

1. U. T. System: Recommendation to Approve Docket No. 111

### RECOMMENDATION

It is recommended that Docket No. 111 be approved.

It is requested that the Committee 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. Board of Regents: Proposed Adoption of Twelfth Supplemental Resolution to the Master Resolution Authorizing the Issuance of Board of Regents of The University of Texas System Revenue Financing System Bonds in One or More Installments in an Aggregate Principal Amount Not to Exceed \$635,000,000; Authorization for Officers of U. T. System to Complete All Related Transactions; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity

### RECOMMENDATION

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

- a. Adopt the Twelfth Supplemental Resolution to the Master Resolution substantially in the form immediately following this item, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Revenue Financing System Bonds in one or more installments in an aggregate principal amount not to exceed \$635,000,000 through November 30, 2003, with a final maturity not to exceed the Year 2035 for the purpose of advance refunding certain outstanding Revenue Financing System Bonds to produce present value debt service savings; to refund a portion of the outstanding Revenue Financing System Commercial Paper Notes, Series A; to provide new money to fund construction and

acquisition costs of projects in the Capital Improvement Program; and to pay the costs of issuance and any original issue discount

- b. Authorize appropriate officers and employees of the U. T. System as set forth in the Twelfth Supplemental Resolution to take any and all actions necessary to carry out the intentions of the U. T. Board of Regents, including determining the method of sale and the selection of the underwriters, within the limitations and procedures specified therein; making certain covenants and agreements in connection therewith; and resolving other matters incident and related to the issuance, sale, security, and delivery of such bonds.

The Chancellor also concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System (the "Master Resolution") adopted by the U. T. Board of Regents on February 14, 1991, amended on October 8, 1993 and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as set out on Page 29, the U. T. Board of Regents resolves 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 U. T. Board of Regents relating to the Financing System
- 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 tax-exempt Parity Debt.

#### BACKGROUND INFORMATION

On February 14, 1991, the Board adopted a Master Resolution establishing the Revenue Financing System to create a cost-effective, System-wide financing structure for component institutions of the U. T. System. Since that time, the Board has adopted 11 supplemental resolutions to provide debt financing for projects that have received the requisite approval by the U. T. System Board of Regents and the Texas

Higher Education Coordinating Board. The proposed Twelfth Supplemental Resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

Adoption of the Twelfth Supplemental Resolution would authorize the issuance of Revenue Financing System Bonds in an aggregate principal amount not to exceed \$635,000,000 in one or more installments to refund a portion of the outstanding Revenue Financing System Commercial Paper Notes, Series A, and to provide new money to fund construction and acquisition costs of projects in the Capital Improvement Program. Generally, commercial paper debt is issued to fund projects during the construction phase and the debt is not amortized. Once construction is complete, the commercial paper is refunded with bonds. With long-term interest rates at relatively low levels, outstanding commercial paper and new money for construction are being financed with fixed-rate bonds.

The Twelfth Supplemental Resolution would also authorize the advance refunding of certain outstanding Revenue Financing System Bonds provided the refunding exceeds a minimum 3% present value debt service savings threshold. An advance refunding involves issuing bonds to refund outstanding bonds in advance of the call date. Refunding bonds are issued at lower interest rates thereby producing debt service savings.

The potential bonds to be refunded include up to \$42,895,000 of the Revenue Financing System Bonds, Series 1995A maturing 2008-2017; \$18,660,000 of the Revenue Financing System Bonds, Series 1996A and \$55,215,000 of Revenue Financing System Bonds, Series 1996B maturing 2011-2014; and \$37,975,000 of Revenue Financing System Bonds, Series 1998D maturing 2009-2015. Adoption of this resolution will provide the flexibility to select the particular bonds to be refunded depending on market conditions on the pricing date, provided the refunding achieves the minimum 3% savings target.

