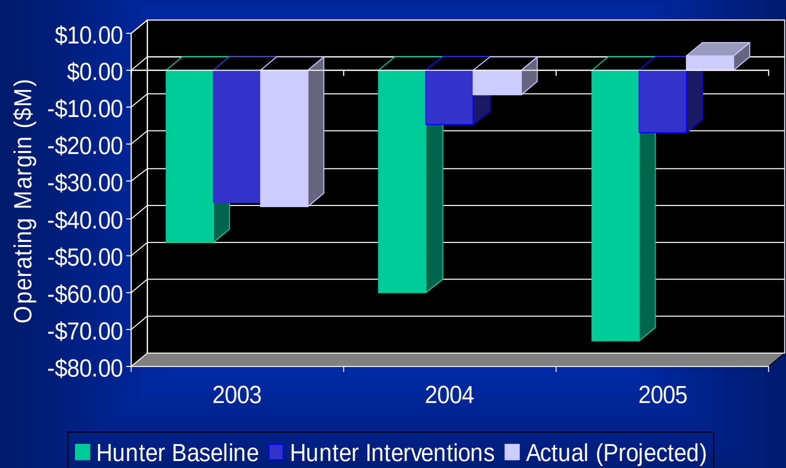
UT Southwestern Hospital Management Agreement

- UT Southwestern was asked by the board of the hospital holding company (University Medical Center, Inc) to provide the senior management for Zale Lipshy University Hospital and St. Paul University Hospital in April 2003.
- Goals: Integration of patient care services (inpatient and outpatient); management to facilitate financial turnaround of the hospitals.
- May 2004: Zale Lipshy profitable; St. Paul nearing profitability.
- Campus hospitals affiliated but not owned or managed by UT Southwestern:

  -- Parkland Memorial Hospital

  -- Children's Medical Center

UMC Financial Projections



Ongoing UMC Challenges

- Despite projected positive operating margin, UMC will not be able to fully support the long-term vision of UTSW
- Shift toward minimally-invasive, outpatient care
- Inability to transfer funds between Zale Lipshy and St. Paul
- Malpractice costs
- Access to capital
  -- Even with operations corrected, the balance sheet will have inadequate assets for any substantial debt capacity; the hospitals alone are not credit worthy
- Conflicts of interest and purpose at St. Paul
  -- The fiduciary responsibility of the Board relative to the private physicians

Why Did Some Universities Spin Off Their Hospitals?

- Multimillion dollar hospital malpractice settlements were perceived to put universities at risk.
- University Trustees were concerned about their overall credit ratings.
- Complexity of hospital finance and operational issues (e.g. shift differentials, bonus payments to nurses) made general university trustees nervous.
- Concern (on the clinical side) about the ability of a general university system to respond rapidly to change in the environment (managed care; especially capitation).
- Note: In the vast majority of divestitures, the outpatient clinics went into the university hospital 501(c)(3) and all technical revenue stayed with the hospital.

Long-Term Options for a Viable University Hospital

Goals: Access to Capital, Operating Efficiency and Contracting Leverage

- Stand alone
  - -- Two small hospitals without a shared bottom line (contracting pressure, high overhead)
  - -- Merge the hospitals (bond issues)
- Nonprofit systems
  - -- Baylor
  - -- Texas Health Resources
  - -- Methodist
- For profit systems
  - -- Hospital Corporation of America
  - -- Tenet
- UT Southwestern

What's Different Now?

- UTSW management team now has an experienced hospital management team in place.
- State deregulation allows flexibility in the marketplace that was not in place in the 1990's.
- UTSW, not the hospitals, has the major managed care contracting leverage in the marketplace.
- Our realization that two small, separate hospitals can not meet our long-term needs.

Financial Benefits

- Access to AAA-rated credit and debit capacity
  -- UT System bonds: low interest, tax exempt
- Low cost equipment financing
  -- UT System
- Reduced operating costs
- Hospital malpractice cost reduced to essentially zero
- Enhanced philanthropy
  -- Current status of the hospitals a substantial risk to philanthropy for both clinical and non-clinical programs

Projected Financial Ratios for 2004 With and Without Hospital Acquisition

Indicator	UTSW	UTSW with hospitals
Primary Reserve Ratio	267.2	201.33
Annual Operating Margin Ratio	1.0%	0.1%
Expendable Resources to Total Net Assets Ratio	37.1%	37.8%
Debt Burden Ratio	2.8%	2.4%
Debt Service Coverage Ratio	2.0	1.9
Return on Net Assets Ratio	4.4%	3.9%

UMC and UT Southwestern Combined Revenues FY 2004 (Projected)

(in millions)

	UT Southwestern*	UMC	Combined*
Net revenues from operations	$846.9	$291.7	$1.138.6
Operational Expenditures/ depreciation	$799.2	$298.3	$1097.5
Surplus/ (deficit) from operations	**$47.7**	**($6.6)**	**41.1**

*UTSW figures exclude capital projects and debt retirement

UT Southwestern Acquisition: Resulting Additions to Hospital Margins

Average annual fringe benefit savings	$1,300,000
Additional contract revenue	$3,000,000
Hospital malpractice expenses	$4,500,000
Cost of capital (5-year average-routine)	$800,000
Combined information systems	$1,500,000
General administration	$2,000,000
Physical plant operations/security	$1,000,000
Additional philanthropy	$10,000,000
TOTAL	**$24,100,000**

Non-Financial Benefits

- Optimal coordination of strategic planning, marketing, operations and patient care
- No longer have to negotiate with a separate legal entity with its own judiciary responsibilities.
- Brand Identity in the Marketplace
  - -- UT Southwestern widely known, St. Paul/Zale Lipshy barely known
- UT Southwestern can make decisions that are solely in the best interest of the institution
  - -- Increased faculty involvement in inpatient decisions
  - -- We can place programs in their ideal reimbursement environment

Transaction Issues

- UT System approval & timing
- Defeasance of Zale Lipshy bonds
- Status of employees
- Handling of prior liabilities
- Board interactions
- St. Paul private physicians

Summary

- The benefits of UT Southwestern acquiring and operating the hospitals greatly exceed the risk.
- The potential risk/costs to UT Southwestern relate to negative operating margins at St. Paul, which can be effectively managed.
- Access to UT System capital, liability protection, reduced duplication and improved operating efficiencies, enhanced contracting strength, and a regionally and nationally recognized identity for the combined clinical enterprise under the UT Southwestern name are important benefits individually; together they are overwhelmingly compelling.
- There is no other viable option

MINUTES
U. T. Board of Regents
Facilities Planning and Construction Committee
May 12, 2004

The members of the Facilities Planning and Construction Committee of the Board of Regents of The University of Texas System convened at 3:05 p.m. on Wednesday, May 12, 2004, in the Board Meeting Room 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:

Regent Huffines, presiding
Vice-Chairman Clements
Vice-Chairman Hunt
Regent Barnhill
Regent Estrada

Also present was Counsel and Secretary Frederick.

