MATERIAL SUPPORTING THE AGENDA

VOLUME XLVIIIa

This volume contains the Material Supporting the Agenda furnished to each member of the Board of Regents prior to the meetings held on:

October 2, 2000
October 10, 2000
November 15-16, 2000
December 6, 2000
January 26, 2001
February 14-15, 2001

The material is divided according to the standing committees and the meetings that were held and is color coded as follows:

White paper - for documentation of all items that were presented before the deadline date.

Blue paper - Executive Session

Yellow paper – for documentation of items submitted after the deadline date for inclusion in the Agenda (late items) and distributed to members of the Board of Regents prior to the meeting.

Material distributed at the meeting as additional documentation is not included in the bound volume, because sometimes there is an unusual amount and other times some people get copies and some do not get copies. If the Counsel and Secretary to the Board was furnished a copy, then that material goes into the appropriate subject file.

No. 4

Material Supporting the Agenda

of the

Board of Regents

The University of Texas System

Meeting No. 937

February 14-15, 2001

Austin, Texas

BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

CALENDAR

Date: **Wednesday, February 14, 2001**

Time: **11:30 a.m.**
Place: Board Room, 9th Floor, Ashbel Smith Hall, Austin, Texas
Purpose: Convene in Open Session to Immediately Recess to Executive Session (Lunch Provided)

See Page 2, Items A - B

Time: **4:00 p.m. or upon conclusion of Executive Session**
Place: Board Room, 9th Floor, Ashbel Smith Hall, Austin, Texas
Purpose: Reconvene in Open Session for Action on Executive Session Items and Recess

See Page 3, Item C

Date: **Thursday, February 15, 2001**

Time: **8:30 a.m.**
Place: Board Room, 9th Floor, Ashbel Smith Hall
Purpose: Reconvene in Open Session to Continue Until Completion of Business

See Pages 4 - 176, Items D - M

Telephone Numbers

Office of the Board of Regents	(512) 499-4402
Four Seasons Hotel, 98 San Jacinto	(512) 478-4500

Executive Session of the Board

BOARD OF REGENTS
EXECUTIVE SESSION
Pursuant to Texas Government Code
Chapter 551, Sections 551.071, 551.073, and 551.074

Date: **Wednesday, February 14, 2001**

Time: 11:30 a.m.

Place: Board Room, 9th Floor, Ashbel Smith Hall, 201 West Seventh Street, Austin, Texas

1. Consultation with Attorney Regarding Pending and/or Contemplated Litigation or Settlement Offers – Section 551.071

   U. T. Austin: Request for Determination of Necessity and Authorization to Acquire Approximately 60,129 Square Feet of Real Property Located at the Southeast Corner of Guadalupe and 27th Streets in Austin, Travis County, Texas; Authorization to Take All Necessary Actions Required to Acquire the Property Through Negotiated Purchase or Eminent Domain; and Authorization to Execute All Documents Related Thereto

2. Negotiated Contracts for Prospective Gifts or Donations - Section 551.073

   a. U. T. M. D. Anderson Cancer Center: Deliberation of Negotiated Contracts for Prospective Gifts

   b. U. T. Health Science Center - San Antonio: Deliberation of Negotiated Contract for Prospective Gift

3. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Section 551.074

   a. U. T. System: Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees

   b. U. T. Health Science Center - Houston: Consideration of Personnel Matters Related to the Possible Selection and Employment of a President

   c. U. T. Permian Basin: Consideration of Personnel Matters Related to the Possible Selection and Employment of a President

Meeting of the Board

AGENDA FOR MEETING
OF
BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

Date: **Wednesday, February 14, 2001**

Time: 11:30 a.m.

Place: Board Room, 9th Floor, Ashbel Smith Hall, Austin, Texas

A. CALL TO ORDER

B. CONVENE IN OPEN SESSION TO IMMEDIATELY RECESS TO EXECUTIVE SESSION (TEXAS GOVERNMENT CODE, CHAPTER 551) PER THE AGENDA ON PAGE 1

1. Consultation with Attorney Regarding Pending and/or Contemplated Litigation or Settlement Offers – Section 551.071

   U. T. Austin: Request for Determination of Necessity and Authorization to Acquire Approximately 60,129 Square Feet of Real Property Located at the Southeast Corner of Guadalupe and 27th Streets in Austin, Travis County, Texas; Authorization to Take All Necessary Actions Required to Acquire the Property Through Negotiated Purchase or Eminent Domain; and Authorization to Execute All Documents Related Thereto

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   a. U. T. M. D. Anderson Cancer Center: Deliberation of Negotiated Contracts for Prospective Gifts

   b. U. T. Health Science Center - San Antonio: Deliberation of Negotiated Contract for Prospective Gift

3. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Section 551.074

   a. U. T. System: Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees

   b. U. T. Health Science Center - Houston: Consideration of Personnel Matters Related to the Possible Selection and Employment of a President

   c. U. T. Permian Basin: Consideration of Personnel Matters Related to the Possible Selection and Employment of a President

C. RECONVENE IN OPEN SESSION FOR ACTION ON EXECUTIVE SESSION ITEMS (ITEM B) AND RECESS

AGENDA FOR MEETING
OF
BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

Date: **Thursday, February 15, 2001**

Time: 8:30 a.m.

Place: Board Room, 9th Floor, Ashbel Smith Hall, Austin, Texas

D. RECONVENE IN OPEN SESSION

E. APPROVAL OF MINUTES OF REGULAR MEETING HELD NOVEMBER 15-16, 2000, AND SPECIAL MEETINGS HELD DECEMBER 6, 2000, AND JANUARY 26, 2001

F. SPECIAL ITEMS

1. U. T. Board of Regents: Recommendation to Rescind Policy Regarding Groundwater on University Lands

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs and the Vice Chancellor and General Counsel that the U. T. Board of Regents' Policy Regarding Groundwater on University Lands be rescinded.

BACKGROUND INFORMATION

On September 14, 1973, the U. T. Board of Regents adopted a policy regarding allocation of groundwater resources on University Lands with the understanding that all new or renewed water production contracts would conform to the policy. The 1973 policy gave first priority to municipalities, set maximum contract terms and minimum royalty payments, and addressed industrial use, irrigation use, and use for waterflooding and secondary recovery.

Modifications to the policy related to royalty minimums and other issues are necessary from time to time, and it has been determined that these modifications can best be handled through delegation to the Executive Vice Chancellor for Business Affairs. A related proposed amendment to the Regents' Rules and Regulations, Part One, Chapter II, Section 5 will delegate authority related to the groundwater policy to the Executive Vice Chancellor for Business Affairs (See Item 2 on Page 8). Approval of this recommendation will rescind the current Regental Policy Regarding Groundwater on University Lands as set forth below:

POLICY REGARDING GROUNDWATER ON UNIVERSITY LANDS

The University will not, until the need may be greater than at present, contract for extensive groundwater surveys of University Lands but will continue its cooperation with municipalities, government agencies and private consultants in affording access to University Lands data and to the premises being surveyed.

a. Water for Municipalities

(1) After reasonable reserves for its grazing lessees and mineral lessees, the University, in dealing with the groundwater resources on University Lands, will give first consideration to the present and prospective needs of municipalities in the area.

(2) Any municipality wishing to enter into a contract for production of water from University Lands should apply for a water exploration permit covering the area in which it is interested and obligate itself to arrange for a satisfactory groundwater survey by a recognized agency or consultant, approved by the University, with all data to be furnished the University. The holder of such exploration permit will have prior right

to negotiate, after the data have been furnished, with the University for a water lease or contract on all or part of the area covered by the permit to the extent of the holder's needs in the foreseeable future.

(3) The charge for water exploration permits will be no less than 25 cents per acre per year and such permits will be limited to a term of two years.

(4) The original royalty rate shall be not less than 6.25 cents per 1,000 gallons of water or 12.5% of the commercial rate whichever is greater.

(5) The term shall be for not more than 10 years. However, additional 10 year options may be granted subject to increased royalty provisions and a Lessor's Buy-Out Clause, provided the renewal agreement be in keeping with the then current policies of the Board.

At the beginning of each additional 10 year period the royalty shall be increased at least 0.50 cents per 1,000 gallons or shall be adjusted upward at least in an amount equal to the cost of living increase, whichever is greater. The cost of living increase shall be determined by the Consumer Price Index of the United States Department of Labor, Bureau of Labor Statistics Sub-group Fuel and Utilities Table 1.

The University shall have the option and the right at the end of any 10 year period to acquire Lessee's business operated under the lease and all property of the Lessee used in connection therewith. For buy-out purposes, depreciation deductions shall be calculated as follows: (a) Pipe Lines and appurtenances, depreciated over a period of fifty years; (b) Right of way costs and water wells, depreciated over a period of fifty years; (c) Storage tanks and appurtenances, depreciated over a period of thirty years; and (d) Buildings, pumps and mechanical and electrical equipment, depreciated over a period of twenty years.

Computation of price will be based on original costs and major replacement costs, less depreciation, and will not include cost of normal maintenance nor any intangible exploration cost. The total amount to be paid to Lessee shall be reduced by the amount of Lessee's obligations and liabilities assumed by Lessor.

(6) The minimum royalty paid per year must be equivalent to not less than $2.00 per acre for each acre included in the water lease.

(7) If Lessee's operations disrupt or deplete the grazing lessee's water sources, Lessee must furnish the grazing lessee with like amounts of water of like quality, free of charge.

(8) Water must be used for ordinary municipal purposes and, among other things, cannot be used for irrigation or waterflooding.

(9) All geological and related information must be furnished to the University.

b. Industrial Water

After reasonable reserves for its grazing lessees and consideration for the needs of municipalities in the area, the University will give consideration to industrial needs when such industrial use will result in multiple benefits to the University. For example, the sale of water for use in a plant or refinery which is processing products from University Lands would return a double benefit to the University, or when such sale of water will serve to prevent drainage of the University's water to adjacent land.

(1) The royalty rate shall be not less than 10 cents per 1,000 gallons.

(2) The term shall be for not more than five (5) years.

(3) The minimum annual rental shall be $100.00 or $1.00 per acre whichever is greater.

(4) The minimum annual royalty shall be $200.00 per year.

(5) Before any contracts are renewed, it must be shown to the satisfaction of the University that continued operations will not harm any water sources being used by the grass lessees and provided the renewal agreement be in keeping with the then current policies of the Board.

(6) All water metering equipment shall be test calibrated and new meter factors established prior to the renewal of any contract.

(7) Water may not be used for irrigation or waterflooding.

(8) All geological and related information must be furnished to the University.

c. Water for Irrigation

The University will not allow the use of its groundwater for irrigation but when the danger of drainage to adjacent lands is apparent, it will consider granting irrigation leases.

d. Waterflooding and Secondary Recovery

The University will not sell potable water for waterflooding oil reservoirs but will allow the free use of non-potable water for secondary recovery operations on University Lands. Such use of non-potable water will be allowed under the terms of a contract which contains suitable restrictions as to depth-interval and water quality. No water may be used containing less than 2,500 parts per million total solids and no water may be withdrawn from any formation which might result in harm to any existing or potential oil or gas reservoir. The University will consider selling non-potable water for flooding oil reservoirs not located on University Lands when such action is deemed advantageous to the University and it can be shown that such withdrawals will not harm any existing or potential oil or gas reservoir on University Lands.

2. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part One, Chapter II (Administration)

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Academic Affairs, the Vice Chancellor and General Counsel, the Vice Chancellor for Governmental Relations, the Vice Chancellor for Development and External Relations, the Vice Chancellor for Federal Relations, the Vice Chancellor for Health Affairs, the Vice Chancellor for Community Relations, and the Vice Chancellor for Special Engineering Programs that the U. T. Board of Regents amend the Regents' Rules and Regulations, Part One, Chapter II, relating to administration, as set forth on Pages 9 - 22 in congressional style.

a. Amend Sections 4 through 10 as follows:

Sec. 4. Executive Vice Chancellor for Health Affairs.

. . .

4.1 Appointment and Tenure.
The Executive Vice Chancellor for Health Affairs shall be appointed [~~by the Board after nomination~~] by the Chancellor after discussion with the Board. The Executive Vice Chancellor for Health Affairs shall hold office without fixed term, subject to the pleasure of the Chancellor. The Chancellor's actions concerning the Executive Vice Chancellor for Health Affairs are subject to review [~~and approval~~] by the Board.

4.2 Duties and Responsibilities.
The Executive Vice Chancellor for Health Affairs shall provide assistance to the Chancellor and other U. T. System officials in the execution of their responsibilities. . . .

Sec. 5. Executive Vice Chancellor for Business Affairs.

. . .

5.1 Appointment and Tenure.
The Executive Vice Chancellor for Business Affairs shall be appointed [~~by the Board after nomination~~] by the Chancellor after discussion with the Board. The Executive Vice Chancellor for Business Affairs shall hold office without fixed term, subject to the pleasure of the Chancellor. The Chancellor's actions regarding the Executive Vice Chancellor for Business Affairs are subject to review [~~and approval~~] by the Board.

5.2 Duties and Responsibilities.
The primary responsibilities of the Executive Vice Chancellor for Business Affairs include:

5.21 Providing [~~The provision of staff~~] assistance to the Chancellor and other U. T. System officials [~~the Executive Vice Chancellors~~] in the execution of their responsibilities.

5.22 Submitting recommendations to the Chancellor and the Executive Vice Chancellors on business operations of the component[~~s~~] institutions of the System.

. . .

5.2(11) Directing procedures and policies of System on utilization of historically underutilized business firms. [~~Supervising and coordinating the acquisition, lease, disposition, and/or management of all real property owned or controlled by the Board with a goal of maximizing the income to be realized from the operation, lease, or conveyance of these properties. In discharging this responsibility, the Executive Vice Chancellor for Business Affairs shall work closely with the appropriate Executive Officer and component president with regard to the management and conveyance of real property owned or controlled by the Board for the benefit of a particular institution. The Executive Vice Chancellor for Business Affairs shall establish procedures that assure effective coordination with the Director of Estates and Trusts with regard to gifts of real property to the Board.~~]

5.2(12) Directing the review, consolidation, and preparation of internal financial management reports, combined System financial reports, and directing the budget process for the System. [~~Directing the management of the purchasing, accounting, equipment inventories, and vouchering operations for the offices of the System Administration and coordinating the building services for the System buildings.~~]

5.2(13) Implementing policy for the receipt, disbursement, and custody of non-investment funds and for terms of depository agreements with banks [~~Directing the management of the System-wide insurance programs (except the System Plan for Professional Medical Liability Self-Insurance), including approval of all policies and coverages, such programs to include:~~

~~Fire and Extended Coverage;~~
~~Liability;~~
~~Health;~~
~~Life;~~
~~Accidental Death and Dismemberment;~~
~~Income Replacement; and~~
~~Retirement~~].

5.2(14) Forwarding debt issues for approval by the Board of Regents. [~~Implementing policy for the receipt, disbursement, and custody of non-investment funds and for terms of depository agreements with banks.~~]

5.2(15) Directing matters concerning new construction and renovation projects throughout the System. [~~Forwarding debt issues for approval by the Board of Regents.~~]

5.2(16) Supervising and coordinating the acquisition, lease, disposition, and/or management of all real property owned or controlled by the Board with a goal of maximizing the income to be realized from the operation, lease, or conveyance of these properties. In discharging this responsibility, the Executive Vice Chancellor for Business Affairs shall work closely with the appropriate Executive Officer and component president with regard to the management and conveyance of real property owned or controlled by the Board for the benefit of a particular institution. The Executive Vice Chancellor for Business Affairs shall establish procedures that assure effective coordination with the Executive Director of Estates and Trusts with regard to gifts of real property to the Board. [~~Implementing and monitoring appropriate internal controls in all internal administrative operations listed in 5.2(10).~~]

5.2(17) Overseeing University Lands operations to maximize revenue, improve and sustain the productivity of University Lands; managing the groundwater resources on University Lands and approval of all related policies, terms and lease provisions. [~~Performing such other duties as may be assigned by the Chancellor.~~]

5.2(18) Overseeing planning, development, and coordination of personnel policies and procedures, compensation, benefits, unemployment compensation, equal opportunity/affirmative action, and employment.

5.2(19) Directing the management of the System-wide property, liability, and employee group insurance programs (except the System Plan for Professional Medical Liability Self-Insurance), including approval of all policies and coverages.

5.2(20) Overseeing the System-wide use of information technology and development of strategies.

5.2(21) Coordinating information technology issues for System Administration.

5.2(22) Implementing and monitoring appropriate internal controls in all internal administrative operations listed in 5.2(10).

5.2(23) Performing such other duties as may be assigned by the Chancellor.

Sec. 6. Executive Vice Chancellor for Academic Affairs.

. . .

6.1 Appointment and Tenure.

The Executive Vice Chancellor for Academic Affairs shall be appointed [~~by the Board after nomination~~] by the Chancellor after discussion with the Board. The Executive Vice Chancellor for Academic Affairs shall hold office without fixed term, subject to the pleasure of the Chancellor. The Chancellor's actions concerning the Executive Vice Chancellor for Academic Affairs are subject to review [~~and approval~~] by the Board.

6.2 Duties and Responsibilities.

The primary responsibilities of the Executive Vice Chancellor for Academic Affairs include:

6.21 Providing [~~The provision of staff~~] assistance to the Chancellor and other U. T. System officials [~~the Executive Vice Chancellors~~] in the execution of their responsibilities.

. . .

Sec. 7. Vice Chancellor and General Counsel.

The Vice Chancellor and General Counsel reports to the Chancellor[~~.~~] and [~~The Vice Chancellor and General Counsel~~] is responsible for the provision of legal services to the Board of Regents of The University of Texas System as set out in Subsection [~~Section~~] 7.2 of this Chapter. [~~The Vice Chancellor and General Counsel provides staff assistance to the Chancellor and the Executive Vice Chancellors in the exercise of their responsibilities.~~] The Vice Chancellor and General Counsel has direct access to the Board of Regents of The University of Texas System and is expected to work directly with [~~the~~] appropriate committees of the Board in discharging the duties of the office.

7.1 Appointment and Tenure.
The Vice Chancellor and General Counsel shall be appointed [~~by the Board after nomination~~] by the Chancellor after discussion with the Board. The Vice Chancellor and General Counsel shall hold office without fixed term, subject to the pleasure of the Chancellor. The Chancellor's actions regarding the Vice Chancellor and General Counsel are subject to review [~~and approval~~] by the Board.

7.2 Duties and Responsibilities.
The primary responsibilities of the Vice Chancellor and General Counsel include:

7.21 Providing [~~The provision of staff~~] assistance to the Chancellor and other U. T. System officials [~~the Executive Vice Chancellors~~] in the execution of their responsibilities.

7.22 Providing [~~all~~] legal services, in conjunction with the Counsel and Secretary to the Board of Regents, required by the Board of Regents of The University of Texas System and its personnel to ensure [~~insure~~] the proper protection and advancement of the System's interests.

. . .

7.2(10) Advising the Office of Governmental Relations concerning the drafting of [~~Drafting all~~] legislation that has been approved by the Board or requested by any System officer for submission to the Board for approval and providing legal counsel on pending legislation.

. . .

7.2(18) Performing such other duties as may be assigned by the Chancellor.

Sec. 8. Vice Chancellor for Governmental Relations.

The Vice Chancellor for Governmental Relations reports to the Chancellor[~~.~~] and [~~The Vice Chancellor for Governmental Relations~~] is responsible for coordinating the effective representation of the System in the area of governmental affairs as set out in Subsection [~~Section~~] 8.2 of this Chapter. [~~The Vice Chancellor for Governmental Relations provides staff assistance to the Chancellor and the Executive Vice Chancellors in the exercise of their responsibilities.~~] The Vice Chancellor for Governmental Relations has direct access to the Board of Regents of The University of Texas System and is expected to work directly with appropriate committees of the Board in discharging the duties of the office.

8.1 Appointment and Tenure.
The Vice Chancellor for Governmental Relations shall be appointed [~~by the Board after nomination~~] by the Chancellor after discussion with the Board. The Vice Chancellor for Governmental Relations shall hold office without fixed term, subject to the pleasure of the Chancellor. The Chancellor's actions regarding the Vice Chancellor for Governmental Relations are subject to review [~~and approval~~] by the Board.

8.2 Duties and Responsibilities.
The primary responsibilities of the Vice Chancellor for Governmental Relations include:

8.21 Providing [~~The provision of staff~~] assistance to the Chancellor and other U. T. System officials [~~the Executive Vice Chancellors~~] in the execution of their responsibilities.

. . .

8.27 Performing such other duties [~~and responsibilities for the efficient operation of the System~~] as may [~~shall~~] be assigned by the Chancellor.

Sec. 9. Vice Chancellor for Development and External Relations.

The Vice Chancellor for Development and External Relations reports to the Chancellor and is responsible for the programs of the System related to private sector support, alumni relations, public information, and external constituencies as set out in Subsection 9.2 of this Chapter. [~~The Vice Chancellor for Development and External Relations provides staff assistance to the Chancellor and the Executive Vice Chancellors in the exercise of their responsibilities.~~] The Vice Chancellor for Development and External Relations has direct access to the Board of Regents of The University of Texas System and is expected to work directly with appropriate committees of the Board in discharging the duties of the office.

9.1 Appointment and Tenure.

The Vice Chancellor for Development and External Relations shall be appointed [~~by the Board after nomination~~] by the Chancellor after discussion with the Board. The Vice Chancellor for Development and External Relations shall hold office without fixed term, subject to the pleasure of the Chancellor. The Chancellor's actions regarding the Vice Chancellor for Development and External Relations are subject to review [~~and approval~~] by the Board.

9.2 Duties and Responsibilities.

The primary responsibilities of the Vice Chancellor for Development and External Relations include:

9.21 Providing [~~The provision of staff~~] assistance to the Chancellor and other U. T. System officials [~~the Executive Vice Chancellors~~] in the execution of their responsibilities.

. . .

9.23 The formal acceptance, [~~following review and approval by the appropriate Executive Vice Chancellor, and the~~] processing, and administration (excluding investment management) of gifts as assigned which conform to all relevant laws and Board policies.

. . .

9.26 Reporting to the Board on gifts processed and administered by the Office of Development and External Relations and on annual gift totals of the component institutions.

. . .

9.2(10) Directing the administration of the System Office of Public Affairs.

. . .

Sec. 10. Vice Chancellor for Federal Relations.

The Vice Chancellor for Federal Relations reports to the Chancellor and is responsible for coordinating the effective representation of The University of Texas System at the federal level before all branches of the federal government. [~~The Vice Chancellor for Federal Relations provides staff assistance to the Chancellor and the Executive Vice Chancellors in the exercise of their responsibilities.~~]

10.1 Appointment and Tenure.
The Vice Chancellor for Federal Relations shall be appointed [~~by the Board after nomination~~] by the Chancellor after discussion with the Board. The Vice Chancellor for Federal Relations shall hold office without fixed term, subject to the pleasure of the Chancellor. The Chancellor's actions regarding the Vice Chancellor for Federal Relations are subject to review [~~and approval~~] by the Board.

10.2 Duties and Responsibilities.
The primary responsibilities of the Vice Chancellor for Federal Relations include:

10.21 Providing [~~The provision of staff~~] assistance to the Chancellor and other U. T. System officials [~~the Executive Vice Chancellors~~] in the execution of their responsibilities.

. . .

10.28 Performing such other duties [~~and responsibilities for the efficient operation of the System~~] as may [~~shall~~] be assigned by the Chancellor.

Renumber current Subdivisions 9.2(10), 9.2(11), and 9.2(12) as 9.2(11), 9.2(12), and 9.2(13).

b. Add the descriptions for the positions of Vice Chancellor for Health Affairs, Vice Chancellor for Community Relations, and Vice Chancellor for Special Engineering Programs as Sections 11 through 13, and renumber and amend current Sections 11 and 12 as Sections 14 and 15 as set forth below:

Sec. 11. Vice Chancellor for Health Affairs.

The Vice Chancellor for Health Affairs reports to and is responsible to the Executive Vice Chancellor for Health Affairs. The Vice Chancellor for Health Affairs provides staff responsibility to the Executive Vice Chancellor for Health Affairs for the conduct of health-related education and the delivery of health services in the System. The Vice Chancellor for Health Affairs has line responsibility for management of the Texas Medical and Dental Schools Application Service.

11.1 Appointment and Tenure.
The Vice Chancellor for Health Affairs shall be appointed by the Executive Vice Chancellor for Health Affairs after approval by

the Chancellor and after discussion with the Board. The Vice Chancellor for Health Affairs shall hold office without fixed term, subject to the pleasure of the Executive Vice Chancellor for Health Affairs and the Chancellor. The actions of the Executive Vice Chancellor for Health Affairs and the Chancellor concerning the Vice Chancellor for Health Affairs are subject to review by the Board.

11.2 Duties and Responsibilities.
The Vice Chancellor for Health Affairs shall provide staff support to the Executive Vice Chancellor for Health Affairs for the maintenance of high academic quality in the health-related teaching institutions and high quality health services in the health-care delivery institutions of the System. The Vice Chancellor for Health Affairs shall provide assistance to the Chancellor and other U. T. System officials in the execution of their responsibilities. The Vice Chancellor for Health Affairs shall assist the Executive Vice Chancellor for Health Affairs in development of the budgets, in academic planning and programs, in facilities planning and construction, in personnel management in the health components, in preparing recommendations and supporting information on such matters for consideration by the appropriate standing committees of the Board of Regents and in ensuring compliance with applicable laws, rules, and policies, and that appropriate internal controls are implemented and monitored in the health-related teaching institutions and the health-care delivery institutions. The Vice Chancellor for Health Affairs shall have a major responsibility for developing strategies to facilitate participation of the health components and their affiliates in health delivery systems and in providing liaison between the health components and their affiliates with the U. T. System employee health benefit plans.

Sec. 12. Vice Chancellor for Community Relations.

The Vice Chancellor for Community Relations reports to the Chancellor and is responsible for coordinating the effective representation of the U. T. System in the area of community relations. The Vice Chancellor for Community Relations has direct access to the Board of Regents of The University of Texas System and is expected to work directly with appropriate committees of the Board in discharging the duties of the office.

12.1 Appointment and Tenure.
The Vice Chancellor for Community Relations shall be appointed by the Chancellor after discussion with the Board. The Vice Chancellor for Community Relations shall hold office without fixed term, subject to the pleasure of the Chancellor. The Chancellor's actions regarding the Vice Chancellor for Community Relations are subject to review by the Board.