This item was presented to the Finance and Planning Committee in October 2002.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned Assistant Vice Chancellor for Finance of The University of Texas System, a U. T. System Representative under the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System (the "Master Resolution") adopted by the U. T. Board of Regents ("Board") on February 14, 1991, and amended on October 8, 1993 and August 14, 1997, do hereby execute this certificate for the benefit of the Board pursuant to Section 5(a)(ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity Debt" and do certify that to the best of my knowledge, the Board is in compliance with and not in default of any terms, provisions, and conditions in the Master Resolution, the First Supplemental Resolution Establishing the Revenue Financing System Commercial Paper Program ("First Supplemental"), the Second Supplemental Resolution, the Third Supplemental Resolution, the Fourth Supplemental Resolution, the Fifth Supplemental Resolution, the Sixth Supplemental Resolution, the Seventh Supplemental Resolution as amended, the Eighth Supplemental Resolution, the Ninth Supplemental Resolution as amended, the Tenth Supplemental Resolution, and the Eleventh Supplemental Resolution.

EXECUTED this 16th day of October, 2002

/s/ Philip Aldridge  
Assistant Vice Chancellor for Finance

3. U. T. Board of Regents: Request for Adoption of Amended and Restated Resolution Authorizing the Permanent University Fund Flexible Rate Notes, Series A Program; Adoption of Liquidity Resolution Constituting a Credit Agreement; and Authorization for Officers of U. T. System to Complete All Transactions Related Thereto

### RECOMMENDATION

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

- a. Adopt an Amended and Restated Resolution, substantially in the form immediately following this item, amending the Permanent University Fund Flexible Rate Notes, Series A Program to increase the maximum amount of the program to \$400 million and to amend certain other terms and provisions
- b. Adopt a liquidity resolution constituting a credit agreement covenanting to provide liquidity support for the Notes and approving a note purchase agreement, substantially in the form immediately following this item, with The University of Texas Investment Management Company (UTIMCO) relating to the Notes
- c. Authorize appropriate officers and employees of U. T. System to take any and all actions necessary to carry out the intentions of the U. T. Board of Regents.

### BACKGROUND INFORMATION

The Permanent University Fund (PUF) Flexible Rate Notes, Series A Program provides interim financing for eligible projects. The PUF Note Program was established in 1985 and has been amended periodically, most recently in May 2000. The proposed Amended and Restated Resolution will increase the maximum amount of notes that may be outstanding at any one time to \$400 million and will make non-substantive amendments such as titles and dates to certain other terms and provisions.

The increase in program authorization from \$250 million to \$400 million is needed to facilitate the funding of construction costs of PUF projects reflected in the FY 2002-2007 Capital Improvement Program. There is currently \$175 million of PUF notes outstanding and the current \$250 million limit is expected to be met during FY 2003.

Since 1985, liquidity for the PUF Note Program has been provided through an external bank, with the PUF providing secondary liquidity in the event the external bank could not perform. Liquidity support is currently provided by Bank One, NA. The liquidity agreement with Bank One expires in May 2003.

In lieu of securing external liquidity support, the liquidity resolution would constitute a credit agreement showing the U. T. Board of Regents' commitment to provide internal liquidity support for the notes. UTIMCO has agreed to provide the liquidity commitment for the PUF Note Program. The U. T. System will save an estimated \$400,000 annually by providing internal liquidity versus external bank liquidity. In consideration for its commitment, the PUF will receive a commitment fee equal to 0.10% per annum times the amount of the commitment.

The proposed Amended and Restated Resolution, Credit Agreement, and Note Purchase Agreement have been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

This item was presented to the Finance and Planning Committee in October 2002.

4. U. T. System: Recommended Approval of the System-wide Internal Audit Plan for Fiscal Year 2003

RECOMMENDATION

The Internal Audit and Compliance Subcommittee and the Finance and Planning Committee of the U. T. Board of Regents recommends that the proposed U. T. System Internal Audit Plan for Fiscal Year 2003 be approved. Development of the Internal Audit Plan is based on risk assessments performed at each component institution. Implementation of the Audit Plan will be coordinated with the institutional auditors. Copies of the U. T. System Administration and component institution Audit Plans and the Summarized Audit Plan are on file in the Office of the U. T. Board of Regents.

BACKGROUND INFORMATION

Institutional Audit Plans, compiled by the internal audit departments after input and guidance from the System Audit Office and the institution's management and Internal Audit Committee, were submitted to all Internal Audit Committees and institutional presidents for review and comments.