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

Mr. Sidney J. Sanders, Assistant Vice Chancellor, Facilities Planning and Construction, presented a PowerPoint on design development plans and economic impact for Items 3 - 6 as attached on Pages 12.1 to 12.18. In reference to the presentation, Vice-Chairman Clements said she was pleased with construction of student housing on the campuses, which is an important ingredient for campus quality and which U. T. Permian Basin and U. T. Arlington have been in need of for a long time.

1. <u>U. T. System: Consideration of architecturally or historically significant projects</u>

Committee Meeting Information
Presenter(s): *Mr. Sidney J. Sanders, Assistant Vice Chancellor, Facilities Planning and Construction* ***Status:*** *LBJ Plaza Renovation/Lady Bird Johnson Center designated architecturally significant* ***Motion:*** *Made, seconded, and carried unanimously*

Agenda Item:

RECOMMENDATION

It is recommended that the Committee review the following projects scheduled for architectural selection for possible designation as architecturally or historically significant pursuant to the Regents' Rules and Regulations, Part Two, Chapter VIII, Section 3, Subsection 3.3.

- **U. T. Austin**

  LBJ Plaza Renovation/Lady Bird Johnson Center
  Project Cost: $30,000,000
  Anticipated Delivery Method: Construction Manager at Risk
  (see Item 4 on Page 44 of the Agenda Book)

- **U. T. Brownsville**

  Wellness, Recreational and Fitness Center
  Project Cost: $12,500,000
  Anticipated Delivery Method: Construction Manager at Risk

- **U. T. Pan American**

  Child Development Center
  Project Cost: $1,500,000
  Anticipated Delivery Method: Competitive Sealed Proposals
  (see Item 8 on Page 50 of the Agenda Book)

  Health and Kinesiology Physiology/Recreation Center
  Project Cost: $18,000,000
  Anticipated Delivery Method: Competitive Sealed Proposals

- **U. T. San Antonio**

  Recreation and Athletics Facilities
  Project Cost: $14,500,000
  Anticipated Delivery Method: Competitive Sealed Proposals
  (see Item 11 on Page 57 of the Agenda Book)

- **U. T. Health Center - Tyler**

  Health Clinic
  Project Cost: $3,500,000
  Anticipated Delivery Method: Competitive Sealed Proposals
  (see Item 3 on Page 62 of the Agenda Book)

Discussion at meeting:

Committee Chairman Huffines said he agrees the LBJ Plaza Renovation/Lady Bird Johnson Center project be declared architecturally significant since the Center occupies a prominent place on the U. T. Austin campus.

2. U. T. System: Office of Facilities Planning and Construction Status Report on the use of Sustainability Building Standards for Capital Construction and the development of an Oversight Monitoring Model for implementation of Capital Projects for certain institutions

Committee Meeting Information
Presenter(s): *Mr. Sidney J. Sanders, Assistant Vice Chancellor, Facilities Planning and Construction* ***Status:*** *Reported*

Agenda Item:

REPORT

A status report will be presented reviewing the various definitions of "Sustainability" or "Sustainable Building" within the construction industry and the establishment of guidelines for the U. T. System capital construction program, subject to the specific program requirements of each individual facility.

A status report will be presented outlining a model for implementation of capital construction where the institution directly manages the project and OFPC provides oversight and risk monitoring.

Discussion at meeting:

Mr. Sanders reported on the use of Sustainability Building Standards for Capital Construction only, which is close to completion. He said six to eight months ago, U. T. M. D. Anderson Cancer Center requested consideration of developing a new model for delivering new capital construction to have more direct control over project management, using in-house staff with the Office of Facilities Planning and Construction (OFPC) providing an oversight and risk management function as the Board's agent.

He said that in conjunction with Chancellor Yudof and Interim Vice Chancellor Aldridge, OFPC has been working with institutional executives on a new model, and a memorandum of understanding has been drafted. Conceptually, U. T. M. D. Anderson Cancer Center will be given delegated authority to directly procure design and construction services for new capital construction. The model would rely on using standard OFPC forms that evolve and are reviewed and approved by the Office of General Counsel.

Mr. Sanders stated that specifically, OFPC oversight monitoring would be in several key areas identified in the OFPC risk management plan developed over the last four years with the System Audit Office that would center around project approval and funding, the procurement of consultants and contractors, and the actual execution of reporting to the Board on a basis the Board prefers. U. T. M. D. Anderson Cancer Center would directly procure the architectural and construction contracts and manage and hold those contracts. He said U. T. M. D. Anderson Cancer Center has a robust in-house staff, and they have historically managed extensive renovation work, but quality and Board oversight will still be maintained.

Regent Estrada expressed concern that sensitivity to minority contracting, Historically Underutilized Businesses (HUB) guidelines, and open competition are going to be as sensitive at the component level as at the System level. Regent Huffines said the model is on an experimental basis with U. T. M. D. Anderson Cancer Center and will be monitored closely. Chancellor Yudof said the Bonding and Technical Assistance Program, which has been enormously successful in Houston, will apply for this building. The Chancellor stated that U. T. System is highly differentiated and that the Mission Statement poses the question of how the System adds value. In some of these service areas, there is an evolution where campuses have a high level of competence with internal staff and the level of services and charges will be reduced, while other campuses will be the full freight, but we should be prudent and careful. The model is a pilot, and one size may not fit all.