12.2 Duties and Responsibilities.
The primary responsibilities of the Vice Chancellor for Community Relations include:

12.21 Providing assistance to the Chancellor and other U. T. System officials in the execution of their responsibilities.

12.22 Representing the Board of Regents of the U. T. System in its relations with community-based organizations and professional associations, including State legislative bodies and agencies.

12.23 Making recommendations to the Chancellor in the area of public policy as it affects the relationship of the System with community-related organizations and professional associations, including State legislative bodies and agencies.

12.24 Informing appropriate administrative officers of current operations and long-term developments on the local, State, and national level, which may affect the System.

12.25 Maintaining and distributing information and advising appropriate System Administration and component institution officials in order to assure proper action by the System with respect to State and national community-relations programs and activities.

12.26 Defining the job responsibilities, the assignment of duties, and supervising staff members employed in or assigned to work in the community relations area.

12.27 Performing such other duties as may be assigned by the Chancellor.

Sec. 13. Vice Chancellor for Special Engineering Programs.

The Vice Chancellor for Special Engineering Programs reports to the Chancellor and is responsible for coordinating special engineering programs of the System.

13.1 Appointment and Tenure.

The Vice Chancellor for Special Engineering Programs shall be appointed by the Chancellor after discussion with the Board. The Vice Chancellor for Special Engineering Programs shall hold office without fixed term, subject to the pleasure of the Chancellor. The Chancellor's actions regarding the Vice Chancellor for Special Engineering Programs are subject to review by the Board.

13.2 Duties and Responsibilities.

The primary responsibilities of the Vice Chancellor for Special Engineering Programs include:

13.21 Providing assistance to the Chancellor and other U. T. System officials in the execution of their responsibilities.

13.22 Overseeing the Amarillo National Research Center, a University Consortium consisting of the U. T. System, The Texas A&M University System, and Texas Tech University System.

13.23 Providing advice and information on development of a sound scientific program related to nuclear weapons dismantlement and other special engineering projects.

13.24 Performing such other duties as may be assigned by the Chancellor.

Sec. 14 [~~11~~]. Officers of System Administration and Other Code 1000 Staff.

14.1 [~~11.1~~] Executive Officers.--For purposes of these Rules and Regulations, the Chancellor, the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Academic Affairs, [~~the Vice Chancellor for Health Affairs,~~] the Vice Chancellor and General Counsel, the Vice Chancellor for Governmental Relations, [~~the Vice Chancellor for Federal Relations,~~] the Vice Chancellor for Development and External Relations, the Vice Chancellor for Federal Relations, the Vice Chancellor for Health Affairs, the Vice Chancellor for Community Relations, the Vice Chancellor for Special Engineering Programs, the Executive Associate to the Chancellor, and the Associate Vice Chancellor for Business Affairs are the Executive Officers of The University of Texas System.

14.2 [~~11.2~~] . . .

Sec. 15 [~~12~~]. Councils of the System.

15.1 [~~12.1~~] The System Council.

The System Council is composed of the U. T. System Executive Officers [~~Chancellor, the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Academic Affairs, the Vice Chancellor for Health Affairs, the Vice Chancellor and General Counsel, the Vice Chancellor for Governmental Relations, the Vice Chancellor for Federal Relations, the Vice Chancellor for Development and External Relations, the Vice Chancellor for Community Relations, the Executive Associate to the Chancellor,~~] and the presidents of all the component institutions of The University of Texas System. The Chancellor shall serve as the Council's permanent chairman and shall conduct regular meetings to discuss those matters of general concern to the operation of The University of Texas System.

15.2 [~~12.2~~] The Council of Academic Institutions.

The Council of Academic Institutions is composed of the Executive Vice Chancellor for Academic Affairs and the presidents of the general academic institutions of the System. The other U. T. System Executive Officers [~~Chancellor, the Executive Vice Chancellor for Business Affairs, the Vice Chancellor and General Counsel, the Vice Chancellor for Governmental Relations, the Vice Chancellor for Federal Relations, the Vice Chancellor for Development and External Relations, the Vice Chancellor for Community Relations, and the Executive Associate to the Chancellor~~] serve as ex officio members of this Council. The Executive Vice Chancellor for Academic Affairs shall serve as the Council's permanent chairman and shall conduct regular meetings to review common problems of planning, development, and operation of the several institutions represented.

15.3 [~~12.3~~] The Council of Health Institutions.

The Council of Health Institutions is composed of the Executive Vice Chancellor for Health Affairs and the presidents of the component institutions of the System concerned directly with health affairs. The other U. T. System Executive Officers [~~Chancellor, the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for Health Affairs, the Vice Chancellor and~~

~~General Counsel, the Vice Chancellor for Governmental Relations, the Vice Chancellor for Federal Relations, the Vice Chancellor for Development and External Relations, the Vice Chancellor for Community Relations, and the Executive Associate to the Chancellor~~] serve as ex officio members of this Council. The Executive Vice Chancellor for Health Affairs shall serve [~~acts~~] as the Council's permanent chairman and shall conduct regular meetings to review common problems of planning, development, and operation of the several institutions represented.

15.4 [~~12.4~~] The Business Management Council.
The Business Management Council advises the System Administration in the areas of component budgeting, business management, data processing, physical plant operations, planning, construction, and accounting systems development. The Council is composed of the Executive Vice Chancellor for Business Affairs and the chief business officers of the component institutions. The other U. T. System Executive Officers [~~Chancellor, the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Academic Affairs, the Vice Chancellor for Health Affairs, the Vice Chancellor and General Counsel, the Vice Chancellor for Governmental Relations, the Vice Chancellor for Federal Relations, the Vice Chancellor for Development and External Relations, the Vice Chancellor for Community Relations, and the Executive Associate to the Chancellor~~], or their delegates, serve as ex officio members of this Council. The Executive Vice Chancellor for Business Affairs shall serve as the Council's permanent chairman and shall conduct regular meetings of the Council.

c. Renumber current Sections 13 and 14, relating to presidents of component institutions and the appointment of other officers and staff, as Sections 16 and 17. See Item 3 on Page 23 regarding proposed amendments to the current Section 13 relating to presidents of component institutions.

BACKGROUND INFORMATION

The proposed amendments to the Regents' Rules and Regulations, Part One, Chapter II, relating to administration, Sections 4 through 10, will modify the appointment process for the Executive Vice Chancellors and Vice Chancellors to provide for appointment by the Chancellor after discussion with the Board. The change will maintain Board involvement in the process but will be more closely aligned with the search and interview process for the positions which is now conducted by the Chancellor. In addition, proposed amendments to the duties and responsibilities of Executive Vice Chancellor and Vice Chancellor positions bring them up to date with current practices and eliminate repetitive language. These amendments were suggested by the respective Executive Officers and have the approval of the Chancellor.

The new Sections 11 through 13 include job descriptions and related information for the positions of Vice Chancellor for Health Affairs, Vice Chancellor for Community Relations, and Vice Chancellor for Special Engineering Programs. These Vice Chancellor positions are not currently included in the Regents' Rules.

The current Section 11, to be renumbered as Section 14, relating to Executive Officers, is being amended to add the titles of those Executive Officers not previously included in this Section.

The amendments to current Section 12, to be renumbered as Section 15, relating to Councils of the System, are proposed to refer to the U. T. System Executive Officers as a group rather than listing the individual Executive Vice Chancellor and Vice Chancellor titles with regard to membership in the System Council, the Council of Academic Institutions, the Council of Health Institutions, and the Business Management Council.

MEETING OF THE BOARD

SUBSTITUTE AGENDA ITEM

FEBRUARY 15, 2001

3. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part One, Chapter II, Section 13 (Presidents of Component Institutions)

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Academic Affairs, and the Vice Chancellor and General Counsel that the Regents' Rules and Regulations, Part One, Chapter II, Section 13, relating to presidents of component institutions, be amended as set forth below in congressional style:

Sec. 13. Presidents of Component Institutions.

13.1 The Board selects the president of each component institution.

13.11 When there is a vacancy or it is known that there is to be a vacancy in the office of a president of a component institution having faculty and students and the Board does not have candidate(s) from recent searches at other component institutions, from within the U. T. System, and/or of national prominence from outside the U. T. System to advance for consideration, an Advisory Committee shall be established to recommend candidates to the Board. The Executive Vice Chancellor for Health Affairs or the Executive Vice Chancellor for Academic Affairs shall be chairman of the Advisory Committee. In circumstances where this Executive Vice Chancellor may be a candidate for the office, the chairman of the Advisory Committee shall be the Chancellor or the Chancellor's designee. Including [~~In addition to~~] the chairman, committee membership is as follows:

The Chancellor;

The Executive Vice Chancellor for Academic Affairs or Health Affairs;

Two Presidents;
(to be appointed by the Chairman of the Board from two of the component institutions)

Two Regents;
(to be appointed by the Chairman of the Board)

Three faculty [~~Faculty~~] members of the institution involved, at least two of whom shall have the rank of associate professor or higher; (method of selection to be determined by the faculty governance [~~General Faculty~~] of the campus)

One Dean;
(for academic institutions to be selected by Dean's Council of the institution involved) (for health-related institutions to be the Dean of the Medical School involved or in the absence of that position a senior representative of the teaching program of the component selected by the Chairman of the Board [~~president~~])

One student [~~Two Students~~] from the institution involved; (method of selection to be determined by the student governance [~~Student Government~~] of the campus involved or, if there is [~~be~~] no student governance [~~Student Government~~], by the Chairman of the Board [~~president of the institution~~]; if the component does not have students, this category of representation shall be omitted)

President of the Ex-Students' Association of the campus involved; (if the institution does not have an active alumni organization, then an alumnus of the component selected by the Chairman of the Board of Regents; if the component does not have degree granting authority, this category shall be omitted)

One nonfaculty [~~Two non-faculty~~] employee[~~s~~] of the institution involved[~~, one in a classified position and one in an administrative position~~]; (method of selection to be determined by the staff or employee council of the institution involved or, if there is no staff or employee council, [~~to be selected~~] by the Chairman of the Board [~~president or in accordance with institutional procedures approved by the president~~])

Two [~~Not more than two~~] representatives of the component's external constituency who have demonstrated a deep interest in and support of the institution, its programs and its role in community activities to be appointed by the Chairman of the Board [~~of Regents~~]. Where a component institution has a statewide mission; special area programmatic relationships or partnerships with junior or community colleges, private universities or public schools, business/corporate entities, community or public service agencies; or other unique constituencies, the Chairman of the Board [~~of Regents~~] may appoint additional representatives.

Campus constituent groups with responsibility for selection of Advisory Committee representatives are expected to consider diversity, particularly as it relates to minority and female representation. Unless there are unusual delays in faculty, staff or student representative selection which postpone initiation of the committee process, the Chairman of the Board will make his or her appointments to the Advisory Committee after campus selections in order to maximize the prospect that the total committee composition reflects diversity. <u>The Chairman's appointments to the Advisory Committee will be made following due consideration of input from members of the Board, the institutional leadership, and community leaders related to the Committee composition.</u>

. . . .

<u>BACKGROUND INFORMATION</u>

The proposed amendments to the Regents' <u>Rules and Regulations</u>, Part One, Chapter II, Section 13, relating to the composition of presidential search advisory committees, delegate any appointment authority currently held by the outgoing institutional president to the Chairman of the U. T. Board of Regents. The new language in the last paragraph provides additional direction to the Chairman related to advice and recommendations to be received prior to making his or her appointments to the Committee. The size of the Committee is reduced by two members and minor editorial amendments are also proposed.

The amendments were presented to the U. T. Board of Regents' Special Committee on Minorities and Women on January 8, 2001, and have been reviewed by the institutional presidents.

See Item <u>2</u> on Page <u>8</u> for further amendments to Part One, Chapter II.

3. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part One, Chapter II, Section 13 (Presidents of Component Institutions)

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Academic Affairs, and the Vice Chancellor and General Counsel that the Regents' Rules and Regulations, Part One, Chapter II, Section 13, relating to presidents of component institutions, be amended as set forth below in congressional style:

Sec. 13. Presidents of Component Institutions.

13.1 The Board selects the president of each component institution.

13.11 When there is a vacancy or it is known that there is to be a vacancy in the office of a president of a component institution having faculty and students and the Board does not have candidate(s) from recent searches at other component institutions, from within the U. T. System, and/or of national prominence from outside the U. T. System to advance for consideration, an Advisory Committee shall be established to recommend candidates to the Board. The Executive Vice Chancellor for Health Affairs or the Executive Vice Chancellor for Academic Affairs shall be chairman of the Advisory Committee. In circumstances where this Executive Vice Chancellor may be a candidate for the office, the chairman of the Advisory Committee shall be the Chancellor or the Chancellor's designee. Including [~~In addition to~~] the chairman, committee membership is as follows:

The Chancellor;

The Executive Vice Chancellor for Academic Affairs or Health Affairs;

Two Presidents;

(to be appointed by the Chairman of the Board from two of the component institutions)

Two Regents;
(to be appointed by the Chairman of the Board)

Three faculty [~~Faculty~~] members of the institution involved, at least two of whom shall have the rank of associate professor or higher; (method of selection to be determined by the faculty governance [~~General Faculty~~] of the campus)

One Dean;
(for academic institutions to be selected by Dean's Council of the institution involved) (for health-related institutions to be the Dean of the Medical School involved or in the absence of that position a senior representative of the teaching program of the component selected by the Chairman of the Board [~~president~~])

Two students [~~Students~~] from the institution involved; (method of selection to be determined by the student governance [~~Student Government~~] of the campus involved or, if there is [~~be~~] no student governance [~~Student Government~~], by the Chairman of the Board [~~president of the institution~~]; if the component does not have students, this category of representation shall be omitted)

President of the Ex-Students' Association of the campus involved; (if the institution does not have an active alumni organization, then an alumnus of the component selected by the Chairman of the Board of Regents; if the component does not have degree granting authority, this category shall be omitted)

Two nonfaculty [~~non-faculty~~] employees of the institution involved, one in a classified position and one in an administrative position; (method of selection to be determined by the staff or employee council of the institution involved or, if there is no staff or employee council, [~~to be selected~~] by the Chairman of the Board [~~president or in accordance with institutional procedures approved by the president~~])

Two [~~Not more than two~~] representatives of the component's external constituency who have demonstrated a deep interest in and support of the institution, its programs and its role in community activities to be appointed by the Chairman of the Board [~~of Regents~~]. Where a component institution has a statewide mission; special area programmatic relationships or partnerships with junior or community colleges, private universities or public schools, business/corporate entities, community or public service agencies; or other unique constituencies, the Chairman of the Board [~~of Regents~~] may appoint additional representatives.

Campus constituent groups with responsibility for selection of Advisory Committee representatives are expected to consider diversity, particularly as it relates to minority and female representation. Unless there are unusual delays in faculty, staff or student representative selection which postpone initiation of the committee process, the Chairman of the Board will make his or her appointments to the Advisory Committee after campus selections in order to maximize the prospect that the total committee composition reflects diversity. <u>The Chairman's appointments to the Advisory Committee will be made following due consideration of input from members of the Board, the institutional leadership, and community leaders related to the Committee composition.</u>

. . . .

<u>BACKGROUND INFORMATION</u>

The proposed amendments to the Regents' <u>Rules and Regulations</u>, Part One, Chapter II, Section 13, relating to the composition of presidential search advisory committees, delegate any appointment authority currently held by the outgoing institutional president to the Chairman of the U. T. Board of Regents. The new language in the last paragraph provides additional direction to the Chairman related to advice and recommendations to be received prior to making his or her appointments to the Committee. Minor editorial amendments are also proposed.

The amendments were presented to the U. T. Board of Regents' Special Committee on Minorities and Women on January 8, 2001, and have been reviewed by the institutional presidents.

See Item <u>2</u> on Page <u>8</u> for further amendments to Part One, Chapter II.

4. <u>U. T. Board of Regents: Proposed Amendment to the Regents' Rules and Regulations, Part One, Chapter III, Section 16, Subsection 16.1 (Leaves of Absence Without Pay)</u>

<u>RECOMMENDATION</u>

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Academic Affairs, and the Vice Chancellor and General Counsel that the Regents' <u>Rules and Regulations</u>, Part One, Chapter III, Section 16, Subsection 16.1, relating to leaves of absence without pay, be amended as set forth below in congressional style:

Sec. 16. <u>Leaves of Absence Without Pay</u>.

16.1 With the interest of the institution being given first consideration and for good cause, leaves of absence without pay may be granted for a period within the term of appointment of a member of any faculty or staff, subject to the general conditions included herein. Leaves of absence for a first year or portion thereof or a second consecutive year's leave may be granted by the president <u>or his or her designee</u>. Leaves of absence for a third consecutive year will be granted only for the reasons outlined in this Subsection, Subsection 16.3, and Subsection 16.4, following review and approval by the Executive Vice Chancellor for Health Affairs or the Executive Vice Chancellor for Academic Affairs, as appropriate.

<u>BACKGROUND INFORMATION</u>

The proposed amendment to the Regents' <u>Rules and Regulations</u>, Part One, Chapter III, Section 16, Subsection 16.1, will grant flexibility to institutional presidents for reviewing and approving employee requests for leaves of absence.

An ongoing review of the Regents' <u>Rules</u> is being conducted to identify other needed amendments regarding approvals by institutional presidents. This item has been reviewed by the institutional presidents.

5. U. T. Board of Regents: Recommendation to Approve Charges Submitted as Incidental Fees in Institutional Dockets under the Authority Granted in Section 54.504 and Section 55.16, Texas Education Code; Approve Charges Previously Approved; Ratify and Approve Changes to Charges Now or Previously Approved; and Amend Part Two, Chapter I, Section 4 (Assessment, Collection, and Waiver of Tuition and Fees), Subsection 4.2 of the Regents' Rules and Regulations

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Academic Affairs, and the Vice Chancellor and General Counsel that the U. T. Board of Regents take the following action with regard to charges and fees assessed and collected by the component institutions:

a. Approve the charges submitted in the February 2001 dockets of the component institutions as incidental fees to be collected pursuant to Section 54.504, Texas Education Code, and also approve such charges pursuant to Section 55.16, Texas Education Code which authorizes the assessment and collection of rentals, rates, and charges

b. Approve any charges previously approved by the U. T. Board of Regents at the request of the component institutions as incidental fees to be collected pursuant to Section 54.504, Texas Education Code, as rentals, rates, and charges assessed and collected pursuant to Section 55.16, Texas Education Code

c. Ratify and approve any changes to charges now or previously approved by the presidents of component institutions as incidental fees to be collected pursuant to Section 54.504, Texas Education Code, under authority of Subsection 4.2, Section 4, Chapter I, Part Two of the Regents' Rules and Regulations as rentals, rates, and charges assessed and collected pursuant to Section 55.16, Texas Education Code

d. Amend Part Two, Chapter I, Section 4, Subsection 4.2 of the Regents' Rules and Regulations to read as set forth below in congressional style:

4.2 The Board delegates to the presidents of the component institutions the authority to approve changes in the amounts of incidental fees authorized by Section 54.504, Texas Education Code, that have previously been approved by the Board and to approve changes in the amounts of charges authorized by Section 55.16, Texas Education Code, [~~for those fees~~] that have previously been approved by the Board. As a condition to approval of any increase in such fees and charges, the president must find that such increase is required in order for the [~~incidental~~] fee or charge to reasonably reflect the actual cost to the component institution of the materials or services to be provided.

BACKGROUND INFORMATION

It is recommended that charges submitted for approval by component institutions as incidental fees authorized by Section 54.504, Texas Education Code, also be approved as charges authorized by Section 55.16, Texas Education Code, to avoid any uncertainty regarding the scope of incidental fees authorized by Section 54.504, Texas Education Code, as a result of a recent court decision.

Section 55.16 of the Texas Education Code provides broad authority for the Board to assess and collect rentals, rates, and charges. The recommended action will implement Section 55.16 as an additional authorizing statute for charges previously approved by the Board as incidental fees, for new charges submitted for approval in the February 2001 institutional Dockets, and for changes to incidental fees now or previously made by the presidents under delegated authority.

The proposed amendment to Part Two, Chapter I, Section 4, Subsection 4.2 of the Regents' Rules and Regulations gives the presidents of component institutions the same authority to modify charges previously approved by the Board under Section 55.16, Texas Education Code, as the presidents currently have with regard to incidental fees previously approved by the Board under Section 54.504, Texas Education Code.

This item has been reviewed by the institutional presidents.

6. U. T. System: Report of Summary of Gift Acceptance Conforming to Board Policy for September 1, 2000 Through November 30, 2000

REPORT

Mrs. Shirley Bird Perry, Vice Chancellor for Development and External Relations, will discuss the U. T. System Report of Summary of Gift Acceptance for the period September 1, 2000 through November 30, 2000, as set forth below:

# ALL ITEMS	COMPONENT INSTITUTION	TOTAL VALUE
2	U. T. Arlington	$ 20,000
88	U. T. Austin	12,247,146 *
7	U. T. El Paso	195,000
3	U. T. Pan American	22,044
1	U. T. Brownsville	10,915
1	U. T. Permian Basin	10,000
4	U. T. San Antonio	410,943
1	U. T. Tyler	25,000
19	U. T. Southwestern Medical Center - Dallas	4,720,834
6	U. T. Medical Branch - Galveston	1,187,205
11	U. T. Health Science Center - Houston	1,300,000
14	U. T. Health Science Center - San Antonio	3,015,000 *
8	U. T. M. D. Anderson Cancer Center	2,889,444
2	U. T. Health Center - Tyler	-
167	TOTAL	$ 26,053,531

* Not included in total:

U. T. Austin: $10,000 of Board-held matching funds and $222,290.51 transfer of previously accepted funds;

U. T. Health Science Center – San Antonio: $1,000,000 transfer of previously accepted funds.

NOTE: Compiled by Office of Development and External Relations

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

1. U. T. System: Report on Investments for the Fiscal Quarter Ended November 30, 2000

REPORT

Pages 34 - 38 contain the Summary Reports on Investments for the fiscal quarter ended November 30, 2000.

The performance of the Permanent University Fund (PUF), Permanent Health Fund (PHF) and the Long Term Fund (LTF) is measured against the endowment neutral policy portfolio return, the neutrally weighted average index return for the various asset classes in the endowment portfolio. Fixed income, as an asset class, posted positive returns for the quarter with the Lehman Aggregate Bond Index returning 2.95% and the Salomon Non-U. S. World Government Bond Index posting a negative return of .50%. Equities, as an asset class, posted negative returns with the S&P 500 Index and Russell 2000 Index posting returns of 13.11% and 16.79%, respectively, for the quarter. Non-U. S. equities also posted negative returns with the MSCI Eafe Index and the MSCI Emerging Markets posting negative returns of 10.60% and 22.95%, respectively. The benchmarks for alternative marketable, alternative nonmarketable and the inflation hedging asset class were positive for the quarter at 3.38%, 4.00% and 4.63%, respectively. Diversification of the endowments' assets to the alternative and inflation hedging asset classes mitigated the losses of the U. S. and non-U. S. equity portfolios for the quarter.

Item a on Page 34 reports summary activity for the Permanent University Fund (PUF) Investments. PUF Investments began the quarter with a market value of $8.5 billion. During the quarter, contributions of mineral income from PUF Lands equaled $30.5 million, up 64% from the prior fiscal year's first quarter. Total investment return was a negative $508.2 million. The PUF distributed $317.1 million to the Available University Fund (AUF) during the quarter. This amount represented the annual PUF distribution to the AUF for the fiscal year ending August 31, 2001, as approved by the U. T. Board of Regents on February 10, 2000. PUF market value ended the quarter at $7.7 billion.

Quarter-end asset allocation was 81% broadly defined equities and 19% fixed income versus an unconstrained neutral allocation of 80% equities and 20% fixed income. Within equities, quarter-end allocation to U. S. large and mid cap stocks was slightly underweighted at 23%, U. S. small cap stocks was slightly overweighted at 9%, non-U. S. and alternative equities were neutrally weighted at 15% and 25%, respectively, of total assets. Inflation hedging assets were slightly overweighted at 9%.

Total net investment return for the quarter was a negative 6.25% versus the neutral policy portfolio negative return of 5.03%. The underperformance of 122 basis points, when compared to the policy portfolio, was primarily attributable to underperformance in the U. S. and non-U. S. equity portfolios of the PUF.

Item b on Page 35 reports summary activity for the Permanent Health Fund (PHF). Quarter-end asset allocation was 80% broadly defined equities and 20% fixed income. Within equities, U. S. large and mid cap equities, U. S. small cap equities and non-U. S. equities were slightly overweighted at 29%, 11%, and 18%, respectively, of total assets. Inflation hedging assets were slightly overweighted at 8%. Alternative equities were underweighted at 14% versus a neutral weighting of 25%. The nonmarketable portion of the alternative equity asset class will take several years to become fully funded. The PHF market value ended the quarter at $.9 billion.

Total net investment return for the quarter was a negative 7.90% versus the neutral policy portfolio negative return of 5.03%. The underperformance of 287 basis points, when compared to the policy portfolio, was primarily attributable to underperformance in the U. S. and non-U. S. equity portfolios of the PHF, as well as the underweighting to alternative equities.

Item c on Page 36 reports summary activity for the Long Term Fund (LTF). During the quarter, net contributions totaled $27.2 million representing an 18% increase over the prior fiscal year's first quarter. Investment return was a negative $208.7 million. Distributions to the over 5,000 endowments and other accounts underlying the LTF totaled $31.2 million; an increase of 18% versus the prior fiscal year's first quarter. The LTF market value ended the quarter at $2.9 billion.

Quarter-end asset allocation was 81% broadly defined equities and 19% fixed income. Within equities, U. S. large and mid cap equities were slightly underweighted at 24%. U. S. small cap equities and non-U. S. equities were slightly overweighted at 9% and 17%, respectively, of total assets. Alternative equities were underweighted at 23% versus a neutral weighting of 25%. Inflation hedging assets were slightly overweighted at 8%.

Total net investment return for the quarter was a negative 6.60% versus the neutral policy portfolio negative return of 5.03%. The underperformance of 157 basis points, when compared to the policy portfolio, was primarily attributable to underperformance in the U. S. and non-U. S. equity portfolios of the LTF.

<u>Item d</u> on Page <u>37</u> reports summary activity for the Short Intermediate Term Fund. During the quarter, the Fund had net withdrawals of $11.7 million. It earned $48.4 million in total return and incurred expenses of $100 thousand. Distributions to the U. T. System component institutions equaled $28.6 million, resulting in a Fund value of $1.9 billion at quarter-end. Total return on the Fund was 2.59% for the quarter versus the Fund's performance benchmark of 2.44%.