The U. T. System Director of Audits provided feedback by conducting audit hearings with each component institution. After the review process, each Internal Audit Committee formally approved its institution's Plan. The Audit Plans were also reviewed by the Chancellor, the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Acting Executive Vice Chancellor for Health Affairs, the Vice Chancellor for Administration, and the System Director of Audits.

The details of the Plan were presented to the Internal Audit and Compliance Subcommittee and the Finance and Planning Committee in October 2002.

The U. T. System Internal Audit Plan addresses the risks of the U. T. System by planning audits as follows:

Auditable Area	Audit Hours	Percent of Total Hours
Key Financial and Operating Information	24,252	18%
Institutional Compliance Audits	18,044	13%
Information Technology Audits	20,640	15%
Core Business Processes	35,992	28%
Projects	23,494	17%
Follow-up	5,788	4%
Change in Management Departmental Audits	6,985	5%
Total	<u>135,195</u>	<u>100%</u>

5. U. T. System: Report on Investments for the Fiscal Quarter Ended August 31, 2002

REPORT

Pages 35 - 41 contain the Summary Reports on Investments for the fiscal quarter ended August 31, 2002.

Item I on Pages 35 - 36 reports summary activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the quarter was negative 8.00%. The PUF's net investment return for marketable securities for the quarter was negative 8.63% versus its composite benchmark return of negative 6.63%.

Item II on Pages 37 - 39 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 quarter was negative 8.25%. The GEF's net investment return for marketable securities for the quarter was negative 8.66% versus its composite benchmark return of negative 6.63%.

Item III on Page 40 reports summary activity for the Short Intermediate Term Fund (SITF). Total net investment return on the SITF was .84% for the quarter versus the SITF's performance benchmark of 2.51%.

Item IV on Page 41 presents book and market value of cash, fixed income, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of component operating funds held in the Dreyfus money market fund, increased by \$195 million to \$1,358 million during the fourth quarter. Market values for the remaining asset types were fixed income securities: \$317 million versus \$412 million at previous quarter-end; equities: \$137 million versus \$155 million at previous quarter-end; and other investments of \$13 million versus \$.6 million at previous quarter-end.

The report was reviewed and accepted by the Finance and Planning Committee in October 2002.

I. PERMANENT UNIVERSITY FUND (1)

a.) Summary Investment Report at August 31, 2002 (2)

	FY00-01 Full Year	FY01-02 (\$ millions)				Year-to-Date
		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	
Beginning Net Assets	8,452.3	7,540.1	7,079.2	7,114.0	7,303.3	7,540.1
PUF Lands Receipts (3)	115.6	29.2	14.7	16.8	19.8	80.5
Investment Return	(693.2)	(146.7)	25.0	178.5	(579.7)	(522.9)
Expenses	(17.5)	(5.0)	(4.9)	(6.0)	(5.1)	(21.0)
Distributions to AUF	(317.1)	(338.4)	-	-	-	(338.4)
Ending Net Assets	7,540.1	7,079.2	7,114.0	7,303.3	6,738.3	6,738.3
AUF Distribution:						
From PUF Investments	317.1	338.4	-	-	-	338.4
From Surface Income	9.2	0.9	2.7	1.1	3.4	8.1
Total	326.3	339.3	2.7	1.1	3.4	346.5
Total Net Investment Return	-8.64%	-2.03%	0.32%	2.47%	-8.00%	-7.35%

(1) Report prepared in accordance with Texas Education Code Sec. 51.0032.

(2) General - The Investment Summary Report excludes PUF Lands mineral and surface interests with estimated August 31, 2002 values of \$639.8 million and \$161.1 million, respectively.

(3) PUF Land Receipts - As of August 31, 2002: 1,171,057 acres under lease, 519,324 producing acres; 3,151 active leases; and 2,061 producing leases.

