

MATERIAL SUPPORTING THE AGENDA

VOLUME XLIVb

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

February 5-6, 1997
February 24, 1997
April 9, 1997
April 29, 1997

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 - all items submitted to the Executive Session and distributed only to the Regents, Chancellor and Executive Vice Chancellors of the System.

Yellow paper - emergency items distributed at 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 Executive Secretary was furnished a copy, then that material goes into the appropriate subject file.



Material Supporting the Agenda of the Board of Regents The University of Texas System

Meeting No.: 899

Date: February 5 - 6, 1997

Location: Austin, Texas

BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

CALENDAR

Date: Wednesday, February 5, 1997

Time: 3:00 p.m.

Place: Fourth Floor Conference Room
O.Henry Hall
601 Colorado Street
Austin, Texas

Purpose: Convene in Open Session, Recess to Executive Session per the Agenda on Pages Ex.S 1 - 2, Reconvene in Open Session, and Recess

See Pages B of R 1 - 2,
Items A - D

Date: Thursday, February 6, 1997

Time: 8:30 a.m.

Place: Second Floor Conference Room
Ashbel Smith Hall
201 West Seventh Street
Austin, Texas

Purpose: Reconvene in Open Session to Continue Until Completion of Business

See Pages B of R 3 - 78,
Items E - Q

Board Luncheon and Briefing Session

Telephone Numbers

Office of the Board of Regents (512) 499-4402

Four Seasons Hotel (512) 478-4500
98 San Jacinto Boulevard

Meeting of the Board

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

Date: Wednesday, February 5, 1997

Time: 3:00 p.m.

Place: Fourth Floor Conference Room, O.Henry Hall,
601 Colorado Street, Austin, Texas

A. CALL TO ORDER

**B. RECESS TO EXECUTIVE SESSION (Texas Government Code,
Chapter 551)**

1. Consultation with Attorney Regarding Pending
and/or Contemplated Litigation or Settlement
Offers - Section 551.071
 - a. U. T. Health Science Center -
Houston: Proposed Settlement of
Medical Liability Litigation
 - b. U. T. Health Science Center - San
Antonio: Proposed Settlement of
Medical Liability Claim
2. Deliberations Regarding the Purchase, Exchange,
Lease or Value of Real Property - Section 551.072

U. T. Dallas: Request for Authori-
zation to Purchase Phase V of the
Waterview Park Apartments in
Richardson, Collin, and Dallas
Counties, Texas; Authorization to
Submit the Transaction to the Coordi-
nating Board; and Authorization to
Execute All Documents Related Thereto

3. Negotiated Contracts for Prospective Gifts or Donations - Section 551.073
 4. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Section 551.074
- U. T. Permian Basin: Consideration of Recommendation of Hearing Tribunal Regarding Termination of Tenured Faculty Member
- C. RECONVENE IN OPEN SESSION TO CONSIDER ACTION ON EXECUTIVE SESSION MATTERS (ITEM B ABOVE)
 - D. RECESS

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

Date: Thursday, February 6, 1997

Time: 8:30 a.m. Reconvene in Open Session to Continue Until Completion of Business

Place: Second Floor Conference Room, Ashbel Smith Hall, 201 West Seventh Street, Austin, Texas

E. RECONVENE IN OPEN SESSION

F. APPROVAL OF MINUTES OF REGULAR MEETING HELD NOVEMBER 13-14, 1996, AND SPECIAL MEETING HELD DECEMBER 20, 1996

G. SPECIAL ITEMS

1. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part One, Chapter I, Section 8, Subsection 8.5, Subdivisions 8.52 and 8.54 (Communications by and to the Board) --

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Health Affairs, and the Executive Vice Chancellor for Business Affairs that the Regents' Rules and Regulations, Part One, Chapter I,

Section 8, Subsection 8.5, Subdivisions 8.52 and 8.54, regarding communications by and to the Board, be amended as set forth below in congressional style:

Sec. 8. Procedure.

...

8.5 Communications by and to the Board.

...

8.52 Except upon invitation of the Board, the Chairman of the Board, the Chancellor, or the appropriate Executive Vice Chancellor, no person shall appear before the Board or any committee thereof unless that person files with the Executive Secretary to the Board a written request explaining the purpose of such appearance at least six days before the date of such appearance and unless the Chairman of the Board, or a majority of the whole Board, shall approve the request. It is understood, however, that the chief administrative officer[7] or his or her delegate[7] and/or the president or chair of the student or faculty governance organization(s) [students' association,] or his or her delegate[7] may appear without prior notice or request before the Board or any committee whenever the matter under consideration directly affects the component institution represented by such person. Persons requesting to appear must identify the subject of their remarks, which must be directly related to a matter on the Agenda for consideration by the Board. Whenever time and other circumstances permit, the person making the request shall first consult with the chief administrative officer, or his or her delegate, of such institution regarding the purpose of the appearance prior to the meeting of the Board or committee. Insofar as possible, any person who

appears before the Board shall provide a written statement of the substance of such person's presentation to the Board, and such written statement shall be delivered to the Executive Secretary to the Board in sufficient time for copies to be distributed to the Regents prior to the meeting. Any person appearing before the Board or a committee shall be subject to restrictions on time, place and manner as may be prescribed by the Chairman or a majority of the Board or by the Chairman or a majority of a committee. The Chairman or a majority of the Board may prescribe sanctions against any person exceeding established time, place or manner limits; disrupting a meeting of the Board or a committee of the Board; or violating any provision of the Regents' Rules and Regulations. Sanctions may include the refusal to allow such person to speak again to the Board or committees of the Board for up to one year.

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- 8.54 A docket, to be entitled "Chancellor's Docket No. ____," composed of routine matters arising from System Administration and the component institutions, which are required to be reported to and/or approved by the Board in accordance with established policies of the Board, shall be prepared as directed and approved by the Chancellor, appropriate Executive Vice Chancellor, and Vice Chancellor, as appropriate. All docket items from the component institutions must be received by the System Administration not less than twenty-one days prior to the next regular scheduled meeting for inclusion on the docket for that meeting. The Chancellor's Docket shall be distributed by the Executive Secretary to all members of the Board at least ten days before the Board convenes, together with a

memorandum [ballot] to be returned within seven days thereafter. The memorandum will permit any member of the Board to except any item or items from the Docket. [The ballot will read: "Approved, except as to the following items," with space provided for listing the excepted items.] All items not excepted by any Regent will be considered [approved] by the Board at its next meeting, without detailed review [consideration]. Any excepted item listed by any Regent will be deferred and will be processed through the appropriate standing committee for consideration at the first regular meeting of the Board following action of the item by the appropriate standing committee.

• • •

BACKGROUND INFORMATION

The U. T. System Administration recently discovered an unintended inequity in the wording of the Regents' Rules and Regulations, Part One, Chapter I, Section 8, Subsection 8.5, Subdivision 8.52. When the current language was written, the "official party" for meetings of the U. T. Board of Regents was much larger and often included institutional faculty representatives. Therefore, the language specifically authorizing the elected head of the student governance organization to speak to certain issues at a meeting of the U. T. Board of Regents did not include the elected head of a faculty governance entity. As attendance policies for U. T. Board of Regents' meetings have been modified, amendment to the language to include reference to a faculty governance entity is appropriate.

The proposed amendment to Subdivision 8.54 of the Regents' Rules and Regulations, Part One, Chapter I, Section 8, Subsection 8.5, will change the method for Board review of the Docket from using a ballot to distribution of a memorandum by the Executive Secretary to the Board. The memorandum will permit individual Board members to indicate their desire to place an item on the agenda of a future meeting. Based on

other changes made regarding approval of items in the Docket and the elimination of Executive Committee Letters with approval of items via a ballot, the ballot method for approval of the Docket is no longer appropriate. This change has been reviewed and approved by the Office of General Counsel.

2. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part One, Chapter VII, Section 5, Subsection 5.3 (Internal Corporations).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs that the Regents' Rules and Regulations, Part One, Chapter VII, Section 5, Subsection 5.3, regarding internal corporations, be amended as set forth below in congressional style:

Sec. 5. Internal Corporations.

• • •

5.3 The following internal corporations are presently authorized:

<u>Internal Corporations</u>	<u>Date Chartered</u>
The Aerospace Heritage Foundation, Inc.	9/7/78
[Ima Hogg Foundation, Inc.]	6/26/64]
The University of Texas System Medical Foundation, Inc.	10/5/73
The University of Texas at Austin School of Law Continuing Legal Education, Inc.	8/17/81
The University of Texas at Austin School of Law Publications, Inc.	8/17/81

BACKGROUND INFORMATION

The Ima Hogg Foundation was incorporated on June 26, 1964, as a charitable and educational foundation with the U. T. Board of Regents as Trustees. The U. T. Board of Regents, at the February 1993 meeting, acting in its capacity as the Board of Trustees of the Ima Hogg Foundation, Inc., approved a recommendation to dissolve the corporation and authorize alternative management of assets as the Ima Hogg Endowment. At the April 1993 meeting, the Trustees of the Foundation authorized its dissolution. The dissolution was approved by subsequent judicial action on December 27, 1994, with an order that the income from the Ima Hogg Endowment be used in conformance with purposes set forth in the original Articles of Incorporation of the Foundation as interpreted by the August 3, 1974, codicil to Miss Hogg's Will. The codicil provides that income is to be used to benefit active mental health programs in the Houston, Texas, area. Thus, the proposed revision to the Regents' Rules and Regulations, Part One, Chapter VII, Section 5, Subsection 5.3 is an editorial change to reflect that the Ima Hogg Foundation, Inc. is no longer an internal corporation of the U. T. System.

3. U. T. System: Report of Summary of Gift Acceptance and Related Administrative Actions Conforming to Board Policy for September 1, 1996 Through November 30, 1996.--

(See Pages B of R 9 - 13.)

ACCEPTANCE OF GIFTS HELD BY BOARD

# ALL <u>ITEMS</u>	COMPONENT <u>INSTITUTION</u>	ASSET TYPES						MATCHING FUNDS				
		<u>CASH</u>	<u>SECURITIES</u>	<u>REAL ESTATE</u>	<u>PLEDGES</u>	<u>OTHER</u>	<u>TRANSFERS</u>				<u>TOTAL VALUE</u>	
1	U. T. Arlington	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
39	U. T. Austin	\$ 1,675,290	\$ 213,895	\$ -	\$ 1,097,500	\$ 29,000	\$ 204,914	\$ 25,000	\$ 3,220,599	*		
14	U. T. El Paso	\$ 1,351,703	\$ 756,979	\$ -	\$ -	\$ 7,000	\$ -	\$ -	\$ 2,115,682			
1	U. T. Pan American	\$ 150,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 150,000			
1	U. T. San Antonio	\$ 25,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,000			
1	U. T. Tyler	\$ 10,000	\$ -	\$ -	\$ 15,000	\$ -	\$ -	\$ -	\$ 25,000			
10	U. T. SWMC-Dallas	\$ 2,907,068	\$ -	\$ -	\$ 400,000	\$ -	\$ 800,000	\$ 1,250,000	\$ 4,107,068	*		
10	U. T. M.B.-Galveston	\$ 302,725	\$ -	\$ -	\$ -	\$ -	\$ 1,630,869	\$ -	\$ 1,933,594			
5	UTHSC-Houston	\$ 346,547	\$ 25,451	\$ -	\$ 40,349	\$ -	\$ 353,567	\$ -	\$ 465,914	*		
4	UTHSC-San Antonio	\$ 606,753	\$ -	\$ -	\$ -	\$ -	\$ 25,000	\$ -	\$ 631,753			
3	UTMDACC	\$ 272,866	\$ -	\$ -	\$ 125,000	\$ -	\$ 343,538	\$ -	\$ 741,404			
89	TOTAL	\$ 7,647,952	\$ 996,325	\$ -	\$ 1,677,849	\$ 36,000	\$ 3,357,888	\$ 1,275,000	\$ 13,416,014	*		

* Not included in total: U. T. Austin - \$25,000 of Board-held matching funds; U. T. SWMC-Dallas - \$1,250,000 of Board-held matching funds;
 UTHSC-Houston - \$300,000 transfer of previously reported unrestricted gift.

NOTE: Compiled by Office of Development and External Relations

CLASSIFICATION OF GIFTS AND OTHER ACTIONS

<u>COMPONENT INSTITUTION</u>	<u>ENDOWMENTS</u>	<u>CHARITABLE REMAINDER TRUSTS</u>	<u>POOLED INCOME FUND</u>	<u>REMAINDER INTERESTS</u>	<u>HELD IN TRUST BY OTHERS</u>	<u>CURRENT PURPOSE</u>	<u>OTHER</u>
U. T. Arlington	1	—	—	—	—	—	—
U. T. Austin	37	1	—	—	—	1	—
U. T. El Paso	12	—	—	—	—	2	—
U. T. Pan American	1	—	—	—	—	—	—
U. T. San Antonio	1	—	—	—	—	—	—
U. T. Tyler	1	—	—	—	—	—	—
U. T. SWMC-Dallas	8	—	—	—	1	1	—
U. T. M.B.-Galveston	10	—	—	—	—	—	—
UTHSC-Houston	5	—	—	—	—	—	—
UTHSC-San Antonio	4	—	—	—	—	—	—
UTMDACC	2	—	—	—	—	1	—
TOTAL	82	1	—	—	1	5	—

PURPOSES OF GIFTS HELD BY BOARD AND OTHERS

COMPONENT INSTITUTION	ENDOWMENT									CURRENT PURPOSE	OTHER PURPOSE
	DIST. <u>CHAIR</u>	DIST. <u>CHAIR</u>	DIST. <u>PROFSHIP</u>	DIST. <u>PROFSHIP</u>	FACULTY <u>FELLOWSHIP</u>	GRADUATE <u>FELLOWSHIP</u>	SCHOLARSHIP	OTHER			
U. T. Arlington	—	—	—	—	—	—	—	—	—	—	—
U. T. Austin	—	2	—	—	—	2	19	9	1	—	—
U. T. El Paso	—	2	—	4	—	—	4	2	2	—	—
U. T. Pan American	—	—	—	—	—	—	1	—	1	—	—
U. T. San Antonio	—	—	—	—	—	—	1	—	—	—	—
U. T. Tyler	—	—	—	—	—	—	1	—	—	—	—
U. T. SWMC-Dallas	1	1	—	—	—	—	2	3	1	1	—
U. T. M.B.-Galveston	2	1	1	—	—	—	1	2	—	—	—
UTHSC-Houston	—	—	2	2	—	—	—	—	—	—	—
UTHSC-San Antonio	—	1	—	—	—	—	1	2	—	—	—
UTMDACC	—	1	—	—	—	—	—	1	1	—	—
TOTAL	3	8	3	6	—	2	30	19	5	1	

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

OTHER ADMINISTRATIVE ACTIONS

<u>COMPONENT INSTITUTION</u>	<u>ESTABLISH ENDOWMENT</u>	<u>REDESIGNATE ENDOWMENT LEVEL</u>	<u>OTHER REDESIGNATION</u>	<u>DISSOLVE ENDOWMENT</u>	<u>APPROVE/ALLOCATE MATCHING</u>	<u>ACCEPT TRUSTEESHIP</u>	<u>OTHER</u>
U. T. Arlington	—	—	1	—	—	—	—
U. T. Austin	32	1	4	—	2	—	2
U. T. El Paso	12	—	—	—	—	—	—
U. T. Pan American	1	—	—	—	—	—	—
U. T. San Antonio	1	—	—	—	—	—	—
U. T. Tyler	1	—	—	—	—	—	—
U. T. SWMC-Dallas	8	1	—	—	2	—	—
U. T. M.B.-Galveston	5	5	—	—	1	—	—
UTHSC-Houston	4	—	1	—	3	—	—
UTHSC-San Antonio	3	1	—	—	2	—	—
UTMDACC	2	—	—	—	1	—	—
TOTAL	69	8	6	—	11	—	2