3. U. T. Arlington: Meadow Run Apartments - Phase II - Approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; and approval of parity debt

Committee Meeting Information
Presenter(s): *Mr. Sidney J. Sanders, Assistant Vice Chancellor, Facilities Planning and Construction*
Status: *Approved*
Motion: *Made by Regent Estrada, seconded by Regent Barnhill, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Interim Vice Chancellor for Business Affairs, and President Spaniolo that the U. T. Board of Regents approve the recommendations for the Meadow Run Apartments - Phase II at U. T. Arlington as follows:

Project Number:	301-189
Architecturally or Historically Significant:	Yes ☐ No ☒

Project Delivery Method:	Competitive Sealed Proposals
Substantial Completion Date:	July 2005

Total Project Cost:

Source	Current
Revenue Financing System Bond Proceeds	$7,722,000

Debt Service: The $7,722,000 in Revenue Financing System Bond Proceeds debt will be repaid from net revenues on the project. The annual debt service will be structured proportionately to the projected amount of net revenue available. Debt service coverage on the project is expected to achieve 1.3 times by the seventh year of operation. Auxiliary Fund Balances are available for interim debt service coverage.

Recommendations:

a. approve design development plans;

b. approve the evaluation of alternative energy economic feasibility;

c. appropriate funds 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. Arlington, 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 $7,722,000.

Previous Board Action: In December 2003, the Chancellor, under delegated authority from the Board, approved decreasing the total project cost from $10,572,000 to $7,722,000 to allow for the land purchase of the site for the apartments.

Project Description: The project will include the construction of four three-story buildings consisting of approximately 94,500 total gross square feet capable of housing 216 students with a mix of one-bedroom and two-bedroom units. A clubhouse and mail center and a swimming pool constructed during Phase I will be available for use by occupants of Phase II. Parking for 171 vehicles is included and will be located south of and adjacent to the existing parking lot constructed with Meadow Run Apartments - Phase I.

Due to increased student enrollment at U. T. Arlington, demand for University-owned and operated apartments is strong. Currently, there are 900 people on the residence hall waiting list and 1,115 people waiting for apartments. To begin to meet this need, the institution has added housing for over 1,000 students over the past three years. In Fall 2000, Arlington Hall added 600 residence hall beds to the on-campus housing inventory; in Fall 2002, Arbor Oaks and Timber Brook Apartments added 240 apartment units; and in Fall 2003, Meadow Run Apartments added 120 apartment units. The completion of Kalpana Chawla Hall in Fall 2004 will add an additional 430 residence hall beds.

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

The economic impact of the project will be reported to the U. T. Board of Regents as part of the design development presentation.

4. U. T. Arlington: Student Apartments - Approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; approval of parity debt; and redesignation of project

Committee Meeting Information
Presenter(s): *Mr. Sidney J. Sanders, Assistant Vice Chancellor, Facilities Planning and Construction*
Status: *Approved*
Motion: *Made by Regent Estrada, seconded by Regent Barnhill, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Interim Vice Chancellor for Business Affairs, and President Spaniolo that the U. T. Board of Regents approve the recommendations for the Student Apartments at U. T. Arlington as follows: (See Item 3 on Page 43 of the Agenda Book related to proposed acquisition of property at 124 Southdale Drive, Arlington, Tarrant County, Texas.)

Project Number:	301-188
Architecturally or Historically Significant:	Yes ☐ No ☒

Project Delivery Method:	Competitive Sealed Proposals
Substantial Completion Date:	August 2005

Total Project Cost:

Source	Current
Revenue Financing System Bond Proceeds	$14,357,000

Debt Service: The $14,357,000 in Revenue Financing System Bond Proceeds debt will be repaid from net revenues on the project. The annual debt service will be structured proportionately to the projected amount of net revenue available. Debt service coverage on the project is expected to be at least 1.3 times by the fifth year of operation. Auxiliary Fund Balances are available for interim debt service coverage.

Recommendations:

a. approve design development plans;

b. approve the evaluation of alternative energy economic feasibility;

c. appropriate funds 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. Arlington, 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 $14,357,000.

e. redesignate the project as the Silver Stone Apartments.

Project Description: The project will include approximately 150,000 total gross square feet consisting of the construction of 13 two- and three-story buildings capable of housing approximately 270 students, one community building, and all utility support buildings. A clubhouse and mail center and a swimming pool will be included. There will be utility upgrades, site development, and improvements including surface parking. The redesignation to Silver Stone Apartments is the recommendation by vote of the U. T. Arlington Housing Department staff.

Due to increased student enrollment at U. T. Arlington, demand for University-owned and operated housing is strong. Currently, there are 900 people on the residence hall waiting list and 1,115 people waiting for apartments. To begin to meet this need, the institution has added housing for over 1,000 students over the past three years. In Fall 2000, Arlington Hall added 600 residence hall beds to the on-campus housing inventory; in Fall 2002, Arbor Oaks and Timber Brook Apartments added 240 apartment units; and in Fall 2003, Meadow Run Apartments added 120 apartment units. The completion of Kalpana Chawla Hall in Fall 2004 will add an additional 430 residence hall beds.

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

The economic impact of the project will be reported to the U. T. Board of Regents as part of the design development presentation.

5. U. T. Dallas: Natural Science and Engineering Research Building - Approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; and approval of parity debt

Committee Meeting Information

Presenter(s): *Mr. Sidney J. Sanders, Assistant Vice Chancellor, Facilities Planning and Construction*
Status: *Approved*
Motion: *Made by Vice-Chairman Clements, seconded by Regent Estrada, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Interim Vice Chancellor for Business Affairs, and President Jenifer that the U. T. Board of Regents approve the recommendations for the Natural Science and Engineering Research Building at U. T. Dallas as follows:

Project Number:	302-192
Architecturally or Historically Significant:	Yes ☐ No ☒
Project Delivery Method:	Construction Manager at Risk
Substantial Completion Date:	December 2006

Total Project Cost:

Source	Current
Revenue Financing System Bond Proceeds	$85,000,000

Debt Service: Debt service on the Natural Science and Engineering Research Building will be secured by and payable from Pledged Revenues of the Revenue Financing System; however, pursuant to an Economic Development Agreement between the Board of Regents and the State of Texas dated March 1, 2004, it is the intention of the State to appropriate additional funding to U. T. Dallas to reimburse 100% of the debt service costs for the first 10 years of the agreement, with the percentage declining to 10% by years 19 and 20. U. T. Dallas has agreed to generate income from external research contracts and other collaborative efforts to satisfy the debt service obligations not covered through general revenue appropriations. To the extent this research income is insufficient, U. T. Dallas has pledged to use up to $4,300,000 of Local Fund Balances as necessary to meet its debt service obligations. Annual debt service on the $85,000,000 in Revenue Financing System debt is expected to be approximately $6,840,000. Debt service coverage on the projected net obligation payable by U. T. Dallas is expected to be at least 1.3 times.