<u>Item e</u> on Page <u>38</u> 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, decreased by $52 million to $797 million during the first quarter. Asset values for the remaining asset classes were fixed income securities: $101 million versus $95 million at previous quarter-end; equities: $107 million versus $113 million at previous quarter-end; and other investments of $4 million versus $25 million at previous quarter-end.

a. PERMANENT UNIVERSITY FUND

Summary Investment Report at November 30, 2000

PERMANENT UNIVERSITY FUND (1)
INVESTMENT SUMMARY REPORT
($ millions)

	FY99-00 Full Year	FY00-01 1st Qtr
Beginning Net Assets	7,465.6	8,452.3
PUF Lands Receipts (2)	83.1	30.5
Investment Return	1,215.1	(508.2)
Expenses	(13.9)	(4.9)
Distributions to AUF	(297.6)	(317.1)
Ending Net Assets	8,452.3	7,652.6
AUF Distribution:		
From PUF Investments	297.6	317.1
From Surface Income	6.0	1.1
Total	303.6	318.2

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

(1) General - The Investment Summary Report excludes PUF Lands mineral and surface interests with estimated August 31, 2000 values of $877.9 million and $156.4 million, respectively.

(2) PUF Land Receipts - As of November 30, 2000: 1,230,700 acres under lease; 517,491 producing acres; 3,273 active leases; and 2,050 producing leases.

b. PERMANENT HEALTH FUND

Summary Investment Report at November 30, 2000

PERMANENT HEALTH FUND
SUMMARY REPORT
($ millions)

	FY99-00 Full Year	FY00-01 1st Qtr
Beginning Net Assets	890.3	1,016.6
Contributions	25.0	-
Investment Return	143.8	(80.2)
Expenses	(1.9)	(0.8)
Distributions (Payout)	(40.6)	(10.5)
Ending Net Assets	1,016.6	925.1
Net Asset Value per Unit	1.112525	1.012448
No. of Units (End of Period)	913,765,506	913,765,506
Distribution Rate per Unit	0.04500	0.01150

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

c. LONG TERM FUND

Summary Investment Report at November 30, 2000

LONG TERM FUND
SUMMARY REPORT
($ millions)

	FY99-00 Full Year	FY00-01 1st Qtr
Beginning Net Assets	2,602.3	3,136.2
Net Contributions	118.9	27.2
Investment Return	547.1	(208.7)
Receipt of Funds from System for UTIMCO Fee	1.9	0.6
Expenses	(9.6)	(1.8)
Distributions (Payout)	(115.2)	(31.2)
Distribution of Gain on Participant Withdrawals	(9.2)	(1.3)
Ending Net Assets	3,136.2	2,921.0
Net Asset Value per Unit	6.198	5.726
No. of Units (End of Period)	506,024,547	510,164,819
Distribution Rate per Unit	0.230	0.06125

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

d. SHORT INTERMEDIATE TERM FUND

Summary Investment Report at November 30, 2000

SHORT INTERMEDIATE TERM FUND
SUMMARY REPORT
($ millions)

	FY99-00 Full Year	FY00-01 1st Qtr
Beginning Net Assets	1,769.4	1,844.4
Contributions (Net of Withdrawals)	81.6	(11.7)
Investment Return	107.9	48.4
Expenses	(0.5)	(0.1)
Distributions of Income	(114.0)	(28.6)
Ending Net Assets	1,844.4	1,852.4
Net Asset Value per Unit	9.858	9.963
No. of Units (End of Period)	187,089,202	185,934,780

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

e. SEPARATELY INVESTED ASSETS

Summary Investment Report at November 30, 2000

SEPARATELY INVESTED ASSETS
SUMMARY REPORT
($ thousands)

	FUND TYPE													
	CURRENT PURPOSE DESIGNATED		CURRENT PURPOSE RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		OPERATING FUNDS		TOTAL	
ASSET TYPES														
Cash & Equivalents:	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
Beginning value 9/1/00	4,264	4,264	2,184	2,184	32,020	32,020	334	334	3	3	810,619	810,619	849,424	849,424
Increase/(Decrease)	(487)	(487)	(622)	(622)	4,289	4,289	162	162	-	-	(55,573)	(55,573)	(52,231)	(52,231)
Ending value 11/30/00	3,777	3,777	1,562	1,562	36,309	36,309	496	496	3	3	755,046	755,046	797,193	797,193
Debt Securities:														
Beginning value 9/1/00	-	-	17	15	53,999	52,304	15,601	15,707	-	-	25,642	26,498	95,259	94,524
Increase/(Decrease)	-	-	-	-	(177)	138	63	317	-	-	5,480	5,930	5,366	6,385
Ending value 11/30/00	-	-	17	15	53,822	52,442	15,664	16,024	-	-	31,122	32,428	100,625	100,909
Equity Securities:														
Beginning value 9/1/00	42	8,554	2,399	2,558	23,608	40,062	15,771	17,131	-	-	61,652	44,483	103,472	112,788
Increase/(Decrease)	-	(1,344)	76	(35)	(648)	(4,852)	2,161	(389)	-	-	8,367	1,140	9,956	(5,480)
Ending value 11/30/00	42	7,210	2,475	2,523	22,960	35,210	17,932	16,742	-	-	70,019	45,623	113,428	107,308
Other:														
Beginning value 9/1/00	20,000	20,000	2,866	2,866	581	581	1,510	1,531	-	-	-	-	24,957	24,978
Increase/(Decrease)	(17,000)	(17,000)	(2,861)	(2,861)	-	-	(1,433)	(1,495)	-	-	-	-	(21,294)	(21,356)
Ending value 11/30/00	3,000	3,000	5	5	581	581	77	36	-	-	-	-	3,663	3,622

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

2. U. T. Board of Regents: Request to Establish the General Endowment Fund (GEF), Approval of the Investment Policy Statement for the GEF, and Approval to Amend the Permanent University Fund (PUF), Permanent Health Fund (PHF) and Long Term Fund (LTF) Investment Policy Statements

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. Board of Regents establish the General Endowment Fund (GEF) and approve the Investment Policy Statement for the GEF as set forth on Pages 42 - 55.

It is further recommended that the U. T. Board of Regents approve the proposed amendments to the following Investment Policy Statements as set forth in congressional style on the referenced pages:

a. Permanent University Fund (PUF) (See Pages 56 - 71)

b. Permanent Health Fund (PHF) (See Pages 72 - 89)

c. Long Term Fund (LTF) (See Pages 90 - 106).

BACKGROUND INFORMATION

The creation of a new fund and its accompanying Investment Policy Statement is the result of UTIMCO's recommendation to unitize the LTF and PHF. Unitization is the accounting method that underlies the pooling of investment assets and is commonly used by mutual funds. The LTF and the PHF are both unitized pooled investment funds. UTIMCO's proposal to establish the GEF by creating a single pooled investment fund for the LTF and PHF simply takes the further step of pooling the assets of both funds into a $4 billion mutual fund to be known as the General Endowment Fund.

Currently, UTIMCO invests the PHF and LTF in an identical manner using the same investment policies, asset allocation guidelines, and portfolio managers. Use of the existing account structure requires the duplication of securities trades, manager contracts, accounting entries, performance calculations, and other investment functions. The direct costs of maintaining 177 portfolio accounts across both funds are estimated to be $1,153,000 per year. Pooling of the PHF and LTF investments under the unitized GEF will result in a more efficient account structure. At this time, UTIMCO would be required to maintain only 129 portfolio accounts, at an estimated cost savings of $366,000 per year.

Unitization of the PHF and LTF will have no impact on the legal status of the underlying 5,400 endowment accounts. It will not affect the investment policies in use, the ability to allocate different costs to either fund, or the maintenance of different distribution rates if so desired. The current LTF Investment Policy Statement (including the proposed amendments listed below) will become the GEF's Investment Policy Statement. The Investment Policy Statements for the PHF and LTF will be amended to allow for investment in cash or the GEF only.

Creation of the GEF as a pooled fund for the PHF and LTF was determined to comply with applicable legal and accounting guidelines by Vinson & Elkins, the U. T. System Office of General Counsel and Deloitte Touche, respectively. It was approved by the UTIMCO Board of Directors on December 7, 2000, and by the Business Affairs and Audit Committee of the U. T. Board of Regents on January 9, 2001.

The amendments to the PUF, PHF, and LTF Investment Policy Statements are proposed following UTIMCO's annual review of fund investment policies. The proposed amendments are summarized below:

- Reclassification of high yield bonds from alternative equities to the fixed income asset class.

- Redefinition of leverage for derivative securities, which would exclude planned cash flows in transit. These cash flows will eliminate the leverage.

- Inclusion of the custodian's late deposit interest bearing fund as an eligible cash equivalent investment.

- Amendment of the fixed income credit rating provisions allow for the selection of a high yield fixed income manager to invest in below investment grade bonds.

- Inclusion of the requirement of an annual audit of the funds' financial statements (already done in practice).

- Clarification that valuations of the funds' assets are based on the custodian's records.

- Exhibit A to the PUF Investment Policy Statement ("PUF Specific Asset Allocation") reflects a change in presentation to eliminate the subtotals for expected return and risk, neutral allocations, ranges and performance objectives and to present only the total ranges approved by the UTIMCO Board of Directors under authority delegated to the Board by the U. T. Board of Regents. The broad ranges remain consistent with the guidelines for PUF investment allocation as last amended and approved by the U. T. Board of Regents on February 9, 2000.

  The PHF and LTF Investment Policy Statements also include revised exhibits on asset allocation, reduced in scope to reflect the proposed investment of these funds in the GEF and cash on hand between contribution dates. The broad ranges for GEF asset allocation remain identical to those approved by the U. T. Board of Regents for the PUF.

The UTIMCO Board of Directors approved the proposed Investment Policy Statement for the GEF and the amendments to the Investment Policy Statements for the PUF, PHF and the LTF on December 7, 2000. No changes are proposed for the Investment Policy Statements of the Short Term Fund, the Short Intermediate Term Fund, or the Separately Invested Funds.

See also Item 3 on Page 107 authorizing UTIMCO to manage the GEF.

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND
INVESTMENT POLICY STATEMENT

Purpose

The General Endowment Fund (the "Fund"), established by the Board of Regents of The University of Texas System (the "Board") to be effective on March 1, 2001, is a pooled fund for the collective investment of long-term funds under the control and management of the Board. The Fund provides for greater diversification of investments than would be possible if each account were managed separately.

Fund Organization

The Fund is organized as a mutual fund in which each eligible account purchases and redeems Fund units as provided herein. The ownership of Fund assets shall at all times be vested in the Board. Such assets shall be deemed to be held by the Board, as a fiduciary, regardless of the name in which the assets may be registered.

Fund Management

Ultimate fiduciary responsibility for the Fund rests with the Board. Section 66.08, Texas Education Code, as amended, authorizes the U. T. Board, subject to certain conditions, to enter into a contract with a nonprofit Corporation to invest funds under the control and management of the U. T. Board.

The Fund shall be governed through The University of Texas Investment Management Company ("UTIMCO"), a nonprofit Corporation organized for the express purpose of investing funds under the control and management of the Board. UTIMCO shall a) recommend investment policy for the Fund, b) determine specific asset allocation targets, ranges, and performance benchmarks consistent with Fund objectives, and c) monitor Fund performance against Fund objectives. UTIMCO shall invest the Fund assets in conformity with investment policy.

Unaffiliated investment managers may be hired by UTIMCO to improve the Fund's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.

Fund Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of Fund assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase Fund Units

No fund shall be eligible to purchase units of the Fund unless it is under the sole control, with full discretion as to investments, by the Board and/or UTIMCO.

Any fund whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the Fund.

Fund Investment Objectives

The primary investment objective shall be to preserve the purchasing power of Fund assets by earning an average annual total return after inflation of 5.5% over rolling ten year periods or longer. The Fund's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objectives are to generate a fund return in excess of the Policy Portfolio benchmark and the average median return of the universe of the college and university endowments as reported annually by Cambridge Associates and NACUBO over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect Fund's asset allocation policy targets.

Asset Allocation

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified herein, is the responsibility of UTIMCO. Specific asset allocation targets may be changed from time to time based on the economic and investment outlook. Fund 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>Cash Equivalents</u> - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.

B. <u>Fixed Income Investments</u> - Intermediate to long term investment grade bonds offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of Fund income. Below investment grade bonds including high yield bonds usually behave more like equities than high-quality bonds such as Treasuries. In the recovery phase of the market such bonds frequently outperform high-quality bonds.

C. <u>Equities</u> - provide both current income and growth of income, but their principal purpose is to provide appreciation of the Fund. Historically, returns for equities have been higher than for bonds over all extended periods. Therefore, equities represent the best chance of preserving the purchasing power of the Fund.

D. <u>Alternative Investments</u> - generally consist of alternative marketable investments and alternative nonmarketable investments.

- <u>Alternative Marketable Investments</u> -
  These investments are broadly defined to include hedge funds, arbitrage and special situation funds, distressed debt, market neutral, and other non-traditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. Alternative marketable investments may be made directly by UTIMCO or through partnerships. If these investments are made through partnerships they offer faster drawdown of committed capital and earlier realization potential than alternative nonmarketable investments. Alternative marketable investments made through partnerships will generally provide investors with liquidity at least annually.

- <u>Alternative Nonmarketable Investments</u> -
  Alternative Nonmarketable investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative nonmarketable investments are that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund asset values through their characteristics of low correlation with listed equities and fixed income instruments. The disadvantages of this asset class are that they may be illiquid, require higher and more complex fees, and are frequently dependent on the

quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative nonmarketable investments shall be controlled with extensive due diligence and diversification. These investments are held through either limited partnership or as direct ownership interests. They include special equity, mezzanine venture capital, oil and gas, real estate and other investments that are privately held and which are not registered for sale on public exchanges. In partnership form, these investments require a commitment of capital for extended periods of time with no liquidity. They also generally require an extended period of time to achieve targeted investment levels.

E. Inflation Hedging Assets – generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. They include direct real estate, REITs, oil and gas interests, commodities, inflation-linked bonds, timberland and other hard assets. These investments may be held through limited partnership, other commingled funds or as direct ownership interests.

Asset Allocation Policy

The asset allocation policy and ranges herein recognize that the Fund's return/risk profile can be enhanced by diversifying the Fund's investments across different types of assets whose returns are not closely correlated. The targets and ranges seek to protect the Fund against both routine illiquidity in normal markets and extraordinary illiquidity during a period of extended deflation.

The long-term asset allocation policy for the Fund must recognize that the 5.5% real return objective requires a high allocation to broadly defined equities, including domestic, international stocks, alternative equity investments, and inflation hedging assets of 68% to 90%. The allocation to deflation hedging Fixed Income should therefore not exceed 32% of the Fund.

The Board delegates authority to UTIMCO to establish specific neutral asset allocations and ranges within the broad policy guidelines described above. UTIMCO may establish specific asset allocation targets and ranges for large and small capitalization U. S. stocks, established and emerging market international stocks, marketable and non-marketable alternative equity investments, and other asset classes as well as the specific performance objectives for each asset class. Specific asset allocation policies shall be decided by UTIMCO and reported to the U. T. Board.

Performance Measurement

The investment performance of the Fund will be measured by an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the Fund. Such measurement will occur at least annually, and evaluate the results of the total Fund, major classes of investment assets, and individual portfolios.

Investment Guidelines

The Fund must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.

- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.

- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of Fund assets in such liquid investment fund.

- No securities may be purchased or held which jeopardize the Fund's tax exempt status.

- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.

- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

- The Fund's investments in warrants shall not exceed more than 5% of the Fund's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.

- The Fund may utilize Derivative Securities with the approval of the UTIMCO Board to a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with Fund investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that leverage is not employed in the implementation of such Derivative purchases or sales. Leverage occurs when the notional value of the futures contracts exceeds the value of cash assets allocated to those contracts by more than 2%. The cash assets allocated to futures contracts is the sum of the value of the initial margin deposit, the daily variation margin and dedicated cash balances. This prohibition against leverage shall not apply where cash is received within 1 business day following the day the leverage occurs. UTIMCO's Derivatives Guidelines shall be used to monitor compliance with this policy. Notwithstanding the above, leverage strategies are permissible within the alternative equities investment class with the approval of the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, and the strategy implements systematic risk control techniques, value at risk measures, and pre-defined risk parameters.

- Such Derivative Securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, option, and other applicable contracts.

  UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the Fund and the prices of Derivative Security investments by investing in only those contracts whose behavior is expected to resemble that of the Fund's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a Derivative Security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of Derivative Securities purchased or sold over the counter may not represent more than 15% of the net assets of the Fund.

In the event that there are no Derivative Securities traded on a particular market index such as MSCI EAFE, the Fund may utilize a composite of other Derivative Security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected Derivative Securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.

UTIMCO shall minimize the risk that a party will default on its payment obligation under a Derivative Security agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the Fund will not be able to meet its obligation to the counterparty by investing the Fund in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.

The Fund may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies and between foreign currencies and the U. S. dollar.

Cash and Cash Equivalents

- Holdings of cash and cash equivalents may include internal short-term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds as approved by the chief investment officer.

- The Fund's custodian late deposit interest bearing liquid investment fund.

- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).

- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.

- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.

- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.

  - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.

  - Eligible Collateral Securities for Repurchase Agreements are limited to U. S. Treasury securities and U. S. Government Agency securities with a maturity of not more than 10 years.

  - The maturity for a Repurchase Agreement may be from one day to two weeks.

  - The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.

  - All collateral shall be delivered to the LTF custodian bank. Tri-party collateral arrangements are not permitted.

- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the Fund's fixed income assets.

- Overnight Repurchase Agreements may not exceed 25% of the Fund's fixed income assets.

- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

Fixed Income

Domestic Fixed Income

Holdings of domestic fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies, and b) issued by corporations and municipalities. Within this overall limitation:

- Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-indices 1) Government: Treasury and Agency; 2) Corporate: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; and 4) Asset-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.

- U. S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition. This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

Non-U. S. Fixed Income

- Not more than 35% of the Fund's fixed income portfolio may be invested in non-U. S. dollar bonds. Not more than 15% of the Fund's fixed income portfolio may be invested in bonds denominated in any one currency.
- Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U. S. Fixed Income Portfolio.
- Not more than 7.5% of the Fund's fixed income portfolio may be invested in Emerging Market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

Equities

The Fund shall:

A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market.

B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the chief investment officer.

Alternative Investments and Inflation Hedging Assets

Investments in alternative assets and inflation hedging assets may be made through management contracts with unaffiliated organizations (including but not limited to limited partnerships, trusts, and joint ventures) so long as such organizations:

A. possess specialized investment skills

B. possess full investment discretion subject to the management agreement

C. are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken

D. align the interests of the investor group with the management as closely as possible

E. charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated.

Investments in alternative nonmarketable assets and inflation hedging assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the Fund has invested prior to the co-investment or in transactions sponsored by investment firms well known to UTIMCO management, provided that such direct investments shall not exceed 25% of the market value of the alternative nonmarketable assets portfolio or the inflation hedging assets portfolio at the time of the direct investment.

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Fund assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and applied against UTIMCO management fees. Furthermore, UTIMCO Board approval of UTIMCO management's service as a director of an investee company shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's service as a director of an investee company.

Fund Accounting

The fiscal year of the Fund shall begin on September 1st and end on August 31st. Market value of the Fund shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, or industry guidelines, whichever is applicable. Significant asset write-offs or write-downs shall be approved by the chief investment officer and reported to the UTIMCO Board of Directors. The Fund's financial statements shall be audited each year by an independent accounting firm selected by UTIMCO's Board.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all Fund net assets and the net asset value per unit of the Fund. Valuation of Fund assets shall be based on the books and records of the custodian for the valuation date. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

The fair market value of the Fund's net assets shall include all related receivables and payables of the Fund on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Purchase of Fund Units

Purchase of Fund units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the Fund or contribution of assets approved by the chief investment officer, at the net asset value per unit of the Fund as of the most recent quarterly valuation date. Each fund whose monies are invested in the Fund shall own an undivided interest in the Fund in the proportion that the number of units invested therein bears to the total number of all units comprising the Fund.

Redemption of Fund Units

Redemption of Units shall be paid in cash as soon as practicable after the quarterly valuation date of the Fund. Withdrawals from the Fund shall be at the market value price per unit determined for the period of the withdrawal.

Securities Lending

The Fund may participate in a securities lending contract with a bank or nonbank security lending agent for either short-term or long-term purposes of realizing additional income. Loans of securities by the Fund shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U. S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time-to-time as deemed necessary by the UTIMCO Board. Monthly reports issued by the agent shall be reviewed by UTIMCO to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the Fund has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the Fund. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Fund solely in the interest of Fund unitholders and shall not invest the Fund so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be March 1, 2001.

EXHIBIT A

GEF ASSET ALLOCATION

EXPECTED RETURN AND RISK, NEUTRAL ALLOCATIONS, RANGES AND PERFORMANCE OBJECTIVES

		Expected Return	Expected Risk	Neutral Allocation	Range	Benchmark Return
Conventional Equities	U.S. Stocks	9.25%	18.50%	**25.0%**	10%-40%	S&P 500 Index
Conventional Equities	U.S. Small Cap Stocks	10.25%	21.25%	**7.5%**	5%-15%	Russell 2000 Index
Conventional Equities	Global ex-U.S. Stocks	9.75%	20.75%	**12.0%**	5%-20%	MSCI EAFE Index (net)
Conventional Equities	Emerging Markets Equity	13.00%	30.00%	**3.0%**	0%-10%	MSCI-Emerging Mkts. Free
Alt. Eq. - Marketable	Absolute Return	7.75%	9.25%	**3.0%**	2.5%-10%	91-Day T-Bills +7%
Alt. Eq. - Marketable	Equity Hedge Funds	8.00%	14.00%	**7.0%**	2.5%-15%	91-Day T-Bills +7%
Alt. Eq. - Non-Marketable	Venture Capital	14.25%	15.75%	**7.5%**	2.5%-10%	17.00%
Alt. Eq. - Non-Marketable	Private Equity	12.25%	9.50%	**7.5%**	2.5%-15%	17.00%
Inflation Hedging	Commodities (GSCI)	8.75%	19.25%	**2.5%**	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
Inflation Hedging	Oil and Gas	11.00%	27.00%	**0.0%**	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
Inflation Hedging	Real Estate	9.00%	14.50%	**5.0%**	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
Inflation Hedging	TIPS	6.50%	2.50%	**0.0%**	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
Inflation Hedging	Timberland	8.50%	9.25%	**0.0%**	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
Deflation Hedging	High Yield Bonds	8.50%	13.25%	**0.0%**	0%-7%	Lehman Brothers Aggregate
Deflation Hedging	Global ex U.S. Bonds	6.50%	13.00%	**5.0%**	0%-7%	Salomon Non-U.S. WGBI Unh.
Deflation Hedging	U.S. Bonds	6.25%	9.25%	**15.0%**	10%-25%	Lehman Brothers Aggregate
Deflation Hedging	Cash	3.75%	3.50%	**0.0%**	0%-5%	91 day T-Bills Ave. Yield

Expected Nominal Return	**9.35%**
Expected Risk	**10.44%**
Return/Risk Ratio	**0.90**

The rebalancing of Fund assets to achieve the neutral allocations shall be subject to the funding of alternative investments.

Risk is defined in annualized standard deviation terms.

The neutral policy portfolio is the sum of the neutrally weighted benchmark returns.

THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT UNIVERSITY FUND
INVESTMENT POLICY STATEMENT

Purpose

The Permanent University Fund (the "Fund") is a public endowment contributing to the support of institutions of The University of Texas System (other than The University of Texas-Pan American and The University of Texas at Brownsville) and institutions of The Texas A&M University System (other than Texas A&M University-Corpus Christi, Texas A&M International University, Texas A&M University-Kingsville, West Texas A&M University, Texas A&M University-Commerce, Texas A&M University-Texarkana, and Baylor College of Dentistry).

Fund Organization

The Permanent University Fund was established in the Texas Constitution of 1876 through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the Permanent University Fund were completed in 1883 with the contribution of an additional one million acres of land. Today, the Permanent University Fund contains 2,109,190 acres of land (the "PUF Lands") located in 24 counties primarily in West Texas.

The 2.1 million acres comprising the PUF Lands produce two streams of income: a) mineral income, primarily in the form of oil and gas royalties and b) surface income, in the form of surface leases and easements. Under the Texas Constitution, mineral income, as a non-renewable source of income, remains a non-distributable part of PUF corpus, and is invested in securities. Surface income, as a renewable source of income, is distributed to the Available University Fund (the "AUF"), as received.

The Constitution prohibits the distribution and expenditure of mineral income contributed to the Fund. The Constitution also requires that all surface income and investment distributions paid to the AUF be expended for certain authorized purposes.

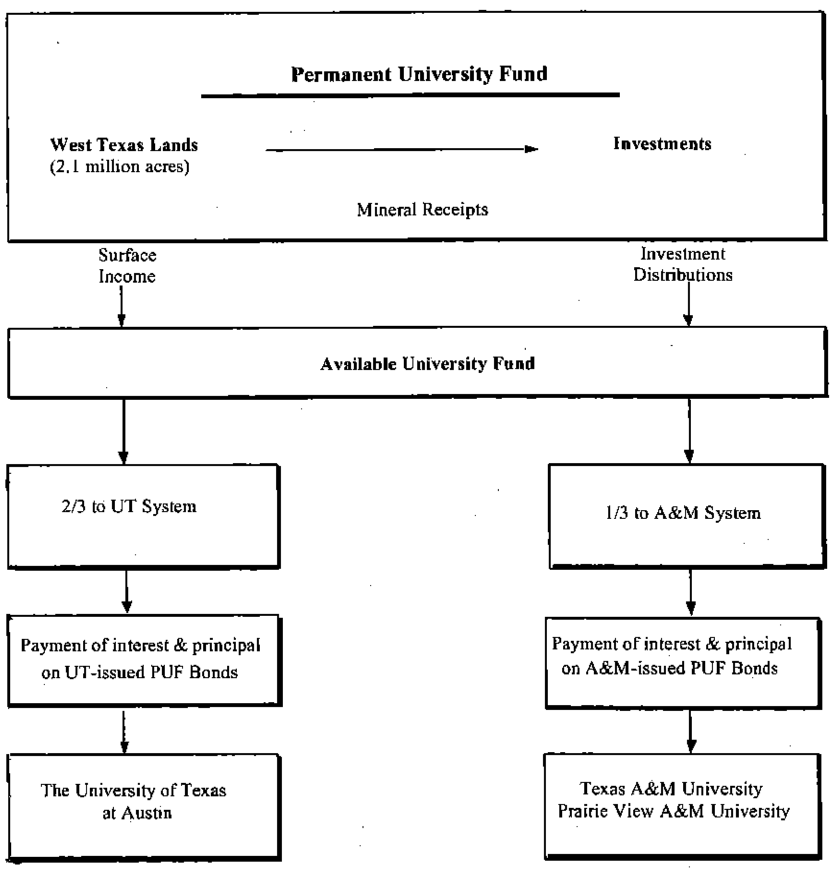
The expenditure of the AUF is subject to a prescribed order of priority:

First, following a 2/3rds and 1/3rd allocation of AUF receipts to the U. T. System and Texas A&M University System, respectively, expenditures for debt service on PUF bonds. Article VII of the Texas Constitution authorizes the U. T. Board and the Texas A&M University System Board (the "TAMUS Board") to issue bonds payable from their respective interests in AUF receipts to finance permanent improvements and to refinance outstanding PUF obligations. The Constitution limits the amount of bonds and notes secured by each System's interest in divisible PUF income to 20% and 10% of the book value of PUF investment securities, respectively. Bond resolutions adopted by both Boards also prohibit the issuance of additional PUF parity obligations unless the projected interest in AUF receipts for each System covers projected debt service at least 1.5 times.