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COMPARATIVE SUMMARY OF GIFTS ACCEPTED VIA THE OFFICIAL ADMINISTRATIVE PROCESS

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COMPONENT <u>INSTITUTION</u>	FY 1995	FISCAL YEAR 1997			
	<u>FULL YEAR</u>	<u>9/1/96 - 11/30/96</u>	<u>12/1/96 - 2/28/97</u>	<u>3/1/97 - 5/31/97</u>	
U. T. System	\$ 40,000	\$ —			
U. T. Arlington	\$ 157,630	\$ —			
U. T. Austin	\$ 11,922,027	\$ 3,220,599			
U. T. Brownsville	\$ —	\$ —			
U. T. Dallas	\$ 770,000	\$ —			
U. T. El Paso	\$ 627,444	\$ 2,115,682			
U. T. Pan American	\$ —	\$ 150,000			
U. T. Permian Basin	\$ 362,077	\$ —			
U. T. San Antonio	\$ 645,959	\$ 25,000			
U. T. Tyler	\$ 886,046	\$ 25,000			
U. T. SWMC-Dallas	\$ 13,409,431	\$ 4,107,068			
U. T. M.B.-Galveston	\$ 7,392,043	\$ 1,933,594			
UTHSC-Houston	\$ 2,872,941	\$ 465,914			
UTHSC-San Antonio	\$ 1,525,008	\$ 631,753			
UTMDACC	\$ 3,267,099	\$ 741,404			
U. T. HC-Tyler	\$ 1,064,117	\$ —			
UTEP and UTMB	\$ 1,028,125	\$ —			
 TOTAL	 \$ 45,969,947	 \$ 13,416,014			

4. U. T. System: Recommendation to (a) Dissolve the Winedale Stagecoach Inn Fund and Authorize Alternative Management of Assets as Endowment and (b) Authorize Necessary Actions to Accomplish this Change.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Berdahl that the following actions be approved:

- a. Recommend to the Board of Trustees of the Winedale Stagecoach Inn Fund (a Texas public charitable trust subject to the Texas Trust Code) that Trustees dissolve the Trust and, upon dissolution and court approval, authorize the various Trust assets to be held as the Winedale Stagecoach Inn Fund Endowment to be invested in the Long Term Fund for purposes in conformance with the donor's expressed wishes as identified in documents originally establishing the Trust, with administration of the disbursed income through U. T. Austin
- b. Authorize U. T. System Executive Officers and appropriate U. T. Austin officials to implement the investment, accounting, disbursement, legal, auditing, and reporting procedures necessary to accomplish the recommended change.

BACKGROUND INFORMATION

Winedale Stagecoach Inn Fund

The Winedale Stagecoach Inn Fund ("Fund"), classified as a trust, was created by Miss Ima Hogg through a trust agreement dated March 25, 1965, which names the members of the U. T. Board of Regents as Trustees. This Trust was initially funded

with two properties known as the "Winedale Stagecoach Inn" and the "Varner Acreage." Miss Hogg subsequently conveyed additional properties to the Fund.

The purposes of the Fund are "the maintenance, support and operation of the Winedale Property as a public historical museum and as a center for the teaching and study of subjects of educational interest including architectural history, the fine arts, literature, language, social studies, and the intellectual-social history of Texas."

On August 10, 1971, Miss Hogg made an additional gift to benefit the Winedale Stagecoach Inn through a Supplemental Trust Indenture between the Varner-Bayou Bend Heritage Fund (another trust created by Miss Hogg) and the Trustees of the Fund. Separate accounting is required for these assets of the Winedale Stagecoach Inn Fund by the instrument due to a revolutionary clause. This portion of the Fund is referred to as the "Winedale Varner Bayou Bend Heritage Fund." The income from the Heritage Fund is to be used "primarily for payment of costs and expenses of programs and workshop activities and costs and expenses of the Winedale Festival conducted on the Winedale Property . . . and for payment of costs and expenses of acquiring and renovating appropriate pieces of furniture and furnishings and equipment and other objects for display or use on the Winedale Property and renovation or maintenance of the grounds and of historical buildings and improvements situated . . . on the Winedale Property."

Explanation and Impact of Recommendations

In 1992, the Offices of General Counsel, Academic Affairs, and the former Office of Asset Management identified the need to review, clarify, and update the operational structure and administration of the Winedale Stagecoach Inn Fund to match current practices and requirements. The Business Affairs and Audit Committee of the U. T. Board of Regents then asked the Executive Vice Chancellor for Academic Affairs and the Executive Vice Chancellor for Business Affairs to study and make appropriate recommendations on the management issues identified.

That study included extensive review of historical documents and past actions of the U. T. Board of Regents related to the Winedale Stagecoach Inn Fund as well as numerous discussions with U. T. Austin officials and other U. T. System Executive Officers. The recommended actions, if approved, provide needed additional clarification on the status of the Winedale Stagecoach Inn Fund and streamline its reporting and administrative structure consistent with this clarification.

a. Recommended Dissolution and Redesignation as Endowment.

The multi-tiered administrative structure for the Winedale Stagecoach Inn Fund has become cumbersome and unnecessary over time and does not reflect the current operating structure of the U. T. Board of Regents or U. T. System Administration.

Dissolution of the Trust is preferable to amendment of the By-Laws and continued operation under the trustee structure as the U. T. Board of Regents effectively manages numerous other substantial "charitable trusts" as endowments without need for a separate trust structure. Also, upon dissolution, the trust would no longer be required to file annual tax returns to the Internal Revenue Service.

If the recommendation concerning dissolution is approved, the U. T. Board of Regents, acting as the Board of Trustees, will consider the recommendation at the February 1997 meeting of the Board of Trustees scheduled in conjunction with the U. T. Board of Regents' meeting. Upon dissolution in accordance with court approval, assets would be formally transferred to be held as an endowment to be invested through The University of Texas Investment Management Company in the Long Term Fund with income to be distributed to U. T. Austin for purposes consistent with the donor's expressed wishes.

b. Authorization to Accomplish Change.

If approved by the U. T. Board of Regents and the Winedale Stagecoach Inn Fund Board of Trustees, U. T. System and U. T. Austin officials would be authorized to pursue approval of proposed actions in a legal proceeding before a district court of Travis County and to take necessary administrative actions to implement the endowment recommendations.

The recommended changes have been reviewed and approved by the Office of General Counsel and discussed with the Charitable Trusts Section of the Office of the Attorney General.

H. FOUNDATION MATTER

Winedale Stagecoach Inn Fund Agenda.--

RECOMMENDATION

It is recommended that the members of the U. T. Board of Regents convene as Trustees of the Winedale Stagecoach Inn Fund to act on the following:

- a. Authorization to dissolve the Winedale Stagecoach Inn Fund as soon as reasonably practical and, upon dissolution and court approval, authorization for the U. T. Board of Regents to hold the various corporate assets as the Winedale Stagecoach Inn Fund Endowment to be invested for purposes in conformance with the donor's expressed wishes
- b. Authorization for the President of the Winedale Stagecoach Inn Fund to take action as necessary to implement dissolution, working with U. T. System Executive Officers and U. T. Austin Administration.

BACKGROUND INFORMATION

The organizational meeting of the Winedale Stagecoach Inn Fund (Fund) was held January 16, 1965. The purpose of this Fund is to support the Winedale Historical Center located at Round Top, Texas. The Center was created by Miss Ima Hogg under the name of Winedale Stagecoach Inn and offered to the U. T. Board of Regents in March 1965.

The recommended actions, if approved, provide additional clarification on the status of the Fund and streamline its reporting and administrative structure. The multi-tiered administrative structure for the Fund has become cumbersome and unnecessary over time and does not reflect the current operating structure of the U. T. Board of Regents or U. T. System Administration. The termination of the Fund will eliminate federal tax and other accounting issues.

I. 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, 1996.--

REPORT

Pages B of R 21 - 24 contain the Summary Reports on Investments for the fiscal quarter ended November 30, 1996.

Item a on Page B of R - 21 presents the summary report for Permanent University Fund (PUF) investments. The PUF began the year with a market value of \$5.292 billion. During the quarter, income from the production of minerals on PUF Lands added \$23.9 million of new contributions to the Fund versus \$16.4 million for the first quarter of the preceding year. In addition, total investment return was \$509.9 million of which \$68.9 million was income return and \$441.0 million was price return. Income return of \$68.9 million was distributed to the Available University Fund (AUF) resulting in a quarter-end market value of \$5.757 billion.

During the period, \$23.9 million of new cash was allocated to international equities. In addition, \$25.2 million of bond runoff was reallocated to small cap value equities. The allocation to bonds continues to be reduced gradually. At period-end, the allocation to fixed income securities was 42.5% versus 44% at year-end and the Fund's long-term policy target of 30%. Period-end allocation to equities was 52% with 41% in U. S. large and mid cap stocks, 5% in U. S. small cap stocks and 6% in non-U. S. equities. The balance of 5.5% was allocated to alternative assets such as venture capital and private equities.

Income distributions to the AUF of \$68.9 million for the quarter increased by a nominal rate of 6.8% and by an inflation adjusted rate of 6.0%. Interest income from fixed income securities, which represents approximately 75% of total income generated, increased by 2.7% to \$50.2 million from \$48.9 million. Dividend income continued to grow increasing by 19.7% to \$16.4 million

from \$13.7 million, the majority of which was attributable to dividend increases. Finally, income from alternative assets increased by 31% to \$2.1 million from \$1.6 million during the period.

Total investment return for the quarter was 9.5% unannualized. Fixed income as an asset class continued to perform poorly versus equities with the Salomon Broad Bond Index generating a total return of 5.7%. The Fund's fixed income portfolio at 7.1% outperformed the index due to the longer average maturity of the portfolio versus the index. Equities, as an asset class, continued to generate higher relative returns with the S&P 500 Index posting a 16.7% return. The PUF's equity (including international) portfolios under performed this index generating a 12.1% return due to diversification into lower return mid and small cap equities. Finally, alternative assets produced a 5.4% return for the quarter, below its benchmark return of 18.0%.

Item b on Page B of R - 22 reports summary activity for the Long Term Fund (LTF). During the quarter, net contributions totaled \$24.7 million. Net investment return was \$160.8 million of which \$19.5 million was paid to the 4,300 endowment and other funds underlying the LTF. The Fund's market value closed the quarter at \$1.877 billion versus \$1.712 billion for the preceding quarter-end. On a per unit basis, each endowment's ownership in the LTF increased from \$3.90 per share to \$4.21 a share.

Asset allocation at quarter-end was 28% fixed income, 67% equities (of which 56% was U. S. domestic equities and 11% was international equities) and 5% alternative assets. Total unannualized investment return for the Fund was 9.4% and net 7.4% after expenses of 0.06%, inflation of 0.8% and spending of 1.09%.

Item c on Page B of R - 23 presents quarterly activity for the Short/Intermediate Term Fund. During the quarter, the Fund received net contributions of \$40.9 million. It earned \$52.9 million in total return, incurred expenses of \$0.1 million and distributed \$20.2 million to U. T. System component institutions. Total return on the fund was 3.9% for the quarter versus the Fund's performance benchmark of 2.8%.

Item d on Page B of R - 24 presents book and market value of cash, fixed income, equity and other securities held in funds outside of internally managed investment pools. Total cash and equivalents consisting primarily of component operating funds held in the money market fund decreased from \$602 million to \$524 million at quarter-end. Asset values for the remaining asset types were fixed income securities: \$68.9 million; equities: \$22.5 million; and other assets of \$5.0 million.

a. PERMANENT UNIVERSITY FUNDSummary Investment Report at November 30, 1996.--

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

	<u>FY95-96</u>	<u>FY96-97</u>
	<u>Full Year</u>	<u>1st Qtr</u>
Beginning Market Value	4,958.5	5,292.1
PUF Lands Receipts (2)	65.7	23.9
Investment Income	253.6	68.9
Investment Income Distributed	(253.6)	(68.9)
Realized Gains (Losses)	196.8	45.4
Change in Unrealized Gains (Losses)	71.1	395.6
Ending Market Value	5,292.1	5,757.0
 AUF Income		
Investment Income	253.6	68.9
Surface Income	4.8	1.1
Total	258.4	70.0

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

-
- (1) Excludes PUF Lands mineral and surface interests with estimated 6/30/96 values of \$410.1 million and \$158.7 million, respectively.
- (2) As of October 31, 1996: 817,158 acres under lease; 515,672 producing acres; 2,709 active leases; and 2,034 producing leases.

b. LONG TERM FUND

Summary Investment Report at November 30, 1996.--

**LONG TERM FUND
SUMMARY REPORT
(\$ millions)**

	<u>FY95-96</u>	<u>FY96-97</u>
	<u>Full Year</u>	<u>1st Qtr</u>
Beginning Net Assets	1,558.8	1,712.1
Net Contributions	54.1	24.7
Investment Return	182.3	160.8
Expenses	(3.7)	(1.1)
Distributions (Payout)	(76.4)	(19.5)
Distribution of Gain on Participant Withdrawals	(3.0)	(0.1)
Ending Net Assets	1,712.1	1,876.9
Net Asset Value per Unit	3.897	4.211
No. of Units (End of Period)	439,352,911	445,668,754
Distribution Rate per Unit	0.175	0.04375

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

c. SHORT/INTERMEDIATE TERM FUND

Summary Investment Report at November 30, 1996.--

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

	<u>FY95-96</u>	<u>FY96-97</u>
	<u>Full Year</u>	<u>1st Qtr</u>
Beginning Net Assets	1,129.5	1,332.1
Net Contributions	216.7	40.9
Investment Return	58.2	52.9
Expenses	(0.2)	(0.1)
Distributions of Income	(72.1)	(20.2)
Ending Net Assets	1,332.1	1,405.6

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

d. SEPARATELY INVESTED ASSETS

Summary Investment Report at November 30, 1996. -

**SEPARATELY INVESTED ASSETS
SUMMARY REPORT
(\$ thousands)**

ASSET TYPES	FUND TYPE												
	CURRENT PURPOSE				ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		OPERATING FUNDS		TOTAL
	DESIGNATED	RESTRICTED	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK
Cash & Equivalents:													
Beginning value 9/1/96	2,672	2,672	2,637	2,637	35,259	35,259	396	396	20	20	561,432	561,432	602,416
Increase/(Decrease)	(740)	(740)	(1,377)	(1,377)	(5,941)	(5,941)	(48)	(48)	(17)	(17)	(69,717)	(69,717)	(77,840)
Ending value 11/30/96	1,932	1,932	1,260	1,260	29,318	29,318	348	348	3	3	491,715	491,715	524,576
Debt Securities:													
Beginning value 9/1/96	10,591	10,545	7	4	34,878	34,660	7,844	7,912	-	-	29,118	29,094	82,438
Increase/(Decrease)	(7)	48	-	-	7,041	7,976	(15)	246	-	-	(21,737)	(21,613)	(14,718)
Ending value 11/30/96	10,584	10,593	7	4	41,919	42,636	7,829	8,158	-	-	7,381	7,481	68,872
Equity Securities:													
Beginning value 9/1/96	52	988	638	653	13,924	17,910	1,151	1,336	-	-	-	-	15,765
Increase/(Decrease)	-	125	(426)	(445)	526	1,786	(9)	99	-	-	-	-	91
Ending value 11/30/96	52	1,113	212	208	14,450	19,696	1,142	1,435	-	-	-	-	15,856
Other:													
Beginning value 9/1/96	-	-	485	485	(423)	(423)	5,087	5,087	(1)	(1)	-	-	5,148
Increase/(Decrease)	-	-	139	139	(201)	(201)	(111)	(111)	1	1	-	-	(172)
Ending value 11/30/96	-	-	624	624	(624)	(624)	4,976	4,976	-	-	-	-	4,976

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: Recommendation to Approve
Rescission of Investment Policy Statements for the Permanent University Fund, Long Term Fund, Short/Intermediate Term Fund, Operating Funds, and Private Placements and Adoption of New Investment Policy Statements for the Permanent University Fund, Long Term Fund, Short/Intermediate Term Fund, Short Term Fund, and Separately Invested Endowment, Trust, and Other Accounts.--

RECOMMENDATION

The Board of Directors of The University of Texas Investment Management Company recommends that the U. T. Board of Regents approve (1) rescission of the Permanent University Fund, Long Term Fund, Short/Intermediate Term Fund, Operating Funds, and Private Placements Investment Policy Statements approved February 8, 1996, and (2) adoption of the following new Investment Policy Statements:

- a. Permanent University Fund Investment Policy Statement as set out on Pages B of R 31 - 41
- b. Long Term Fund Investment Policy Statement as set out on Pages B of R 42 - 52
- c. Short/Intermediate Term Fund Investment Policy Statement as set out on Pages B of R 53 - 59
- d. Short Term Fund Investment Policy Statement as set out on Pages B of R 60 - 65
- e. Separately Invested Endowment, Trust, and Other Accounts Investment Policy Statement as set out on Pages B of R 66 - 70.