I. PERMANENT UNIVERSITY FUND (continued)

b.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio and Net Investment Return for the quarter ended August 31, 2002

	Asset Allocation	Endowment Neutral Policy Portfolio	Actual Net Investment Return	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash	1.6%	0.0%	0.47%	0.44%	90 Day T-Bills Average Yield
Domestic Common Stocks:					
Large/Medium Capitalization Equities	20.0%	25.0%	-14.15%	-13.80%	Standard and Poor's 500 Index
Small Capitalization Equities	7.9%	7.5%	-20.89%	-19.52%	Russell 2000 Index
Total Domestic Common Stocks	27.9%	32.5%			
International Common Stocks:					
Established Markets	10.8%	12.0%	-14.31%	-13.66%	Morgan Stanley Capital International Europe, Asia, Far East Index (net)
Emerging Markets	4.1%	3.0%	-14.72%	-13.69%	Morgan Stanley Capital International Emerging Markets Free
Total International Common Stocks	14.9%	15.0%			
Inflation Hedging	9.1%	7.5%	0.78%	4.39%	33% (Goldman Sachs Commodity Index minus 100 basis points) plus 67% (National Commercial Real Estate Index Fund)
Fixed Income:					
Domestic	16.9%	15.0%	2.21%	3.81%	Lehman Brothers Aggregate Bond Index
International	3.8%	5.0%	6.78%	8.23%	Salomon Non-U.S. World Government Bond Index, Unhedged
Total Fixed Income	20.7%	20.0%			
Marketable Alternative Equities	11.9%	10.0%	-6.85%	2.20%	90 Day T-Bills Average Yield + 7%
<b>Total Marketable Securities</b>	<b>86.1%</b>	<b>85.0%</b>	<b>-8.63%</b>	<b>-6.63%</b>	
<b>Non-Marketable Alternative Equities</b>	<b>13.9%</b>	<b>15.0%</b>	<b>-3.70%</b>	<b>-13.12% (2)</b>	Wilshire 5000 U.S. Equities Index + 4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-8.00%</b>	<b>-7.61%</b>	

(1) The benchmark return for the endowment neutral policy portfolio is calculated by summing the neutrally weighted index return (% weight for the asset class multiplied by the benchmark return for the asset class) for the various asset classes in the endowment portfolio for the period reported.

(2) Due to valuation and liquidity characteristics associated with Non-Marketable Alternative Equities, short-term benchmark comparisons are not appropriate.

ii. GENERAL ENDOWMENT FUND (1) (2)

a.) Summary Investment Report at August 31, 2002

(\$ millions)

	For the Period from Inception (March 1, 2001) to August 31, 2001	FY01-02				Year-to-Date
		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	
Beginning Net Assets		3,723.9	3,640.3	3,633.2	3,626.1	3,723.9
Net Contributions	3,818.2	(47.6)	(14.9)	(100.2)	(68.0)	(230.7)
Investment Return	(81.2)	12.5	96.6	(299.1)	(299.1)	(245.3)
Expenses	(3.4)	(1.7)	(2.2)	(1.8)	(7.2)	(7.2)
Distributions (3)	(9.7)	(3.0)	(1.3)		36.0	52.5
Ending Net Assets	3,723.9	3,640.3	3,633.2	3,626.1	3,293.2	3,293.2
Net Asset Value per Unit	97.811	96.325	96.612	99.099	90.932	90.932
Units and Percentage Ownership (End of Period):						
PHF	9,009,891	8,887,012	8,784,469	7,784,304	7,676,762	7,676,762
LTF	29,062,538	28,895,291	28,821,969	28,806,706	28,539,389	28,539,389
Total	38,072,429	37,792,303	37,606,438	36,591,010	36,216,151	36,216,151
		23.7%	23.5%	23.4%	21.3%	21.2%
		76.3%	76.5%	76.6%	78.7%	78.8%
		100.0%	100.0%	100.0%	100.0%	100.0%
Total Net Investment Return	-2.14	-1.50%	0.32%	2.61%	-8.25%	-6.96%

(1) Report prepared in accordance with Texas Education Code Sec. 51.0032.

(2) On March 1, 2001, the Permanent Health Fund (PHF) and Long Term Fund (LTF) purchased units in the newly created General Endowment Fund (GEF). The initial number of units was based on the PHF's and LTF's contribution of its net values as of February 28, 2001.