Second, expenditures to fund a) excellence programs specifically at U. T. Austin, Texas A&M University and Prairie View A&M University and b) the administration of the university systems.

The payment of surface income and investment distributions from the PUF to the AUF and the associated expenditures is depicted below in Exhibit 1:

Exhibit 1



Fund Management

Article VII of the Texas Constitution assigns fiduciary responsibility for managing and investing the Fund to the U. T. Board. Article VII authorizes the U. T. Board, subject to procedures and restrictions it establishes, to invest the Fund in any kind of investments and in amounts it considers appropriate, provided that it adheres to the prudent person investment standard. This standard provides that the U. T. Board, in making investments, may acquire, exchange sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment.

Ultimate fiduciary responsibility for the Fund rests with the Board. Section 66.08 of the Texas Education Code authorizes the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in investment of the PUF. The Fund shall be managed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the Fund, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with Fund objectives, and c) monitor Fund performance against Fund objectives. UTIMCO shall invest the Fund's assets in conformity with investment policy.

Unaffiliated investment managers may be hired by UTIMCO to improve the Fund's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.

Fund Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of Fund assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Fund Investment Objectives

The primary investment objective shall be to preserve the purchasing power of Fund assets and annual distributions by earning an average annual total return after inflation of 5.5% over rolling ten-year periods or longer. The Fund's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objective is to generate a fund return in excess of the Policy Portfolio benchmark over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect Fund asset allocation policy targets.

Asset Allocation

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

Fund assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

A. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.

B. Fixed Income Investments - Intermediate to long term investment grade bonds offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of Fund income. Below investment grade bonds including high yield bonds usually behave more like equities than high-quality bonds such as Treasuries. In the recovery phase of the market such bonds frequently outperform high-quality bonds. [~~Such bonds should be high quality, and intermediate to long-term maturity with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction.~~]

C. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation of the Fund. Historically, returns for equities have been higher than for bonds over all extended periods. As such, equities represent the best chance of preserving the purchasing power of the Fund.

D. Alternative Investments - generally consist of alternative marketable investments and alternative nonmarketable investments.

- Alternative Marketable Investments - These investments are broadly defined to include hedge funds, arbitrage and special situation funds, [~~high yield bonds,~~] distressed debt, market neutral, and other nontraditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. Alternative marketable investments may be made directly by UTIMCO or through partnerships. If these investments are made through partnerships they offer faster drawdown of committed capital and earlier realization potential than alternative nonmarketable investments. Alternative marketable investments made through partnerships will generally provide investors with liquidity at least annually.

- Alternative Nonmarketable Investments - Alternative Nonmarketable investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative nonmarketable investments are that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund asset values through their characteristics of low correlation with listed equities and fixed income instruments. The disadvantages of this asset class are that they may be illiquid, require higher and more complex fees, and are frequently dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative nonmarketable investments shall be controlled with extensive due diligence and diversification. These investments are held either through limited partnership or as direct ownership interests. They include special equity, mezzanine venture capital, and other investments that are privately held and which are not registered for sale on public exchanges. In partnership form, these investments require a commitment of capital for extended periods of time with no liquidity.

E. Inflation Hedging Assets - generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. They include direct real estate, REITs, oil and gas interests, commodities, inflation-linked bonds, timberland and other hard assets. These investments may be held through limited partnership, other commingled funds or as direct ownership interests.

Asset Allocation Policy

The asset allocation policy and ranges herein recognize that the Fund's return/risk profile can be enhanced by diversifying the Fund's investments across different types of assets whose returns are not closely correlated. The targets and ranges seek to protect the Fund against both routine illiquidity in normal markets and extraordinary illiquidity during a period of extended deflation.

The long-term asset allocation policy for the Fund must recognize that the 5.5% real return objective requires a high allocation to broadly defined equities, including domestic, international stocks, alternative equity investments, and inflation hedging assets of 68% to 90%. The allocation to deflation hedging Fixed Income should therefore not exceed 32% of the Fund.

The Board delegates authority to UTIMCO to establish specific neutral asset allocations and ranges within the broad policy guidelines described above. UTIMCO may establish specific asset allocation targets and ranges for large and small capitalization U. S. stocks, established and emerging market international stocks, marketable and non-marketable alternative equity investments, and other asset classes as well as the specific performance objectives for each asset class. Specific asset allocation policies shall be decided by UTIMCO and reported to the U. T. Board.

Performance Measurement

The investment performance of the Fund will be measured by an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the stated investment benchmarks of the Fund. Such measurement will occur at least annually, and evaluate the results of the total Fund, major classes of investment assets, and individual portfolios.

Investment Guidelines

The Fund must be invested at all times in strict compliance with applicable law. Investment guidelines include the following:

<u>General</u>

- Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.

- All investments will be U. S. dollar denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities.

- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of Fund assets in such liquid investment fund.

- No securities may be purchased or held which would jeopardize the Fund's tax-exempt status.

- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.

- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

- The Fund's investments in warrants shall not exceed more than 5% of the Fund's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.

- The Fund may utilize Derivative Securities with the approval of the UTIMCO Board to a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with Fund investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that [~~; i) no~~] leverage is not employed in the implementation of such Derivative purchases or sales. [~~;ii) no more than 5% of Fund assets are required as an initial margin deposit for such contracts; iii) the Fund's investments in warrants shall not exceed more than 5% of the Fund's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges~~] Leverage occurs when the notional value of the futures contracts exceeds the value of cash assets allocated to those contracts by more than 2%. The cash assets allocated to futures contracts is the sum of the value of the initial margin deposit, the daily variation margin and dedicated cash balances. This prohibition against leverage shall not apply where cash is received within 1 business day following the day the leverage occurs. UTIMCO's Derivative Guidelines shall be used to monitor compliance with this policy. Notwithstanding the above, leverage strategies are permissible within the alternative equities investment class with the approval of the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, and the strategy implements systematic risk control techniques, value at risk measures, and pre-defined risk parameters.

- Such Derivative Securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, [~~cap, floor,~~] option, and other applicable contracts.

UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the Fund and the prices of Derivative Security investments by investing in only those contracts whose behavior is expected to resemble that of the Fund's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a Derivative Security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of Derivative Securities purchased or sold over the counter may not represent more than 15% of the net assets of the Fund.

In the event that there are no Derivative Securities traded on a particular market index such as MSCI EAFE, the Fund may utilize a composite of other Derivative Security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected Derivative Securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.

UTIMCO shall minimize the risk that a party will default on its payment obligation under a Derivative Security agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the Fund will not be able to meet its obligation to the counterparty by investing the Fund in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.

The Fund may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies and between foreign currencies and the U. S. dollar.

Cash and Cash Equivalents

Holdings of cash and cash equivalents may include internal short term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds as approved by the chief investment officer.

- Deposits of the Texas State Treasury.

- The Fund's custodian late deposit interest bearing liquid investment fund.

- Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).

- Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.

- Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.

- Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.

    - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.

    - Eligible Collateral Securities for Repurchase Agreements are limited to U. S. Treasury securities and U. S. Government Agency securities with a maturity of not more than 10 years.

    - The maturity for a Repurchase Agreement may be from one day to two weeks.

    - The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.

- All collateral shall be delivered to the PUF custodian bank. Tri-party collateral arrangements are not permitted.

- The aggregate amount of Repurchase Agreements with maturities greater than seven calendar days may not exceed 10% of the Fund's fixed income assets.

- Overnight Repurchase Agreements may not exceed 25% of the Fund's fixed income assets.

- Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.

<u>Fixed Income</u>

<u>Domestic Fixed Income</u>

Holdings of domestic fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies, and b) issued by corporations and municipalities. Within this overall limitation:

- Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-indices 1) Government: Treasury and Agency; 2) Corporate: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; and 4) Asset-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.

- U. S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition. <u>This provision does not apply to an investment manager that is authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.</u>

- Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.

<u>Non-U. S. Fixed Income</u>

- Not more than 35% of the Fund's fixed income portfolio may be invested in non-U. S. dollar bonds. Not more than 15% of the Fund's fixed income portfolio may be invested in bonds denominated in any one currency.
- Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio.
- Not more than 7.5% of the Fund's fixed income portfolio may be invested in Emerging Market debt.
- International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

<u>Equities</u>

The Fund shall:

A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market

B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the chief investment officer.

Alternative Investments and Inflation Hedging Assets

Investments in alternative assets and inflation hedging assets may be made through management contracts with unaffiliated organizations (including but not limited to limited partnerships, trusts, and joint ventures) so long as such organizations:

A. possess specialized investment skills

B. possess full investment discretion subject to the management agreement

C. are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken

D. align the interests of the investor group with the management as closely as possible

E. charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated.

Investments in alternative nonmarketable assets and inflation hedging assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the Fund has invested prior to the co-investment or in transactions sponsored by investment firms well known to UTIMCO management, provided that such direct investments shall not exceed 25% of the market value of the alternative nonmarketable assets portfolio or the inflation hedging assets portfolio at the time of the direct investment.

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Fund assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and applied against UTIMCO management fees. Furthermore, UTIMCO Board approval of UTIMCO management's service as a director of an investee company shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's service as a director of an investee company.

Fund Distributions

The Fund shall balance the needs and interests of present beneficiaries with those of the future. Fund spending policy objectives shall be to:

A. provide a predictable, stable stream of distributions over time

B. ensure that the inflation adjusted value of distributions is maintained over the long-term

C. ensure that the inflation adjusted value of Fund assets after distributions is maintained over the long-term.

The goal is for the Fund's average spending rate over time not to exceed the Fund's average annual investment return after inflation and expenses in order to preserve the purchasing power of Fund distributions and underlying assets.

The Texas Constitution states that "The amount of any distributions to the available university fund shall be determined by the board of regents of The University of Texas System in a manner intended to provide the available university fund with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of permanent university fund investments and annual distributions to the available university fund. The amount distributed to the available university fund 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 bonds and notes issued under this section. If the purchasing power of permanent university fund investments for any rolling 10-year period is not preserved, the board may not increase annual distributions to the available university fund until the purchasing power of the permanent university fund investments is restored, except as necessary to pay the principal and interest due and owing on bonds and notes issued under this section. An annual distribution made by the board to the available university fund during any fiscal year may not exceed an amount equal to seven percent of the average net fair market value of permanent university fund investment assets as determined by the board, except as necessary to pay any principal and interest due and owing on bonds issued under this section. The expenses of managing permanent university fund land and investments shall be paid by the permanent university fund."

Annually, the U. T. Board of Regents will approve a distribution amount to the AUF.

In conjunction with the annual U. T. System budget process, UTIMCO shall recommend to the U. T. Board in May of each year an amount to be distributed to the AUF during the next fiscal year. UTIMCO's recommendation on the annual distribution shall be an amount equal to 4.5% of the trailing twelve quarter average of the net asset value of the Fund for the quarter ending February of each year.

Following approval of the distribution amount, distributions from the Fund to the AUF may be quarterly or annually at the discretion of UTIMCO Management.

Fund Accounting

The fiscal year of the Fund shall begin on September 1st and end on August 31st. Market value of the Fund shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, industry guidelines, and state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by the chief investment officer and reported to the UTIMCO Board of Directors. The Fund's financial statements shall be audited each year by an independent accounting firm selected by UTIMCO's Board.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all Fund net assets. Valuation of Fund assets shall be based on the books and records of the custodian for the valuation date. [~~Such valuation of Fund assets shall be based on the bank trust custody agreement in effect at the date of valuation.~~] Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.

The fair market value of the Fund's net assets shall include all related receivables and payables of the Fund on the valuation. Such valuation shall be final and conclusive.

Securities Lending

The Fund may participate in a securities lending contract with a bank or nonbank security lending agent for either short-term or long-term purposes of realizing additional income. Loans of securities by the Fund shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U. S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate. The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the agent shall be reviewed by UTIMCO to insure compliance with contract provisions.

Investor Responsibility

As a shareholder, the Fund has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the Fund. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Fund solely in the interest of Fund unitholders and shall not invest the Fund so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be February 15, 2001 [~~February 9, 2000~~].

EXHIBIT A (Replaces former Exhibit A)

PUF SPECIFIC ASSET ALLOCATION

EXPECTED RETURN AND RISK, NEUTRAL ALLOCATIONS, RANGES AND PERFORMANCE OBJECTIVES

		Expected Return	Expected Risk	Neutral Allocation	Range	Benchmark Return
Conventional Equities	U.S. Stocks	9.25%	18.50%	25.0%	10%-40%	S&P 500 Index
Conventional Equities	U.S. Small Cap Stocks	10.25%	21.25%	7.5%	5%-15%	Russell 2000 Index
Conventional Equities	Global ex-U.S. Stocks	9.75%	20.75%	12.0%	5%-20%	MSCI EAFE Index (net)
Conventional Equities	Emerging Markets Equity	13.00%	30.00%	3.0%	0%-10%	MSCI-Emerging Mkts. Free
Alt. Eq. - Marketable	Absolute Return	7.75%	9.25%	3.0%	2.5%-10%	91-Day T-Bills +7%
Alt. Eq. - Marketable	Equity Hedge Funds	8.00%	14.00%	7.0%	2.5%-15%	91-Day T-Bills +7%
Alt. Eq. - Non-Marketable	Venture Capital	14.25%	15.75%	7.5%	2.5%-10%	17.00%
Alt. Eq. - Non-Marketable	Private Equity	12.25%	9.50%	7.5%	2.5%-15%	17.00%
Inflation Hedging	Commodities (GSCI)	8.75%	19.25%	2.5%	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
Inflation Hedging	Oil and Gas	11.00%	27.00%	0.0%	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
Inflation Hedging	Real Estate	9.00%	14.50%	5.0%	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
Inflation Hedging	TIPS	6.50%	2.50%	0.0%	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
Inflation Hedging	Timberland	8.50%	9.25%	0.0%	0.0%-10%	33% (GSCI - 100 bps)/67% NCREIF
Deflation Hedging	High Yield Bonds	8.50%	13.25%	0.0%	0%-7%	Lehman Brothers Aggregate
Deflation Hedging	Global ex U.S. Bonds	6.50%	13.00%	5.0%	0%-7%	Salomon Non-U.S. WGBI Unh.
Deflation Hedging	U.S. Bonds	6.25%	9.25%	15.0%	10%-25%	Lehman Brothers Aggregate
Deflation Hedging	Cash	3.75%	3.50%	0.0%	0%-5%	91 day T-Bills Ave. Yield

Expected Nominal Return	9.35%
Expected Risk	10.44%
Return/Risk Ratio	0.90

The rebalancing of Fund assets to achieve the neutral allocations shall be subject to the funding of alternative investments.

Risk is defined in annualized standard deviation terms.

The neutral policy portfolio is the sum of the neutrally weighted benchmark returns.

THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT HEALTH FUND
INVESTMENT POLICY STATEMENT

Purpose

The Permanent Health Fund (the PHF [~~Fund~~]) is hereby established by the Board of Regents of The University of Texas System[~~,~~] (the Board), as a pooled fund for the collective investment of permanent funds for health-related institutions of higher education created, effective August 30, 1999, by Chapter 63 of the Texas Education Code. These permanent health funds consist of:

A. The Permanent Health Fund for Higher Education (PHFHE), the distributions from which are to fund programs that benefit medical research, health education, or treatment programs at 10 health-related institutions of higher education;

B. Separate Permanent Funds for Health Related Institutions (PFHRIs), the distributions from which are to fund research and other programs at health-related institutions of higher education that benefit public health;

C. The Permanent Fund for Higher Education Nursing, Allied Health, and Other Health Related Programs (Allied Fund), the distributions from which are to fund grants to public institutions of higher education that offer upper-level academic instruction and training in the field of nursing, allied health, or other health-related education; and

D. The Permanent Fund for Minority Health Research and Education (Minority Fund), the distributions from which are to fund grants to institutions of higher education, including Centers for Teacher Education, that conduct research or educational programs that address minority health issues or form partnerships with minority organizations, colleges, or universities to conduct research and educational programs that address minority health issues.

The PHF [~~Fund~~] provides for greater diversification of investments than would be possible if each account were managed separately.

PHF [~~Fund~~] Organization

The PHF [~~Fund~~] is organized as a mutual fund in which each eligible account purchases and redeems PHF [~~Fund~~] units as provided herein.

PHF [~~Fund~~] Management

Chapter 63 of the Texas Education Code designates: a) the Board as the administrator for the PHFHE, b) the governing board of an institution for which a PFHRI fund is established as the administrator for its own PFHRI, or if the governing board so elects, the Comptroller of Public Accounts (State Comptroller), and c) the State Comptroller as the administrator for the Allied Fund and the Minority Fund. It permits the State Comptroller, in turn, to contract with the governing board of any institution that is eligible to receive a grant under Chapter 63. It further states that the Board may manage and invest the PHF [~~Fund~~] in the same manner as the Board manages and invests other permanent endowments. It also requires that the administrator invest the funds in a manner that preserves the purchasing power of the funds' assets and distributions. It further requires that the administrator make distributions in a manner consistent with the administrator's policies and procedures for making distributions to the beneficiaries of its own endowments in the case of the PHFHE or the funds themselves in the case of the PFHRI funds.

Section 163 of the Texas Property Code provides the guidelines for the management, investment and expenditure of endowment funds. It also authorizes the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in the investment of the PHF [~~Fund~~]. The PHF [~~Fund~~] shall be governed through The University of Texas Investment Management Company (UTIMCO) which shall: a) recommend investment policy for the PHF [~~Fund~~]; b) determine specific asset allocation targets, ranges, and performance benchmarks consistent with PHF [~~Fund~~] objectives; and c) monitor PHF [~~Fund~~] performance against PHF [~~Fund~~] objectives. UTIMCO shall invest the PHF [~~Fund~~] assets in conformity with investment policy.

[~~Unaffiliated investment managers may be hired by UTIMCO to improve the Fund's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.~~]

PHF [~~Fund~~] Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of PHF [~~Fund~~] assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase PHF [~~Fund~~] Units

No fund shall be eligible to purchase units of the PHF [~~Fund~~] unless it is a permanent health fund established pursuant to Chapter 63 of the Texas Education Code, under the control, with full discretion as to investments, by the Board and/or UTIMCO.

Any fund whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the PHF [~~Fund~~].

PHF [~~Fund~~] Investment Objectives

The primary investment objective shall be to preserve the purchasing power of PHF [~~Fund~~] assets and annual distributions by earning an average annual total return after inflation of 5.5% over rolling ten-year periods or longer. The PHF's [~~Fund's~~] success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objectives are to generate a fund return in excess of the Policy Portfolio benchmark and the average median return of the universe of the college and university endowments as reported annually by Cambridge Associates and NACUBO over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect PHF's [~~Fund's~~] asset allocation policy targets.

Asset Allocation

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified herein, is the responsibility of UTIMCO. [~~Specific asset allocation targets may be changed from time to time based on the economic and investment outlook.~~] PHF [~~Fund~~] assets shall be allocated among the following investments [~~broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes~~]:

A. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.

B. U. T. System General Endowment Fund (GEF) (See Exhibit B) [~~Fixed Income Investments - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of Fund income. Such bonds should be high quality, and intermediate to long-term duration with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction.~~

~~C. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation of the Fund. Historically, returns for equities have been higher than for bonds over all extended periods. Therefore, equities represent the best chance of preserving the purchasing power of the Fund.~~

~~D. Alternative Investments - generally consist of alternative marketable investments and alternative nonmarketable investments.~~

- ~~Alternative Marketable Investments -~~
  ~~These investments are broadly defined to include hedge funds, arbitrage and special situation funds, high yield bonds, distressed debt, market neutral, commodities and other non-traditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. Alternative marketable investments may be made directly by UTIMCO or through partnerships. If these investments are made through partnerships they offer faster drawdown of committed capital and~~

~~earlier realization potential than alternative nonmarketable investments. Alternative marketable investments made through partnerships will generally provide investors with liquidity at least annually.~~

- ~~Alternative Nonmarketable Investments -~~
  ~~Alternative Nonmarketable investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative nonmarketable investments are that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund asset values through their characteristics of low correlation with listed equities and fixed income instruments. The disadvantages of this asset class are that they may be illiquid, require higher and more complex fees, and are frequently dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative nonmarketable investments shall be controlled with extensive due diligence and diversification. These investments are held through either limited partnership or as direct ownership interests. They include special equity, mezzanine venture capital, oil and gas, real estate and other investments that are privately held and which are not registered for sale on public exchanges. In partnership form, these investments require a commitment of capital for extended periods of time with no liquidity. They also generally require an extended period of time to achieve targeted investment levels.~~

~~E.~~ ~~Inflation Hedging Assets – generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. They include direct real estate, REITs, oil and gas interests, commodities, inflation-linked bonds, timberland and other hard assets. These investments may be held through limited partnership, other commingled funds or as direct ownership interests.~~]

Asset Allocation Policy

The asset allocation policy and ranges herein recognize that the PHF's [~~Fund's~~] return/risk profile can be enhanced by diversifying the PHF's [~~Fund's~~] investments across different types of assets whose returns are not closely correlated. The targets and ranges seek to protect the PHF [~~Fund~~] against both routine illiquidity in normal markets and extraordinary illiquidity during a period of extended deflation.

The long-term asset allocation policy for the PHF [~~Fund must~~] recognizes that the 5.5% real return objective requires a high allocation to the broadly defined conventional equity [~~equities~~], [~~including domestic, international stocks,~~] and alternative equity [~~investments~~], and inflation hedging assets comprising the GEF. [~~of 68% to 90%. The allocation to deflation hedging Fixed Income should therefore not exceed 32% of the Fund.~~] (See Exhibit A and Attachment 1 to Exhibit B).

The Board delegates authority to UTIMCO to establish specific neutral asset allocations and ranges within the broad policy guidelines described above. [~~UTIMCO may establish specific asset allocation targets and ranges for large and small capitalization U. S. stocks, established and emerging market international stocks, marketable and non-marketable alternative equity investments, and other asset classes as well as the specific performance objectives for each asset class.~~] Specific asset allocation policies shall be decided by UTIMCO and reported to the U. T. Board.

Performance Measurement

The investment performance of the PHF [~~Fund~~] will be measured by an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board [~~, and compared against the stated investment benchmarks of the Fund~~]. Such measurement will occur at least annually [~~, and evaluate the results of the total Fund, major classes of investment assets, and individual portfolios~~].

Investment Guidelines

The PHF [~~Fund~~] must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement. (See Exhibit B). [~~Investment guidelines for index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract.~~]

- All investments will be reported in U. S. dollars [~~denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities~~].

- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of PHF [~~Fund~~] assets in such liquid investment fund.

- No securities may be purchased or held which jeopardize the PHF's [~~Fund's~~] tax exempt status.

- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.

- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

[• ~~The Fund may utilize Derivative Securities with the approval of the UTIMCO Board to: a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with Fund investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that; i) no leverage is employed in the implementation of such Derivative purchases or sales; ii) no more than 5% of Fund assets are required as an initial margin deposit for such contracts; iii) the Fund's investments in warrants shall not exceed more than 5% of the Fund's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges. Notwithstanding the above, leverage strategies are permissible within the alternative equities investment class with the approval of the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, the strategy implements systematic risk control techniques, value at risk measures, and pre-defined risk parameters.~~

- ~~Such Derivative Securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.~~

~~UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the Fund and the prices of Derivative Security investments by investing in only those contracts whose behavior is expected to resemble that of the Fund's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a Derivative Security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of Derivative Securities purchased or sold over the counter may not represent more than 15% of the net assets of the Fund.~~

~~In the event that there are no Derivative Securities traded on a particular market index such as MSCI EAFE, the Fund may utilize a composite of other Derivative Security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected Derivative Securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.~~

~~UTIMCO shall minimize the risk that a party will default on its payment obligation under a Derivative Security agreement by entering into agreements that mark to market no less frequently than monthly and where the~~

~~counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the Fund will not be able to meet its obligation to the counterparty by investing the Fund in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.~~

~~The Fund may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies and between foreign currencies and the U. S. dollar.~~]

Cash and Cash Equivalents

- Holdings of cash and cash equivalents may include internal short-term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds as approved by the chief investment officer.