BACKGROUND INFORMATION

Section 3(a) of the Investment Management Services Agreement dated March 1, 1996, between the Board of Regents of The University of Texas System and The University of Texas Investment Management Company (UTIMCO) provides that UTIMCO shall review the investment policies of the assets under its management and recommend any amendments to such policies for approval by the U. T. Board of Regents. On October 11 and December 20, 1996, the UTIMCO Board adopted resolutions approving new Investment Policy Statements and recommending to the U. T. Board of Regents the approval of these new Policy Statements.

The Policy Statements contain guidelines for investments in approved asset classes. The rescission of the existing investment policy statements is recommended in order to unify all policy elements regarding approved asset classes into a standard fund investment policy statement. The standardization of the statements will increase consistency of policy across funds and improve the monitoring of compliance with each fund's investment policy.

The Policy Statements provide that the primary investment objective of the Permanent University Fund (PUF) and the Long Term Fund (LTF) is 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. Secondary fund objectives are to generate a Fund return in excess of (a) the Policy Portfolio benchmarks and (b) in the case of the LTF, the average median return of the universe of college and university endowments as reported annually by Cambridge Associates and NACUBO over rolling five-year periods or longer. The Policy Portfolio benchmarks are established by UTIMCO and are comprised of a blend of asset class indices weighted to reflect Fund asset allocation targets.

The Policy Statements recognize that asset allocation is the primary determinant of investment performance. Fund assets may be allocated among cash and cash equivalents, fixed income investments, and broadly defined equities (including alternative assets) in order to achieve the Fund's primary investment objective. The Policy Statements also recognize that the Fund's 5.5% real return objective for long-term funds imply a high allocation to broadly defined equities as high as 85%. Fixed income investments are limited to 50% and 25% for the PUF and LTF, respectively.

The Policy Statements for the Short/Intermediate Term Fund (S/ITF) and Short Term Fund restrict asset allocation to fixed income investments only and attempt to control risk through restrictions on maturities and credit quality. The Policy Statements for Separately Invested Endowment, Trust, and Other Accounts govern those funds where the donative instrument has restricted the investment of funds.

Each Policy Statement delegates authority to UTIMCO to establish specific asset allocation targets, ranges and performance objectives for each asset class within the broad asset allocation or other guidelines established by the U. T. Board. The UTIMCO Board of Directors has adopted the specific asset allocation policies for the PUF, LTF, and S/ITF as set forth on Pages B of R 28 - 30.

PERMANENT UNIVERSITY FUND

SPECIFIC ASSET ALLOCATION TARGETS, RANGES, AND PERFORMANCE OBJECTIVES

	<u>Target</u>	<u>Range</u>	<u>Performance Objective</u>
Cash and Equivalents	0%	0.0%-5.0%	91 day T-Bill Ave. Yield
Equities			
U. S. Common Stocks:			
Med/Large Capitalization Stocks	30%	25%-35%	S&P 500 Index
Small Capitalization Stocks	<u>10%</u>	<u>5%-15%</u>	Russell 2000 Index
sub-total	40%	30%-50%	
International Common Stocks:			
Established Markets	12%	5%-20%	FT Actuaries World (ex-U.S.)
Emerging Markets	<u>3%</u>	<u>0%-10%</u>	MSCI-Emerging Mkts. Free
sub-total	<u>15%</u>	<u>5%-30%</u>	
Total Common Stocks	55%	35%-80%	
Alternative Assets:			
Liquid	5%	0%- 5%	C.P.I. + 8%
Illiquid	15%	10%-20%	S&P500 Index + 5%
Inflation Hedging	<u>5%</u>	<u>0%-5%</u>	C.P.I. + 5%
Total Alternative Assets	25%	10%-30%	
TOTAL EQUITIES	80%	50%-85%	
Fixed Income			
U. S. (Domestic)	15%	15%-50%	Lehman Govt. Long Index
International	5%	0%-5%	JPM Global Govt.
Bond (ex U.S.)			
TOTAL FIXED INCOME	<u>20%</u>	<u>15%-50%</u>	
TOTAL ASSETS	<u>100%</u>		

Achievement of these performance objectives is most appropriately evaluated over a full market cycle of roughly five years. The rebalancing of Fund assets to achieve the target allocations shall be subject to the objective of replicating prior year's income.

LONG TERM FUND

SPECIFIC ASSET ALLOCATION TARGETS, RANGES, AND PERFORMANCE OBJECTIVES

	<u>Target</u>	<u>Range</u>	Performance <u>Objective</u>
Cash and Equivalents	0%	0.0%-5.0%	91 day T-Bill Ave. Yield
Equities			
U. S. Common Stocks:			
Med/Large Capitalization Stocks	30%	25%-35%	S&P 500 Index
Small Capitalization Stocks	<u>10%</u>	<u>5%-15%</u>	Russell 2000 Index
sub-total	40%	30%-50%	
International Common Stocks:			
Established Markets	12%	5%-20%	FT Actuaries World (ex-U.S.)
Emerging Markets	<u>3%</u>	<u>0%-10%</u>	MSCI-Emerging Mkts. Free
sub-total	<u>15%</u>	<u>5%-30%</u>	
Total Common Stocks	55%	35%-80%	
Alternative Assets:			
Liquid	5%	0%- 5%	C.P.I. + 8%
Illiquid	15%	10%-20%	S&P500 Index + 5%
Inflation Hedging	<u>5%</u>	<u>0%-5%</u>	C.P.I. + 5%
Total Alternative Assets	25%	10%-30%	
TOTAL EQUITIES	80%	75%-85%	
Fixed Income			
U. S. (Domestic)	15%	15%-25%	Lehman Govt. Long Index
International	5%	0%-5%	JPM Global Govt.
Bond (ex U.S.)			
TOTAL FIXED INCOME	<u>20%</u>	<u>15%-25%</u>	
TOTAL ASSETS	100%		

Achievement of these performance objectives is most appropriately evaluated over a full market cycle of roughly five years. The rebalancing of Fund assets to achieve the target allocations shall be subject to the funding of alternative assets.

SHORT/INTERMEDIATE TERM FUND

SPECIFIC ASSET ALLOCATION TARGETS, RANGES, AND PERFORMANCE OBJECTIVES

	<u>Target</u>	<u>Range</u>	Performance <u>Objective</u>
U.S. Treasuries	60%	0%-100%	(1)
U.S. Government Agencies	40%	0%-80%	(2)
Mortgage Backed Securities	0%	0%-60%	
STIF	0%	0%-40%	
Corporate Cash Equivalents	0%	0%-40%	
Repurchase Agreements	0%	0%-33%	
TOTAL ASSETS	100%		

(1) .1 x M.L. 91-day U.S. Treasury Bill Index + .1 x M.L. 6 mo. U.S. Treasury Bill Index + .3 x M.L. 1-3 yr. U.S. Treasury Index + .1 x M.L. 3-5 yr. U.S. Treasury Index

(2) .3 x M.L. 1-3 yr. U.S. Federal Agencies Index + .1 x M.L. 3-5 yr. U.S. Federal Agencies Index

Achievement of these performance objectives is most appropriately evaluated over a full market cycle of roughly five years.

The specific asset allocation targets adopted by the UTIMCO Board of Directors for the PUF and LTF continues the process initiated by the U. T. Board of Regents in 1995 to diversify the Fund by reducing exposure to fixed income and U. S. domestic equities and increasing the exposure to international and alternative asset classes.

**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 and Texas A&M University--Texarkana).

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 and the realized and unrealized gains earned from Fund investments. The Constitution also requires the distribution of all PUF investment income to the AUF to be expended for certain authorized purposes.

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

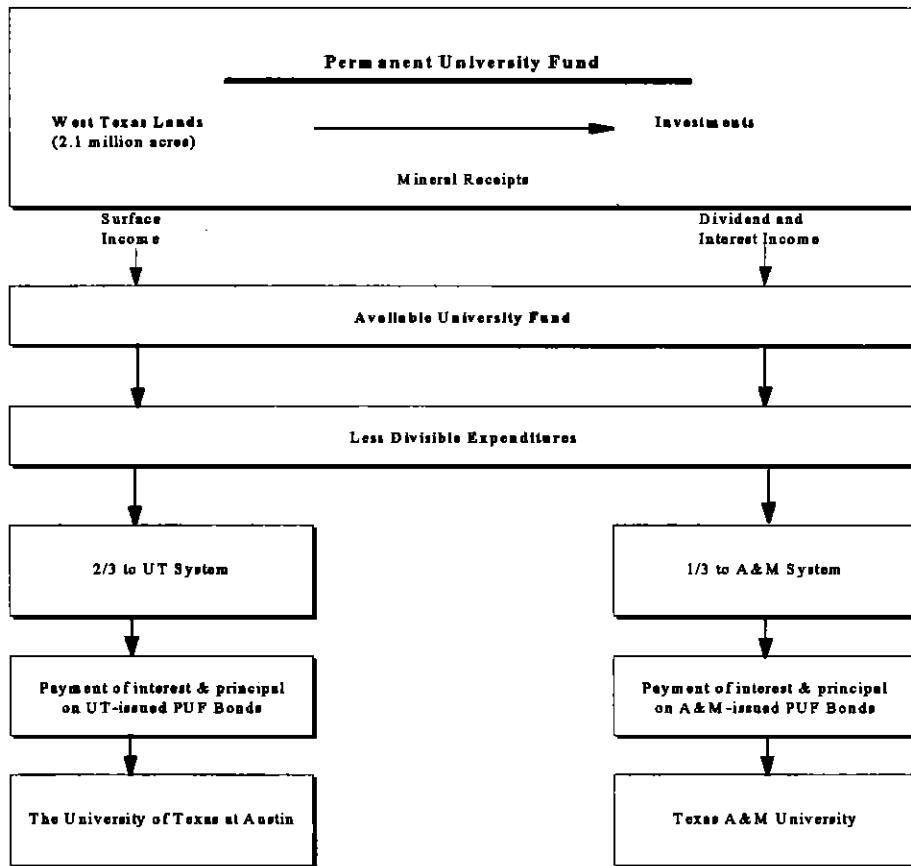
First, expenses incurred in the administration of PUF Lands and Investments. Resolutions adopted by the U. T. Board of Regents (the "U. T. Board") require that administrative expenses of the PUF be restricted to a minimum consistent with prudent business judgment. Second, following a 2/3rds and 1/3rd allocation of distributed PUF income (net of administrative expenses) 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 (the "TAMUS Board") to issue bonds payable from their respective interests in distributed PUF income 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 PUF net income for each System covers projected debt service at least 1.5 times.

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

The distribution of income and expenditures from the PUF to the AUF 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 requires that the U. T. Board, in making investments, shall exercise the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital.

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.

The U. T. Board recognizes that achievement of Fund investment objectives is substantially hindered by the inability to make distributions on a total return basis and current distribution rates in excess of long-term equilibrium levels.

Asset Allocation

Asset allocation is the primary determinant of investment performance 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:

1. **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.
2. **Fixed Income Investments** - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of Fund. 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.
3. **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.
4. **Alternative Assets** - generally consist of alternative liquid investments, alternative illiquid investments, and inflation hedging assets. Alternative asset investments shall be considered to be equities and expected to earn superior equity type returns over extended periods. The advantages of alternative investments is that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund assets through their low correlation characteristics. The disadvantages of this asset class are that they are illiquid, require higher and more complex fees, and are dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative investments shall be controlled with extensive due diligence and diversification of investments.

Alternative Marketable Investments -

These investments are broadly defined to include hedge funds, arbitrage and special situation funds, high yield bonds, distressed obligations and other non-traditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. As such, they offer faster drawdown of committed capital and earlier realization potential than alternative "illiquid" investments. Alternative marketable investments may be made through partnerships, but they will generally provide investors with liquidity at least annually.

Alternative Illiquid Investments -

These investments are generally held through limited partnership interests. They include private equity, buyout, mezzanine debt, and venture capital investments that are privately held and which are not registered for sale on public exchanges. In general, these investments require a commitment of capital for extended periods of time with no liquidity.

Inflation Hedging Assets -

This category includes oil and gas interests, real estate, commodities, and other assets whose current incomes and principal values generally increase as inflation accelerates. These investments may be made through marketable securities or illiquid investments.

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 targets for the Fund recognizes that the 5.5% real return objective implies a high allocation to broadly defined equities, including domestic, international stocks, and alternative asset investments of 50% to 90%. The allocation to Fixed Income should not exceed 50% of the Fund.

The Board delegates authority to UTIMCO to establish specific asset allocation targets 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 illiquid alternative asset 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 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 objectives 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. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment guidelines include the following:

General

- 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 may utilize Derivative Securities to simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes, to facilitate trading, to reduce transaction costs, or to seek higher investment returns when a Derivative Security is priced more attractively than the underlying security or index or to hedge risks associated with Fund investments. 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. The Fund may enter into Derivative Security contracts provided that no more than 5% of Fund assets are required as a margin deposit for such contracts. Additionally, 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. Under no circumstances may Derivative Securities be used for speculative purposes, to leverage the Fund's net assets or to otherwise increase the risk of the Fund above the level appropriate for the Fund if Derivative Securities were not being utilized.

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. 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 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 must be approved by the chief investment officer.
- Deposits of the Texas State Treasury.
- 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 with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or 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.

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 :

- Not less than 50 % of the market value of domestic fixed income securities shall be invested in securities issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies.
- Not more than 50% 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 a) rated, not less than Baa or BBB, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, Fitch Investors Service; or b) in the event that a corporate bond is not rated, it is determined by UTIMCO's investment staff to be at least equal in credit quality and liquidity to the above mentioned ratings.
- The weighted average maturity of the domestic fixed income portfolio shall be not less than ten years unless approved in advance by the UTIMCO Board.
- Not more than 25% of the Fund's fixed income portfolio may be invested in non-U. S. dollar bonds. International currency exposure may be hedged or unhedged at UTIMCO's discretion. Not more than 15% of the Fund's fixed income portfolio may be invested in bonds denominated in any one of the following currencies: Japanese Yen, German Mark, British Pound. Not more than 5% may be invested in bonds denominated in any other currency. Non-dollar bond investments shall be restricted to bonds rated Aa or better.