(3) The GEF distributes its net investment income and realized gain (loss) to its unitholders based on their ownership of GEF units at month end. The distributed amounts are reinvested as GEF contributions. The distribution is proportional to the percentage of ownership by the unitholders, and therefore, no additional units are purchased.

ii. GENERAL ENDOWMENT FUND (continued)

b.) Unit holders' Summary Investment Report at August 31, 2002 (1)

(\$ millions)

	FY00-01 Full Year	FY01-02			Year-to-Date
		1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
<b>PERMANENT HEALTH FUND</b>					
Beginning Net Assets	1,016.6	881.4	857.2	848.8	771.6
Withdrawals	-	-	-	(88.2)	-
Investment Return	(92.1)	(13.4)	2.6	21.8	(63.6)
Expenses	(1.1)	(0.1)	(0.2)	(0.1)	(0.2)
Distributions (Payout)	(42.0)	(10.7)	(10.8)	(10.7)	(9.6)
Ending Net Assets	881.4	857.2	848.8	771.6	698.2
Net Asset Value per Unit (2)	0.964617	0.938062	0.928935	0.940949	0.851524
No. of Units (End of Period)	913,765,506	913,765,506	913,765,506	820,000,000	820,000,000
Distribution Rate per Unit	0.04600	0.01175	0.01175	0.01175	0.01175
Total Net Investment Return	-9.24%	-1.53%	0.28%	2.56%	-8.22%
					-7.05%
<b>LONG TERM FUND</b>					
Beginning Net Assets	3,136.2	2,843.3	2,783.3	2,784.5	2,854.8
Net Contributions	113.2	16.8	26.4	34.1	12.0
Investment Return	(276.5)	(43.5)	8.4	72.7	(237.3)
Expenses	(2.3)	(0.1)	(0.1)	(2.6)	(0.2)
Distributions (Payout)	(127.3)	(33.2)	(33.5)	(33.9)	(34.2)
Ending Net Assets	2,843.3	2,783.3	2,784.5	2,854.8	2,595.1
Net Asset Value per Unit (2)	5.412	5.266	5.219	5.286	4.788
No. of Units (End of Period)	525,401,525	528,498,599	533,513,842	540,048,019	542,049,359
Distribution Rate per Unit	0.24500	0.06275	0.06275	0.06275	0.06275
Total Net Investment Return	-8.80%	-1.50%	0.32%	2.58%	-8.23%
					-6.97%

(1) The Permanent Health Fund (PHF) and Long Term Fund (LTF) are internal mutual funds for the pooled investment of endowment funds. The PHF is comprised of endowments for health-related institutions of higher education and the LTF is comprised of privately raised endowments and other long-term funds of U. T. System components.

(2) The asset allocation of the PHF and LTF, beginning in the 3rd fiscal quarter of FY00-01, is representative of the asset allocation for the GEF. A nominal amount of cash is held in PHF and LTF to pay expenses incurred separately by these funds.

II. GENERAL ENDOWMENT FUND (continued)

c.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio and Net Investment Return for the quarter ended August 31, 2002

	Asset Allocation	Endowment Neutral Policy Portfolio	Actual Net Investment Return	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash	-0.2% (2)	0.0%	0.47%	0.44%	90 Day T-Bills Average Yield
Domestic Common Stocks:					
Large/Medium Capitalization Equities	19.8%	25.0%	-14.18%	-13.80%	Standard and Poor's 500 Index
Small Capitalization Equities	8.6%	7.5%	-20.69%	-19.52%	Russell 2000 Index
Total Domestic Common Stocks	28.4%	32.5%			
International Common Stocks:					
Established Markets	11.9%	12.0%	-14.18%	-13.66%	Morgan Stanley Capital International Europe, Asia, Far East Index (net)
Emerging Markets	4.6%	3.0%	-14.75%	-13.69%	Morgan Stanley Capital International Emerging Markets Free
Total International Common Stocks	16.5%	15.0%			
Inflation Hedging	9.7%	7.5%	0.83%	4.39%	33% (Goldman Sachs Commodity Index minus 100 basis points) plus 67% (National Commercial Real Estate Index Fund)
Fixed Income:					
Domestic	16.5%	15.0%	1.93%	3.81%	Lehman Brothers Aggregate Bond Index
International	4.3%	5.0%	6.72%	8.23%	Salomon Non-U.S. World Government Bond Index, Unhedged
Total Fixed Income	20.8%	20.0%			
Marketable Alternative Equities	13.6%	10.0%	-6.79%	2.20%	90 Day T-Bills Average Yield + 7%
<b>Total Marketable Securities</b>	<b>88.8%</b>	<b>85.0%</b>	<b>-8.66%</b>	<b>-6.63%</b>	
<b>Non-Marketable Alternative Equities</b>	<b>11.2%</b>	<b>15.0%</b>	<b>-4.37%</b>	<b>-13.12% (3)</b>	Wishire 5000 U.S. Equities Index + 4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-8.25%</b>	<b>-7.61%</b>	