Recommendations:

a. approve design development plans;

b. approve the evaluation of alternative energy economic feasibility;

c. appropriate funds 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 capitalized interest and 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. Dallas, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt parity debt in the aggregate amount of $85,000,000.

Previous Board Action On November 13, 2003, the project was approved by the Board for inclusion in the Capital Improvement Program.

Project Description:

The project will include approximately 200,000 gross square feet for technology research and development. The new building is to provide state-of-the-art, multidisciplinary research laboratories, laboratory support spaces, faculty and student offices, and administrative offices. The building will include core facilities for imaging, cleanroom space, and shell space for a central vivarium. The departments of Computer Science and Natural Science and the engineering program are to be housed in this building with the goal of establishing top ranking for the institution.

The State of Texas has negotiated an agreement with Texas Instruments for construction of a new $3 billion research, development, and manufacturing facility to be located in Richardson, Texas. As part of that agreement, the State has offered to significantly enhance the academic and research programs at the Erik Jonsson School of Engineering and Computer Sciences at U. T. Dallas. In order to satisfy the State's commitment to Texas Instruments, the State and U. T. System have proposed Project Emmitt, a $3 billion, five-year program aimed at elevating the Jonsson School to a Top-50 ranking among United States engineering schools. The core building will be the Natural Science and Engineering Research Building to consolidate programs into one facility.

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

The economic impact of the project will be reported to the U. T. Board of Regents as part of the design development presentation.

Discussion at meeting:

Mr. Doss Mabe with Zimmer Gunsul Frasca Partnership (ZGF), consultant for the Project Architect Page Southerland Page, listed three reasons why the site was chosen: cooperation between U. T. System and outside entities; an opportunity to structure the north entrance; and allowance for future expansion of programs.

Chairman Huffines said the Natural Science and Engineering Research Building project was added to the Capital Improvement Program in January 2004, and ground should be broken in November. He said the building will be one of the fastest projects and a focal point for U. T. Dallas, and he expressed appreciation to Dr. Jenifer and his staff and to the Office of Facilities Planning and Construction for moving quickly. Vice-Chairman Clements also complimented the job that has been done. Regent Huffines clarified the project was Project Emmitt.

6. U. T. Permian Basin: Student Housing Phase III - Amendment of FY 2004-2009 Capital Improvement Program and FY 2004-2005 Capital Budget to increase total project cost; approval of design development; approval of evaluation of alternative energy economic feasibility; appropriation of funds and authorization of expenditure; and approval of parity debt

Committee Meeting Information
Presenter(s): *Mr. Sidney J. Sanders, Assistant Vice Chancellor, Facilities Planning and Construction*
Status: *Approved*
Motion: *Made by Regent Estrada, seconded by Regent Barnhill, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Interim Vice Chancellor for Business Affairs, and President Watts that the U. T. Board of Regents approve the recommendations for the Student Housing Phase III at U. T. Permian Basin as follows:

Project Number: 501-185

Architecturally or Historically Significant: Yes ☐ No ☒

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: July 2005

Total Project Cost:

Source	Current	Proposed
Revenue Financing System Bond Proceeds	$6,000,000	$7,900,000

Debt Service: The $7,900,000 in Revenue Financing System Bond Proceeds debt will be repaid from net housing revenue operations. Debt service coverage on the institution's combined student housing operations is expected to be at least 1.3 times.

Recommendations:

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

b. approve design development plans;

c. approve the evaluation of alternative energy economic feasibility;

d. appropriate funds and authorize expenditure of funds; and

e. 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. Permian Basin, 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 $7,900,000.

Project Description:

The new housing project will consist of approximately 45,000 gross square feet capable of housing 114 students. The project is in a six building configuration. Each building is to have three one-bedroom units, eight two-bedroom units, and a laundry room. This is the third phase of a planned expansion and upgrading of on-campus housing. The project will include improvements to the existing cafeteria, paved parking for approximately 125 vehicles, and utility connections. Present housing is filled to capacity. The increase of $1,900,000 in the total project cost will accommodate the redefined scope determined in the facility program.

The housing expansion will accommodate projected increased enrollment and the increase of the undergraduate student body. Current on-campus housing consists of approximately 224 total beds with housing of an additional 198 beds currently under construction.

<u>Texas Government Code</u> Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

The economic impact of the project will be reported to the U. T. Board of Regents as part of the design development presentation.