- The PHF's custodian late deposit interest bearing liquid investment fund. [~~Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).~~

- ~~Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.~~

- ~~Bankers' Acceptances must be guaranteed by an accepting bank with a minimum certificate of deposit rating of 1 by Duff & Phelps.~~

- ~~Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.~~

  - ~~Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.~~

- ~~Eligible Collateral Securities for Repurchase Agreements are limited to U. S. Treasury securities and U. S. Government Agency securities with a maturity of not more than 10 years.~~

- ~~The maturity for a Repurchase Agreement may be from one day to two weeks.~~

- ~~The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.~~

- ~~All collateral shall be delivered to the PHF custodian bank. Tri-party collateral arrangements are not permitted.~~

• ~~The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the Fund's fixed income assets.~~

• ~~Overnight Repurchase Agreements may not exceed 25% of the Fund's fixed income assets.~~

• ~~Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.~~

~~Fixed Income~~

~~Domestic Fixed Income~~

~~Holdings of domestic fixed income securities shall be limited to those securities: a) issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies; and b) issued by corporations and municipalities. Within this overall limitation:~~

• ~~Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-indices: 1) Government: Treasury and Agency; 2) Corporate: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; and 4) Asset-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the~~

~~same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.~~

- ~~U.S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition.~~

- ~~Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB-, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.~~

~~Non-U.S. Fixed Income~~

- ~~Not more than 35% of the Fund's fixed income portfolio may be invested in non-U. S. dollar bonds. Not more than 15% of the Fund's fixed income portfolio may be invested in bonds denominated in any one currency.~~

- ~~Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U.S. Fixed Income Portfolio.~~

- ~~Not more than 7.5% of the Fund's fixed income portfolio may be invested in Emerging Market debt.~~

- ~~International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.~~

~~Equities~~

~~The Fund shall:~~

~~A. hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market~~

~~B. hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the chief investment officer.~~

~~Alternative Investments and Inflation Hedging Assets~~

~~Investments in alternative assets and inflation hedging assets may be made through management contracts with unaffiliated organizations (including but not limited to limited partnerships, trusts, and joint ventures) so long as such organizations:~~

~~A.~~ ~~possess specialized investment skills~~

~~B.~~ ~~possess full investment discretion subject to the management agreement~~

~~C.~~ ~~are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken~~

~~D.~~ ~~align the interests of the investor group with the management as closely as possible~~

~~E.~~ ~~charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated.~~

~~Investments in alternative nonmarketable assets and inflation hedging assets also may be made directly by UTIMCO in co-investment transactions sponsored by and invested in by a management firm or partnership in which the Fund has invested prior to the co-investment or in transactions sponsored by investment firms well known to UTIMCO management, provided that such direct investments shall not exceed 25% of the market value of the alternative nonmarketable assets portfolio or the inflation hedging assets portfolio at the time of the direct investment.~~

~~Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Fund assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and applied against UTIMCO management fees. Furthermore, UTIMCO Board approval of UTIMCO management's service as a director of an investee company shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's service as a director of an investee company.~~]

<u>PHF</u> [~~Fund~~] Distributions

The <u>PHF</u> [~~Fund~~] shall balance the needs and interests of present beneficiaries with those of the future. <u>PHF</u> [~~Fund~~] spending policy objectives shall be to:

A. provide a predictable, stable stream of distributions over time

B. ensure that the inflation adjusted value of distributions is maintained over the long-term

C. ensure that the inflation adjusted value of PHF [~~Fund~~] assets after distributions is maintained over the long-term.

The goal is for the <u>PHF's</u> [~~Fund's~~] average spending rate over time not to exceed the <u>PHF's</u> [~~Fund's~~] average annual investment return after inflation in order to preserve the purchasing power of <u>PHF</u> [~~Fund~~] distributions and underlying assets.

UTIMCO shall be responsible for establishing the <u>PHF's</u> [~~Fund's~~] distribution percentage and determining the equivalent per unit rate for any given year. Unless otherwise established by UTIMCO and approved by the Board, fund distributions shall be based on the following criteria:

The annual unit distribution amount shall be adjusted annually based on the following formula:

A. Increase the prior year's per unit distribution amount (cents per unit) by the average inflation rate (C.P.I.) for the previous twelve quarters. This will be the per unit distribution amount for the next fiscal year. This amount may be rounded to the nearest $.0005 per unit.

B. If the inflationary increase in Step A. results in a distribution rate below 3.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value per unit) the UTIMCO Board, at its sole discretion, may grant an increase in the distribution amount as long such increase does not result in a distribution rate of more than 5.5%.

C. If the distribution rate exceeds 5.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit) the UTIMCO Board at its sole discretion, may reduce the per unit distribution amount.

Notwithstanding any of the foregoing provisions, the Board of Regents may approve a per unit distribution amount that, in their judgment, would be more appropriate than the rate calculated by the policy provisions.

Distributions from the PHF [~~Fund~~] to the unitholders shall be made quarterly as soon as practicable on or after the last business day of November, February, May, and August of each fiscal year.

PHF [~~Fund~~] Accounting

The fiscal year of the PHF [~~Fund~~] shall begin on September 1st and end on August 31st. Market value of the PHF [~~Fund~~] shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, or industry guidelines, whichever is applicable. Significant asset write-offs or write-downs shall be approved by the chief investment officer and reported to the UTIMCO Board of Directors. The PHF's financial statements shall be audited each year by an independent accounting firm selected by UTIMCO's Board.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all PHF [~~Fund~~] net assets and the net asset value per unit of the PHF [~~Fund~~]. Valuation of PHF assets shall be based on the books and records of the custodian for the valuation date. [~~Such valuation of Fund assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.~~] The fair market value of the PHF's [~~Fund's~~] net assets shall include all related receivables and payables of the PHF [~~Fund~~] on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Purchase of PHF [~~Fund~~] Units

Purchase of PHF [~~Fund~~] units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the PHF [~~Fund~~] or contribution of assets approved by the chief investment officer, at the net asset value per unit of the PHF [~~Fund~~] as of the most recent quarterly valuation date.

Each fund whose monies are invested in the PHF [~~Fund~~] shall own an undivided interest in the PHF [~~Fund~~] in the proportion that the number of units invested therein bears to the total number of all units comprising the PHF [~~Fund~~].

Redemption of PHF [~~Fund~~] Units

Redemption of Units shall be paid in cash as soon as practicable after the quarterly valuation date of the PHF [~~Fund~~]. If the withdrawal is greater than $5 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than $5 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the PHF's [~~Fund's~~] net asset value, the Board may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the best interests of all PHF [~~Fund~~] unitholders. Withdrawals from the PHF [~~Fund~~] shall be at the market value price per unit determined for the period of the withdrawal.

[~~Securities Lending~~]

~~The Fund may participate in a securities lending contract with a bank or nonbank security lending agent for either short-term or long-term purposes of realizing additional income. Loans of securities by the Fund shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U. S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate. The securities lending program will be evaluated from time-to-time as deemed necessary by the UTIMCO Board. Monthly reports issued by the agent shall be reviewed by UTIMCO to insure compliance with contract provisions.~~

~~Investor Responsibility~~

~~As a shareholder, the Fund has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the Fund. Notwithstanding the above, the~~] The UTIMCO Board shall discharge its fiduciary duties with respect to the PHF [~~Fund~~] solely in the interest of PHF [~~Fund~~] unitholders and shall not invest the PHF [~~Fund~~] so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be <u>March 1, 2001</u> [~~November 11, 1999~~].

EXHIBIT A (Replaces former Exhibit A)

PHF ASSET ALLOCATION

EXPECTED RETURN AND RISK, NEUTRAL ALLOCATIONS, RANGES AND PERFORMANCE OBJECTIVES

	Expected Return	Expected Risk	Neutral Allocation	Range	Benchmark Return
GEF Commingled Fund	9.35%	10.44%	100.0%	95%-100%	Endowment Policy Portfolio
Cash	3.75%	3.50%	0.0%	0%-5%	91 day T-Bills Ave. Yield
Expected Nominal Return			**9.35%**		
Expected Risk			**10.44%**		
Return/Risk Ratio			**0.90**		

Risk is defined in annualized standard deviation terms.

The endowment policy portfolio is the sum of the neutrally weighted benchmark returns for the GEF.

Exhibit B – Shall be The University of Texas System General Endowment Fund Investment Policy Statement.

THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND
INVESTMENT POLICY STATEMENT

Purpose

The Long Term Fund (the "LTF [~~Fund~~]"), succeeded the Common Trust Fund in February, 1995, and was established by the Board of Regents of The University of Texas System (the "Board") as a pooled fund for the collective investment of private endowments and other long-term funds supporting various programs of The University of Texas System. The Fund provides for greater diversification of investments than would be possible if each account were managed separately.

LTF [~~Fund~~] Organization

The LTF [~~Fund~~] is organized as a mutual fund in which each eligible account purchases and redeems LTF [~~Fund~~] units as provided herein. The ownership of LTF [~~Fund~~] assets shall at all times be vested in the Board. Such assets shall be deemed to be held by the Board, as a fiduciary, regardless of the name in which the assets may be registered.

LTF [~~Fund~~] Management

Ultimate fiduciary responsibility for the LTF [~~Fund~~] rests with the Board. Section 163 of the Property Code authorizes the U. T. Board to delegate to its committees, officers or employees of the U. T. System and other agents the authority to act for the U. T. Board in the investment of the LTF [~~Fund~~]. The LTF [~~Fund~~] shall be governed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the LTF [~~Fund~~], b) determine specific asset allocation targets, ranges, and performance benchmarks consistent with LTF [~~Fund~~] objectives, and c) monitor LTF [~~Fund~~] performance against LTF [~~Fund~~] objectives. UTIMCO shall invest the LTF [~~Fund~~] assets in conformity with investment policy.

[~~Unaffiliated investment managers may be hired by UTIMCO to improve the Fund's return and risk characteristics. Such managers shall have complete investment discretion unless restricted by the terms of their management contracts. Managers shall be monitored for performance and adherence to investment disciplines.~~]

LTF [~~Fund~~] Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of LTF [~~Fund~~] assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Funds Eligible to Purchase LTF [~~Fund~~] Units

No fund shall be eligible to purchase units of the LTF [~~Fund~~] unless it is under the sole control, with full discretion as to investments, by the Board and/or UTIMCO.

Any fund whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the LTF [~~Fund~~].

[~~The funds of a foundation which is structured as a supporting organization described in Section 509(a) of the Internal Revenue Code of 1986, which supports the activities of the U. T. System and its component institutions, may purchase units in the Fund provided that:~~

~~A.~~ ~~the purchase of Fund units by foundation funds is approved by the chief investment officer~~

~~B.~~ ~~all members of the foundation's governing board are also members of the Board~~

~~C.~~ ~~the foundation has the same fiscal year as the Fund~~

~~D.~~ ~~a contract between the Board and the foundation has been executed authorizing investment of foundation funds in the Fund~~

~~E.~~ ~~no officer of such foundation, other than members of the Board, the Chancellor, the chief investment officer or his or her delegate shall have any control over the management of the Fund other than to request purchase and redemption of Fund units.~~]

LTF [~~Fund~~] Investment Objectives

The primary investment objective shall be to preserve the purchasing power of LTF [~~Fund~~] assets [~~and annual distributions~~] by earning an average annual total return after inflation of 5.5% over rolling ten year periods or longer. The LTF's [~~Fund's~~] success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

The secondary fund objectives are to generate a fund return in excess of the Policy Portfolio benchmark and the average median return of the universe of the college and university endowments as reported annually by Cambridge Associates and NACUBO over rolling five-year periods or longer. The Policy Portfolio benchmark will be established by UTIMCO and will be comprised of a blend of asset class indices weighted to reflect LTF's [~~Fund's~~] asset allocation policy targets.

Asset Allocation

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified herein, is the responsibility of UTIMCO. [~~Specific asset allocation targets may be changed from time to time based on the economic and investment outlook.~~] LTF [~~Fund~~] assets shall be allocated among the following investments. [~~broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:~~]

A. Cash Equivalents - are highly reliable in protecting the purchasing power of current income streams but historically have not provided a reliable return in excess of inflation. Cash equivalents provide good liquidity under both deflation and inflation conditions.

B. U. T. System General Endowment Fund (GEF) (See Exhibit B) [~~Fixed Income Investments – offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of Fund income. Such bonds should be high quality, and intermediate to long-term duration with reasonable call protection in order to ensure the generation of current income and preservation of nominal capital even during periods of severe economic contraction.~~

~~C. Equities – provide both current income and growth of income, but their principal purpose is to provide appreciation of the Fund. Historically, returns for equities have been higher than for bonds over all extended periods. Therefore, equities represent the best chance of preserving the purchasing power of the Fund.~~

~~D.~~ ~~Alternative Investments -- generally consist of alternative marketable investments and alternative nonmarketable investments.~~

- ~~Alternative Marketable Investments --~~
  ~~These investments are broadly defined to include hedge funds, arbitrage and special situation funds, high yield bonds, distressed debt, market neutral, commodities and other non-traditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. Alternative marketable investments may be made directly by UTIMCO or through partnerships. If these investments are made through partnerships they offer faster drawdown of committed capital and earlier realization potential than alternative nonmarketable investments. Alternative marketable investments made through partnerships will generally provide investors with liquidity at least annually.~~

- ~~Alternative Nonmarketable Investments --~~
  ~~Alternative Nonmarketable investments shall be expected to earn superior equity type returns over extended periods. The advantages of alternative nonmarketable investments are that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund asset values through their characteristics of low correlation with listed equities and fixed income instruments. The disadvantages of this asset class are that they may be illiquid, require higher and more complex fees, and are frequently dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative nonmarketable investments shall be controlled with extensive due diligence and diversification. These investments are held through either limited partnership or as direct ownership interests. They include special equity, mezzanine venture capital, oil and gas, real estate and other investments that are privately held and which are not registered for sale on public exchanges. In partnership form, these investments require a commitment of capital for extended periods of time with no liquidity. They also generally require an extended period of time to achieve targeted investment levels.~~

~~E.~~ ~~Inflation Hedging Assets -- generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. They include direct real estate, REITs, oil and gas interests,~~

~~commodities, inflation linked bonds, timberland and other hard assets. These investments may be held through limited partnership, other commingled funds or as direct ownership interests.~~]

Asset Allocation Policy

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The long-term asset allocation policy for the LTF [~~Fund must~~] recognizes that the 5.5% real return objective requires a high allocation to the broadly defined conventional equity and [~~equities, including domestic, international stocks,~~] alternative equity investments and inflation hedging assets comprising the GEF. [~~of 68% to 90%. The allocation to deflation hedging Fixed Income should therefore not exceed 32% of the Fund.~~] (See Exhibit A and Attachment 1 to Exhibit B).

The Board delegates authority to UTIMCO to establish specific neutral asset allocations and ranges within the broad policy guidelines described above. [~~UTIMCO may establish specific asset allocation targets and ranges for large and small capitalization U. S. stocks, established and emerging market international stocks, marketable and non-marketable alternative equity investments, and other asset classes as well as the specific performance objectives for each asset class.~~] Specific asset allocation policies shall be decided by UTIMCO and reported to the U. T. Board.

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The investment performance of the LTF [~~Fund~~] will be measured by an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board [~~, and compared against the stated investment benchmarks of the Fund~~]. Such measurement will occur at least annually [~~, and evaluate the results of the total Fund, major classes of investment assets, and individual portfolios~~].

Investment Guidelines

The LTF [~~Fund~~] must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

General

- Investment guidelines for the U. T. System GEF shall be as stated in the GEF Investment Policy Statement (See Exhibit B) [~~index and other commingled funds managed externally shall be governed by the terms and conditions of the Investment Management Contract~~].

- All investments will be reported in U. S. dollars [~~denominated assets unless held by an internal or external portfolio manager with discretion to invest in foreign currency denominated securities~~].

- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by the chief investment officer prior to investment of LTF [~~Fund~~] assets in such liquid investment fund.

- No securities may be purchased or held which jeopardize the LTF [~~Fund~~]'s tax exempt status.

- No investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.

- No investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

[~~• The Fund may utilize Derivative Securities with the approval of the UTIMCO Board to a) simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a Derivative Security is priced more attractively than the underlying security; e) index or to hedge risks associated with Fund investments; or f) adjust the market exposure of the asset allocation, including long and short strategies; provided that; I) no leverage is employed in the implementation of such Derivative purchases or sales; ii) no more than 5% of Fund assets are required as an initial margin deposit for such contracts; iii) the Fund's investments in warrants shall not exceed more than 5% of the Fund's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges. Notwithstanding the above, leverage strategies are permissible within the alternative equities investment class with the approval f the UTIMCO Board, if the investment strategy is uncorrelated to the Fund as a whole, the manager has demonstrated skill in the strategy, and the strategy implements systematic risk control techniques, value at risk measures, and pre-defined risk parameters.~~

- ~~Such Derivative Securities shall be defined to be those instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.~~

  ~~UTIMCO shall attempt to minimize the risk of an imperfect correlation between the change in market value of the securities held by the Fund and the prices of Derivative Security investments by investing in only those contracts whose behavior is expected to resemble that of the Fund's underlying securities. UTIMCO also shall attempt to minimize the risk of an illiquid secondary market for a Derivative Security contract and the resulting inability to close a position prior to its maturity date by entering into such transactions on an exchange with an active and liquid secondary market. The net market value of exposure of Derivative Securities purchased or sold over the counter may not represent more than 15% of the net assets of the Fund.~~

  ~~In the event that there are no Derivative Securities traded on a particular market index such as MSCI EAFE, the Fund may utilize a composite of other Derivative Security contracts to simulate the performance of such index. UTIMCO shall attempt to reduce any tracking error from the low correlation of the selected Derivative Securities with its index by investing in contracts whose behavior is expected to resemble that of the underlying securities.~~

  ~~UTIMCO shall minimize the risk that a party will default on its payment obligation under a Derivative Security agreement by entering into agreements that mark to market no less frequently than monthly and where the counterparty is an investment grade credit. UTIMCO also shall attempt to mitigate the risk that the Fund will not be able to meet its obligation to the counterparty by investing the Fund in the specific asset for which it is obligated to pay a return or by holding adequate short-term investments.~~

  ~~The Fund may be invested in foreign currency forward and foreign currency futures contracts in order to maintain the same currency exposure as its respective index or to protect against anticipated adverse changes in exchange rates among foreign currencies and between foreign currencies and the U. S. dollar.~~]

<u>Cash and Cash Equivalents</u>

- Holdings of cash and cash equivalents may include internal short-term pooled investment funds managed by UTIMCO.

- Unaffiliated liquid investment funds as approved by the chief investment officer.

- The LTF's custodian late deposit interest bearing liquid investment fund.

[- ~~Commercial paper must be rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).~~

- ~~Negotiable certificates of deposit must be with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.~~

- ~~Banker's Acceptances must be guaranteed by an accepting bank with minimum certificate of deposit rating of 1 by Duff & Phelps.~~

- ~~Repurchase Agreements and Reverse Repurchase Agreements must be transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U. S. Treasury securities and rated A-1 or P-1 or the equivalent.~~

    - ~~Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.~~

    - ~~Eligible Collateral Securities for Repurchase Agreements are limited to U. S. Treasury securities and U. S. Government Agency securities with a maturity of not more than 10 years.~~

    - ~~The maturity for a Repurchase Agreement may be from one day to two weeks.~~

    - ~~The value of all collateral shall be maintained at 102% of the notional value of the Repurchase Agreement, valued daily.~~

    - ~~All collateral shall be delivered to the LTF custodian bank. Tri-party collateral arrangements are not permitted.~~

- ~~The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the Fund's fixed income assets.~~

- ~~Overnight Repurchase Agreements may not exceed 25% of the Fund's fixed income assets.~~

- ~~Mortgage Backed Securities (MBS) Dollar Rolls shall be executed as matched book transactions in the same manner as Reverse Repurchase Agreements above. As above, the rules for trading MBS Dollar Rolls shall follow the Public Securities Association standard industry terms.~~

~~Fixed Income~~

~~Domestic Fixed Income~~

~~Holdings of domestic fixed income securities shall be limited to those securities a) issued by or fully guaranteed by the U. S. Treasury, U. S. Government Sponsored Enterprises, or U. S. Government Agencies, and b) issued by corporations and municipalities. Within this overall limitation:~~

- ~~Permissible securities for investment include the components of the Lehman Brothers Aggregate Bond Index (LBAGG): investment grade government and corporate securities, agency mortgage pass through securities, and asset backed securities. These sectors are divided into more specific sub-indices 1) Government: Treasury and Agency; 2) Corporate: Industrial, Finance, Utility, and Yankee; 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA; and 4) Asset-backed securities. In addition to the permissible securities listed above, the following securities shall be permissible: a) floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities; b) medium term notes issued by investment grade corporations; c) zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and d) structured notes issued by LBAGG qualified entities.~~

- ~~U. S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB – by Standard & Poor's Corporation, or an equivalent rating by a nationally recognized rating agency at the time of acquisition.~~

- ~~Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer provided that such bonds, at the time of purchase, are rated, not less than Baa3 or BBB, or the equivalent, by any two nationally recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, or Fitch Investors Service.~~

~~Non-U.S. Fixed Income~~

- ~~Not more than 35% of the Fund's fixed income portfolio may be invested in non-U. S. dollar bonds. Not more than 15% of the Fund's fixed income portfolio may be invested in bonds denominated in any one currency.~~

- ~~Non-dollar bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U. S. Fixed Income Portfolio.~~

- ~~Not more than 7.5% of the Fund's fixed income portfolio may be invested in Emerging Market debt.~~

- ~~International currency exposure may be hedged or unhedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.~~

~~Equities~~

~~The Fund shall:~~

~~A.~~ ~~hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market.~~

~~B.~~ ~~hold no more than 5% of its equity securities in the securities of one corporation at cost unless authorized by the chief investment officer.~~

~~Alternative Investments and Inflation Hedging Assets~~

~~Investments in alternative assets and inflation hedging assets may be made through management contracts with unaffiliated organizations (including but not limited to limited partnerships, trusts, and joint ventures) so long as such organizations:~~

~~A.~~ ~~possess specialized investment skills~~

~~B.~~ ~~possess full investment discretion subject to the management agreement~~

~~C.~~ ~~are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken~~

~~D.~~ ~~align the interests of the investor group with the management as closely as possible~~

~~E.~~ ~~charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated.~~

~~Investments in alternative nonmarketable assets and inflation hedging assets also may be made directly by UTIMCO in co-investment transaction sponsored by and invested in by a management firm or partnership in which the Fund has invested prior to the co-investment or in transactions sponsored by investment firms well know to UTIMCO management, provide that such direct investment shall not exceed 25% of the market value of the alternative nonmarketable assets portfolio or the inflation hedging assets portfolio at the time of the direct investment.~~

~~Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested Fund assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and applied against UTIMCO management fees. Furthermore, UTIMCO Board approval of UTIMCO management's service as a director of an investee company shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's service as a director of an investee company.~~]

LTF [~~Fund~~] Distributions

The LTF [~~Fund~~] shall balance the needs and interests of present beneficiaries with those of the future. LTF [~~Fund~~] spending policy objectives shall be to:

A. provide a predictable, stable stream of distributions over time

B. ensure that the inflation adjusted value of distributions is maintained over the long-term

C. ensure that the inflation adjusted value of LTF [~~Fund~~] assets after distributions is maintained over the long-term.

The goal is for the LTF [~~Fund~~]'s average spending rate over time not to exceed the LTF [~~Fund~~]'s average annual investment return after inflation in order to preserve the purchasing power of LTF [~~Fund~~] distributions and underlying assets.

Pursuant to the Uniform Management of Institutional Funds Act, a governing board may distribute, for the uses and purposes for which the fund is established, the net realized appreciation in the fair market value of the assets of an endowment fund over the historic dollar value of the fund to the extent prudent under the standard provided by the Act. In addition, income may be distributed for the purposes associated with the endowments/foundations.

UTIMCO shall be responsible for establishing the LTF's [~~Fund's~~] distribution percentage and determining the equivalent per unit rate for any given year. Unless otherwise established by UTIMCO and approved by the Board or prohibited by the Act, fund distributions shall be based on the following criteria:

The annual unit distribution amount shall be adjusted annually based on the following formula:

A. Increase the prior year's per unit distribution amount (cents per unit) by the average inflation rate (C.P.I.) for the previous twelve quarters. This will be the per unit distribution amount for the next fiscal year. This amount may be rounded to the nearest $.0005 per unit.

B. If the inflationary increase in Step A. results in a distribution rate below 3.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value price per unit) the UTIMCO Board, at its sole discretion, may grant an increase in the distribution amount as long as such increase does not result in a distribution rate of more than 5.5%.

C. If the distribution rate exceeds 5.5%, (computed by taking the proposed distribution amount per unit divided by the previous twelve quarter average market value per unit) the UTIMCO Board at its sole discretion, may reduce the per unit distribution amount.

Notwithstanding any of the foregoing provisions, the Board of Regents may approve a per unit distribution amount that, in their judgment, would be more appropriate than the rate calculated by the policy provisions.

Distributions from the Fund to the unitholders shall be made quarterly as soon as practicable on or after the last business day of November, February, May, and August of each fiscal year.

LTF [~~Fund~~] Accounting

The fiscal year of the LTF [~~Fund~~] shall begin on September 1st and end on August 31st. Market value of the LTF [~~Fund~~] shall be maintained on an accrual basis in compliance with Financial Accounting Standards Board Statements, Government Accounting Standards Board Statements, or industry guidelines, whichever is applicable. Significant asset write-offs or write-downs shall be approved by the chief investment officer and reported to the UTIMCO Board. The LTF's financial statements shall be audited each year by an independent accounting firm selected by UTIMCO's Board of Directors.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all LTF [~~Fund~~] net assets and the net asset value per unit of the LTF [~~Fund~~]. Such valuation of LTF [~~Fund~~] assets shall be based on the bank trust custody agreement in effect at the date of valuation. Valuation of LTF assets shall be based on the books and records of the custodian for the valuation date. [~~Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets.~~]

The fair market value of the LTF [~~Fund~~]'s net assets shall include all related receivables and payables of the LTF [~~Fund~~] on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

Purchase of LTF [~~Fund~~] Units

Purchase of LTF [~~Fund~~] units may be made on any quarterly purchase date (September 1, December 1, March 1, and June 1 of each fiscal year or the first business day subsequent thereto) upon payment of cash to the LTF [~~Fund~~] or contribution of assets approved by the chief investment officer, at the net asset value per unit of the LTF [~~Fund~~] as of the most recent quarterly valuation date.

[~~In order to permit complete investment of funds and to avoid fractional units, any purchase amount will be assigned a whole number of units in the Fund based on the appropriate per unit value of the Fund. Any fractional amount of purchase funds which exceeds the market value of the units assigned will be transferred to the Fund but no units shall be issued.~~] Each fund whose monies are invested in the LTF [~~Fund~~] shall own an undivided interest in the LTF [~~Fund~~] in the proportion that the number of units invested therein bears to the total number of all units comprising the LTF [~~Fund~~].