These guidelines shall not require the sale of any fixed income investments prior to their scheduled maturities unless the credit quality of the fixed income portfolio shall decline below Aa2.

Equities

- The Fund shall:
 - 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
 - hold no more than 5% of its equity securities in the securities of one corporation at market unless authorized by the chief investment officer.

Alternative Assets

Investments in alternative 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:

- possess specialized investment skills
- possess full investment discretion subject to the management agreement
- are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken
- align the interests of the investor group with the management as closely as possible
- charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated.

Investments in alternative 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 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 in order to preserve the purchasing power of Fund distributions and underlying assets.

The Texas Constitution requires that all dividends, interest and other income earned from Fund investments be distributed to the AUF. At the same time, the Constitution prohibits the distribution of mineral income contributed to the Fund and any realized and unrealized gains earned on such contributions.

UTIMCO shall be responsible for the establishment of the Fund's asset allocation so as to produce an annual income distribution that balances the needs of current beneficiaries with those of future beneficiaries. The Board explicitly recognizes that the generation of income under the Constitutional provisions governing the Fund is highly dependent upon the level of interest rates over which the UTIMCO Board has no control. It also recognizes that the distribution rate as a percentage of the Fund's assets is above average and that the maintenance of current levels of distributed income reduces the UTIMCO Board's ability to grow income over time.

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.

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. 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 6, 1997.

**THE UNIVERSITY OF TEXAS SYSTEM
LONG TERM FUND
INVESTMENT POLICY STATEMENT**

Purpose

The Long Term Fund (the "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 what might 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 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 Fund. The Fund shall be governed 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 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.

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.

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 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 investment performance 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:

1. **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.
2. **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.
3. **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.
4. **Alternative Assets** - generally consist of alternative liquid investments, alternative illiquid investments, and inflation hedging assets. Alternative asset investments shall be considered to be equities and expected to earn superior equity type returns over extended periods. The advantages of alternative investments is that they enhance long-term returns through investment in inefficient, complex markets. They offer reduced volatility of Fund asset values through their low correlation characteristics. The disadvantages of this asset class are that they are illiquid, require higher and more complex fees, and are dependent on the quality of external managers. In addition, they possess a limited return history versus traditional stocks and bonds. The risk of alternative investments shall be controlled with extensive due diligence and diversification of investments.

Alternative Marketable Investments -

These investments are broadly defined to include hedge funds, arbitrage and special situation funds, high yield bonds, distressed obligations and other non-traditional investment strategies whose underlying securities are traded on public exchanges or are otherwise readily marketable. As such, they offer faster drawdown of committed capital and earlier realization potential than alternative "illiquid" investments. Alternative marketable investments may be made through partnerships, but they will generally provide investors with liquidity at least annually.

Alternative Illiquid Investments -

These investments are generally held through limited partnership interests. They include private equity, buyout, mezzanine debt, and venture capital investments that are privately held and which are not registered for sale on public exchanges. In general, these investments require a commitment of capital for extended periods of time with no liquidity.

Inflation Hedging Assets -

This category includes oil and gas interests, real estate, commodities, and other assets whose current incomes and principal values generally increase as inflation accelerates. These investments may be made through marketable securities or illiquid investments.

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 targets for the Fund recognize that the 5.5% real return objective implies a high allocation to broadly defined equities, including domestic, international stocks, and alternative asset investments, of 70% to 90%. The allocation to Fixed Income should not exceed 30% of the Fund.

The Board delegates authority to UTIMCO to establish specific asset allocation targets 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 illiquid alternative asset 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 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 objectives 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. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment guidelines include the following:

General

- 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 may utilize Derivative Securities to simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes, to facilitate trading, to reduce transaction costs, or to seek higher investment returns when a Derivative Security is priced more attractively than the underlying security or index or to hedge risks associated with Fund investments. 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. The Fund may enter into Derivative Security contracts provided that no more than 5% of Fund assets are required as a margin deposit for such contracts. Additionally, 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. Under no circumstances may Derivative Securities be used for speculative purposes, to leverage the Fund's net assets or to otherwise increase the risk of the Fund above the level appropriate for the Fund if Derivative Securities were not being utilized.

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. 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 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 must be approved by the chief investment officer.
- 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 with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or 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.

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:

- Not less than 85% of the market value of domestic fixed income securities shall be invested in direct obligations of the U. S. Treasury.
- 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 a) rated, not less than Baa or BBB, or the equivalent, by any two nationally-recognized rating services, such as Moody's Investors Service, Standard & Poor's Corporation, Fitch Investors Service; or b) in the event that a corporate bond is not rated, it is determined by UTIMCO's investment staff to be at least equal in credit quality and liquidity to the above mentioned ratings.
- The duration of the domestic fixed income portfolio shall be not less than four years unless approved in advance by the UTIMCO Board.
- Not more than 25% of the Fund's fixed income portfolio may be invested in non- U. S. dollar bonds. International currency exposure may be hedged or unhedged at UTIMCO's discretion. Not more than 15% of the Fund's fixed income portfolio may be invested in bonds denominated in any one of the following currencies: Japanese Yen, German Mark, British Pound. Not more than 5% may be invested in bonds denominated in any other currency. Non-dollar bond investments shall be restricted to bonds rated Aa or better.

Equities

I. 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 market unless authorized by the chief investment officer.

Alternative Assets

Investments in alternative 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:

- II. possess specialized investment skills
- III. possess full investment discretion subject to the management agreement
- IV. are managed by principals with a demonstrated record of accomplishment and performance in the investment strategy being undertaken
- V. align the interests of the investor group with the management as closely as possible
- VI. charge fees and performance compensation which do not exceed prevailing industry norms at the time the terms are negotiated.

Investments in alternative 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 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 in order to preserve the purchasing power of 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 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:

- **Step 1**

The annual unit distribution amount (currently \$0.175 per unit) shall remain constant until this per unit amount is less than or equal to a distribution percentage of 4.5% calculated as follows:

- a) Using the most recent August 31st year-end, determine an average unit market value using the trailing 12 quarters including the year-end selected
- b) Using the most recent August 31st year-end, determine an average per unit distribution amount using the trailing 12 quarters including the year end selected
- c) Divide step b) by step a) to determine the distribution percentage. If this result is less than or equal to 4.5%, the distribution amount per unit for the next fiscal year shall be established as provided in step 2.

- **Step 2**

- A. Increase the prior year's per unit distribution amount by the average inflation rate (C.P.I.) for the past three years. This is the per unit distribution amount for the next fiscal year beginning with the fiscal year immediately following the date of the distribution recommendation by the UTIMCO Board.
- B. If the inflationary increase in Step 2 results in a distribution rate below 3.5%, 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 4.5%.
- C. If the distribution rate exceeds 5.5%, the UTIMCO Board at its sole discretion, may reduce the per unit distribution amount.

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

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.

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. 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 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.

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 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. 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 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 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 transfer of units between endowment unitholders.

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 6, 1997.

**THE UNIVERSITY OF TEXAS SYSTEM
SHORT/INTERMEDIATE TERM FUND
INVESTMENT POLICY STATEMENT**

Purpose

The Short/Intermediate Term Fund (the "Fund"), was established by the Board of Regents of The University of Texas System (the "U. T. Board") as a pooled fund for the collective investment of operating funds and other short and intermediate term funds held by U. T. System component institutions and System Administration with an investment horizon greater than one year.

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 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 Fund. The Fund shall be governed 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 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 or its agent 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.

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.

Fund Investment Objectives

The primary investment objective shall be to provide both income through investment in high grade fixed income obligations and capital appreciation when consistent with income generation, reasonable preservation of capital and maintenance of adequate Fund liquidity. In seeking to achieve its objectives, the Fund shall attempt to minimize the probability of a negative total return over a one-year period. Within the exposure limits contained herein, investments shall be diversified among authorized asset classes and issuers (excluding the U. S. Government) in order to minimize portfolio risk for a given level of expected return.

Achievement of this objective shall be defined by a fund return in excess of the Policy Portfolio benchmark and the average return of the median manager of the MorningStar universe of government bond funds restricted to an average maturity of less than or equal to three years. The 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 investment performance 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:

1. Cash and 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 the best combination of income and liquidity under both deflation and inflation conditions.
2. Fixed Income Investments - offer predictable income streams without the remarketing risk often associated with cash and cash equivalents.

Asset Allocation Policy

The asset allocation policy and ranges herein seek to protect the Fund against illiquidity in both normal and extraordinary markets.

The Board delegates authority to UTIMCO to establish specific asset allocation targets and ranges within the broad policy guidelines described above. UTIMCO may establish specific asset allocation targets and ranges for or within the asset classes listed above as well as the specific performance objectives for each asset class. Specific asset allocation policies shall be decided by UTIMCO and reported to the 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 objectives 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. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment guidelines include the following:

General

- 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 may utilize Derivative Securities to simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes, to facilitate trading, to reduce transaction costs, or to seek higher investment returns when a Derivative Security is priced more attractively than the underlying security or index or to hedge risks associated with Fund investments. 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. The Fund may enter into Derivative Security contracts provided that no more than 5% of Fund assets are required as a margin deposit for such contracts. Under no circumstances may Derivative Securities be used for speculative purposes, to leverage the Fund's net assets or to otherwise increase the risk of the Fund above the level appropriate for the Fund if Derivative Securities were not being utilized.

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. 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, 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 duration of the portfolio shall be not less than one and not more than four years unless approved in advance by the UTIMCO Board.

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 must be approved by the chief investment officer.
- 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 with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or 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.

Fixed Income

Holdings of domestic fixed income securities shall be limited to those securities issued by or fully guaranteed by the U. S. Treasury, U. S. Government-Sponsored Enterprises, or U. S. Government Agencies.

Fund Distributions

Distributions of income from the Fund to the unitholders shall be made as soon as practicable on or after the last day of each month.

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.

Valuation of Assets

UTIMCO shall determine the fair market value of all Fund net assets and the net asset value per unit of the Fund no less than once a week and on the last business day of each month. Such valuation of Fund assets shall be based on the bank trust custody agreement in effect at the date of valuation.

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 no less than once a week and on the last business day of each month 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 weekly or end of month 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 most recent weekly or end of month valuation date of the Fund.

Securities Lending

The Fund may not participate in a securities lending contract with a bank or nonbank security lending agent.

Investor Responsibility

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 6, 1997.

**THE UNIVERSITY OF TEXAS SYSTEM
SHORT TERM FUND
INVESTMENT POLICY STATEMENT**

Purpose

The Short Term Fund (the "Fund") was established by the Board of Regents of The University of Texas System (the "U. T. Board") as a pooled fund for the collective investment of operating funds and other short and intermediate term funds held by U. T. System component institutions and System Administration with an investment horizon less than one year.

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 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 Fund. The Fund shall be governed 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 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 or its agent 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.

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.

Fund Investment Objectives

The primary investment objective shall be to maximize current income consistent with the absolute preservation of capital and maintenance of adequate Fund liquidity. The Fund shall seek to maintain a net asset value of \$1.00.

Achievement of this objective shall be defined as a fund return in excess of the average gross return of the median manager of the Donoghue's universe of institutional only money market funds.

Asset Allocation

Asset allocation is the primary determinant of investment performance 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 class:

Cash and 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 the best combination of income and liquidity under both deflation and inflation conditions.

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 objectives 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. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment guidelines include the following:

General

- All investments will be U. S. dollar denominated assets.
- 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 may utilize Derivative Securities to simulate the purchase or sale of an underlying market index while retaining a cash balance for fund management purposes, to facilitate trading, to reduce transaction costs, or to seek higher investment returns when a Derivative Security is priced more attractively than the underlying security or index or to hedge risks associated with Fund investments. 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. The Fund may enter into Derivative Security contracts provided that no more than 5% of Fund assets are required as a margin deposit for such contracts. Under no circumstances may Derivative Securities be used for speculative purposes, to leverage the Fund's net assets or to otherwise increase the risk of the Fund above the level appropriate for the Fund if Derivative Securities were not being utilized.

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. 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, 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 weighted average maturity of the portfolio shall be not be more than 90 days. Individual securities shall have a remaining maturity not longer than 397 days.

Cash and Cash Equivalents

- Unaffiliated liquid investment funds must be approved by the chief investment officer.
- 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 with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or 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.

- The weighted average maturity of the portfolio shall be not be more than 90 days. Individual securities shall have a remaining maturity not longer than 397 days. The maturity of a portfolio security shall be deemed to be the period remaining (calculated from the trade date or such other date on which the Fund's interest in the security is subject to market action) until the date noted on the face of the security as the date on which the principal amount must be paid, or in the case of a security called for redemption, the date on which the redemption payment must be made, except that a) a variable rate security, the principal amount of which is scheduled on the face of the security to be paid in 397 days or less, shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate; b) a variable rate security that is subject to a demand feature shall be deemed to have a maturity equal to the longer of the period remaining until the next readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand; c) a floating rate security that is subject to a demand feature shall be deemed to have a maturity equal to the period remaining until the principal amount can be recovered through demand; d) a repurchase agreement shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur, or, where no date is specified, but the agreement is subject to a demand, the notice period applicable to a demand for the repurchase of the securities. A demand feature shall mean a put that entitles the holder to receive the principal amount of the underlying security or securities and that may be exercised either at any time on no more than 30 days notice or at specified intervals not exceeding 397 days and upon no more than 30 days notice.

Fund Distributions

Distributions of income from the Fund to the unitholders shall be made as soon as practicable on or after the last day of each month.

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.

Valuation of Assets

As of the close of business on each business day, UTIMCO shall determine the fair market value of all Fund net assets. Such valuation of Fund assets shall be based on the bank trust custody agreement in effect at the date of valuation.

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 each business day upon payment of cash to the Fund or contribution of assets approved by the chief investment officer, at \$1.00 per unit of the Fund as of the most recent 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 may be made on each business day at \$1.00 per unit.

Securities Lending

The Fund may not participate in a securities lending contract with a bank or nonbank security lending agent.

Investor Responsibility

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 6, 1997.

**THE UNIVERSITY OF TEXAS SYSTEM
SEPARATELY INVESTED ENDOWMENT, TRUST, AND OTHER ACCOUNTS
INVESTMENT POLICY STATEMENT**

Purpose

The Separately Invested Endowment, Trust, and Other Accounts are Accounts established in the name of the Board of Regents of The University of Texas System (the "Board") as trustee, and are Accounts which are not invested in one of the pooled investment vehicles. These Accounts are not invested in the pooled investment vehicle because a) they are charitable trusts; b) of investment restrictions incorporated into the endowment document; c) of inability to sell the gifted investment asset; or d) they are assets being migrated upon liquidation into a pooled investment vehicle.

Investment Management

Ultimate fiduciary responsibility for the assets of the Accounts 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 institutional assets for the Account (endowment and operating accounts). The applicable trust instrument will apply to the management of trust investments. The assets for the Account shall be governed through The University of Texas Investment Management Company ("UTIMCO") which shall a) recommend investment policy for the Accounts, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with the Account objectives, and if appropriate c) monitor the Account's performance against Account objectives. UTIMCO shall invest the Account's assets in conformity with investment policy.

Unaffiliated investment managers may be hired by UTIMCO to improve the Account'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.

Account 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 assets in the Account shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

Investment Objectives

Endowment Accounts-The primary investment objective shall be to invest the Account in assets that comply with the terms of the applicable endowment agreement, taking into consideration the investment time horizon of the Account.