12.1

THE UNIVERSITY OF TEXAS SYSTEM

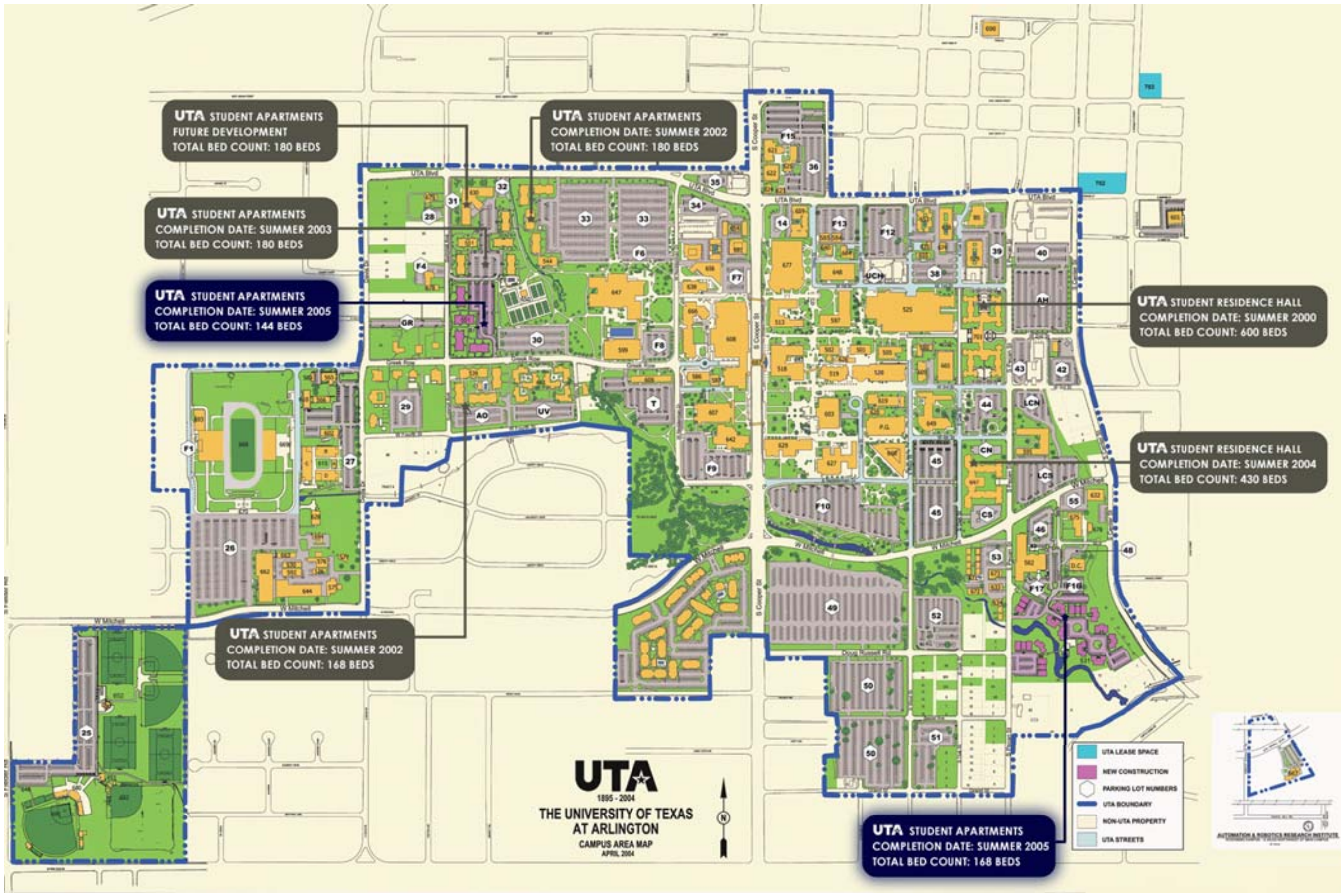
Design Approvals

May 12, 2004

Office of Facilities Planning and Construction

U. T. Arlington—
Meadow Run Apartments Phase II

12.2



Meadow Run Apartments Phase II
Master Plan

12.3

Meadow Run Apartments Phase II
Site Plan

Meadow Run Apartments Phase II
Perspective

Meadow Run Apartments Phase II
Perspective

Estimated Economic Impact

Total project cost: $ 7,722,000

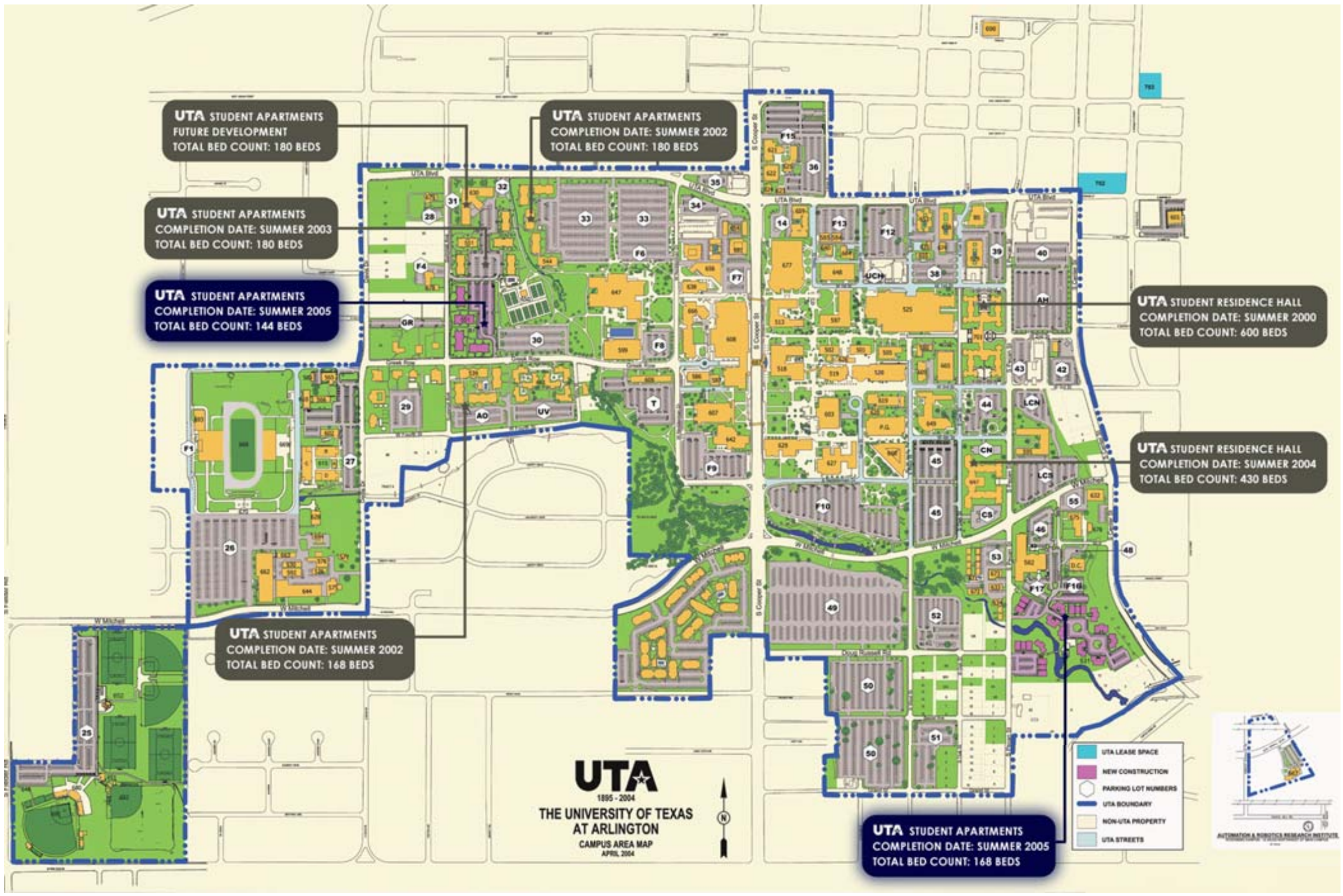
12.6

- **Construction economic impact** **$ 25,000,000**
- **10-year earnings economic impact** **$ 19,000,000**