Redemption of Fund Units

Redemption of Units shall be paid in cash as soon as practicable after the quarterly valuation date of the LTF [~~Fund~~]. If the withdrawal is greater than $10 million, advance notice of 30 business days shall be required prior to the quarterly valuation date. If the withdrawal is for less than $10 million, advance notice of five business days shall be required prior to the quarterly valuation date. If the aggregate amount of redemptions requested on any redemption date is equal to or greater than 10% of the LTF [~~Fund~~]'s net asset value, the Board may redeem the requested units in installments and on a pro rata basis over a reasonable period of time that takes into consideration the best interests of all LTF [~~Fund~~] unitholders. Withdrawals from the Fund shall be at the market value price per unit determined for the period of the withdrawal except as follows: withdrawals to correct administrative errors shall be calculated at the per unit value at the time the error occurred. To be considered an administrative error, the contribution shall have been invested in the Fund for a period less than or equal to one year determined from the date of the contribution to the Fund. [~~This provision does not apply to~~] T[t]ransfer of units between endowment unitholders shall not be considered redemption of units subject to this provision.

[~~Securities Lending~~

~~The Fund may participate in a securities lending contract with a bank or nonbank security lending agent for either short-term or long-term purposes of realizing additional income. Loans of securities by the Fund shall be collateralized by cash, letters of credit, or securities issued or guaranteed by the U. S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions.~~

~~The contract may include other provisions as appropriate. The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the agent shall be reviewed by UTIMCO to insure compliance with contract provisions.~~]

Investor Responsibility

[~~As a shareholder, the Fund has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the Fund. Notwithstanding the above,~~] T[t]he UTIMCO Board shall discharge its fiduciary duties with respect to the LTF [~~Fund~~] solely in the interest of LTF [~~Fund~~] unitholders and shall not invest the LTF [~~Fund~~] so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this policy shall be March 1, 2001 [~~November 11, 1999~~].

EXHIBIT A (Replaces former Exhibit A)

LTF ASSET ALLOCATION

EXPECTED RETURN AND RISK, NEUTRAL ALLOCATIONS, RANGES AND PERFORMANCE OBJECTIVES

	Expected Return	Expected Risk	Neutral Allocation	Range	Benchmark Return
GEF Commingled Fund	9.35%	10.44%	**100.0%**	95%-100%	Endowment Policy Portfolio
Cash	3.75%	3.50%	**0.0%**	0%-5%	91 day T-Bills Ave. Yield

Expected Nominal Return	**9.35%**
Expected Risk	**10.44%**
Return/Risk Ratio	**0.90**

Risk is defined in annualized standard deviation terms.

The endowment policy portfolio is the sum of the neutrally weighted benchmark returns for the GEF.

Exhibit B – Shall be The University of Texas System General Endowment Fund Investment Policy Statement.

3. U. T. Board of Regents: Request for Approval of First Amendment to the Amended and Restated Investment Management Services Agreement with The University of Texas Investment Management Company (UTIMCO)

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. Board of Regents approve the First Amendment to the Amended and Restated Investment Management Services Agreement effective March 1, 2001, as set forth on Pages 108 - 110, which amends the Agreement originally dated March 1, 1996, and last amended and restated on November 16, 2000.

BACKGROUND INFORMATION

The proposed First Amendment to the Amended and Restated Investment Management Services Agreement was reviewed by UTIMCO's counsel, Vinson & Elkins, and approved by the UTIMCO Board of Directors on December 7, 2000. The proposed First Amendment has been reviewed and approved by the U. T. System Office of General Counsel.

This amendment will authorize UTIMCO to manage the General Endowment Fund. See Item 2 on Page 39 relating to the establishment of the General Endowment Fund.

FIRST AMENDMENT
TO THE
AMENDED AND RESTATED
INVESTMENT MANAGEMENT SERVICES AGREEMENT

This First Amendment to the Amended and Restated Investment Management Services Agreement (this "Amendment") by and between the Board of Regents (the "U. T. Board") of The University of Texas System (the "U. T. System") and The University of Texas Investment Management Company ("UTIMCO"), a Texas non-profit corporation, is effective March 1, 2001 (the "Effective Date").

<u>RECITALS</u>

WHEREAS, the U. T. Board and UTIMCO entered into a certain Investment Management Services Agreement effective March 1, 1996, as last amended and restated on November 16, 2000 (the "Agreement"), to authorize UTIMCO to invest certain designated funds under the control and management of the U. T. Board; and

WHEREAS, the U. T. Board and UTIMCO desire to enter into this Amendment to the Agreement in order to provide authorization for the management of the General Endowment Fund, and

WHEREAS, all conditions precedent to the execution and delivery of this Amendment have been fully satisfied and fulfilled, including, without limitation, the condition established by Section 16 of the Agreement;

NOW THEREFORE, in consideration of the premises and the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Revision to Definitions.

Section 1 of the Agreement shall be amended to incorporate a definition for the "General Endowment Fund", and to revise definitions of "Investment Policies" and "U. T. Board Accounts" as follows:

<u>General Endowment Fund</u> or ***<u>GEF</u>*** shall mean the pooled fund for the collective investment of long-term funds under the control and management of the U. T. Board. The PUF, PHF, LTF or other long-term funds may invest in the GEF as authorized by the U. T. Board in each fund's investment policy statement.

Investment Policies shall mean the written investment policies relating to the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Separately Invested Funds, Short Intermediate Term Fund and the Short Term Fund, which may be amended from time to time by UTIMCO with the consent and approval of the U. T. Board.

U. T. Board Accounts shall mean the investment assets of the General Endowment Fund and U. T. System Funds.

Section 2. Notices.

Section 17 of the Agreement shall be amended for UTIMCO's address as follows:

To UTIMCO:

The University of Texas Investment Management Company
Attn: President and CEO
221 West Sixth St., Suite 1700
Austin, Texas 78701
Tel. (512) 225-1600
Fax (512) 225-1660

Section 3. Agreement in Effect.

Except as specifically amended herein, all provisions and sections of the Agreement are valid and in full effect.

Approved as to form:

____
Mr. Leo L. Barnes
U. T. System Office of General Counsel

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

Date:____________

By____________________________
Tom Loeffler
Chairman

ATTEST:

____
Francie A. Frederick
Counsel and Secretary to the
Board of Regents

THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY,
a Texas nonprofit corporation

Date:_____________

By:______________________________
Thomas G. Ricks
President and CEO

H. RECESS FOR MEETINGS OF THE STANDING COMMITTEES AND COMMITTEE REPORTS TO THE BOARD

The Standing Committees of the Board of Regents of The University of Texas System will meet as set forth below to consider recommendations on those matters on the agenda for each Committee listed in the Material Supporting the Agenda. At the conclusion of each Standing Committee meeting, the report of that Committee will be formally presented to the Board for consideration and action.

Executive Committee: Chairman Loeffler
Vice-Chairman Clements
MSA Page 112

Business Affairs and Audit Committee: Chairman Riter
Regent Hunt, Regent Oxford
MSA Page 113

Academic Affairs Committee: Chairman Miller
Regent Hunt, Regent Oxford, Regent Romero
MSA Page 127

Health Affairs Committee: Chairman Loeffler
Regent Clements, Regent Oxford, Regent Sanchez
MSA Page 135

Facilities Planning and Construction Committee:
Chairman Clements, Regent Riter, Regent Romero, Regent Sanchez
MSA Page 150

Executive Committee

EXECUTIVE COMMITTEE
Committee Chairman Loeffler

Date: February 15, 2001

Time: Following the Reconvening of the Board of Regents at approximately 8:30 a.m.

Place: Board Room, 9th Floor, Ashbel Smith Hall

There are no items to be considered by the Executive Committee for this meeting.

Business Affairs & Audit Committee

BUSINESS AFFAIRS AND AUDIT COMMITTEE
Committee Chairman Riter

Date: February 15, 2001

Time: Following the Meeting of the Executive Committee

Place: Board Room, 9th Floor, Ashbel Smith Hall

INFORMATIONAL REPORTS

1. U. T. System: Recommendation to Approve Chancellor's Docket No. 104

RECOMMENDATION

It is recommended that Chancellor's Docket No. 104 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 Amendments to the Regents' Rules and Regulations, Part One, Chapter VI, Section 6, Subsection 6.6 (Solicitation), Subdivision 6.61

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Academic Affairs, and the Vice Chancellor and General Counsel that the Regents' Rules and Regulations, Part One, Chapter VI, Section 6, Subsection 6.6, Subdivision 6.61, relating to solicitation, be amended as set forth below in congressional style:

6.61 . . .

(k) Under the terms of an approved written agreement, the [~~The~~] acknowledgement of a sponsor of an intercollegiate athletics department or athletic event of a component institution may be displayed on the official Web page of such athletics department and, at the option of the sponsor, a textual hypertext link and/or a graphic hypertext link to the Web page of the sponsor may also be displayed. Such agreement may also provide for an acknowledgement of the sponsor to be [~~athletic event or an~~

~~advertisement~~] announced over a public address system, displayed on a scoreboard or electronic message center or displayed by other means at locations designated for that purpose in athletic facilities [~~at locations designated for that purpose~~] pursuant to an approved policy of the component institution. The content of such acknowledgement and any use of the name, logos, symbols, or marks of a component institution by the sponsor must be according to established formats approved by the Trademark Licensing Director or, if nonstandard, have the prior written approval of the Trademark Licensing Director.

. . .

(w) The placement on a Component Institution Web Page (as defined below) of textual and graphic information and a hypertext link to the Web site of a person or commercial entity for which U. T. System or a component institution may receive revenue or avoid costs as a result of the permitted solicitation ("Web Site Solicitation"). Web Site Solicitations shall be placed on Component Institution Web Pages in accordance with guidelines promulgated by the Executive Vice Chancellor for Business Affairs. A Component Institution Web Page is a page created or maintained by or on behalf of a component institution or a budgeted office, department, or division of a component institution, and located on a component institution's server.

BACKGROUND INFORMATION

The proposed amendments to the Regents' Rules and Regulations, Part One, Chapter VI, Section 6, Subsection 6.6, Subdivision 6.61, Item (k) add to authorized benefits for an intercollegiate athletics sponsor the ability to display a textual hypertext link and/or a graphic hypertext link to the sponsor on the official Web page of the component athletics department. Institutional control is preserved and the U. T. System Trademark Policy, adopted by the Board of Regents on August 14, 1997, is followed.

1. U. T. System: Recommendation to Approve Chancellor's Docket No. 104

RECOMMENDATION

It is recommended that Chancellor's Docket No. 104 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 Amendments to the Regents' Rules and Regulations, Part One, Chapter VI, Section 6, Subsection 6.6 (Solicitation), Subdivision 6.61

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6.61 . . .

(k) Under the terms of an approved written agreement, the [~~The~~] acknowledgement of a sponsor of an intercollegiate athletics department or athletic event of a component institution may be displayed on the official Web page of such athletics department and, at the option of the sponsor, a textual hypertext link and/or a graphic hypertext link to the Web page of the sponsor may also be displayed. Such agreement may also provide for an acknowledgement of the sponsor to be [~~athletic event or an~~

~~advertisement~~] announced over a public address system, displayed on a scoreboard or electronic message center or displayed by other means at locations designated for that purpose in athletic facilities [~~at locations designated for that purpose~~] pursuant to an approved policy of the component institution. The content of such acknowledgement and any use of the name, logos, symbols, or marks of a component institution by the sponsor must be according to established formats approved by the Trademark Licensing Director or, if nonstandard, have the prior written approval of the Trademark Licensing Director.

. . .

(w) The placement on a Component Institution Web Page (as defined below) of textual and graphic information and a hypertext link to the Web site of a person or commercial entity for which U. T. System or a component institution may receive revenue or avoid costs as a result of the permitted solicitation ("Web Site Solicitation"). Web Site Solicitations shall be placed on Component Institution Web Pages in accordance with guidelines promulgated by the Executive Vice Chancellor for Business Affairs. A Component Institution Web Page is a page created or maintained by or on behalf of a component institution or a budgeted office, department, or division of a component institution, and located on a component institution's server.

BACKGROUND INFORMATION

The proposed amendments to the Regents' Rules and Regulations, Part One, Chapter VI, Section 6, Subsection 6.6, Subdivision 6.61, Item (k) add to authorized benefits for an intercollegiate athletics sponsor the ability to display a textual hypertext link and/or a graphic hypertext link to the sponsor on the official Web page of the component athletics department. Institutional control is preserved and the U. T. System Trademark Policy, adopted by the Board of Regents on August 14, 1997, is followed.

The proposed addition of a new Item (w) under Subdivision 6.61 authorizes the placement of company logos and hypertext links to a company Web site on U. T. System and component institutions' Web pages, subject to restrictions to be set forth in a Business Procedure Memorandum to be developed under the direction of the Executive Vice Chancellor for Business Affairs. The restrictions will preserve institutional control over the acknowledgements and solicitations authorized by the Regents' Rules and Regulations, will prevent designation of the Web pages as a public forum, and will require that U. T. System institutions have component-specific guidelines and restrictions approved by the Office of General Counsel.

3. U. T. Board of Regents: Proposed Adoption of a Resolution Authorizing the Issuance of Board of Regents of The University of Texas System Permanent University Fund Refunding Bonds, Series 2002A, in an Aggregate Principal Amount Not to Exceed $115,000,000 and Authorization for Officers of U. T. System to Enter into a Forward Delivery Contract with Lehman Brothers, Inc., New York, New York, and 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 a Resolution, substantially in the form before the Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Permanent University Fund Refunding Bonds, Series 2002A, in an aggregate principal amount not to exceed $115,000,000 to be used to refund a portion of the outstanding Permanent University Fund Refunding Bonds, Series 1992A and to pay the costs of issuance

b. Authorize appropriate officers and employees of the U. T. System as set forth in the Resolution to enter into a Forward Delivery Contract with Lehman Brothers, Inc., New York, New York, substantially in the form before the Board of Regents, and 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; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such bonds.

BACKGROUND INFORMATION

The U. T. System has outstanding $108,515,000 of callable Permanent University Fund Refunding Bonds, Series 1992A, with interest rates ranging from 6.00% to 6.25% maturing July 1, 2003 through July 1, 2010. The interest rates on the Series 1992A Bonds are significantly above current market interest rates.

The Series 1992A Bonds were structured with an optional redemption and can be called on July 1, 2002, at par. The Internal Revenue Code prohibits advance refunding (refunding prior to the bonds' call date) of the Series 1992A Bonds because these bonds were issued to advance refund the Permanent University Fund Refunding Bonds, Series 1985. The Internal Revenue Code does permit a current refunding (issuing refunding bonds within 90 days of the call date) of the Series 1992A Bonds.

With the historically low interest rate environment and the projected level of interest cost savings, locking in today's rates is more desirable than waiting until 2002 and bearing the risk that interest rates may be higher. While it is understood that rates could decline further by 2002, the U. T. System Office of Finance projects that there is a greater possibility that rates could be higher by 2002, based on the current historically low interest rate environment.

The ability to lock into a rate now can be achieved through a forward delivery contract wherein bonds are sold to investors in the primary market, but the delivery of the bonds is delayed beyond the traditional two-week period. Similar to U. T. System's traditional bond offerings, the Resolution authorizes certain U. T. System officials to sign a purchase contract with Lehman Brothers, but instead of closing in two weeks, the issue is not anticipated to close until April 2002. The contract will establish interest rates on the Series 2002A Bonds based on current market rates.

Prior to the anticipated delivery date of April 2, 2002, the Office of Finance will solicit bids for securities to be placed into an escrow account until July 1, 2002. Proceeds from the Series 2002A Bonds will be used to purchase the escrow securities. Proceeds from the escrowed securities will be used to redeem the outstanding Series 1992A Bonds.

Permanent University Fund (PUF) bonds issued prior to January 1, 2000, qualify for an arbitrage exemption equal to 20% of the book value of the PUF under the terms of a statutory exemption to the Internal Revenue Code enacted by Congress in 1984. As a result of the amendment to the Texas Constitution passed in November 1999 providing for distributions to the Available University Fund from the total return of the PUF, PUF bonds issued subsequent to January 1, 2000, no longer qualify for the arbitrage exemption. U. T. System staff is currently working to have this arbitrage exemption restored by Congress retroactive to January 1, 2000. The proposed forward delivery contract is conditioned upon restoration of the arbitrage exemption.

4. U. T. System: Request to Approve an Amendment to the Aggregate Amount of Equipment Financing for Fiscal Year 2001 and Approve the 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 approve an amendment to the aggregate amount of equipment to be purchased in Fiscal Year 2001 under the Revenue Financing System Equipment Financing Program from $15,530,000 to $21,430,000, an increase of $5,900,000 to be allocated to the following U. T. System institutions:

a. U. T. El Paso $3,300,000

b. U. T. Health Science Center - San Antonio $2,600,000

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 122, the U. T. Board of Regents resolves that:

a. Parity Debt shall be issued to pay the equipment's 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 Board relating to the Financing System

c. The component institutions, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligations 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 $5,900,000 for the purchase of equipment

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

BACKGROUND INFORMATION

At the August 2000 meeting, the U. T. Board of Regents approved the use of debt under the Revenue Financing System Equipment Financing Program in the aggregate amount of $15,530,000 for equipment purchases in Fiscal Year 2001 at U. T. Arlington, U. T. Austin, U. T. El Paso, U. T. Southwestern Medical Center - Dallas, U. T. M. D. Anderson Cancer Center, and U. T. System Administration.

Approval of this item would increase the aggregate amount approved for equipment financing by $5,900,000 to $21,430,000. Of the increase, $3,300,000 would be allocated to U. T. El Paso to finance equipment related to the Sun Bowl and Don Haskins Center, in addition to the $1,035,000 previously allocated in August 2000. The remaining $2,600,000 would be allocated to U. T. Health Science Center - San Antonio to finance medical and computer equipment. With the issuance of all approved equipment financing debt, the debt service coverage for the U. T. System is projected to range from 2.5 times to 3.1 times for the next six years. Further details on the equipment, source of funds for financing, and debt coverage ratios for each component can be found in the table on Page 123.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned Director of 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 equipment cost at U. T. El Paso and U. T. Health Science Center – San Antonio, 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 and the Ninth Supplemental Resolution as amended.

EXECUTED this 11th day of January, 2001

/s/ Terry Hull
Director of Finance

APPROVAL OF FINANCING FOR EQUIPMENT PROJECTS FOR FY 2001

($ in millions)

Component Institution:	Requested Equip. Financing	Annual Debt Service Equip.	Debt Service Coverage (times) FY 2000-FY 2005 Min to Max		Debt Service as a % of Budget FY 2000-FY 2005 Min to Max		Use of Funds:	Source of Repayment:
U. T. El Paso	3.300	0.636	1.3x	1.7x	5.70%	7.10%	Two Jumbotrons, one for the Sun Bowl and one for the Don Haskins Center; turf replacement for the Sun Bowl.	Auxiliary Enterprise Revenues: Advertising from Jumbotrons and annual payments from the Sun Bowl Association.
U. T. Health Science Center - San Antonio	2.600	0.501	1.4x	1.8x	1.50%	2.90%	Computer Equipment for Administration Building, Diagnostic Pavilion, and Medical Diagnostic Pavilion-Cardiology.	Current Unrestricted Funds: Indirect Cost Recoveries and Practice Plan Fund Balances.

At the April 1994 meeting, the U.T. Board of Regents approved the use of Revenue Financing System debt for equipment purchases in accordance with the Guidelines Governing Administration of the Revenue Financing System. The Guidelines specify that the equipment to be financed must have a useful life of at least three years with the debt amortization to match the useful life. The maximum amortization period is ten years.

Of the $15,530,000 Equipment Financing approved by the Board in August 2000, $1,635,000 has been issued to date.

5. U. T. System: Recommended Approval of Appointment of Carrier for the Long Term Care Plan to be Effective September 1, 2001

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. Board of Regents approve the appointment of CNA Insurance Companies, Chicago, Illinois, as the carrier for the Long Term Care Plan to be offered to employees and retirees of the U. T. System effective September 1, 2001.

BACKGROUND INFORMATION

The U. T. System Employee Group Insurance Office developed a Request for Proposals (RFP) for a Long Term Care Plan, and on November 17, 2000, the RFP was distributed to all qualified interested organizations. The six proposals received were from the following organizations:

Aetna Life Insurance Company, Hartford, Connecticut
CNA Insurance Companies, Chicago, Illinois
John Hancock Life Insurance Company,
  Boston, Massachusetts
Metropolitan Life Insurance Company, Chicago, Illinois
Prudential Insurance Company of America,
  Newark, New Jersey
UNUM Life Insurance Company of America,
  Portland, Maine

After extensive review of the responses, the Director of the Employee Group Insurance Office recommended to the Executive Vice Chancellor for Business Affairs that the U. T. System contract be awarded to CNA Insurance Companies, Chicago, Illinois, for the Long Term Care Plan, on the basis of its customer service and the ability to customize services to meet the needs of the U. T. System.

6. U. T. Health Science Center - Houston: Request for Approval to Sell Property Located at 11030 South Country Squire, Houston, Harris County, Texas, and Authorization to Execute All Documents Related Thereto

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and President Willerson that authorization be given for the U. T. System Real Estate Office, on behalf of U. T. Health Science Center - Houston, to sell the single family residential property located at 11030 South Country Squire in Houston, Harris County, Texas. The property will be marketed through a competitive offer process and sold with all remaining minerals for the best offer at or above its appraised value. The net proceeds from the sale will be used to further the core mission of U. T. Health Science Center - Houston and its research programs in a manner consistent with applicable IRS regulations.

It is further recommended that the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate be authorized 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 recommendation.

BACKGROUND INFORMATION

The subject property was used as the residence for the president of the U. T. Health Science Center - Houston since its purchase in 1979 for $415,000 with general Tuition Revenue Bond Proceeds. Improvements totaling $43,364 were made in 1990 with local institutional funds. The most recent independent MAI fair market value appraisal, dated December 7, 2000, indicates that the market value of the house is $900,000.

INFORMATIONAL REPORTS

1. U. T. System: Discussion of the December 2000 Monthly Financial Report

REPORT

Mr. Kerry L. Kennedy, Executive Vice Chancellor for Business Affairs, will discuss the December 2000 Monthly Financial Report for the U. T. System.

2. U. T. System: Annual Presentation of the Reporting Package for the Board of Regents

REPORT

Mr. Kerry L. Kennedy, Executive Vice Chancellor for Business Affairs, will report to the U. T. Board of Regents on the information contained in the updated U. T. System "Reporting Package for the Board of Regents." Information provided in the report includes financial, investment, and research data for the U. T. System institutions covering a five-year period ending August 31, 2000. The report also includes faculty, employee, and student demographics extending from the Fall 1996 through the Fall 2000 Semester. A copy of the "Reporting Package for the Board of Regents" is on file in the Office of the Board of Regents and will also be available on the World Wide Web.

Academic Affairs Committee

ACADEMIC AFFAIRS COMMITTEE
Committee Chairman Miller

Date: February 15, 2001

Time: Following the Meeting of the Business Affairs and Audit Committee

Place: Board Room, 9th Floor, Ashbel Smith Hall

INFORMATIONAL REPORT

1. U. T. Arlington - University Village West Apartments: Request for Approval to Amend the FY 2000-2005 Capital Improvement Program and the FY 2000-2001 Capital Budget to Include Project

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Academic Affairs, and President Witt that the U. T. Board of Regents amend the FY 2000-2005 Capital Improvement Program and the FY 2000-2001 Capital Budget to include the University Village West Apartments at U. T. Arlington at a preliminary project cost of $8,804,000 with funding from Revenue Financing System Bond Proceeds.

BACKGROUND INFORMATION

The University Village West Apartments project at U. T. Arlington includes construction of an apartment complex consisting of 115,440 gross square feet, capable of housing 250 students.

There is a strong demand for additional University-owned and operated apartment units on the campus. At the beginning of the Fall Semester 2000, there was a waiting list of over 1,000 students for the existing apartments that have averaged between 98 and 100% occupancy over the last two years. The project includes five, three-story buildings having 24 units each for a total of 120 units. These 120 units will include 168 bedrooms and a mix of 60% one-bedroom units and 40% two-bedroom units. The project will also include a commons building, swimming pool, and related site improvements.

2. U. T. El Paso: Request for Authorization to Establish a Bachelor of Science in Environmental Science; Approval to Submit the Proposal to the Coordinating Board for Approval (Catalog Change); and Authorization of Certification that Coordinating Board Criteria for Approval Are Met

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 establish a Bachelor of Science in Environmental Science; to submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action; and to authorize the Executive Vice Chancellor for Academic Affairs to certify on behalf of the U. T. Board of Regents that relevant Coordinating Board criteria for approval by the Commissioner of Higher Education have been met.

The proposed bachelor's degree program is consistent with the Table of Programs for U. T. El Paso and institutional plans for offering quality interdisciplinary degree programs to meet student needs. A description of the degree program is included in the Background Information of this agenda item.

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

BACKGROUND INFORMATION

Program Description

The proposed Bachelor of Science in Environmental Science is an interdisciplinary program that combines elements of previously approved programs in biological sciences, chemistry, and geological sciences. It will be administered by the College of Science at U. T. El Paso. The number of semester credit hours required for the degree varies between 127 and 133, depending upon a selected concentration in one of four areas: Environmental Biology, Environmental Chemistry, Environmental Geoscience, and Environmental Hydroscience. Only 19 semester credit hours of new course work will be added to the course inventory.

The primary objective of the program is to provide undergraduate preparation for students who wish to contribute to understanding and solving problems associated with interactions between human beings and their environment. It is an interdisciplinary program designed to provide a rigorous foundation in the sciences that will prepare students for careers in the environmental workforce and for entry into graduate school in biology, chemistry, geoscience, and atmospheric science, as well as environmental science. Many of these students will be underrepresented minorities. The program fits naturally into the University's mission to provide educational opportunities that take advantage of its binational setting and to develop research and other activities that apply U. T. El Paso's expertise and resources to the search for solutions to regional, national, and international problems. The anticipated date for enrolling the first students in the program is September 2001.

Need and Student Demand

Graduates of the proposed program are expected to meet the critical need to address environmental issues and problems in the United States-Mexico border region; the regional, national, and international workforce need for well trained scientists in the environmental field; and the need to increase the representation of underrepresented minority groups in the technical workforce both at the State and national levels. It is anticipated that about 25 students would enter the program during the first year, with enrollment increasing to about 115 students at the end of five years. These projections are based on a survey of all entering students in science and engineering at U. T. El Paso conducted in the summer of 1999 and on student inquiries regarding the program since 1999.

Program Quality

Currently, approximately 50 faculty in the College of Science are available to the program. Three new positions have been created in anticipation of the new degree program since 1998. The program director, a tenured faculty member from one of the departments within the College of Science, will oversee curriculum development with the assistance of faculty and external advisory committees. The director will be responsible for student advisement and supervision. A staff coordinator will be hired to assist with student advising and with the training of peer mentors. Students in the program will also have access to the Academic Center for Engineers and Scientists, a support center that provides tutoring, study resources, and other key services for the academic success of a largely commuter student population. Students in the program will be required to complete an internship because survey data has shown that students who had internship experience while undergraduates are more likely to obtain employment in the environmental field upon graduation and have shortened job searches.