Trust Accounts-Trust Accounts are defined as either Foundation Accounts or Charitable Trusts (Charitable Remainder Unitrusts (CRUT), Charitable Remainder Annuity Trusts (CRAT), Pooled Income Funds (PIF), Charitable Trusts (CT), or Charitable Lead Trusts (CLT)). The Board recognizes that the investment objective of a trust is dependent on the terms and conditions as defined in the trust document of each trust. The conditions that will affect the investment strategy are a) the trust payout provisions; b) the ages of the income beneficiaries; c) the ability to sell the gifted assets that were contributed to the trust; d) and consideration to investment preferences of the income beneficiaries. Taking these conditions into consideration, the fundamental investment objectives of the trust will be to generate a low to moderate growth in trust principal and to provide adequate liquidity in order to meet the payout provisions of the trust.

Operating Accounts- These are separately invested securities of component institutions' operating funds that were purchased prior to the creation of the S/ITF. These securities are guaranteed by the government or federally sponsored agencies. Once these securities mature, the component institutions have the option to invest them in one of the pooled investment fund vehicles.

Asset Allocation

Asset allocation is the primary determinant of investment performance and subject to the asset allocation ranges specified by UTIMCO. Specific asset allocation targets may be changed from time to time based on the economic and investment outlook.

If appropriate, the Account's assets shall be allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

1. **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.
2. **Fixed Income Investments** - offer the best protection for hedging against the threat of deflation by providing a dependable and predictable source of income for the Account. Such bonds should be high quality, 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. This classification shall include fixed income mutual funds.

3. Equities - provide both current income and growth of income, but their principal purpose is to provide appreciation for the Account. 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 Account. This classification shall include equity mutual funds.

Variable Annuities- These are insurance contracts purchased on the life or lives of the income beneficiaries and for which the funds underlying the contract are invested in various mutual funds which offer diversification of the Account's assets. These contracts offer some downside market risk protection in case of the income beneficiary's death in the early years of the contract. These investment assets are only appropriate for the charitable remainder trusts.

Asset Allocation Policy

The asset allocation policy and ranges for each trust or endowment herein is dependent on the terms and conditions of the endowment or trust document. If possible, the Account's assets shall be diversified among different types of assets whose returns are not closely correlated in order to enhance the return/risk profile of the Account.

The Board delegates authority to UTIMCO to establish specific asset allocation targets and ranges for each trust or endowment Account.

Performance Measurement

The investment performance of the actively managed Accounts, where cost effective, will be calculated and evaluated annually.

Investment Guidelines

The Accounts must be invested at all times in strict compliance with applicable law. The primary and constant standard for making investment decisions is the "Prudent Person Rule."

Investment guidelines include the following:

General

- 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 Account's assets in such liquid investment Fund.

- No securities may be purchased or held which would jeopardize, if applicable, the Account'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.

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 must be approved by the chief investment officer.
- 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 with a domestic dealer selected by the Federal Reserve as a primary dealer in U. S. Treasury securities; or 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.

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. These securities should be of investment quality at time of purchase.

Distributions

Distributions of income or amounts from the Accounts to the beneficiaries shall be made as soon as practicable, either a) based on the terms of the trust instrument; b) following the fiscal quarter end for endowments; c) on or after the last day of the month for operating Accounts.

Accounting

The fiscal year of the Accounts shall begin on September 1st and end on August 31st. Trusts will also have a tax year end which may be different than August 31st. Market value of the Accounts shall be maintained on an accrual basis in compliance with Financial Accounting

Standards Board Statements, Government Accounting Standards Board Statements, industry guidelines, or federal income tax laws, whichever is applicable. Significant asset write-offs or write-downs shall be approved by the chief investment officer and reported to the UTIMCO Board.

Valuation of Assets

As of the close of business for each month, UTIMCO shall determine the fair market value of all assets in the Accounts. Such valuation of assets shall be based on the bank trust custody agreement in effect or other external source if not held in the bank custody account at the date of valuation.

Securities Lending

The Account 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 Accounts 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 Account 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 Account. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the Account solely in the interest of the beneficiaries and shall not invest the Account 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 6, 1997.

J. 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 Rapoport
Vice-Chairman Hicks, Vice-Chairman Smiley
MSA Page Ex.C - 1

Business Affairs and Audit Committee: Chairman Smiley, Regent Clements, Regent Hicks
MSA Page BAAC - 1

Academic Affairs Committee: Chairman Lebermann
Regent Evans, Regent Temple
MSA Page AAC - 1

Health Affairs Committee: Chairman Loeffler
Regent Clements, Regent Temple
MSA Page HAC - 1

Facilities Planning and Construction Committee:
Chairman Temple, Regent Holmes, Regent Lebermann
MSA Page FPCC - 1

K. RECONVENE AS COMMITTEE OF THE WHOLE

L. ITEM FOR THE RECORD

U. T. Medical Branch - Galveston: Appointment of Advisory Committee for the Selection of a Chief Administrative Officer (President).--

REPORT

The membership of the Advisory Committee for the Selection of a Chief Administrative Officer (President) for The University of Texas Medical Branch at Galveston is herewith reported for the record. This committee has been constituted pursuant to the Regents' Rules and Regulations, Part One, Chapter II, Section 13.

Advisory Committee for the Selection
of a Chief Administrative Officer
for
The University of Texas Medical Branch at Galveston

System Administration Representatives

Chancellor William H. Cunningham
Executive Vice Chancellor for Health Affairs
Charles B. Mullins, M.D. (Chairman)

Board of Regents

Regent Tom Loeffler
Regent Martha E. Smiley

Chief Administrative Officers

Kern Wildenthal, M.D., President, The University of Texas
Southwestern Medical Center at Dallas
John P. Howe, III, M.D., President, The University of
Texas Health Science Center at San Antonio

Faculty Representatives

Alice T. Hill, RN, Ph.D., School of Nursing
Adrian A. Perachio, Ph.D., School of Medicine
Barbara L. Thompson, M.D., School of Medicine

Dean

Mary V. Fenton, RN, Ph.D., Dean, School of Nursing

Student Representatives

Miss Melissa Phillips, Graduate School of Biomedical Sciences

Mr. Jim Duong, School of Medicine

President of the Alumni Association

Jim Rohack, M.D., FACC, FACP, President, Alumni Association, UTMB School of Medicine

Nonfaculty Employees

Mr. Michael R. Shriner, Director, Facilities Planning

Ms. Mary D. Brewer, Chief Clerk Hospital Patient Financial Services - Admitting

Community/External Representatives

Miss Marie Hall

Mr. Harris L. "Shrub" Kempner, Jr.

Mr. Charles A. Worthen

M. REPORT OF BOARD FOR LEASE OF UNIVERSITY LANDS

REPORT

The Board for Lease of University Lands met on Tuesday, November 12, 1996, in the Regents' Meeting Room on the ninth floor of Ashbel Smith Hall in Austin, Texas, for a general business meeting and to hold the Regular Oil and Gas Lease Sale No. 90, Special Oil and Gas Lease Sale, and the Frontier Oil and Gas Lease Sale No. 90-A.

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

- a. Regular Oil and Gas Lease Sale No. 90 and Special Oil and Gas Lease Sale: 86,550 acres of Permanent University Fund lands were nominated for lease. Bonuses in the amount of \$6,321,008 were paid for leases covering 43,961 acres. No bids were received on 42,589 acres.
- b. Frontier Oil and Gas Lease Sale No. 90-A: All available Frontier acreage (467,926 acres in El Paso, Hudspeth, and Terrell Counties) was offered for lease. A bonus in the amount of \$10,108 was paid for one lease covering 2,739 acres. No other bids were received.
- c. Total bonuses paid were \$6,331,116.

Following is a report on the general business meeting:

- a. Approved the Minutes of the Board for Lease meeting of May 14, 1996
- b. Approved tracts offered in Regular Oil and Gas Lease Sale No. 90, Special Oil and Gas Lease Sale, and Frontier Oil and Gas Lease Sale No. 90-A
- c. Approved lease awards to highest bidders in Regular Oil and Gas Lease Sale No. 90, Special Oil and Gas Lease Sale, and Frontier Oil and Gas Lease Sale No. 90-A

- d. Approved the recommended procedures and terms for Regular Oil and Gas Lease Sale No. 91 to be held on May 13, 1997, and authorized development of a home page on the Internet for the Board for Lease
- e. Adopted a revised gas royalty clause and recommended that the School Land Board adopt it also
- f. Authorized a detailed study of appropriate and desirable changes to the Texas Education Code, Chapter 66, Subchapter D, relating to the functions of the Board for Lease and any necessary changes to the Board's Rules that may be required by any such statutory changes
- g. Forfeited University Lease Nos. 73638, 73639, and 82961, subject to reinstatement of each forfeited lease if lessee submits all documents and pays all amounts then due under such lease on or before thirty (30) days after the declaration of forfeiture
- h. Received report on status of production and development in Shafter Lake Clearfork Unit, Andrews County, Texas
- i. Approved Unit Agreement, M.A.K. (Spraberry) Unit, in Andrews and Martin Counties, Texas
- j. Received a report on the take in-kind crude oil sale held October 14, 1996, approved contracts dated effective December 1, 1996, and approved continuation of the take in-kind crude oil royalty program as currently managed. The take in-kind crude oil program represents approximately 60% of the University royalty oil production. Since the program's inception in 1990, there has been a total net revenue enhancement of \$5,389,664. Requested staff to undertake a study to determine which lessees are paying posted price and which are paying posted price plus.

- k. Received a report on the take in-kind gas royalty sale held July 15, 1996, and approved contracts dated effective August 1, 1996. Approved continuation of the take in-kind gas royalty program as currently managed. The take in-kind gas royalty program represents approximately 7% of the University royalty gas production.
- l. Received the results of the internal audit of the University Lands Accounting Office performed by the Audit Office of The University of Texas System. The overall opinion was that revenues from 1996 West Texas Operations deposited to the Permanent University Fund are fairly stated in the accounting records. The only recommendation from the Audit Office was that the University Lands Accounting Office complete its reconciliation on a timely basis. Directed staff to prepare for review by the Board for Lease a proposal to be presented to outside auditing firms to perform an audit of oil and gas leasing practices, policies, and procedures.
- m. Received report detailing deposits to the Permanent and Available University Funds for Fiscal Year 1996
- n. Received a memorandum from staff indicating that it is not practicable to alter the current procedure for depositing proceeds from lease sales
- o. Received staff recommendation that no action be taken to implement annual reporting procedures.

N. OTHER MATTERS

U. T. System: Annual Report of the Activities of the Faculty Advisory Council.--

REPORT

U. T. System Faculty Advisory Council Chair Alan Cline, Professor in the Department of Computer Sciences and David Bruton, Jr., Centennial Professor in Computer Sciences (#2) at U. T. Austin, will make a short presentation concerning the Council's activities during the past year.

O. SCHEDULED EVENTS

1. Board of Regents' Meetings

<u>Dates</u>	<u>Locations/Hosts</u>
May 8, 1997	U. T. Health Science Center - San Antonio
August 14, 1997	U. T. Dallas
November 13, 1997	U. T. Brownsville

2. Official Commencements - 1997

May 9	U. T. Tyler U. T. Nursing School - Houston
May 10	U. T. Pan American U. T. Permian Basin U. T. San Antonio
May 16	U. T. Brownsville
May 17-18	U. T. Arlington
May 17	U. T. Austin U. T. Dallas U. T. El Paso
May 24	U. T. Medical School - Galveston U. T. Nursing School - San Antonio
May 31	U. T. Southwestern Medical School - Dallas and U. T. Southwestern G.S.B.S. - Dallas

3. Other Events

September 4, 1997 U. T. M.D. Anderson
 Cancer Center:
 Faculty Honors
 Convocation

P. OTHER BUSINESS

Q. ADJOURNMENT

1997 CALENDAR

January 1997						February 1997						March 1997						April 1997									
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	
1	2	3	4				1	2	3	4	5	6	7	8		1	2	3	4	5	6	7	8	9	10	11	12
5	6	7	8	9	10	11	2	3	4	5	6	7	8		2	3	4	5	6	7	8	9	10	11	12	13	
12	13	14	15	16	17	18	9	10	11	12	13	14	15		9	10	11	12	13	14	15	16	17	18	19	20	
19	20	21	22	23	24	25	16	17	18	19	20	21	22		16	17	18	19	20	21	22	23	24	25	26	27	
26	27	28	29	30	31		23	24	25	26	27	28		23	24	25	26	27	28	29		27	28	29	30		
May 1997						June 1997						July 1997						August 1997									
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	
							1	2	3	4	5	6	7		1	2	3	4	5		1	2	3	4	5	6	
4	5	6	7	8	9	10	8	9	10	11	12	13	14		6	7	8	9	10	11	12	3	4	5	6	7	8
11	12	13	14	15	16	17	15	16	17	18	19	20	21		13	14	15	16	17	18	19	10	11	12	13	14	15
18	19	20	21	22	23	24	22	23	24	25	26	27	28		20	21	22	23	24	25	26	17	18	19	20	21	22
25	26	27	28	29	30	31	29	30							27	28	29	30	31								31
September 1997						October 1997						November 1997						December 1997									
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	
1	2	3	4	5	6			1	2	3	4									1							
7	8	9	10	11	12	13	5	6	7	8	9	10	11		2	3	4	5	6	7	8	7	8	9	10	11	12
14	15	16	17	18	19	20	12	13	14	15	16	17	18		9	10	11	12	13	14	15	14	15	16	17	18	19
21	22	23	24	25	26	27	19	20	21	22	23	24	25		16	17	18	19	20	21	22	21	22	23	24	25	26
28	29	30					26	27	28	29	30	31			23	24	25	26	27	28	29	28	29	30	31		

Executive Committee

EXECUTIVE COMMITTEE
Committee Chairman Rapoport

Date: February 6, 1997

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

Place: Second Floor Conference Room, Ashbel Smith Hall

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Ex.C

Business Affairs & Audit Committee

BUSINESS AFFAIRS AND AUDIT COMMITTEE
Committee Chairman Smiley

Date: February 6, 1997
Time: Following the Meeting of the Executive Committee
Place: Second Floor Conference Room, Ashbel Smith Hall

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1. U. T. System: Recommendation to Approve Chancellor's Docket No. 88.--

RECOMMENDATION

It is recommended that Chancellor's Docket No. 88 be approved.

It is requested that the committee confirm that authority to execute contracts, documents, or instruments approved therein has been delegated to the officer or official executing same.

2. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part Two, Chapters I, VIII, IX, and XI Relating to Authority of the Chief Administrative Officers to Accept Certain Gifts, Authority to Approve Construction Funding, and Authority of the Vice Chancellor and General Counsel to Settle Legal Matters.--

RECOMMENDATION

The U. T. System Process Review Committee, with the concurrence of the Chancellor, recommends that the Regents' Rules and Regulations, Part Two, Chapters I, VIII, IX, and XI be amended as set forth below to clarify (1) the authority of the chief administrative officers to accept certain gifts, (2) the authority of the Chancellor to approve funding for construction costs up to ten percent above the Total Project Cost approved by the U. T. Board of Regents, and (3) the authority of the Vice Chancellor and General Counsel to settle legal matters:

- a. Part Two, Chapter I (General)

Amend Section 1, Subsection 1.3, relating to authority of the chief administrative officers to accept gifts, as set forth below in congressional style:

- 1.3 The Board delegates to the chief administrative officer, or a designee specified in writing, authority to accept gifts that are not

processed or administered by the Office of Development and External Relations and that conform to all relevant laws and Board policies, including but not limited to the System Gifts Policy Guidelines and approved institutional policies, provided that such gifts [are not processed, managed, or administered by the Office of Development and External Relations, are unrestricted or are restricted only as to a particular college, school, or unit, and] have a value of [less than] \$500,000 or less (in cash or in kind). Such gifts that have a value of more than \$500,000 (in cash or in kind) must be submitted to the Board for approval via the docket.

b. Part Two, Chapter VIII (Physical Plant Improvements)

Amend Section 2, Subsection 2.1, Subdivision 2.16, relating to construction funding requirements, as set forth below in congressional style:

2.16 The Chancellor or delegate shall approve the construction contractor's estimates, sign change orders, and provide general supervision of all Major Projects. ~~[To meet funding requirements in excess of the Total Project Cost approved by the Board, t]~~ The Chancellor with the advice of the appropriate Executive Vice Chancellor and chief administrative officer is authorized to increase the approved Total Project Cost not more than ten percent. To provide funding for the increase, the Chancellor may reallocate funding between or among approved projects at a single component if funding for such projects has previously been authorized in accordance with Subdivision 2.13[, provided that costs do not exceed the Total Project Cost approved by the Board plus ten percent] or approve funding from some other source available to the component.

c. Part Two, Chapter IX (Matters Relating to Investments, Trusts, and Lands)

1. Amend Section 1, Subsections 1.2 and 1.3, relating to acceptance of certain gifts and bequests, as set forth below in congressional style:
 - 1.2 All assets received by the Board to establish, or that modify, an endowment (other than the Permanent University Fund), a fund functioning as an endowment, or a life income or annuity fund shall be accepted and processed by the Office of Development and External Relations and, after acceptance and processing, shall be delivered to the appropriate office for management.
 - 1.3 All assets received by the Board through a bequest, a distribution from an account held in trust by others, or for the establishment or modification of any planned gift shall be accepted and processed by the Office of Development and External Relations and, after acceptance and processing, shall be delivered to the appropriate office for management. This Subsection and Subsection 1.2 shall not apply to additions to an existing endowment, a fund functioning as an endowment, or a life income or annuity fund if the addition does not change or modify the endowment or fund. Such additional gifts shall be accepted and processed by the chief administrative officer, or designee specified in writing.
2. Amend Section 6, Subsection 6.8, relating to gifts and bequests, as set forth below in congressional style:
 - 6.8 Gifts and Bequests.--The Office of Development and External Relations shall accept and process real property received via a bequest or planned gift, from an account held in trust by others, or to establish an endowment, a fund functioning as an endowment, or a life income or annuity fund.] The Office of Development and External Relations or the chief administrative officer, as appropriate, shall

coordinate the acceptance, receipt, and processing of all gifts or bequests of [such] real estate with the System Real Estate Office and upon completion of such processing transfer same to the System Real Estate Office for management.

d. Part Two, Chapter XI (Contract Administration)

Amend Section 3, Subsections 3.1 and 3.2, relating to legal matters, as set forth below in congressional style:

- 3.1 Contracts for Legal Services.--The Board delegates to the Vice Chancellor and General Counsel authority to execute and deliver on behalf of the Board contracts for legal services and such other services as may be necessary or desirable in connection with the settlement or litigation of a dispute or claim after obtaining [any necessary] approvals as may be required by law [from the Office of the Attorney General].
- 3.2 Settlement of Disputes.--Except as provided in Subsection 3.3 of this Section, the Board delegates to the Vice Chancellor and General Counsel authority to execute and deliver on behalf of the Board [agreements for legal services with outside counsel and] agreements settling any claim, dispute, or litigation subject to approval of System officials as set out below and compliance with all other legal requirements [with a third party in the following amounts]. The Vice Chancellor and General Counsel shall consult with the chief administrative officer and the appropriate Executive Vice Chancellor with regard to all significant settlements that will be paid out of institutional funds. The Vice Chancellor and General Counsel shall consult with the

Office of Development and External Relations
with respect to settlement of will contests and
other matters relating to gifts and bequests
administered by that Office.

<u>Amount</u>	<u>Additional Requirements</u>
\$150,000 or less	None
\$150,001 to \$300,000	Concurrence of the Chancellor or the appropriate Executive Vice Chancellor
\$300,001 to \$500,000	Concurrence of the Chairman of the Board
More than \$500,000	Concurrence of the Board of Regents, the Executive Committee, or the appropriate standing committee of the Board

The amount of the settlement shall mean the amount claimed by U. T. System but not received pursuant to the settlement or, in the case of a claim against U. T. System, the total settlement amount to be paid by U. T. System.

BACKGROUND INFORMATION

These proposed amendments to the Regents' Rules and Regulations clarify provisions relating to the authority of the chief administrative officers to accept certain gifts, including current purpose gifts of \$500,000 or less, the authority of the Chancellor to allocate funding for construction costs in excess of the approved Total Project Cost, and the authority of the Vice Chancellor and General Counsel to take actions necessary to settle claims, disputes, and litigation.

These amendments are proposed to further implement actions taken by the U. T. Board of Regents at the May 1996 meeting where it was agreed in principle that the authority to execute a variety of contracts and agreements would be delegated to U. T. System Administration or component officials within specific guidelines, conditions, and restrictions. The authority to execute contracts and agreements was broadly implemented by actions taken by the U. T. Board of Regents at a special called meeting on August 29, 1996.

This overall initiative is part of the cost-saving programs recommended by the U. T. System Process Review Committee, chaired by Regent Lebermann, and provides an efficient method for the U. T. Board of Regents to delegate certain contracting authority as authorized by Section 65.31(g) of the Texas Education Code. Implementation of this delegated authority will be monitored periodically through routine reviews and audits.

The proposed amendments contain substantive and editorial corrections as summarized below:

- a. Regents' Rules and Regulations, Part Two, Chapter I (General) -- Clarifies authority of the chief administrative officers to accept any gift in the amount of \$500,000 or less that is not a planned gift or bequest and does not establish or modify an endowment, a fund functioning as an endowment, or a life income or annuity fund. The acceptance of unrestricted and restricted current purpose gifts valued below a specified amount by the chief administrative officer is consistent with prior Regents' Rules and Regulations.
- b. Regents' Rules and Regulations, Part Two, Chapter VIII (Physical Plant Improvements) -- Clarifies that the Chancellor may, in addition to reallocating funds among approved construction projects, approve other sources of funding for construction costs that exceed the Total Project Cost approved by the Board by up to ten percent.
- c. Regents' Rules and Regulations, Part Two, Chapter IX (Matters Relating to Investments, Trusts, and Lands) -- Clarifies that additions to planned gifts and gifts of real estate valued at \$500,000 or less that are not given to establish or modify an endowment or other planned gift shall be accepted and processed by the chief administrative officer.

- d. Regents' Rules and Regulations, Part Two, Chapter XI (Contract Administration) -- Clarifies the authority of the Vice Chancellor and General Counsel to execute contracts for services that are necessary or desirable in connection with the settlement or litigation of claims and disputes. Such services might include the services of a mediator or expert witness, for example. The proposed revisions also clarify how the limits of settlement authority granted to the Vice Chancellor and General Counsel will be determined.
3. U. T. System: Request for Authorization to Renew the Catastrophic Commercial Property Insurance Coverage for the Comprehensive Property Protection Plan with Arkwright Mutual Insurance Company, Waltham, Massachusetts.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the catastrophic commercial property insurance policy, which is an integral part of the U. T. System Comprehensive Property Protection Plan, be renewed with Arkwright Mutual Insurance Company, Waltham, Massachusetts, for the period November 9, 1996 through November 9, 1997, with an annual premium of \$1,339,833, based on reported insured values of \$7.4 billion.

BACKGROUND INFORMATION

Since 1971, the policy of the U. T. System has been to acquire commercial property insurance only for buildings with revenue-producing activities or those buildings the revenues of which are pledged for the retirement of bond indebtedness. Effective November 9, 1995, U. T. System initiated a Comprehensive Property Protection Plan that extended insurance coverage to all its buildings and contents.

The Comprehensive Property Protection Plan offers:

- a. A \$100,000 to \$250,000 per loss occurrence component deductible, except for a special wind/flood deductible for the U. T. Medical Branch - Galveston resulting from a named tropical depression, storm, or hurricane
 - b. A \$5 million (minimum level) loss reserve fund
 - c. Catastrophic all risk property insurance for all losses exceeding the annual \$5 million aggregate to a maximum of \$1 billion per loss occurrence
 - d. Risk assessment and loss control reporting
 - e. Contributions to the loss reserve fund by all components of the U. T. System
 - f. A flexible, stable, and cost effective program not available in the commercial insurance marketplace.
4. U. T. System: Recommendation to Approve a Liquidity Provider for the Permanent University Fund Variable Rate Notes, Series A and Adopt a Rule Authorizing Appropriate Officials to Execute All Credit Agreements Between the U. T. Board of Regents and the Liquidity Providers.--

RECOMMENDATION

A recommendation for a Liquidity Provider will be presented at the U. T. Board of Regents' meeting for approval. The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. Board of Regents adopt a rule authorizing the Chancellor or his delegate to execute all Credit Agreements for the Permanent University Fund Variable Rate Notes, Series A between the U. T. Board of Regents and the approved Liquidity Providers.

BUSINESS AFFAIRS AND AUDIT COMMITTEE

SUPPLEMENTAL MATERIAL

FEBRUARY 6, 1997

4. U. T. System: Recommendation to Approve a Liquidity Provider for the Permanent University Fund Variable Rate Notes, Series A and Authorize Appropriate Officials to Execute All Credit Agreements Between the U. T. Board of Regents and the Liquidity Provider.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. Board of Regents approve the selection of Westdeutsche Landesbank Girozentrale as the Liquidity Provider for the Permanent University Fund Variable Rate Notes, Series A, for the U. T. System. It is also recommended that the Chancellor or his delegate be authorized to execute all Credit Agreements for the Permanent University Fund Variable Rate Notes, Series A between the U. T. Board of Regents and the approved Liquidity Provider.

BACKGROUND INFORMATION

On January 22, 1997, four proposals were received in response to the December 18, 1996, request for proposals for a Liquidity Facility for the Permanent University Fund Variable Rate Notes, Series A, for the U. T. System. Proposals were received from Westdeutsche Landesbank Girozentrale, Morgan Guaranty Trust Company of New York, Union Bank of Switzerland, and Credit Suisse First Boston. Each proposal was evaluated based on four factors which include price of the facility, the credit rating of the bank, the effect on the interest rate of the Permanent University Fund Variable Rate Notes using each of the banks, and the banks' experience with Texas clients.

In determining the price of the facility, the projected PUF borrowings were reviewed. Based on the projection, the estimated fee for a three-year bank commitment (assuming the PUF bond ratings remain AAA) resulted in the lowest fee being offered by Westdeutsche Landesbank. The proposed fee is 8.5 basis points on the portion of the commitment utilized and 5 basis points for the unutilized portion. For the three-year period, the fee is projected to be \$349,000 if the Texas State Comptroller commitment is maintained, and \$388,000 if the Comptroller commitment is replaced with Westdeutsche Landesbank.

All four banks have credit ratings in the two highest rating categories. Westdeutsche Landesbank submitted their proposal as Agent for a syndicate of banks consisting of Westdeutsche Landesbank Girozentrale (Aa/P-1(VMIC1; AA+/A1+), Bayerische Landesbank Girozentrale (Aaa/P-1(VMIG1; AAA/A1+) and Landesbank Hessen-Thuringen Girozentrale (Aaa/P-1(VMIG1; AAA/A1+) with each acting through its New York branch. The Moody's and Standard & Poor's rating for each is listed after the name of the bank. Westdeutsche Landesbank is among the top thirty largest banks in the world by asset size and is ranked the third largest bank in Germany. As a German state bank, Westdeutsche Landesbank obligations are backed by the guarantee of the German state of North Rhine-Westphalia. Under the German Constitution, the obligations of the German states are guaranteed by the Federal Republic of Germany. The bank currently provides liquidity for short-term debt of the City of Houston and the San Antonio Water System.

Goldman Sachs (Remarketing Agent for the PUF Notes) stated that all four of the banks are well perceived by the market but would rank the banks as follows: Landesbanks, Union Bank of Switzerland, Morgan Guaranty, and Credit Suisse. Its ranking is based on the amount of short-term debt in the market that is backed by each of the banks. The greater the amount of debt backed by the bank, the greater the risk that the bank will not be able to provide the liquidity in a timely manner if market conditions deteriorate. In addition, all four banks have clients and experience in Texas.

Based on an evaluation of all four factors, Westdeutsche Landesbank Girozentrale offered the lowest cost given the projected borrowing schedule and it has equivalent or better credit ratings than the other banks submitting proposals.

BACKGROUND INFORMATION

The Board has authorized Permanent University Fund Notes, Series A ("Notes") to be issued in an amount not to exceed \$250,000,000. The Board currently has \$100,000,000 of Notes outstanding. A Credit Agreement in the amount of \$100,000,000 with the State of Texas Comptroller - Treasury Division provides the liquidity for the Notes. It is anticipated that additional Notes of \$70,000,000 will be issued in May 1997 and an additional \$25,000,000 will be issued in August 1998. If no refundings occur prior to August 1998, the aggregate Notes outstanding will be \$195,000,000. A request to the State Comptroller for an increase in the liquidity commitment to an aggregate amount of \$200,000,000 was submitted, however, due to the lengthy budgetary process through the next legislative session which will determine overall State liquidity, a commitment cannot be addressed at this time by the State Comptroller. A request for proposals for a Liquidity Provider has been mailed. The results of the proposals will be presented to the U. T. Board of Regents at the February meeting for selection and approval.

5. U. T. Austin: Request for Authorization to Transfer Ownership of Fourteen Lots Located East of Leona Street in the Blackland Area of Austin, Travis County, Texas, to the City of Austin and Authorization to Execute all Documents Related Thereto.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Berdahl that U. T. Austin be authorized to transfer ownership of fourteen lots valued at \$116,000 and located east of Leona Street in the Blackland area of Austin, Travis County, Texas, to the City of Austin.

It is further recommended that the Executive Vice Chancellor for Business Affairs or his delegate be authorized to execute all documents, instruments, and other agreements and take all such actions deemed necessary, advisable, or proper to carry out the purpose and intent of the foregoing recommendation.

BACKGROUND INFORMATION

In December 1993, the U. T. Board of Regents authorized a property exchange agreement with the City of Austin whereby the value of easements, street vacations, and other miscellaneous property exchanges are placed on a ledger in lieu of making cash settlements for each such transaction. At the current time, the ledger has a balance of \$159,843.80 in favor of the City of Austin and the property exchange agreement continues in effect by mutual agreement.

In order to offset a large portion of the balance due to the City of Austin, U. T. Austin proposes to transfer ownership of fourteen residential lots to the City of Austin for a ledger credit of \$116,000. The subject lots which are located east of Leona Street in the Blackland area, have been previously leased by U. T. Austin to the City of Austin for low income housing until February 12, 2021, with a renewal option until February 12, 2051. The consideration of \$116,000 represents the 1996 value of the lots which has been established by the Travis County Appraisal District.

INFORMATIONAL REPORTS

1. U. T. System: Presentation on the 1996 Cost Savings Report.--

REPORT

A presentation on the U. T. System 1996 Cost Savings Report will be made by Mr. R. D. Burck, Executive Vice Chancellor for Business Affairs.

2. U. T. System: Report on Employee Health Insurance Program.--

REPORT

Mr. Robert E. Molloy, Director of the Employee Group Insurance Program, will present a report on the U. T. System Employee Health Insurance Program.

3. U. T. System: Presentation on the Andersen Consulting Final Report on the Information Technology Initiative.--

REPORT

Dr. Mario J. Gonzalez, Vice Chancellor for Telecommunications and Information Technology, will make a presentation on the Andersen Consulting final report on the U. T. System Information Technology Initiative. An update on the implementation status of the Information Technology Initiative will also be provided.

4. U. T. System: Discussion of the December 1996 Monthly Financial Report.--

REPORT

Mr. R. D. Burck, Executive Vice Chancellor for Business Affairs, will discuss the December 1996 Monthly Financial Report for the U. T. System.