Total estimated economic impact $ 44,000,000

U. T. Arlington— Student Apartments

12.7



Student Apartments
Master Plan

Student Apartments
Site Plan

12.9

Student Apartments
Perspective

Student Apartments
Perspective

Estimated Economic Impact

Total project cost: $ 14,357,000

• **Construction economic impact**	**$ 47,000,000**
• **10-year earnings economic impact**	**$ 31,000,000**
Total estimated economic impact	**$ 78,000,000**

U. T. Permian Basin—
Student Housing Phase III

12.12

Student Housing Phase III
Master Plan

Student Housing Phase III
Site Plan

12.14

Student Housing Phase III
Perspective

Student Housing Phase III
Perspective

Estimated Economic Impact

Total project cost: $ 7,900,000

12.16

- **Construction economic impact** **$ 26,000,000**
- **10-year earnings economic impact** **$ 9,000,000**

Total estimated economic impact $ 35,000,000

U. T. Dallas—Natural Science and Engineering Building

12.17

Natural Science and Engineering Building Master Plan

Estimated Economic Impact

Total project cost: $ 85,000,000

12.18

- **Construction economic impact** **$ 280,000,000**
- **10-year earnings economic impact** **$ 233,000,000**

Total estimated economic impact $ 513,000,000

7. U. T. Permian Basin: Request for acceptance of gift of outdoor work of art (replica of Stonehenge)

Committee Meeting Information
Presenter(s): *Mr. Sanders, Assistant Vice Chancellor, Facilities Planning and Construction* ***Status:*** *Approved* ***Motion:*** *Made, seconded, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Interim Vice Chancellor for Business Affairs, and President Watts that the U. T. Board of Regents accept the gift of an outdoor work of art at U. T. Permian Basin in accordance with Regents' Rules and Regulations, Part Two, Chapter VII, Section 1, Subsection 1.2, Subdivision 1.22.

BACKGROUND INFORMATION

U. T. Permian Basin has received an offer from a group of citizens for the donation of a full-size replica of Stonehenge. The replica will be exact in the horizontal size dimensions and 70% of the vertical dimensions.

The Stonehenge replica will be located on 0.3 acres of land near the Visual Arts Studio. The stones would be set in the appropriate orientation to fit the alignment of the original structure, corrected for the new latitude and longitude. The actual stones would be obtained from a local Permian Basin quarry and would be installed by the staff at U. T. Permian Basin after review and approval of the recommended layout and engineering design by the appropriate administration and staff of U. T. Permian Basin. The Stonehenge replica will be a major draw to the campus for travelers and school children. The cost of installation will be donated, and maintenance will be minimal.

Discussion at meeting:

Mr. Sanders said a proposal has been made by Mr. Richard Gillham to build a replication of the prehistoric monument in England known as Stonehenge at U. T. Permian Basin by the Art Building. He said the replica will be full-scale in the plan dimension, but will only be 70% scale in the vertical dimension because the stones being quarried are limited in height. Freshly hewn stones will be used as opposed to aged stones. Mr. Sanders stated there will be insurance and management plans to protect the institution because this will be a fairly significant installation.

Regent Estrada said he has visited the site of the proposed monument and the replica fits well and will be a good tourist attraction as well as educational.

8. <u>U. T. Austin: Honorific naming of the Animal Rehabilitation Keep at the Marine Science Institute as the Edith McAllister Animal Rehabilitation Keep</u>

Committee Meeting Information
Presenter(s): *Mr. Sidney J. Sanders, Assistant Vice Chancellor, Facilities Planning and Construction* ***Status:*** *Approved* ***Motion:*** *Made, seconded, and carried unanimously*

Agenda Item:

<u>RECOMMENDATION</u>

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Interim Vice Chancellor for Business Affairs, and President Faulkner that the U. T. Board of Regents approve the naming of the Animal Rehabilitation Keep at the Marine Science Institute at U. T. Austin as the Edith McAllister Animal Rehabilitation Keep.

<u>BACKGROUND INFORMATION</u>

The Animal Rehabilitation Keep at the Marine Science Institute in Port Aransas is a permanent building for the rehabilitation of injured birds, turtles, and mammals recovered in the Coastal Bend area. The facility is climate controlled and provides the needed tanks and filtration systems for rehabilitation of wounded animals.

Mrs. Edith McAllister conceived the plan to construct a permanent building known as the Animal Rehabilitation Keep. Mrs. McAllister and her daughter, Ms. Taddy McAllister, raised most of the funding needed for the construction and equipment for the facility, which was dedicated in August 1999.

Mrs. Edith McAllister has served The University of Texas at Austin by her memberships in the Texas Centennial Commission, Leadership Council - South Texas, and the Littlefield Society. She is also Vice Chairman of The University of Texas at San Antonio Development Board. Mrs. McAllister is a generous donor to the Red McCombs School of Business, the College of Fine Arts, the Department of Natural Sciences, and the U. T. Press.

The naming of the Animal Rehabilitation Keep at the Marine Science Institute to honor the distinguished service of Mrs. Edith McAllister is consistent with the Regents' <u>Rules and Regulations</u>, Part Two, Chapter VIII, Section 1, Subsection 1.3 relating to honorific namings of facilities, and institutional guidelines on the naming of facilities.

9. U. T. San Antonio: Honorific naming of a wing of the Biotechnology, Sciences and Engineering Building (West Campus Wet Lab Building) as the Margaret Batts Tobin Laboratory Building

Committee Meeting Information

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

Status: *Approved*

Motion: *Made, seconded, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Interim Vice Chancellor for Business Affairs, and President Romo that the U. T. Board of Regents approve the naming of the West Campus Wet Lab Building wing of the Biotechnology, Sciences and Engineering Building project at U. T. San Antonio as the Margaret Batts Tobin Laboratory Building.