Program Cost

The projected required cost for the first five years of the program is $870,000 and includes faculty salaries, program administration, graduate teaching assistants, salary for a program coordinator, supplies, materials, and equipment. The projected funding for the first five years of the program totals $1,663,470 and includes $1,010,936 in formula income and $652,534 in federal funding through a National Science Foundation Model Institutions of Excellence grant.

Coordinating Board Criteria

The proposed program meets all applicable Coordinating Board criteria for degree programs that may be approved by the Commissioner of Higher Education on behalf of the Coordinating Board.

Summary

U. T. El Paso is requesting authorization to establish a Bachelor of Science in Environmental Science. The interdisciplinary program will prepare students for careers in the environmental workforce as well as entry into graduate school. The program is expected to increase the number of Hispanic scientists prepared to address some of the severe environmental problems and challenges faced both on the Texas-Mexico border and in the nation. These graduates will be especially well prepared due to U. T. El Paso's binational, bicultural setting. The projected required cost for the program in the first five years is $870,000, with projected sources of funding for the first five years totaling $1,663,470.

A copy of the proposal to establish a Bachelor of Science in Environmental Science at U. T. El Paso is on file in the U. T. System Office of Academic Affairs.

3. U. T. Permian Basin - Center for Energy and Economic Diversification Roof Replacement: Request for Approval to Appropriate Funds and Authorize Expenditure

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Academic Affairs, and President Sorber that the U. T. Board of Regents appropriate funds and authorize expenditure for the Center for Energy and Economic Diversification Roof Replacement project at U. T. Permian Basin at a total project cost of $300,000, with funding of $200,000 from Permanent University Fund Bond Proceeds and $100,000 from General Revenues.

BACKGROUND INFORMATION

After inspections of the Center for Energy and Economic Diversification building at U. T. Permian Basin by U. T. System engineers, installation of a new roof was recommended. The roof deterioration is beginning to cause damage to the interior of the building. The proposed project, to be partially funded by Permanent University Fund Bond Proceeds, was discussed at the Academic Affairs Committee meeting on January 8, 2001, and a decision was deferred pending further analysis and review of the Permanent University Fund debt capacity.

The proposed funding sources for this project are $200,000 from Permanent University Fund Bond Proceeds and $100,000 from the Center for Energy and Economic Diversification operating budget from General Revenue for a total project cost of $300,000. Since the cost of this project falls below the renovation and repair limit of $2,000,000 to amend the Capital Improvement Program, approval by the U. T. Board of Regents is not requested to include the project in the Capital Improvement Program.

4. U. T. San Antonio and U. T. Health Science Center - San Antonio: Request for Authorization to Plan for Selected New Graduate Degree Programs to be Jointly Offered by the Two Institutions and for Authorization to Seek Coordinating Board Approval of Necessary Amendments to the Role and Scope Tables of Programs

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Health Affairs, President Romo, and President Cigarroa that authorization be granted to plan for jointly offering the selected new graduate degree programs listed below:

1. M.S./Ph.D. in Bioengineering

2. M.S./Ph.D. in Music Psychology with an Emphasis in Imaging

3. M.S./Ph.D. in Biology with an Emphasis in Molecular and Cellular Biology

4. M.S./Ph.D. in Neurosciences with an Emphasis in Imaging

5. M.S./Ph.D. in Computational Biology (Bioinformatics)

6. M.S./Ph.D. in Communication Disorders

7. M.S./Ph.D. in Social Work

8. M.S./Ph.D. in Linguistics

9. M.S. in Physics

10. M.S. in Teacher Education

It is further recommended that the U. T. Board of Regents' Role and Scope Tables of Programs be amended accordingly, and that authorization be granted to the Chancellor or the Executive Vice Chancellors for Academic and Health Affairs to seek the necessary amendments to the Texas Higher Education Coordinating Board's Role and Scope Tables of Programs. Upon completion of planning for a specific program, the two institutions will present a proposal in the normal format for review and approval by the U. T. Board of Regents.

This item requires the concurrence of the Health Affairs Committee.

BACKGROUND INFORMATION

In January 2000, U. T. San Antonio and U. T. Health Science Center - San Antonio began to examine opportunities for joint and collaborative degree programs, joint and collaborative research ventures, and other ways in which the two institutions could work together with mutual benefit to each institution and to the region they serve. A steering committee of representatives from each institution began meeting in April. Five working groups were created and have been meeting since May. The steering committee and working groups have identified 10 areas in which they would like to pursue development of academic degrees and related research programs. While there may be other academic degrees and related research programs identified for further evaluation and development, there is a desire on the part of both institutions to develop and implement, within the next four years, the proposed degree programs.

Using a variation of a national taxonomy, all degree programs in Texas public universities are classified by discipline and levels. Both the Texas Higher Education Coordinating Board and the U. T. System use the same taxonomy. The Coordinating Board makes the final decision with regard to classification of individual programs.

Degree program planning authority is normally granted by approving a Role and Scope Table of Programs based upon this classification structure. The U. T. System Board of Regents has typically granted planning authority to an institution for all degree programs within a broad discipline category and level. The Coordinating Board has more often limited planning authority to a smaller subset of specialties within a discipline category. Upon approval of this agenda item, the U. T. System Administration staff will work with the Coordinating Board staff to reach agreement on the classification of each of the recommended programs. Then, the staff will make appropriate changes by broad discipline category to the U. T. System Role and Scope Tables of Programs for U. T. San Antonio and U. T. Health Science Center - San Antonio and, on behalf of the Board of Regents, request that the Coordinating Board approve similar changes.

5. U. T. System: Plan and Initial Report for Accountability Project and Recommendation to Adopt Plan

REPORT

Committee Chairman Charles Miller and the Office of Academic Affairs staff will present the plan for the U. T. System Accountability Project, give an initial report on project activities, and recommend adoption of the plan.

INFORMATIONAL REPORT

U. T. System: Presentation on K-16 Data Collection and Research Activities

REPORT

Dr. Mike Kerker, Director of Research and Policy Analysis in the Office of Academic Affairs, will report on the U. T. System K-16 data collection and research activities.

Health Affairs Committee

HEALTH AFFAIRS COMMITTEE
Committee Chairman Loeffler

Date: February 15, 2001

Time: Following the Meeting of the Academic Affairs Committee

Place: Board Room, 9th Floor, Ashbel Smith Hall

1. U. T. System: Request for Approval to Amend the Regental Policy on Academic Program Approval Standards to Include the Health Institutions

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and the Executive Vice Chancellor for Academic Affairs that the U. T. Board of Regents amend the U. T. System Regental Policy entitled "Academic Program Approval Standards" approved by the U. T. Board of Regents in August 1999, as set forth below in congressional style, to include approval of academic programs at the U. T. System health institutions as well as at the general academic institutions:

ACADEMIC PROGRAM APPROVAL STANDARDS

The standards used for review and approval of academic program proposals are derived from three overarching principles that guide decisions about program goals, design, and implementation at the U. T. System [~~general academic~~] institutions. These principles are:

1. *New university degree and certificate programs should be consistent with the higher education goals and mission of the State of Texas, The University of Texas System, and the offering institution.* This principle has implications not only for which programs should be offered by U. T. institutions, but also for how they are designed and delivered so as to be responsive to the needs of students, parents, the business, and public sectors.

2. *U. T. degree and certificate programs should be of excellent quality.* Program design, resources, and implementation plan, judged critically in view of the stated goals for a particular program, should compare favorably with state, national, and international standards and competing programs. In general, they should exceed minimum standards of the Texas Higher Education Coordinating Board or appropriate accrediting bodies.

3. *Academic programs at U. T. <u>institutions</u> [~~universities~~] should represent good investments and efficient use of public and private resources.* Program choice, design, and implementation plans should reflect wise use of institutional and <u>interinstitutional</u> [~~inter-institutional~~] or shared resources.

Applying these principles of excellence to review of proposed new academic degree or certificate programs, the Academic <u>or Health</u> Affairs Committee approves proposals that provide good evidence of meeting the following standards:

A. Standards Relating to Goals, Need, Fit

1. Program goals and educational objectives are clear.

2. Connections between proposed program goals and State and U. T. System goals and mission are strong and convincing.

3. Program goals advance institutional mission and strategic plan. Program is on the approved Table of Programs.

4. Program would meet a well-documented unmet need related to present or future manpower or social needs or regional priorities.

5. Program complements and builds upon existing university programs, strengths, and resources.

B. Standards for Quality of Implementation

1. Design of the degree or certificate program reflects understanding of state-of-the-art in the discipline.

2. Resources, including faculty, facilities, special equipment, field placement sites for internships, library and information access, and others as necessary, are adequate to deliver program of excellent quality, meeting or exceeding Southern Association of Colleges and Schools (SACS) standards and those of other professional accrediting bodies where applicable.

3. Faculty responsible for program design and delivery have appropriate, relevant content expertise, scholarship records, and other professional experience and credentials.

4. New graduate programs are built upon demonstrated competence in related areas at the undergraduate or (where appropriate) master's level.

5. Program implementation and delivery plans are responsive to student needs and supportive of student retention and graduation, in light of program goals and resource availability.

6. The program proposal includes a plan for periodic program evaluation focusing on the program objectives, productivity, faculty and resources, changes in environment such as competition and delivery modes, student outcomes, retention, and graduation.

7. An efficient administration plan for the program is described, with clear accountability and appropriate roles for faculty committees and unit administrators.

8. Interdisciplinary, cross-departmental, or cross-college programs are supported by administrative reporting structures likely to preserve interdisciplinary cooperation.

C. Standards for Costs and Revenues

1. Proposal presents clear, logically consistent estimates of program costs and revenues.

2. Prospective student demand adequate for an efficient program is convincingly demonstrated, with specific attention to competing programs, other providers, and other delivery systems.

3. Proposal establishes growth potential to generate adequate resources to support program costs from state formula funding sources after the first three years and, where appropriate, from non-state sources.

4. Available <u>interinstitutional</u> [~~inter-institutional~~], shared resources are utilized where appropriate.

5. Overall program costs are justifiable in light of potential program benefits and impact.

D. Compliance Standard

Proposal complies in content and format with Coordinating Board rules and instructions for program authorization, so that approval is not likely to be delayed or complicated unnecessarily at that level.

E. Additional Standards for Doctoral Programs

1. There is a sufficient base of sponsored research programs in place to support student and faculty research.

2. Proposal presents convincing plans for recruitment of a critical mass of very talented students, carefully screened in accord with the goals of the program.

3. Proposed program addresses preparation for graduates' future roles of teaching, research or creative endeavor, and work in nonacademic professional settings as appropriate.

4. Appropriate student support is available and/or there is a convincing plan for development of future support.

5. Because of the high level of resource requirements for doctoral programs, particularly rigorous attention must be applied to almost all approval standards in this document.

This item requires the concurrence of the Academic Affairs Committee.

BACKGROUND INFORMATION

In its broad authority to administer the U. T. System, the U. T. Board of Regents is responsible for approval of all academic degree programs at the 15 component institutions. While final authorization of degree programs in Texas is vested in the Texas Higher Education Coordinating Board, the Coordinating Board requires and relies on, to a considerable extent, the prior review and approval by the governing board of any institution requesting program changes.

In August 1999, the U. T. Board of Regents approved Academic Program Approval Standards for the U. T. System general academic institutions. It is now recommended that these Standards be amended to include the U. T. System health institutions.

The U. T. Board of Regents has vested in the executive officer of each component the responsibility and authority for academic program leadership at that institution, within the overall policy and standards articulated by the Board. The Academic Affairs Committee and the Health Affairs Committee of the U. T. Board of Regents consider and report to the full Board on matters of academic planning and instruction at the nine general academic institutions and the six health institutions. This document describes the principles and standards that are used for program proposal review by the Academic Affairs Committee and the Health Affairs Committee and the staff of the Executive Vice Chancellor for Academic Affairs and the Executive Vice Chancellor for Health Affairs in support of the work of the Committees.

These amendments will update the Regental Policy entitled "Academic Program Approval Standards" approved by the Board in August 1999.

2. U. T. Medical Branch - Galveston - Texas Department of Criminal Justice Hospital Fire Sprinklers: Request for Approval to Amend the FY 2000-2005 Capital Improvement Program and the FY 2000-2001 Capital Budget to Include Project; Appropriate Funds and Authorize Expenditure; and Authorize Institutional Management of Project

RECOMMENDATION

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

a. Amend the FY 2000-2005 Capital Improvement Program and the FY 2000-2001 Capital Budget to include the Texas Department of Criminal Justice (TDCJ) Hospital Fire Sprinklers project at U. T. Medical Branch - Galveston at a total project cost of $6,300,000

b. Appropriate funds and authorize expenditure of $6,300,000 from Hospital Revenues

c. Authorize U. T. Medical Branch - Galveston to locally manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts associated with the TDCJ Hospital Fire Sprinklers project.

BACKGROUND INFORMATION

The TDCJ Hospital Fire Sprinklers project at U. T. Medical Branch - Galveston involves the renovation of 234,147 gross square feet of the facility to install an automatic sprinkler protection system. This project will bring the building, which is owned by the Medical Branch, into compliance with life safety code issues.

Prior to inspection in October 2000, the Joint Commission for the Accreditation of Healthcare Organizations (JCAHO) adopted the current edition of the Life Safety Code. This action required adding a sprinkler system for the TDCJ Hospital to be compliant. Therefore, this upgrade in applicable life safety code necessitated adding the project to the Capital Improvement Program (CIP) prior to the development and approval of the next CIP.

The proposed funding source for the project is hospital funds generated by providing TDCJ health-care services. At the request of the Health Affairs Committee, U. T. Medical Branch - Galveston leadership discussed the feasibility of additional funding with members of the Correctional Managed Care Committee, and determined that specific legislative authority would be required for TDCJ or the Committee to fund capital improvements to a facility owned by U. T. Medical Branch - Galveston. Officials of the U. T. Medical Branch - Galveston have committed to work with TDCJ, the Correctional Managed Care Committee, and the Texas Legislature to assure that future health-care service agreements with TDCJ have a capitation rate that will cover all indirect costs, including depreciation expenses in the TDCJ Hospital.

U. T. Medical Branch - Galveston has developed a staff of professional project managers trained to execute clinical renovation projects under the difficult conditions of construction in occupied space. Because of the nature of the work and the specialized ability of U. T. Medical Branch - Galveston personnel, it has been determined that U. T. Medical Branch - Galveston is best able to manage this project.

3. U. T. Health Science Center - Houston: Request for Authorization to Change the Name of the U. T. Allied Health Sciences School - Houston to the School of Health Information Sciences, to Submit the Proposed Name Change to the Coordinating Board for Approval (Catalog Change), and to Editorially Amend the Regents' Rules and Regulations, Part One, Chapter VIII, Section 4 (Institutions and Entities Composing the System)

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and President Willerson that authorization be granted to the U. T. Health Science Center - Houston to change the name of the U. T. Allied Health Sciences School - Houston to the School of Health Information Sciences and to submit the proposed name change to the Texas Higher Education Coordinating Board for review and appropriate action.

In addition, it is recommended that the Counsel and Secretary to the Board be authorized to editorially amend the Regents' Rules and Regulations, Part One, Chapter VIII, Section 4, to reflect this name change after approval by the Coordinating Board.

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

BACKGROUND INFORMATION

The U. T. Allied Health Sciences School - Houston has transformed from one with an array of certificate and baccalaureate allied health programs to a school focused on an increasingly significant element of contemporary research and health care. On October 25, 2000, the Texas Higher Education Coordinating Board approved the Ph.D. program in Health Informatics and in December the Southern Association of Colleges and Schools gave the U. T. Health Science Center - Houston full accreditation and accredited the Ph.D. in Health Informatics. The school now has two graduate programs in Health Informatics.

The School of Allied Health Sciences is seeking to attract a wide array of practicing health professionals to its master and doctoral programs in Health Informatics; to many of these health professionals and biomedical scientists, a school of allied health sciences implies training in technical skills at a level below their capabilities rather than a new area demanding the integration of their own knowledge base with computational approaches to problem solving. In addition, professionals who seek information about informatics programs are not likely to look for such programs under the allied health rubric. Also, the level of education in typical allied health programs compared with the graduate-level computational programs in informatics is considered differently by the Coordinating Board in its formula funding.

The School of Allied Health Sciences is currently adding to its course offerings two special emphasis areas within the current degrees. A detailed plan has been developed for offering a master-level program in Health Informatics with a concentration in health education research technology. This program will attract two types of students; health professionals and biomedical researchers who desire to improve their teaching or their ability to communicate about their research. A search for an additional faculty member to join the others in the School of Allied Health Sciences to offer these courses is currently underway.

Through collaboration with faculty from other U. T. Health Science Center - Houston schools, the School of Allied Health Sciences is developing a programmatic concentration of computational biomedicine within the doctoral program in Health Informatics. Computational biomedicine involves the application of computational approaches to solving biomedical problems. The content of the courses in this program and the knowledge gained through learning the research methodologies and their applications will enhance biomedical scientists' abilities to conduct their own research in the increasingly technological research environment of today and the future. Two faculty members whose expertise lies in this area have been hired and a search is currently underway for two additional faculty members in the computational biomedical area of Health Informatics.

The School of Health Information Sciences will continue to collaborate extensively in research with colleagues in the U. T. Health Science Center - Houston Institute of Molecular Medicine, basic and clinical science departments, U. T. M. D. Anderson Cancer Center, and other Texas Medical Center institutions to bring computation solutions to biomedical problems.

4. U. T. M. D. Anderson Cancer Center - Science Park Research Division Infrastructure Upgrade: Request for Approval to Amend the FY 2000-2005 Capital Improvement Program and the FY 2000-2001 Capital Budget to Revise Project Scope; Revise Total Project Cost; Appropriate Funds and Authorize Expenditure; and Authorize Institutional Management of Project

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and President Mendelsohn that the U. T. Board of Regents amend the FY 2000-2005 Capital Improvement Program and the FY 2000-2001 Capital Budget to:

a. Revise the project scope for the Science Park Research Division Infrastructure Upgrade at U. T. M. D. Anderson Cancer Center to include an addition to the A. Clark Griffin Research Facility

b. Revise the total project cost from $6,300,000 to $13,600,000

c. Appropriate funds and authorize expenditure of $13,600,000 from Hospital Revenues

d. 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 associated with the Science Park Research Division Infrastructure Upgrade project.

BACKGROUND INFORMATION

The Science Park Research Division Infrastructure Upgrade at U. T. M. D. Anderson Cancer Center is included in the FY 2000-2005 Capital Improvement Program and the FY 2000-2001 Capital Budget at a preliminary project cost of $6,300,000, with funding from Hospital Revenues. The original Science Park Research Division Infrastructure Upgrade project included replacements and upgrades to the mechanical, electrical, and plumbing systems of the A. Clark Griffin Research Facility. Subsequent to the appointment of the new director of the Science Park Research Division, Dr. John DiGiovanni, recruiting investigators began evaluating the programmatic needs of the facility. From this review, it was estimated that the research program would require space for 39,000 mice within the next five years.

Construction of an 8,500 square foot addition to the A. Clark Griffin Research Facility will allow the research program to expand and provide swing space for the animals during the A. Clark Griffin Research Facility renovation. The funds approved for the original project included funds to build a temporary animal housing facility. Programming determined that funds would be better utilized by creating a permanent solution that accommodates the expansion requirements at the Science Park.

U. T. M. D. Anderson Cancer Center has developed a staff of professional project managers trained to execute clinical renovation projects under the difficult conditions of construction in occupied space. Because of the nature of the work, the schedule over a four-year period, and the specialized ability of U. T. M. D. Anderson Cancer Center personnel, it has been determined that U. T. M. D. Anderson Cancer Center is best able to manage this project.

5. U. T. M. D. Anderson Cancer Center - M. D. Anderson Cancer Center Outreach Corporation: Proposed Amendments to the Bylaws Regarding Membership of the Board of Directors, Appointment of New Member, and Approval of Appointment of New Member

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and President Mendelsohn that the U. T. Board of Regents approve the following actions:

a. Authorize the President of U. T. M. D. Anderson Cancer Center to amend Article IV of the Bylaws of the M. D. Anderson Cancer Center Outreach Corporation as set forth below in congressional style:

> Section 2. Number. The Board of Directors shall consist of seven (7) [~~eleven (11)~~] Directors. The number of Directors may be increased or decreased (provided such decrease does not have the effect of shortening the term of any incumbent Director) from time to time by amendment of the Bylaws in accordance with the provisions of Article X, provided that the number of Directors shall never be less than three (3). The Member may appoint four (4) [~~eight (8)~~] Directors, provided that such appointments shall be subject to the prior approval of such appointments by the Board of Regents of The University of Texas System (the "Board of Regents"). The Board of Regents may appoint three (3) Directors, one of whom shall be a Regent and two of whom shall be administrative officers of The University of Texas System.

b. Appoint Mr. Kerry L. Kennedy, Executive Vice Chancellor for Business Affairs, U. T. System (replaces Mr. R. D. Burck, Chancellor), to serve on the Board of Directors

c. Approve the appointment of Dr. Margaret Kripke, Senior Vice President and Chief Academic Officer, U. T. M. D. Anderson Cancer Center.

These appointments are in addition to those heretofore approved and presently serving, on the Board of Directors of the M. D. Anderson Cancer Center Outreach Corporation.

BACKGROUND INFORMATION

Article IV, Section 2 of the M. D. Anderson Cancer Center Outreach Corporation Bylaws, originally approved by the U. T. Board of Regents on April 6, 1989, and subsequently amended on February 9, 1995, August 8, 1996, and August 12, 1999, provides that the Board of Directors shall consist of 11 Directors. In order that the Board of Directors may act with greater efficiency and in order to enhance the ability to schedule Board meetings, there is a need to reduce the number of Board members to seven.

Presently, Chancellor Burck serves on the Board of Directors. Mr. Burck has requested that Mr. Kerry L. Kennedy, Executive Vice Chancellor for Business Affairs, replace him. Additionally, Dr. Margaret Kripke, Senior Vice President and Chief Academic Officer at U. T. M. D. Anderson Cancer Center, has been nominated by President Mendelsohn to fill one of the remaining positions on the Board of Directors. Pursuant to the Bylaws, her appointment is subject to the prior approval of the U. T. System Board of Regents.

Upon approval of this item, the current membership on the Board of Directors for the M. D. Anderson Cancer Center Outreach Corporation will include the following individuals:

Leon J. Leach, Chairman of the Board of Directors
David L. Callender, M.D.
Charles B. Mullins, M.D.
Kerry L. Kennedy
Regent Patrick C. Oxford
Martin N. Raber, M.D.
Margaret Kripke, Ph.D.

INFORMATIONAL REPORT

U. T. Southwestern Medical Center - Dallas: Presentation on the Human Genome Project

REPORT

Michael S. Brown, M.D., Regental Professor at U. T. Southwestern Medical Center - Dallas, will present a report on the Human Genome Project entitled "A Renaissance in Our Lifetime," which provides an exciting opportunity for research universities.

Facilities, Planning & Construction Committee

FACILITIES PLANNING AND CONSTRUCTION COMMITTEE
Committee Chairman Clements

Date: February 15, 2001

Time: Following the Meeting of the Health Affairs Committee

Place: Board Room, 9th Floor, Ashbel Smith Hall

INFORMATIONAL REPORT

1. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part Two, Chapter VIII, Sections 1 and 2 (Physical Plant Improvements) and Recommendation to Rescind Regental Policy on Capital Improvement Process Procedures

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Academic Affairs, and the Vice Chancellor and General Counsel that the Regents' Rules and Regulations, Part Two, Chapter VIII, regarding physical plant improvements, be amended as set forth below in congressional style:

a. Amend Section 1 to add language about the Capital Improvement Program and amend and renumber current Sections 1 and 2 as Sections 2 and 3 as follows:

Sec. 1. Capital Improvement Program.

1.1 The University of Texas System Administration will prepare a Capital Improvement Program (CIP) biennially to be presented to the U. T. System Board of Regents in August following completion of each regular session of the Texas Legislature.

1.2 The CIP will consist of a six-year projection of major new construction and repair and rehabilitation projects (Major Projects) to be implemented and funded from component and System-wide revenue sources. The CIP should be a current reflection of the institutions' continuous processes of strategic planning and master planning for institutional programs, as well as for the future development and preservation of the physical plant of the campuses.

1.21 Major Projects are defined as repair and rehabilitation projects of at least $2,000,000 and new construction projects of at least $1,000,000. A project that is architecturally or historically significant is defined as a Major Project regardless of cost.

1.22 Candidate projects will routinely be added to the CIP during the biennial update. For emerging critical or urgent new Major Projects, the institutional president may submit an "off-cycle" request for inclusion via the quarterly Board of Regents' agenda. Requests to add to or modify the CIP will be reviewed in accordance with the processes adopted in the CIP.

1.23 Adoption of the CIP provides authority for the U. T. System Administration and the institutional administration to expend institutional funds up to 3% of the anticipated preliminary project cost to develop the formal Facility Program document, select the project architect, and develop preliminary project plans. These funds will be provided by the component initially but may be reimbursed to the component from applicable bond proceeds after design development approval and appropriation of project funds by the Board.

1.3 The CIP will include the Capital Budget, a two-year detailed expenditure allocation of source(s) of funds.

1.31 Approval of the Capital Budget authorizes and appropriates funding amounts and sources for identified major repair and rehabilitation projects that are not architecturally or historically significant. Authorization of these projects and appropriation of these funds allows these projects to be presented to the Chancellor for approval of design development plans, authorization for expenditure of funds, and execution of the projects by the administrative staff without returning to the Board for further approvals.

1.32 The Board will approve the design development plans for all Major Projects other than repair and rehabilitation projects that are not architecturally or historically significant.

Sec. 2 [~~1~~]. Institutional Committees.

2.1 [~~1.1~~] . . .

2.2 [~~1.2~~] Ad Hoc Project Building Committee.--The president [~~chief administrative officer~~] may appoint, according to the institutional Handbook of Operating Procedures, an Ad Hoc Project Building Committee composed of, but not limited to, representatives of the departments or divisions that will occupy the building. The chairperson of the Institutional Building Advisory Committee, or his or her delegate, shall be an ex officio member of each Ad Hoc Project Building Committee. The committee shall work with the Office of Facilities Planning and Construction to prepare a facility program in accordance with the Facilities Programming Guidelines maintained by the Office of Facilities Planning and Construction.