(1) The benchmark return for the endowment neutral policy portfolio is calculated by summing the neutrally weighted index return (% weight for the asset class multiplied by the benchmark return for the asset class) for the various asset classes in the endowment portfolio for the period reported.

(2) Negative cash position does not indicate borrowing, but is the result of certain accrued expenses.

(3) Due to valuation and liquidity characteristics associated with Non-Marketable Alternative Equities, short-term benchmark comparisons are not appropriate.

III. SHORT INTERMEDIATE TERM FUND (1)

Summary Investment Report at August 31, 2002

(\$ millions)

	FY00-01	FY01-02				Year-to-Date
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	
Beginning Net Assets	1,844.4	1,704.6	1,714.0	1,451.9	1,477.6	1,704.6
Net Contributions	(194.7)	2.1	(254.5)	31.4	(40.0)	(261.0)
Investment Return	161.2	27.5	10.6	9.6	12.6	60.3
Expenses	(0.5)	(0.2)	(0.2)	(0.2)	(0.1)	(0.7)
Distributions of Income	(105.8)	(20.0)	(18.0)	(15.1)	(14.2)	(67.3)
Ending Net Assets	1,704.6	1,714.0	1,451.9	1,477.6	1,435.9	1,435.9
Net Asset Value per Unit	10.152	10.195	10.150	10.110	10.099	10.099
No. of Units (End of Period)	167,909,159	168,126,090	143,051,739	146,147,403	142,184,975	142,184,975
Total Net Investment Return	8.96%	1.60%	0.63%	0.63%	0.84%	3.75%

(1) Report prepared in accordance with Texas Education Code Sec. 51.0032.



6. Permanent University Fund: Report on Investments for the Fiscal Year Ended August 31, 2002

REPORT

Texas Education Code Section 66.05 requires that a report on Permanent University Fund (PUF) investments be prepared by the U. T. Board of Regents and distributed to the Governor, members of the Legislature, and other State Officials. The report is prepared by The University of Texas Investment Management Company (UTIMCO) at the direction of the Board of Regents and approved by the UTIMCO Board of Directors' Audit and Ethics Committee.

UTIMCO has prepared a report on PUF investments for the fiscal year ended August 31, 2002, that includes the annual audited financial statements and additional schedules as required by Texas Education Code Section 66.05. The report will be considered by the Audit and Ethics Committee of the UTIMCO Board on October 31, 2002.

Due to timing constraints related to auditing of the statements, this item was not presented to the Finance and Planning Committee for review in October 2002. The 72-page report immediately follows this item.

Upon acceptance of the report, it will be distributed as required by law.

7. U. T. Arlington: Request for Determination of Necessity and Authorization to Acquire Real Property Located at 851, 901, and 905 Oak Street, Arlington, Tarrant County, Texas; Authorization to Take All Necessary Actions Needed to Acquire the Above Property Through Purchase or Condemnation; and Authorization to Execute All Documents Related Thereto

### RECOMMENDATION

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

- a. Determine that it is necessary for U. T. Arlington to acquire, through condemnation proceedings, if necessary, the real property located at 851, 901, and 905 Oak Street in Arlington, Tarrant County, Texas, at a price not exceeding its fair market value as determined by an MAI appraisal or by the determination of the court
- b. Authorize the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to take all steps necessary to acquire the subject property; to execute all documents, instruments, and other agreements; 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 Texas; and to take all such actions deemed necessary or desirable to carry out the purpose and intent of the foregoing recommendations.