BACKGROUND INFORMATION

The West Campus Wet Lab Building phase of the Biotechnology, Sciences and Engineering Building at U. T. San Antonio was approved by the U. T. Board of Regents on November 13, 2003. The research facility contains 22,000 gross square feet and will house numerous generic biology research labs as well as a Biosafety level-3 laboratory.

Mrs. Margaret Batts Tobin served on the U. T. Board of Regents from 1947 to 1955. She was the third woman appointed to the Board. She was a prominent businesswoman and cultural leader in San Antonio for many years until her death in August 1989. Throughout her years in San Antonio, she was active in the community, serving as president of the McNay Art Institute and the San Antonio Symphony Society and as a trustee of the Southwest School of Art and Craft.

There is already a Margaret Tobin Avenue on the U. T. San Antonio 1604 Campus, named in recognition of Mrs. Tobin's service as a Regent. To further recognize Mrs. Tobin, U. T. San Antonio would like to designate the West Campus Wet Lab Building in her honor for her dedication to improving her community.

The naming of the West Campus Wet Lab Building phase of the Biotechnology, Sciences and Engineering Building at U. T. San Antonio to recognize the distinguished service of former Regent Margaret Batts Tobin is consistent with the Regents' Rules and Regulations, Part Two, Chapter VIII, Section 1, Subsection 1.3 relating to honorific namings of facilities, and institutional guidelines on the naming of facilities.

10. U. T. Tyler: Student Dormitory and Academic Excellence Center - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost and appropriation of additional funds and authorization of expenditure (Deferred)

Committee Meeting Information

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

Status: *Deferred*

Agenda Item:

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Interim Vice Chancellor for Business Affairs, and President Mabry that the U. T. Board of Regents approve the recommendations for the Student Dormitory and Academic Excellence Center at U. T. Tyler as follows:

Project Number: 802-166

Architecturally or Historically Significant: Yes ☐ No ☒

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: July 2005

Total Project Cost:

Source	Current	Proposed
Revenue Financing System Bond Proceeds	$ 8,000,000	$ 8,000,000
Gifts	$ 3,000,000	$ 5,220,000
	$11,000,000	$13,220,000

Recommendations:

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. appropriate additional funds and authorize expenditure of funds of $2,220,000 from Gifts.

Previous Board Actions: On November 13, 2003, the Board approved the design development plans and a total project cost of $11,000,000.

Project Description: U. T. Tyler is requesting an increase in the total project cost of $2,220,000 from Gifts to include the Academic Excellence Center portion of the project that was bid as an alternate for which funding from Gifts has now been received.

This is the first student dormitory at U. T. Tyler. The dormitory project will consist of housing for approximately 200 students and will include lounge areas, centralized laundry facilities and kitchen, and offices for dormitory staff. The Academic Excellence Center will consist of a large meeting room and smaller breakout rooms and will be connected to the dormitory on the first floor.

11. U. T. M. D. Anderson Cancer Center: Federal Emergency Management Agency (FEMA) 404 Projects - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost and appropriation of additional funds and authorization of expenditure

Committee Meeting Information
Presenter(s): *Mr. Sidney J. Sanders, Assistant Vice Chancellor, Facilities Planning and Construction*
Status: *Approved*
Motion: *Made by Regent Barnhill, seconded by Vice-Chairman Hunt, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Interim Vice Chancellor for Business Affairs, and President Mendelsohn that the U. T. Board of Regents approve the recommendations for the Federal Emergency Management Agency (FEMA) 404 Projects at U. T. M. D. Anderson Cancer Center as follows:

Architecturally or Historically Significant: Yes ☐ No ☒

Project Delivery Method: Construction Manager at Risk

Institutionally Managed: Yes ☒ No ☐

Substantial Completion Date: February 2006

Total Project Cost:

Source	Current	Proposed
Grants	$23,994,413	$27,939,183
Hospital Revenues	$ 8,105,587	$ 9,360,817
	$32,100,000	$37,300,000

Recommendations:

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. appropriate additional funds and authorize expenditure of funds.

Previous Board Actions: On May 8, 2003, the Board approved the project for inclusion in the CIP and authorized institutional management for the project.

Project Description:

U. T. M. D. Anderson Cancer Center is requesting the addition of $3,944,770 from FEMA and $1,255,230 from Hospital Revenues to include two additional grant awards for the project.

During 2001, rains from Tropical Storm Allison caused damage to many facilities within the Texas Medical Center. The governor of the State of Texas requested federal funding under the FEMA Hazard Mitigation Grant Program and Public Assistance Program for projects that could involve restoration and improvements of internal facility systems and components. U. T. M. D. Anderson Cancer Center applied and received approval for federal assistance.

The approved projects are required as part of an effort to protect facilities and equipment from future potential flooding. In particular, the projects involve relocation of critical electrical and mechanical equipment in various buildings, installation of emergency disconnects, and relocation of the medical records transcription offices. These improvements are considered essential to the protection of the facilities from potential damage caused by future floods.

FEMA previously approved eight distinct projects. U. T. M. D. Anderson Cancer Center recently received notification that FEMA has approved two additional projects in the amount of $5,200,000. The two additional projects are similar to the ongoing FEMA projects as the work involves relocation and protection of critical building systems and components. FEMA will fund 75% of the approved project cost and U. T. M. D. Anderson Cancer Center will fund the remaining portion of the project cost.

12. U. T. Health Center - Tyler: Ambulatory Care Center - Phase II - Amendment of FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase total project cost; appropriation of additional funds and authorization of expenditure; and approval of parity debt

Committee Meeting Information
Presenter(s): *Mr. Sidney J. Sanders, Assistant Vice Chancellor, Facilities Planning and Construction*
Status: *Approved*
Motion: *Regent Barnhill made, Vice-Chairman Hunt seconded, and carried unanimously*

Agenda Item:

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Interim Vice Chancellor for Business Affairs, and President

Calhoun that the U. T. Board of Regents approve the recommendations for the Ambulatory Care Center - Phase II at U. T. Health Center - Tyler as follows:

Project Number: 801-167

Architecturally or Historically Significant: Yes ☐ No ☒

Project Delivery Method: Competitive Sealed Proposals

Substantial Completion Date: April 2005

Total Project Cost:

Source	Current	Proposed
Revenue Financing System Bond Proceeds	$2,178,000	$2,500,000

Debt Service: The $322,000 in Revenue Financing System Bond Proceeds debt will be repaid from net revenues on the project. The annual debt service will be structured proportionately to the projected amount of net revenue available. Debt service coverage on the project is expected to be at least 1.3 times.