. . .

Sec. 3 [~~2~~]. Major Construction and Repair and Rehabilitation Projects.

3.1 [~~2.1~~] General Requirements.

3.11 [~~2.11~~] Subject to Subsections 1.2 and 2.3 [~~1.3~~] and Subdivisions 3.12, 3.13, 3.14 and 3.15 [~~2.12, 2.13, 2.14, and 2.15~~] of this Section and the general provisions of Part One, Chapter I, Section 9 and except as otherwise specified in these Rules and Regulations, the Chancellor, with the advice of the appropriate Executive Vice Chancellor and institutional president, is authorized to appoint architects, approve plans, and execute contracts for all new construction projects [~~exceeding $1,000,000~~] and for all major repair and rehabilitation projects [~~exceeding $2,000,000 ("Major Projects")~~] that have previously been approved or authorized by the Board in the CIP.

. . .

3.2 [~~2.2~~] Major Projects Procedures.

3.21 [~~2.21~~] Following Board approval of a Major Project and the Preliminary Project Cost, the Institutional Building Advisory Committee shall make recommendations to the president [~~chief~~

~~administrative officer~~] regarding priorities for new construction consistent with the needs of the component.

. . .

b. Renumber current Sections 3 through 5 as Sections 4 through 6.

BACKGROUND INFORMATION

Currently, the Regents' Rules and Regulations do not specifically address the U. T. System Capital Improvement Program (CIP). Two key committees have reviewed the CIP process: the U. T. System Process Review Committee in 1994, and the Board of Regents' Ad Hoc Capital Improvement Program (CIP) Process Review Committee, chaired by Regent Miller, in 2000.

The proposed amendments to the Regents' Rules and Regulations, Part Two, Chapter VIII, relating to physical plant improvements, add language in Section 1 to define the CIP and the parameters and authorities associated with a project included in the CIP and the Capital Budget, as well as how projects may be added to the CIP "off-cycle." The CIP processes are detailed in the flow charts incorporated in the CIP document approved by the U. T. Board of Regents in November 1999 and amended by the Board in November 2000 for adding projects to the CIP between the biennial review and approval cycles. Further CIP process details will be addressed in Business Procedures Memoranda to be issued by U. T. System Administration.

Under current Sections 1 and 2, minor editorial amendments are proposed to standardize nomenclature.

The amendment to current Section 2, Subsection 2.1, Subdivision 2.11 is required to eliminate the restriction on the Chancellor's authority to appoint architects, approve plans, and execute contracts for new construction less than $1,000,000 and repair and rehabilitation projects less than $2,000,000. Occasionally, a campus will request a project that is below the dollar threshold to be included in the CIP. These requests are usually due to the project's architectural significance or due to the campus knowing the project will ultimately exceed the threshold in additional phases.

Approval of these amendments to the Regents' Rules and Regulations will rescind the Regental Policy entitled "Procedures to be Followed by University of Texas System Institutions to Gain Authorization of Major New Construction and Major Renovation Projects" (Capital Improvement Process Procedures) approved by the U. T. Board of Regents in December 1994.

2. U. T. Austin - Basketball Support Facility (Project No. 102-053): Request for Approval to Amend the FY 2000-2005 Capital Improvement Program and the FY 2000-2001 Capital Budget to Divide the Project into Two Stages and Appropriate Funds and Authorize Expenditure for the Repair and Renovation Stage

RECOMMENDATION

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

a. Amend the FY 2000-2005 Capital Improvement Program and the FY 2000-2001 Capital Budget to divide the scope of the Basketball Support Facility at U. T. Austin into two stages

b. Appropriate funds and authorize expenditure of $3,500,000 from Gifts and Grants for the repair and renovation stage of the Frank C. Erwin, Jr. Special Events Center portion of the Basketball Support Facility project at U. T. Austin.

BACKGROUND INFORMATION

The Basketball Support Facility project at U. T. Austin is included in the FY 2000-2005 Capital Improvement Program and the FY 2000-2001 Capital Budget at a preliminary project cost of $7,500,000 with funding from Gifts and Grants.

This project can be more easily completed in two stages, a repair and renovation stage and a new construction stage. It is advantageous to the campus to proceed with the repair and renovation stage of the Frank C. Erwin, Jr. Special Events Center at this time to allow for the modification and reconfiguration of the seating to meet the needs of the 2001-2002 basketball season. The design development approval and budget adjustment request for the Basketball Support Facility will be made at a later date.

3. U. T. Austin - John A. and Katherine G. Jackson Geological Sciences Building (Project No. 102-070): Request for Approval of Design Development Plans; Approval of Evaluation of Alternative Energy Economic Feasibility; Approval of Total Project Cost; and Appropriation of Funds and Authorization of Expenditure

RECOMMENDATION

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

a. Approve design development plans for the John A. and Katherine G. Jackson Geological Sciences Building at U. T. Austin

b. Approve evaluation of alternative energy economic feasibility

c. Approve a total project cost of $15,000,000

d. Appropriate funds and authorize expenditure of $15,000,000, with funding from Gifts and Grants.

BACKGROUND INFORMATION

At the November 2000 U. T. Board of Regents' meeting, the John A. and Katherine G. Jackson Geological Sciences Building project at U. T. Austin was added to the FY 2000-2005 Capital Improvement Program and the FY 2000-2001 Capital Budget at a preliminary project cost of $15,000,000, with funding from Gifts and Grants.

The John A. and Katherine G. Jackson Geological Sciences Building project at U. T. Austin, which is consistent with the Cesar Pelli Master Plan, will provide additional and renovated space needed for the expansion of Geological Sciences and related activities in Natural Sciences. The existing building, constructed in 1967, contains 136,000 gross square feet and has not undergone an extensive renovation since the building was opened. The addition of approximately 40,000 gross square feet will provide new programmatic space for the College of Natural Sciences.

The gift of $15,000,000 will be funded through a trust established by Mr. John A. Jackson of Dallas, Texas. Payments will be made to U. T. Austin on a periodic basis to support the cost of constructing and furnishing the new addition.

Section 2166.403 of the Texas Government Code requires the governing body of the appropriate State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into new State buildings. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standard for New State Buildings. This evaluation determined that alternative energy devices for the project are not economically feasible.

4. U. T. Austin - Texas Swim Center Renovation - Phase I (Project No. 102-983): Request for Approval to Revise Total Project Cost and Appropriation of Additional Funds

RECOMMENDATION

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

a. Revise the total project cost for the Texas Swim Center Renovation - Phase I at U. T. Austin from $2,000,000 to $3,000,000

b. Appropriate additional funds of $1,000,000 from Designated Tuition.

BACKGROUND INFORMATION

The Texas Swim Center Renovation - Phase I project at U. T. Austin is included in the FY 2000-2005 Capital Improvement Program and the FY 2000-2001 Capital Budget at a total project cost of $2,000,000 with funding from Designated Tuition. U. T. Austin has requested that the total project cost be increased from $2,000,000 to $3,000,000 due to additional fire and life safety costs identified as the scope and design of the project developed.

5. U. T. Pan American - Administration Building Addition (Project No. 901-050): Request for Approval of Project Scope Change; Approval to Redesignate Project; Appropriate Funds; and Authorize Institutional Management of Project

RECOMMENDATION

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

a. Approve a change in project scope from a construction and renovation project to a renovation only project

b. Redesignate the Administration Building Addition at U. T. Pan American as the Administrative Offices Renovation project

c. Appropriate funds of $2,500,000 from Higher Education Funds and $2,537,000 from Unexpended Plant Funds

d. Authorize U. T. Pan American to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts associated with the project.

BACKGROUND INFORMATION

The Administration Building Addition project at U. T. Pan American is included in the FY 2000-2005 Capital Improvement Program and the FY 2000-2001 Capital Budget at a total project cost of $5,037,000, with funding of $2,500,000 from the Higher Education Fund and $2,537,000 from Unexpended Plant Funds.

The original project scope of work was to build an 11,000 square foot addition to the existing building and renovate approximately 11,000 square feet. The project scope has been reevaluated and now will include only renovation of existing spaces and will not include any addition of new space.

This project will consist of a number of separate sequential projects over a period of two to three years. Based on the relatively small and simple efforts proposed requiring multiple relocations of occupants, this repair and rehabilitation project would best be managed by the U. T. Pan American Facilities Management staff who have the experience and capability to manage all aspects of the revised scope of work.

6. U. T. Pan American - Math Building Renovation (Project No. 901-048): Request to Authorize Institutional Management of Project

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Academic Affairs, and President Nevárez that the U. T. Board of Regents authorize U. T. Pan American to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts associated with the Math Building Renovation project.

BACKGROUND INFORMATION

The Math Building Renovation project at U. T. Pan American is included in the FY 2000-2005 Capital Improvement Program and the FY 2000-2001 Capital Budget at a total project cost of $2,880,000, with funding of $2,000,000 from the Higher Education Fund and $880,000 from Unexpended Plant Funds.

The project will renovate the existing 17,000 gross square feet of space and will upgrade the building to meet new code and life safety requirements. The work will also include masonry repair and mechanical and electrical system upgrades. The project will be accomplished by several small projects that can best be managed by the Physical Plant staff at U. T. Pan American.

7. U. T. Tyler - Student Health and Kinesiology (Project No. 802-019): Request for Approval of Design Development Plans; Approval of Evaluation of Alternative Energy Economic Feasibility; Approval of Total Project Cost; and Appropriation of Funds and Authorization of Expenditure

RECOMMENDATION

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

a. Approve design development plans for the Student Health and Kinesiology project at U. T. Tyler

b. Approve evaluation of alternative energy economic feasibility

c. Approve a total project cost of $19,300,000

d. Appropriate funds and authorize expenditure of $9,600,000 from Gifts and Grants and $9,700,000 from Permanent University Fund Bond Proceeds.

BACKGROUND INFORMATION

The Student Health and Kinesiology project at U. T. Tyler is included in the FY 2000-2005 Capital Improvement Program and the FY 2000-2001 Capital Budget at a preliminary project cost of $19,300,000, with funding of $9,600,000 from Gifts and Grants and $9,700,000 from Permanent University Fund Bond Proceeds.

This project will consist of 98,800 gross square feet to house Health and Kinesiology academic offices, classrooms, and laboratories, as well as traditional fitness spaces that will be used for instructional purposes.

Section 2166.403 of the Texas Government Code requires the governing body of the appropriate State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into new State buildings. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standard for New State Buildings. This evaluation determined that alternative energy devices for the project are not economically feasible.

8. U. T. Southwestern Medical Center - Dallas - Plaza: Request for Approval to Name Facility (Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Subsection 1.3, Honorific Namings)

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and President Wildenthal that the U. T. Board of Regents name the Plaza that connects The Seay Biomedical Building, the Nancy B. and Jake L. Hamon Biomedical Research Building, and the Simmons Biomedical Research Building at the U. T. Southwestern Medical Center - Dallas North Campus as the C. Vincent Prothro Plaza and Gardens to recognize the significant contributions and commitment of Mr. C. Vincent Prothro to the campus.

BACKGROUND INFORMATION

The plaza space is included in the U. T. Southwestern Medical Center - Dallas naming inventory. The space is situated in the heart of the North Campus land which Mr. C. Vincent Prothro made possible. There can be no more appropriate name to be associated with this space than that of Mr. Prothro.

In addition to over $200,000 which Mr. Prothro and his family have donated as unrestricted gifts, he served for many years as a valued member of the boards of the O'Donnell Foundation and The Eugene McDermott Foundation which together have donated over $100,000,000 to U. T. Southwestern Medical Center - Dallas. Mr. Prothro also served for over a decade as Chair of the "Friends of Human Nutrition," which raised over $2,000,000 under his leadership. He was also a key member of the Steering Committee of the Fund for Molecular Research, and in that role, he was a catalyst for raising over $5,000,000 in gifts for U. T. Southwestern Medical Center - Dallas.

Mr. Prothro was the initial leader of the biotechnology initiative in the 1980s and early 1990s. He personally raised $15,000,000 in venture capital for Dallas Biomedical Corporation, which invested its funds in start-up biotech projects at U. T. Southwestern Medical Center - Dallas and which launched the only highly profitable local biotechnology start-up in campus history.

Even more importantly than his donor and fund-raising roles, Mr. Prothro was essential in U. T. Southwestern Medical Center – Dallas' acquisition of the MacArthur property which is now the North Campus. Mr. Prothro persuaded the John D. and Catherine T. MacArthur Foundation Board that U. T. Southwestern Medical Center – Dallas and the Dallas philanthropic and business communities could and would make a success of the North Campus venture, if only they donated the land. That gift, valued at $8,000,000, has been priceless and would not have been received without Mr. Prothro's efforts and leadership.

The naming of the C. Vincent Prothro Plaza and Gardens is consistent with the Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Subsection 1.3, and institutional guidelines on the naming of facilities in honor of and in appreciation of the extraordinary support and generosity of Mr. C. Vincent Prothro.

9. U. T. Medical Branch - Galveston - Student Learning Center (Project No. 601-060): Request to Authorize Institutional Management of Project

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and President Stobo that the U. T. Board of Regents authorize U. T. Medical Branch - Galveston to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts associated with the Student Learning Center project.

BACKGROUND INFORMATION

The Student Learning Center project at U. T. Medical Branch - Galveston is included in the FY 2000-2005 Capital Improvement Program and the FY 2000-2001 Capital Budget at a total project cost of $8,292,000, with funding of $4,100,000 from Gifts and Grants and $4,192,000 from Permanent University Fund Bond Proceeds.

The project will renovate approximately 46,500 gross square feet of classroom and group teaching space for the medical school in multiple areas within the campus facilities. The project will divide existing space into 50 small group rooms, 20 standardized patient rooms, and student teaching labs and support spaces and will be accomplished through a series of small sequential construction stages.

U. T. Medical Branch - Galveston has developed a staff of professional project managers trained to execute clinical renovation projects under the difficult conditions of construction in occupied space. Because of the nature of the work and the specialized ability of U. T. Medical Branch - Galveston personnel, it has been determined that U. T. Medical Branch - Galveston is best able to manage this project.

10. U. T. Health Science Center - Houston - Nursing and Biomedical Sciences Building (Project No. 701-967): Request for Appropriation of Funds and Authorization of Expenditure for Deconstruction Stage

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and President Willerson that the U. T. Board of Regents appropriate funds and authorize expenditure of $600,000 from Gifts and Grants for deconstruction of the Graduate School Building along with utility and site work for the Nursing and Biomedical Sciences Building project at U. T. Health Science Center - Houston.

BACKGROUND INFORMATION

The Nursing and Biomedical Sciences Building project at U. T. Health Science Center - Houston is included in the FY 2000-2005 Capital Improvement Program and the FY 2000-2001 Capital Budget at a preliminary project cost of $63,700,000, with funding of $32,500,000 from Revenue Financing System Bond Proceeds, $17,500,000 from Tuition Revenue Bond Proceeds, $10,000,000 from Gifts and Grants, and $3,700,000 from Unexpended Plant Funds.

In November 1998, the U. T. Board of Regents appropriated $3,700,000 from Unexpended Plant Funds and $3,000,000 from Gifts and Grants for the first stage of the project; the renovation work that permits the relocation of staff housed in the Human Genetics Center. The second stage will involve the deconstruction work, as well as some preliminary site and utility work to fully prepare the project site for construction of the new building. Plans for the construction stage of the project will be presented to the U. T. Board of Regents for approval at a later date.

11. U. T. Health Science Center - San Antonio - Children's Cancer Research Center (Project No. 402-022): Request for Approval of Design Development Plans; Approval of Evaluation of Alternative Energy Economic Feasibility; Approval of Total Project Cost; Appropriation of Funds and Authorization of Expenditure; 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 Business Affairs, the Executive Vice Chancellor for Health Affairs, and President Cigarroa that the U. T. Board of Regents:

a. Approve design development plans for the Children's Cancer Research Center project at U. T. Health Science Center - San Antonio

b. Approve evaluation of alternative energy economic feasibility

c. Approve a total project cost of $49,500,000

d. Appropriate funds and authorize expenditure of $49,500,000 from Revenue Financing System Bond Proceeds.

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 170, 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. Health Science Center - San Antonio, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the aggregate amount of $49,500,000

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

BACKGROUND INFORMATION

The Children's Cancer Research Center at U. T. Health Science Center - San Antonio is included in the FY 2000-2005 Capital Improvement Program and the FY 2000-2001 Capital Budget, at a preliminary project cost of $49,500,000, with funding from Revenue Financing System Bond Proceeds.

The Children's Cancer Research Center project at U. T. Health Science Center - San Antonio includes the construction of a new facility of approximately 168,000 square feet. The Children's Cancer Research Center program will promote children's public health issues, specifically children's cancer research, and will advance scientific knowledge relevant to childhood cancer to provide the basis for future progress in prevention, diagnosis, and treatment of these diseases. The project will also accelerate the translation of existing knowledge into novel therapies, vaccines, and other interventions.

Section 2166.403 of the Texas Government Code requires the governing body of the appropriate State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into new State buildings. Therefore, the Project Architect prepared an evaluation for this project in accordance with the

Energy Conservation Design Standard for New State Buildings. This evaluation determined that alternative energy devices for the project are not economically feasible.

House Bill 1945, codified as Texas Education Code Section 63.001 et seq. during the 76th Session of the Texas Legislature, established the Permanent Health Fund, including a $200,000,000 fund for U. T. Health Science Center - San Antonio. Under Section 63.102(c) of the statute, an amount appropriated from the $200,000,000 may be used to establish, maintain, and operate a children's cancer center.

The debt is to be repaid from distributions to U. T. Health Science Center - San Antonio from the Permanent Health Fund. The FY 2001 payout ratio on the Permanent Health Fund of 4.6% will result in a $9,200,000 distribution to U. T. Health Science Center - San Antonio for FY 2001. Debt service for this project during the construction period is projected to be $750,000 in FY 2001 and $1,500,000 in FY 2002 assuming a 5% short-term borrowing rate. Debt service after the construction period is projected to be $4,492,442 based on a 6.5% long term borrowing rate with a 20-year amortization period. The debt service coverage is projected to be 2.05 times. The five-year financing forecast for U. T. Health Science Center - San Antonio projects overall debt service coverage to be at least 1.4 times and the annual debt service to operating expense ratio will not exceed 2.9%. The financing forecast for this project is set forth on Page 171.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned Director of 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 construction cost of the Children's Cancer Research Center project at U. T. Health Science Center - San Antonio, 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 as amended, the Sixth Supplemental Resolution, the Seventh Supplemental Resolution as amended, the Eighth Supplemental Resolution, and the Ninth Supplemental Resolution as amended.

EXECUTED this 29th day of January, 2001

/s/ Terry Hull
Director of Finance

The U. T. Health Science Center- San Antonio
Children's Cancer Research Center

Project Level	Forecast FY 01	FY 02	FY 03	FY 04	FY 05	FY 06
Annual Permanent Health Fund Distribution	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000
Annual Debt Service	(750,000)	(1,500,000)	(4,492,442)	(4,492,442)	(4,492,442)	(4,492,442)
Debt Service Coverage			2.05	2.05	2.05	2.05
Available for Operations	8,450,000	7,700,000	4,707,560	4,707,560	4,707,560	4,707,560

	Actual			Forecast					
	FY98	FY99	FY00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06
Campus Level: ($ in millions)									
Beginning Fund Balance	62.100	41.050	55.623	59.761	51.575	46.683	44.405	44.903	45.181
Total Current Revenues	223.057	253.111	272.579	280.263	302.677	310.247	319.414	328.888	338.645
Total Current Expenditures	(224.670)	(242.590)	(271.074)	(273.944)	(291.682)	(297.701)	(307.022)	(316.653)	(326.574)
Net Revenues	(1.613)	10.521	1.505	6.319	10.995	12.546	12.392	12.235	12.071
Debt Service	(1.516)	(1.505)	(1.539)	(4.018)	(6.419)	(6.967)	(8.958)	(8.933)	(8.911)
Nonmandatory Transfers & Adjustments	(17.921) (a)	5.557	4.172	(10.487)	(9.468)	(7.857)	(2.936)	(3.024)	(3.115)
Net Increase/(Decrease) for Year	(21.050)	14.573	4.138	(8.186)	(4.892)	(2.278)	0.498	0.278	0.045
Ending Fund Balance	41.050	55.623	59.761	51.575	46.683	44.405	44.903	45.181	45.226
Debt Service Coverage	(1.1)	7.0	1.0	1.6	1.7	1.8	1.4	1.4	1.4
Debt Service to Operating Expenses	0.7%	0.6%	0.6%	1.5%	2.2%	2.3%	2.9%	2.8%	2.7%

	Actual			Forecast					
U.T. System ($ in millions)	FY98	FY99	FY00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06
Available Revenues	4,208.7	4,363.1	4,966.6	5,062.5	5,260.8	5,422.2	5,683.9	5,889.7	6,095.3
Operating Expenses	(3,911.5)	(4,166.5)	(4,562.1)	(4,698.2)	(4,833.4)	(4,980.8)	(5,186.4)	(5,366.2)	(5,547.8)
Net Available for Debt Service	297.2	196.6	404.5	364.4	427.4	441.4	497.5	523.5	547.5
Other Mandatory Transfers	(1.3)	(0.8)	(0.7)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Debt Service	(84.8)	(95.5)	(116.6)	(146.1)	(160.3)	(156.5)	(174.1)	(173.9)	(176.7)
Debt Service Coverage	3.5	2.0	3.5	2.5	2.7	2.8	2.8	3.0	3.1
Debt Service to Operating Expenses	2.1%	2.2%	2.5%	3.0%	3.2%	3.0%	3.2%	3.1%	3.1%

(a) FY98 beginning balance was restated by ($19,636,633).

INFORMATIONAL REPORT

U. T. System: Report on Architecturally Significant Projects

REPORT

Committee Chairman Clements will report that the U. T. Board of Regents' Facilities Planning and Construction Committee selected the following design associations for these architecturally significant projects at its January 9, 2001 meeting:

a. U. T. San Antonio - Engineering/Biotechnology Building - Phase III: FKP Architects, Inc., of Houston, Texas

b. U. T. Health Science Center - San Antonio - Hidalgo County Medical Research Division of the Regional Academic Health Center (RAHC): Hellmuth, Obata & Kassabaum (H O & K), Inc., of Houston, Texas

Other Matters

I. RECONVENE AS COMMITTEE OF THE WHOLE

J. OTHER MATTERS

1. Report of Board for Lease of University Lands

REPORT

The Board for Lease of University Lands met on November 8, 2000, in the Board of Regents' Meeting Room on the ninth floor of Ashbel Smith Hall in Austin, Texas, for a general business meeting and to award leases for Regular Oil and Gas Lease Sale No. 98. Bids were opened at the Center for Energy and Economic Diversification in Midland, Texas, on November 7, 2000.

Following is a report on the result of the lease sale:

> Regular Oil and Gas Lease Sale No. 98: Total bonuses received in the amount of $4,587,471.40 for 19,269.669 acres (68 tracts) leased; single highest bid was $204,504.75 ($624.16/acre) for a 327.650-acre tract in Upton County; 28,659.426 acres (102 tracts) nominated for lease. The Board rejected the bid associated with Tract No. 13 because the Attorney General's Office will soon file litigation relating to the prior lease on this tract.

Following is a report on the general business meeting:

a. Approval of the Minutes of the May 17, 2000, meeting of the Board for Lease of University Lands

b. Approval of lease procedures and terms for Regular Oil and Gas Lease Sale No. 99 to be held on Wednesday, May 16, 2001

c. Approval of a temporary exploratory unit proposed by McCabe Petroleum Corporation - Ward County, Texas

d. Executive Session pursuant to authority granted under Section 551.071 of the Texas Government Code regarding pending or contemplated litigation

e. Approval of the management of the royalty in-kind programs as presented by staff, including expressly authorizing staff to continue to explore the marketing of University in-kind oil and gas under the General Land Office's State Power Program

f. General Land Office staff updated the Board with the status of the General Land Office's State Power Program (which authorizes the Commissioner to convert oil and gas royalties taken in-kind from state lands into other forms of energy, including electricity, for sale to certain public retail customers).

The bids for Regular Oil and Gas Lease Sale No. 99 are scheduled to be opened at the Center for Energy and Economic Diversification in Midland, Texas, on May 16, 2001. The next regularly scheduled meeting of the Board for Lease of University Lands and lease awards is tentatively scheduled at the Center in Midland on May 16, 2001. However, to accommodate the Board, the time, location, and date (between May 16 and May 18) of this meeting are subject to change.

2. U. T. Board of Regents: Presentation of Certificate of Appreciation

K. REPORT FOR THE RECORD

U. T. Tyler: Report on Educational Partnership Agreement with Tyler Junior College

REPORT

The U. T. Board of Regents and the Board of Trustees of Tyler Junior College approved an Educational Partnership Agreement between U. T. Tyler and Tyler Junior College on August 11, 1994. The Agreement was subsequently approved by the Texas Higher Education Coordinating Board.

The purpose of the Partnership, as authorized by State law, was to utilize resources of both institutions to maximize higher education access and opportunity for students of the East Texas region to participate in a continuous educational experience through which associate, baccalaureate, and graduate degrees could be obtained. The authorizing legislation required the establishment of a Partnership Advisory Committee which was to meet annually.

While there is a strong ongoing academic relationship between the two institutions, President Rodney Mabry of U. T. Tyler and President William Crowe of Tyler Junior College agree there is no need at this time to continue a formal educational partnership as authorized by Texas Education Code Section 51.661 et seq. Accordingly, the Partnership Advisory Committee will be dissolved.

L. SCHEDULED EVENTS

1. Board of Regents' Meetings - 2001

Dates	Locations/Hosts
May 9-10, 2001	Austin
August 8-9, 2001	U. T. Arlington
November 7-8, 2001	U. T. Tyler

2. Official Commencements - 2001

May 5	U. T. Tyler
May 11-13	U. T. Arlington
May 12	U. T. Brownsville
	U. T. El Paso
	U. T. Pan American
	U. T. Permian Basin
	U. T. San Antonio
May 19	U. T. Austin, U. T. Dallas
May 26	U. T. Medical Branch - Galveston
	U. T. Health Science Center - San Antonio
June 2	U. T. Southwestern Medical Center - Dallas
June 3	U. T. Health Science Center - Houston

3. Other Events - 2001

November 1	U. T. M. D. Anderson Cancer Center: University Cancer Foundation Board of Visitors' Meeting
November 29	U. T. M. D. Anderson Cancer Center: Faculty Honors Convocation

M. ADJOURNMENT