### BACKGROUND INFORMATION

U. T. Arlington wishes to acquire the College Oaks Apartments property, which consists of an approximately 1.03-acre site and a 47-unit apartment complex. The subject apartment complex was built in phases between 1961 and 1967. The property exists in a strategic location within the approved master plan acquisition zone for the U. T. Arlington campus, and is needed to complete an assemblage of property for expansion of existing on-campus student housing. After acquisition, the improvements will be demolished to construct a parking lot for a new residence hall.

This item was reviewed by the Finance and Planning Committee in October 2002.

8. U. T. Permian Basin: Request for Authorization to Acquire the Falcon's Nest Apartments Located at 4901 East University Boulevard in Odessa, Ector County, Texas; Authorization to Submit a Request to the Coordinating Board for Approval of the Transaction; Appropriation of Funds and Authorization of Expenditure; Authorization to Execute All Documents Related Thereto; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Parity Debt Certificate, and Finding of Fact with Regard to Financial Capacity

### RECOMMENDATION

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

- a. Acquire the Falcon's Nest Apartments located at 4901 East University Boulevard, Odessa, Ector County, Texas, from the Odessa Housing Finance Corporation
- b. Submit a request to the Texas Higher Education Coordinating Board for approval of this transaction
- c. Appropriate funds and authorize expenditure of up to \$1,000,000 from Revenue Financing System Bond Proceeds
- d. Authorize the Executive Vice Chancellor for Business Affairs, the Executive Director of Real Estate, or the Assistant Vice Chancellor for Finance to execute all documents, instruments, and other agreements and to take all further actions deemed necessary or desirable to carry out the purpose and intent of the foregoing recommendations.

The Chancellor also concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991,

and amended on October 8, 1993 and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as set out on Page 47, the U. T. Board of Regents resolves that:

- a. Parity Debt shall be issued to pay the project's cost, including any project 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. 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 up to \$1,000,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the Code of Federal Regulations.

#### BACKGROUND INFORMATION

The Falcon's Nest Apartments were constructed by the Odessa Housing Finance Corporation under a long-term ground lease to provide student housing on the U. T. Permian Basin campus. U. T. Permian Basin currently leases the apartments from the Odessa Housing Finance Corporation. The lease requires that U. T. Permian Basin cannot construct additional student housing on campus unless it purchases the Housing Finance Corporation's leasehold interest. U. T. Permian Basin is requesting authority to purchase the apartments to expand and to place all student housing on campus under University control.

The debt will be repaid with net revenues from U. T. Permian Basin's housing operations. The projected annual debt service on U. T. Permian Basin's proposed housing projects is \$467,877. The debt service coverage on the proposed housing projects is expected to be at least 1.3 times. The overall debt service coverage for U. T. Permian Basin is expected to be at least 1.04 times. (The financing forecast for this purchase is set out on Page 48.)

This item was reviewed by the Finance and Planning Committee in October 2002.

See related item on Page 108 to authorize partial institutional management of the Student Housing Phase II project.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned Assistant Vice Chancellor for Finance of The University of Texas System, a U. T. System Representative under the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System (the "Master Resolution"), adopted by the U. T. Board of Regents ("Board") on February 14, 1991, and amended on October 8, 1993 and August 14, 1997, do hereby execute this certificate for the benefit of the Board pursuant to Section 5(a)(ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity Debt" to finance the purchase of the Falcon's Nest Apartments by U. T. Permian Basin, and do certify that to the best of my knowledge, the Board is in compliance with and not in default of any terms, provisions, and conditions in the Master Resolution, the First Supplemental Resolution Establishing the Revenue Financing System Commercial Paper Program ("First Supplemental"), the Second Supplemental Resolution, the Third Supplemental Resolution, the Fourth Supplemental Resolution, the Fifth Supplemental Resolution, the Sixth Supplemental Resolution, the Seventh Supplemental Resolution as amended, the Eighth Supplemental Resolution, the Ninth Supplemental Resolution as amended, the Tenth Supplemental Resolution, and the Eleventh Supplemental Resolution.