Recommendations:

a. amend the FY 2004-2009 Capital Improvement Program and the FY 2004-2005 Capital Budget to increase the total project cost;

b. appropriate additional funds and authorize expenditure of funds; and

c. 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. Health Center – Tyler, 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 $322,000.

Previous Board Actions: On August 13, 2003, the funding of $2,178,000 from Revenue Financing System Bond Proceeds was appropriated. In March 2004, the Chancellor approved the design development plans.

Project Description: U. T. Health Center – Tyler is requesting an increase of $322,000 in the total project cost to allow for the complete buildout of both the Women's Wellness Center and Surgery Clinic, including imaging services.

The project consists of 25,000 gross square feet to house the Women's Wellness Center and a Surgery Clinic, which includes wound and urology clinics. The outpatient clinical facilities will include examination rooms, nurse and clerical work areas, medical records, teaching and testing areas, and waiting rooms. Additional mechanical and electrical equipment is required to support floor areas, and an additional elevator will be installed in an existing shaft.

ADJOURNMENT

Committee Chairman Huffines 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
May 12, 2004

The members of the Student, Faculty, and Staff Campus Life Committee of the Board of Regents of The University of Texas System convened at 3:35 p.m. on Wednesday, May 12, 2004, in the Board Meeting Room 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 and absent:

Attendance	Absent
Regent Estrada, presiding	Committee Chairman Craven
Vice-Chairman Clements	
Vice-Chairman Hunt	
Regent Barnhill	

Also present were Counsel and Secretary Frederick; Ms. Sherill Boline, Vice-Chair, Employee Advisory Council (EAC), attending on behalf of Ms. Shirley Zwinggi, Chair of the EAC; Dr. Robert Nelsen, Past Chair, Faculty Advisory Council (FAC), attending on behalf of Dr. Terese Verklan, Chair of the FAC; and Mr. Brian Haley, immediate past president of the U. T. Austin Student Government, attending on behalf of Mr. Jeremy Chance, Chair of the Student Advisory Council (SAC).

In accordance with a notice being duly posted with the Secretary of State and there being a quorum present, Regent Estrada called the meeting to order. Mr. Estrada welcomed members of the EAC, FAC, and SAC to the meeting.

1. U. T. System: Overview of the U. T. System policing function

Committee Meeting Information

***Presenter(s)**: Mr. Baldridge*
***Status**: Reported*

Agenda Item:

REPORT

Mr. Roy Baldridge, U. T. System Director of Police, will provide an overview of the U. T. System policing function, with a particular emphasis on the U. T. System Police Academy and training requirements. A PowerPoint presentation is attached on Pages 82.1 – 82.9 of the Agenda Book.

Discussion at meeting:

Vice Chancellor Brown introduced Mr. Lewis Wright, Associate Vice Chancellor for Business Affairs, who in turn introduced Mr. Roy Baldridge. Mr. Baldridge said the U. T. System police function consists of the Office of the Director of Police at U. T. System Administration and a police department at each of 13 campuses. He explained U. T. Tyler and U. T. Health Center – Tyler share a police department as do U. T. M. D. Anderson Cancer Center and U. T. Health Science Center – Houston. He said their primary objective is to protect the lives and property of individuals on the campuses, providing a protective and proactive approach to the law enforcement service. Mr. Baldridge said one advantage to operating a police academy rather than relying on municipal law enforcement is that campus police forces become a part of their respective community. He explained that component institutions pay the salaries, travel, and per diem expenses of each student and U. T. System pays the remaining expenses for each officer training at the Academy, which amounts to $5,800 per student. Other groups such as Texas Tech University, Huston Tillotsen College, Texas State University, and the Texas Attorney General's Office also subscribe to the Academy. Mr. Baldridge discussed the training standards of the Academy that exceed those required by the State of Texas and said the U. T. Academy is consistently rated among the top academies in the state by the Texas Commission on Law Enforcement. The Commission considers U. T. System as one police agency and as such is the 16th largest in the state with 422 officers. He said U. T. System officers are commissioned by the Board of Regents rather than by the president of the component institution, thus giving them authority on all property controlled by the U. T. System or any component institution. Mr. Baldridge said U. T. System officers are highly trained, and retention is a problem.

Mr. Baldridge then introduced Mr. Jeff Van Slyke, Chief of Police at U. T. Austin. Mr. Van Slyke commended the Police Academy and said it is difficult to retain the highly trained officers who graduate from the Academy. Mr. Baldridge said two academies are operated per year to cover the 12% attrition.

In response to a question from Regent Estrada about housing trainees, Mr. Baldridge agreed it would make sense to build a dormitory.

2. U. T. System: Presentation regarding employee group health insurance

Committee Meeting Information
Presenter(s): *Mr. Stewart* ***Status***: *Reported*

Agenda Item:

REPORT

Mr. Dan Stewart, Executive Director of Employee Group Benefits, will provide an overview of the employee insurance program with a particular emphasis on the U. T. System health plans. A PowerPoint presentation is provided on Pages 83.1 – 83.6 of the Agenda Book.

Discussion at meeting:

Mr. Stewart said approximately 150,000 individuals in the U. T. System are served by the employee insurance program with about 10 contracted insurance carriers to operate a benefits program just under $500 million a year in claims and revenues. He said according to a study by the Hewitt Company, a large consulting firm based in Chicago, that compared universities and 300 of the largest employers in the U.S., Texas is providing more value for the same product line than anyone else by paying less for the same value of health service.

He said the bad news is that costs are increasing about 12% for hospitals, 15% for drugs, and in excess of 10% for physicians. He said the general trend rate for increases for U. T. System is 12-14%. However, due to the financial condition of the program, employees will experience an approximate 4.5% rate increase for the UT Select plan for next year, compared to a 16% national increase, but rates are expected to increase over time.

ADJOURNMENT

Regent Estrada announced that the purpose for which this meeting was called had been completed, and the meeting was duly adjourned at 4:20 p.m.

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