EXECUTED this 8th day of October, 2002

/s/ Philip Aldridge  
Assistant Vice Chancellor for Finance

The University of Texas of the Permian Basin  
Falcon's Nest Apartments

Project Level (Actual \$)	Actual			Forecast						
	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	
Revenues	242,706	203,319	211,254	249,139	403,777	468,010	791,578	842,399	896,512	
Expenses	216,596	185,186	239,890	238,901	219,300	238,236	298,818	308,724	318,973	
Net Income	26,110	18,133	(28,636)	10,238	184,477	229,774	492,760	533,675	577,539	
Pledged Revenue from Bookstore				-	-	80,000	115,000	75,000	30,000	
Revenue Available for Debt Service	26,110	18,133	(28,636)	10,238	184,477	309,774	607,760	608,675	607,539	
Debt Service				70,000	238,000	467,877	467,877	467,877	467,877	
Debt Service Coverage	n.a.	n.a.	n.a.	n.a.	2.64	1.30	1.30	1.30	1.30	

Campus Level: (\$ in millions)

	Actual			Forecast						
	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	
Beginning Fund Balance	2.58	3.74	4.77	4.70	6.30	6.29	6.37	6.56	7.10	
Total Current Unrestricted Revenues	17.7	22.5	22.7	22.5	23.1	24.0	25.6	26.6	27.7	
Total Current Unrestricted Expenditures	(15.3)	(17.4)	(18.1)	(19.0)	(20.8)	(21.8)	(23.0)	(23.6)	(24.5)	
Net Revenues	2.4	5.1	4.6	3.6	2.3	2.2	2.6	3.0	3.2	
Debt Service	(1.1)	(2.4)	(2.5)	(1.9)	(2.2)	(2.0)	(2.3)	(2.3)	(2.3)	
Other Mandatory Transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Total Mandatory Transfers	(1.1)	(2.4)	(2.5)	(1.9)	(2.2)	(2.0)	(2.3)	(2.3)	(2.3)	
Nonmandatory Transfers	(0.1)	(1.5)	(2.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	
Adjustments	(0.0)	(0.1)	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	
Net Increase/(Decrease)	1.2	1.0	(0.1)	1.6	(0.0)	0.1	0.2	0.5	0.8	
Ending Fund Balance	3.7	4.8	4.7	6.3	6.3	6.4	6.6	7.1	7.9	
Debt Service Coverage	2.07	2.09	1.83	1.91	1.04	1.09	1.13	1.27	1.37	
Debt Service as % of Budget	7.0%	12.3%	12.2%	8.9%	9.4%	8.5%	9.3%	9.0%	8.7%	

U.T. System (\$ in millions)

	Actual			Forecast						
	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	
Available Revenues	4,363.1	4,967.6	5,247.0	5,569.5	5,876.5	6,153.6	6,429.4	6,767.1	7,085.9	
Operating Expenses	(4,166.5)	(4,562.1)	(4,949.2)	(5,229.6)	(5,493.9)	(5,709.3)	(5,935.8)	(6,172.9)	(6,425.9)	
Net Available for Debt Service	196.6	405.5	297.8	339.9	382.6	444.3	493.6	594.2	660.0	
Other Mandatory Transfers	(0.8)	(0.7)	(0.7)	(0.8)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	
Debt Service	(95.5)	(116.6)	(124.5)	(146.8)	(183.3)	(220.7)	(231.1)	(228.9)	(219.7)	
Debt Service Coverage	2.04	3.46	2.38	2.30	2.08	2.01	2.13	2.59	3.00	
Debt Service as % of Budget	2.2%	2.5%	2.5%	2.7%	3.2%	3.7%	3.7%	3.6%	3.3%	

## INFORMATIONAL REPORT

### U. T. System: Progress Report for Fiscal Year 2002 on the Historically Underutilized Business (HUB) Program

#### REPORT

Mr. Lewis Wright, Associate Vice Chancellor for Business Affairs, will present a progress report for Fiscal Year 2002 on the U. T. System Historically Underutilized Business (HUB) Program.

An executive summary of the report was reviewed by the Finance and Planning Committee in October 2002 and immediately follows this item.