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

REPORT

Mr. R. D. Burck, 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, 1996. The report also includes faculty, employee, and student demographics extending from the Fall 1992 through the Fall 1996 Semester. A copy of the "Reporting Package for the Board of Regents" is on file in the Office of the Board of Regents.

Academic Affairs Committee

ACADEMIC AFFAIRS COMMITTEE
Committee Chairman Lebermann

Date: February 6, 1997

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

Place: Second Floor Conference Room, Ashbel Smith Hall

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1. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part One, Chapter III, Section 1, Subsection 1.8, Subdivision 1.87 (Academic Titles).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and the Executive Vice Chancellor for Health Affairs that outdated language in Subdivision 1.87 of the Regents' Rules and Regulations, Part One, Chapter III, Section 1, Subsection 1.8, related to previously used academic titles, be deleted in its entirety and replaced with language codifying current practices and commonly held expectations related to the holding of tenured faculty appointments by administrators as set forth below in congressional style:

1.8 Academic Titles.

1.87 Administrative and academic (faculty) titles, duties, and pay rates for individuals who hold both administrative and academic appointments are distinct and severable. Tenured or tenure-track academic appointments and promotions in academic rank for administrators are subject to the same requirements and approval processes as for other faculty and are to include the establishment of an appropriate academic rate (whether or not any pay is to be generated from that rate) at the time of approval of the academic appointment. Departure or removal from an administrative position does not impair the individual's rights and responsibilities as a faculty member. Upon return to faculty service, whether on a part-time or full-time basis, salary for general academic component faculty is to be based on the approved academic rate, and salary for health component faculty is at the rate established pursuant to salary

practices for faculty. [The following titles, which have been used in the past, shall not be used in the future:

- (a) System Professor
- (b) University Professor
- (c) Research Professor. Positions for which this title was used in the past should carry the title of Research Scientist or Research Associate or other appropriate title except in the health units as outlined in Section 1.03(g).
- (d) Guest Professor. In the future, Visiting Professor should be used in lieu of this title.

Although persons may not in the future be appointed to any of the above four titles, this provision does not require that such titles be removed from persons currently holding them, provided, however, that present System Professors must be assigned to specific departments in specific institutions for purposes of determining accountability for their time, and present University Professors must be assigned to specific departments at their institutions for purposes of determining accountability for their time.]

This item requires the concurrence of the Health Affairs Committee.

BACKGROUND INFORMATION

The proposed revision to the Regents' Rules and Regulations, Part One, Chapter III, Section 1, Subsection 1.8, Subdivision 1.87 deletes unneeded language concerning long-abandoned faculty titles and includes language detailing current practice and commonly held expectations related to administrators who also hold tenured or tenure-track faculty appointments.

2. U. T. Arlington: Request for Approval to Adopt a Revised Role and Mission Statement and to Submit Statement to the Coordinating Board for Approval.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and President Witt that the U. T. Board of Regents adopt U. T. Arlington's revised Role and Mission Statement as shown on Page AAC - 5 and authorize the U. T. System Administration to submit the statement to the Texas Higher Education Coordinating Board for approval.

BACKGROUND INFORMATION

Section 61.051 of the Texas Education Code requires the Coordinating Board to "classify and prescribe the role and scope" (mission) of each public institution of higher education. The current mission statement for U. T. Arlington was submitted to the U. T. Board of Regents at the October 1994 meeting as part of a report for all U. T. System general academic institutions. The mission statement was last approved by the Coordinating Board in October 1994, and the related Table of Programs was approved by the Coordinating Board in April 1994.

The need for a revised mission statement relates to the accreditation process which is underway at U. T. Arlington. The underlying premise for the Southern Association of Colleges and Schools' (SACS) process of institutional accreditation has been an evaluation of whether the institution has accomplished its stated purpose. The purpose statement must be appropriate to collegiate education and also include research and public service, where those are significant institutional responsibilities. The formulation of a statement of purpose is a major educational decision involving the efforts of the institution's faculty and administration.

In commencing the SACS self-study process approximately two years ago, the Mission and Purpose Statement Committee members examined the extant mission statement for U. T. Arlington and determined that it did not adequately proclaim the individuality of the University. Through an extensive two-year process involving many members of the University community, the revised mission statement has been developed.

MISSION

The mission of The University of Texas at Arlington is to pursue knowledge, truth and excellence in a student-centered academic community characterized by shared values, unity of purpose, diversity of opinion, mutual respect and social responsibility. The University is committed to lifelong learning through its academic and continuing education programs, to discovering new knowledge through research and to enhancing its position as a comprehensive educational institution with bachelors', masters', doctoral and nondegree continuing education programs.

3. U. T. Brownsville: Request for Approval to Adopt a Revised Role and Mission Statement and to Submit Statement to the Coordinating Board for Approval.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and President Garcia that the U. T. Board of Regents adopt U. T. Brownsville's revised Role and Mission Statement as shown on Page AAC - 7 and authorize the U. T. System Administration to submit the statement to the Texas Higher Education Coordinating Board for approval.

BACKGROUND INFORMATION

Section 61.051 of the Texas Education Code provides for the Coordinating Board to "classify and prescribe the role and scope" (mission) of the public universities. The U. T. Board of Regents last reviewed the U. T. Brownsville Mission Statement in October 1994. The Coordinating Board approved the current statement and related Table of Programs in April and October 1994.

When U. T. Brownsville was established in 1991 by action of the Texas Legislature, that same legislative action authorized a partnership between U. T. Brownsville (UTB) and Texas Southmost College (TSC). The UTB/TSC Partnership has been in operation since Fall 1992. At that time, U. T. Brownsville and Texas Southmost College operated under separate mission statements. In discussions with the Southern Association of Colleges and Schools and staff of the Texas Higher Education Coordinating Board regarding accreditation of the Partnership, it was determined in December 1995 that the Partnership would be accredited as a consolidated entity and hence would require a single mission statement for the UTB/TSC Partnership.

The proposed Partnership mission statement is similar to the previous one for U. T. Brownsville except that it changes references from U. T. Brownsville to the UTB/TSC Partnership, adds references to associate degrees and certificates, and excludes the previous Partnership Statement.

The proposed statement has been reviewed by the Southmost Union Junior College District Board of Trustees.

MISSION AND PHILOSOPHY OF THE UNIVERSITY OF TEXAS AT
BROWNSVILLE and TEXAS SOUTHMOST COLLEGE PARTNERSHIP

The mission of The University of Texas at Brownsville and Texas Southmost College (UTB/TSC) Partnership is to provide accessible, affordable, postsecondary education of high quality, to conduct research which expands knowledge and to present programs of continuing education, public service, and cultural value to meet the needs of the community. The Partnership combines the strengths of the community college and those of an upper-level university by increasing student access and eliminating interinstitutional barriers while fulfilling the distinctive responsibilities of each type of institution.

The University of Texas at Brownsville and Texas Southmost College Partnership offers Certificate, Associate, Baccalaureate, and Master's degrees in liberal arts and sciences, and in professional programs designed to meet student demand and regional needs. UTB/TSC also supports the delivery of doctoral programs through cooperative agreements with doctoral degree-granting institutions.

UTB/TSC places excellence in learning and teaching at the core of its commitments. It seeks to help students at all levels develop the skills of critical thinking, quantitative analysis and effective communications which will sustain lifelong learning. It seeks to be a community university which respects the dignity of each learner and addresses the needs of the entire community.

UTB/TSC advances economic and social development, enhances the quality of life, fosters respect for the environment, provides for personal enrichment, and expands knowledge through programs of research, service, continuing education and training. It convenes the cultures of its community, fosters an appreciation of the unique heritage of the Lower Rio Grande Valley and encourages the development and application of bilingual abilities in its students. It provides academic leadership to the intellectual, social, and economic life of the binational urban region it serves.

STATEMENT OF PHILOSOPHY

UTB/TSC is committed to excellence. It is dedicated to stewardship, service, openness, accessibility, efficiency, and citizenship. UTB/TSC is committed to students, participatory governance, liberal education, the expansion of the application of knowledge, human dignity, the convening of cultures and respect for the environment.

Health Affairs Committee

HEALTH AFFAIRS COMMITTEE
Committee Chairman Loeffler

Date: February 6, 1997

Time: Following the Meeting of the Academic Affairs Committee

Place: Second Floor Conference Room, Ashbel Smith Hall

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HAC

U. T. M.D. Anderson Cancer Center: Request
for Authorization to Participate with The
University of Pennsylvania Medical Center
Health System and Stanford Health Services
in a National Limited Liability Corporation
Known as Qualidix to Provide Specialized
Second Opinion Service for Patients Ini-
tially Diagnosed with Cancer

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U. T. M.D. Anderson Cancer Center: Request for Authorization to Participate with The University of Pennsylvania Medical Center Health System and Stanford Health Services in a National Limited Liability Corporation Known as Qualidix to Provide Specialized Second Opinion Service for Patients Initially Diagnosed with Cancer.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and President Mendelsohn that authorization be granted for the U. T. M.D. Anderson Cancer Center to participate with The University of Pennsylvania Medical Center Health System and Stanford Health Services in a national limited liability corporation known as Qualidix to provide a specialized second opinion service for patients initially diagnosed with cancer and to commit \$750,000 for the initial investment and up to \$250,000 additional funds, if required, from the Physicians Referral Service (PRS).

BACKGROUND INFORMATION

At the U. T. Board of Regents' meeting in August 1996, both Dr. LeMaistre and Dr. Mendelsohn briefed the Board on an arrangement with two other university medical centers, The University of Pennsylvania Medical Center Health System and Stanford Health Services, to provide a specialized second opinion service for patients initially diagnosed with cancer. To become part of this limited liability corporation known as Qualidix, each party is required to provide \$750,000 in initial capitalization funds. A future investment of up to an additional \$250,000 may be required should the Qualidix Board determine there is a need for additional capital. The U. T. M.D. Anderson Cancer Center will use Physicians Referral Service (PRS) funds for this investment. Both The University of Pennsylvania Medical Center Health System and Stanford Health Services have already given their approval to this arrangement. The U. T. System Office of General Counsel has reviewed and approved this proposed joint venture.

The mission of Qualidx is to offer, through this consortium of leading academic pathology departments, a specialized pathology second opinion service to leading health-care payors for their patients. These second opinions will be rendered by nationally recognized pathologists and will focus solely on positive tests. As an example, breast and prostate cancer for those under age 65 and privately insured by the top twenty insurers total over 104,000 cases annually. The value to payors and patients is to reduce the number of misdiagnosed cancers.

This service will provide many Americans the means to eliminate unnecessary and frequently invasive, painful, and otherwise involved medical procedures. Payors will gain by reducing their patient management costs when unnecessary and costly procedures are avoided. The U. T. M.D. Anderson Cancer Center will benefit from the incremental income but, more importantly, will gain access to a large number of pathology specimens that will aid educational programs and clinical outcomes research.

The cost for this service is initially targeted at \$200 per test. One hundred dollars will go to Qualidx and \$100 will go to the Pathology Department that provides the second opinion consultation. The pathologist will be provided original slides and diagnosis reports. The pathologist will render a second opinion report and will be available to the originating pathologist, primary care provider, and/or oncologist. In cases of significant differences of opinion, the slides and reports may be submitted to another member institution for additional review and diagnosis.

This patient service is viable from a fiscal, a medical service, and an educational/research point of view. Additionally, and more importantly, the cancer patients will be better served.

Facilities, Planning & Construction Committee

FACILITIES PLANNING AND CONSTRUCTION COMMITTEE
Committee Chairman Temple

Date: February 6, 1997

Time: Following the Meeting of the Health Affairs Committee

Place: Second Floor Conference Room, Ashbel Smith Hall

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7. U. T. Austin: Request for Authorization to Amend the FY 1996-2001 Capital Improvement Program and the FY 1996-1997 Capital Budget to Add a Project for Welch Hall Safety Improvements and Appropriation of Funds Therefor

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1. U. T. Arlington - Engineering Building I: Request for Approval to Name Building (Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Naming of Buildings and Other Facilities).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Witt that the U. T. Board of Regents approve redesignation of the Engineering Building I at U. T. Arlington as Woolf Hall to recognize the accomplishments and contributions of Dr. Jack R. Woolf.

BACKGROUND INFORMATION

Dr. Jack R. Woolf served U. T. Arlington with distinction for more than 30 years. Dr. Woolf came to the institution, then known as Arlington State College, in 1957 as dean of the college. On December 1, 1958, upon the death of President E. H. Hereford, Dr. Woolf became acting president and was named president on July 1, 1959.

During Dr. Woolf's presidency, the institution moved from junior college to four-year status with initial approval for 18 baccalaureate degrees (1959) and was accredited by the Southern Association of Colleges and Schools as a four-year institution at the earliest possible date (1964), was transferred from The Texas A&M University System to the U. T. System (1965), and initiated six master's degree programs (1966). Also during this period, he oversaw an aggressive land acquisition and building program, a dramatic increase in the size and quality of the faculty, and an enrollment growth from approximately 5,000 to almost 12,000 students.

Upon his resignation as president in August 1968, the U. T. Board of Regents appointed him as University Professor and President Emeritus. He served with distinction as a member of the mechanical engineering department until his retirement in 1989 but continued to teach on modified service through the Spring of 1994.

The recommendation to redesignate Engineering Building I as Woolf Hall has been proposed by the faculty of the College of Engineering and is appropriate given the valuable service provided to the institution by Dr. Woolf.

The proposed name is consistent with the Regents' Rules and Regulations on naming of buildings and with the draft institutional building-naming policy which will be submitted for review and approval at a future meeting.

2. U. T. Austin: Request for Authorization to Amend the FY 1996-2001 Capital Improvement Program and the FY 1996-1997 Capital Budget to Include a Renovation of the College of Business Administration and Appropriate Funds Therefor.--

RECOMMENDATION

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

- a. Amend the FY 1996-2001 Capital Improvement Program (CIP) and the FY 1996-1997 Capital Budget to include a project for the Renovation of the College of Business Administration (CBA) at U. T. Austin at a preliminary project cost of \$1,500,000
- b. Appropriate \$1,200,000 from Incidental Fees and \$300,000 from Gifts and Grants for total project funding of \$1,500,000.

BACKGROUND INFORMATION

A recent national survey of comparable School of Business programs indicates a substantial need to increase the level of career placement services provided to students in both the undergraduate and graduate-level business degree programs.

Renovation of existing space in the Career Center in the College of Business Administration at U. T. Austin is necessary to accomplish this objective.

The project will involve approximately 21,000 square feet of space in the Graduate School of Business and College of Business Administration buildings. The project includes remodeling of the existing media lab, expansion of the career resource library for graduates and undergraduates, and renovations to provide space for corporate interview rooms.

Approval of this item will amend the FY 1996-2001 Capital Improvement Program and the FY 1996-1997 Capital Budget as noted above.

3. U. T. Austin - Track and Field/Soccer Stadium and Parking Facility (Project No. 102-863): Approval of Preliminary Plans; Appropriation Therefor; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--

RECOMMENDATION

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

- a. Approve preliminary plans for the Track and Field/Soccer Stadium and Parking Facility at U. T. Austin at an estimated total project cost of \$22,200,000
- b. Appropriate \$9,700,000 from Revenue Financing System Bond Proceeds, \$3,000,000 from Auxiliary Enterprise Balances, and \$9,500,000 from Gifts and Grants for total project funding.

In compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993,

and upon delivery of the Certificate of an Authorized Representative as set out on Page FPCC - 9, the U. T. Board of Regents resolves that:

- a. Parity Debt shall be issued to pay the project's cost including any project costs paid prior to the issuance of such Parity Debt
- b. Sufficient funds will be available to meet the financial obligations of the U. T. System including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System
- c. U. T. Austin, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its Direct Obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of Parity Debt for Track and Field/Soccer Stadium and Parking Facility in the amount of \$9,700,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

BACKGROUND INFORMATION

The FY 1996-2001 Capital Improvement Program (CIP) was adopted by the U. T. Board of Regents in August 1995, and amended in February 1996, to include a project for a Track and Field/Soccer Stadium and Parking Facility at U. T. Austin at an estimated preliminary cost of \$12,400,000. In accordance with the revised Capital Improvement Program process approved by the U. T. Board of Regents in December 1994, the Chancellor appointed Chase*Moore, Houston, Texas, as Project Architect.

Preliminary plans and specifications have been prepared for a project comprised of two fundamental elements: (1) a track and field/soccer stadium at an estimated cost of \$9,500,000; and (2) a 1,200 vehicle parking facility at an estimated cost of \$12,700,000.

The preliminary plans include provision for a future Field House at an estimated cost of \$2,800,000 at the site of the Track and Field/Soccer Stadium and Parking Facility. The Field House would include locker facilities for the Men's and Women's track and field programs and the Women's soccer program as well as training rooms, meeting rooms, officials' areas, equipment rooms and offices for the coaching staff. These functions will be accommodated in existing facilities until funding is available to construct the Field House.

The track will be a state-of-the-art oval and will meet current NCAA standards. The soccer field will be natural turf. The stadium will accommodate 6,000 permanent seats, with provision for approximately 14,000 additional spectators as well as associated public rest rooms and concessions. These facilities will be lighted for night games. The new track will replace the existing track at Memorial Stadium, and the existing soccer field will be used for football and soccer practice.

The total cost of the project increased from the preliminary project cost as a result of several factors. The parking facility was increased from the original estimate of 600 vehicles to 1,200 vehicles. Stadium seating was expanded by 14,000 seats from 6,000 to 20,000 to provide sufficient space for events such as state UIL competitions and the Texas Relays. Expanding the seating capacity of the stadium also required the building of one parking deck for the exclusive use of the additional seating area. Also adding to the cost increase was the need to comply with U. T. Austin Campus Master Plan requirements which necessitated lowering the finished grade of the field and construction of an architectural wall behind the east side grandstand.

The debt for the parking structure of the project is to be repaid from revenues generated by the Parking and Traffic Division. Borrowing costs are assumed at 5% during the interim construction period and 7% for the long-term period. The project will require an estimated construction duration of fifteen months. During the construction phase, debt service will be paid from Auxiliary Enterprise Reserve Balances. Upon completion of the project, the debt will be converted to fixed rate bonds requiring an annual estimated debt service of \$915,611.

This project is included in the FY 1996-2001 Capital Improvement Program and the FY 1996-1997 Capital Budget. Approval of this item will amend the Capital Improvement Program as noted above.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned Assistant Vice Chancellor for Finance of The University of Texas System, a U. T. System representative under the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System adopted by the Board on February 14, 1991, and amended on October 8, 1993 (the "Master Resolution"), do hereby execute this certificate for the benefit of the U. T. Board of Regents pursuant to Section 5 (a) (ii) of the Master Resolution in connection with the authorization by the U. T. Board of Regents to issue "Parity Debt" pursuant to the Master Resolution to finance the construction cost of the Track and Field/Soccer Stadium and Parking Facility project at U. T. Austin, and do certify that to the best of my knowledge, the U. T. Board of Regents is in compliance with all covenants contained in the Master Resolution, First Supplemental Resolution Establishing an Interim Financing Program, the Second Supplemental Resolution, the Third Supplemental Resolution, the Fourth Supplemental Resolution, and the Fifth Supplemental Resolution and is not in default of any of the terms, provisions, and conditions in said Master Resolution, First Supplemental Resolution, Second Supplemental Resolution, Third Supplemental Resolution, and Fourth Supplemental Resolution, and the Fifth Supplemental Resolution as amended.

EXECUTED this 6th day of February, 1997

John A. Rose
Assistant Vice Chancellor for Finance

4. U. T. M.D. Anderson Cancer Center - Clinic Services Facility (Project No. 703-773): Request for Approval to Name Building (Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Naming of Buildings and Other Facilities) and Approval of Plaque Inscription.--

RECOMMENDATION

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

- a. Approve redesignation of the Clinic Services Facility at U. T. M.D. Anderson Cancer Center as Charles A. LeMaistre Clinic to recognize the accomplishments and contributions of Charles A. LeMaistre, M.D., pursuant to the Regents' Rules and Regulations, Part One, Chapter VIII, Section 1 relating to naming of buildings and other facilities
- b. Approve the inscription set out below for a dedicatory plaque to be placed on the building:

Charles A. LeMaistre Clinic
1997

BOARD OF REGENTS

Bernard Rapoport
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Thomas O. Hicks
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Ellen Clarke Temple

William H. Cunningham
Chancellor, The University
of Texas System
John Mendelsohn
President, The University
of Texas M.D. Anderson
Cancer Center

LAN/HKS, A Joint Venture
Architect
Centex Bateson Construction
Company, Inc.
Contractor - Phase One
The George Hyman
Construction Company
Contractor - Phase Two

BACKGROUND INFORMATION

Dr. Charles A. LeMaistre served as the second president of the U. T. M.D. Anderson Cancer Center from 1978 to 1996, a period of eighteen years. During that time, the U. T. M.D. Anderson Cancer Center experienced remarkable expansion not only in facilities but also in the development of new programs and the recruitment of the highest caliber of faculty and staff. Under Dr. LeMaistre's outstanding leadership, the U. T. M.D. Anderson Cancer Center's reputation as one of the world's premier cancer centers was secured and enhanced.

One of the many contributions that Dr. LeMaistre made to the institution was the development of an outstanding cancer prevention program. His passionate interest in cancer prevention and control goes back forty years. From 1957 to 1959, he was chairman of the Department of Preventive Medicine and Community Health at Emory University School of Medicine. In 1964, he served on the first U. S. Surgeon General's Advisory Committee on Smoking and Health which identified cigarettes as a major health hazard. In 1981, he chaired a National Conference on Smoking OR Health, a coalition of 21 organizations formed to promote smoking control, and four years later chaired the historic International Summit of Smoking Control. For his efforts in promoting the control of smoking, he received the President's Award from the American Lung Association in 1987. He also received the first Gibson D. (Gib) Lewis Award for Excellence in Cancer Control in 1988.

Dr. LeMaistre is the recipient of numerous honors and awards in addition to those named above. Included in these are being named Mr. South Texas in 1990 by the Washington Birthday Celebration Association, and receiving the People of Vision Award from the Texas Society to Prevent Blindness, the Outstanding Texas Leader Award by the 7th Annual John Ben Shepperd Public Leadership Forum, the Caring Spirit Tribute from the Institute of Religion in 1993, the Distinguished Service Award from the American Medical Association in 1995, and, most recently, the 1996 Humanitarian Award from the National Conference of Christians and Jews.

It is most fitting that an outstanding Cancer Prevention Program be housed in a facility to be named after the individual who has been so instrumental in the development of this much-needed program and who has served U. T. M.D. Anderson Cancer Center, The University of Texas System, and the health community at large, so well.

5. U. T. M.D. Anderson Cancer Center: Request for Authorization to Amend the FY 1996-2001 Capital Improvement Program and the FY 1996-1997 Capital Budget to Include a Laboratory Project and Appropriate Funds Therefor.--

RECOMMENDATION

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

- a. Amend the FY 1996-2001 Capital Improvement Program (CIP) and the FY 1996-1997 Capital Budget to include a project for a Laboratory at U. T. M.D. Anderson Cancer Center at an estimated project cost of \$4,100,000
- b. Appropriate \$4,100,000 from Educational and General Funds for project funding.

BACKGROUND INFORMATION

A new laboratory which can meet the Food and Drug Administration (FDA) Good Manufacturing Practices (GMP) conditions is critical for the Bone Marrow Transplantation Program at U. T. M.D. Anderson Cancer Center. The present laboratory used for the processing of marrow and blood stem cells is physically inadequate and cannot be renovated to meet the FDA requirements and standards. The clinical aspect of the Bone Marrow Transplantation Program is directed toward optimization of cellular and molecular therapy delivered as autologous or allogeneic blood and marrow transplants. The proposed laboratory would fill the current need for these capabilities and could also produce monoclonal antibody and immunocomjugates and perform activation/expansion of immune effector cells and gene transfer in support of many clinical research programs throughout the institution.

Approximately 15,000 square feet of space has been identified on the fourteenth floor of the Lutheran Hospital Pavilion for this facility. Extensive renovation of the existing space will be required, including special security-controlled access, a system to provide 100% hepafiltered outside air, sterilization of all supplies, floor-to-deck walls, and a separate air-handling system with no direct exhaust within the lab.

Approval of this item will amend the FY 1996-2001 Capital Improvement Program and the FY 1996-1997 Capital Budget as noted above.

6. U. T. Austin: Request for Authorization to Amend the FY 1996-2001 Capital Improvement Program and the FY 1996-1997 Capital Budget to Add a Chilling Station Expansion; Appropriation of Funds Therefor; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--

RECOMMENDATION

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

- a. Amend the FY 1996-2001 Capital Improvement Program and the FY 1996-1997 Capital Budget to include a project for Chilling Station Expansion at U. T. Austin at a preliminary project cost of \$17,900,000
- b. Appropriate \$17,900,000 in Revenue System Financing Bond Proceeds for total project funding.

In compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and upon delivery of the Certificate of an Authorized Representative as set out on Page FPCC - 16, the U. T. Board of Regents resolves that:

- a. Parity Debt shall be issued to pay the project's cost including any project costs paid prior to the issuance of such Parity Debt
- b. Sufficient funds will be available to meet the financial obligations of the U. T. System including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System
- c. U. T. Austin, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its Direct Obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of Parity Debt for the Chilling Station Expansion in the amount of \$17,900,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

BACKGROUND INFORMATION

U. T. Austin has completed an engineering study which demonstrated need in the immediate future for additional chilling capacity. This demand is a result of new buildings and facilities under construction including the Moffett and Student Services Buildings as well as Gregory Gymnasium, which will come back on-line after completion of the current renovation. In addition, the U. T. Austin Capital Improvement Program includes several other projects which will add additional load to the thermal energy plant.

The preliminary project cost includes the installation of a 5,000-ton chiller in Station 5, which will comprise the first phase, as well as the replacement and upgrade of cooling towers and chillers in Stations 3 and 4.

The debt for the Chilling Station Expansion is to be repaid through the Education and General Budget which includes General Revenue Appropriations, tuition, fees, indirect cost recovery and other sources. To the extent that there may be shortfalls in future utility appropriations, U. T. Austin is committed to using as much of its total Education and General Budget as may be necessary to ensure that all debt service payments are fully funded. Borrowing costs are assumed at 5% during the short-term interim construction period and 7% for the long-term period. The project will require an estimated construction duration of three years. Upon completion of the project, the debt will be converted to fixed rate bonds requiring an annual estimated debt service of \$1,690,000.

Approval of this item will amend the FY 1996-2001 Capital Improvement Program and the FY 1996-1997 Capital Budget as noted above.

The financing forecast for this project is set forth on Page FPCC - 17.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned Assistant Vice Chancellor for Finance of The University of Texas System, a U. T. System representative under the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System adopted by the Board on February 14, 1991, and amended on October 8, 1993 (the "Master Resolution"), do hereby execute this certificate for the benefit of the U. T. Board of Regents pursuant to Section 5 (a) (ii) of the Master Resolution in connection with the authorization by the U. T. Board of Regents to issue "Parity Debt" pursuant to the Master Resolution to finance the construction cost of the Chilling Station Expansion project at U. T. Austin, and do certify that to the best of my knowledge, the U. T. Board of Regents is in compliance with all covenants contained in the Master Resolution, First Supplemental Resolution Establishing an Interim Financing Program, the Second Supplemental Resolution, the Third Supplemental Resolution, the Fourth Supplemental Resolution, and the Fifth Supplemental Resolution and is not in default of any of the terms, provisions, and conditions in said Master Resolution, First Supplemental Resolution, Second Supplemental Resolution, Third Supplemental Resolution, and Fourth Supplemental Resolution, and the Fifth Supplemental Resolution as amended.

EXECUTED this 13th day of January, 1997

John A. Roan
Assistant Vice Chancellor for Finance

**The University of Texas at Austin
Chiller Station Expansion**

Project Level	Forecast				
	FY 97	FY 98	FY 99	FY 00	FY 01
Education and General Funds					
Beginning Balance	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
E&G Income	323,406,164	335,778,676	346,626,788	357,711,492	369,039,885
E&G Expenditures	(402,534,860)	(414,528,828)	(425,281,919)	(435,993,218)	(447,132,174)
Net Income	(79,128,696)	(78,750,152)	(78,655,131)	(78,281,726)	(78,092,289)
Transfer from AUF	75,176,372	73,776,372	73,776,372	73,776,372	73,776,372
Transfer from General Fee	11,582,208	11,929,674	12,287,564	12,287,564	12,287,564
Transfer from Auxiliaries	0	1,583,315	1,688,999	1,776,595	1,821,030
Funds available after transfers	7,629,884	8,539,209	9,097,704	9,558,805	9,792,677
Debt Service - Tuition Bonds	(7,629,884)	(8,100,709)	(8,103,497)	(8,103,044)	(8,103,044)
Debt Service - Chilling Station		(438,500)	(994,207)	(1,455,761)	(1,689,633)
Ending Balance	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Debt Service Coverage	1.0	1.0	1.0	1.0	1.0

Campus Level: U.T. Austin (\$ in millions)					
	Actual		Forecast		
	FY 94	FY 95	FY 96	FY 97	FY 98
Beg. Fund Balances	94.2	119.1	120.5	119.5	108.0
Total Current Revenues	570.3	564.5	596.1	628.0	655.8
Total Current Expenditures	(499.5)	(516.1)	(538.9)	(584.6)	(590.3)
Net Revenues	70.8	48.4	57.2	43.4	65.5
Debt Service	(17.7)	(18.7)	(20.1)	(25.0)	(32.1)
Other Mand. Transfers	(4.7)	(3.0)	(16.9)	(0.6)	(0.6)
Total Mand. Transfers	(22.4)	(21.7)	(37.0)	(25.6)	(32.7)
Non-Mand. Transfers	(21.9)	(22.2)	(14.4)	(25.7)	(28.1)
Adjustments	(1.6)	(3.1)	(6.8)	(3.6)	(3.1)
Net Inc. / (Dec.) for Year	24.9	1.4	(1.0)	(11.5)	1.6
End. Fund Balances	119.1	120.5	119.5	108.0	109.6
Debt Service Coverage	4.0	2.6	2.8	1.7	2.0

U.T. System (\$ in millions)					
	Actual		Forecast		
	FY 94	FY 95	FY 96	FY 97	FY 98
Available Revenues	3,226.4	3,439.7	3,682.1	3,721.5	3,789.0
Operating Expenses	(3,033.6)	(3,239.9)	(3,353.6)	(3,513.0)	(3,562.4)
Net Available for Debt Service	192.8	199.8	328.5	208.5	226.6
Debt Service	(43.1)	(48.9)	(56.0)	(87.5)	(101.6)
Debt Service Coverage	4.5	4.1	5.9	2.4	2.2

7. U. T. Austin: Request for Authorization to Amend the FY 1996-2001 Capital Improvement Program and the FY 1996-1997 Capital Budget to Add a Project for Welch Hall Safety Improvements and Appropriation of Funds Therefor.--

RECOMMENDATION

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

- a. Amend the FY 1996-2001 Capital Improvement Program and the FY 1996-1997 Capital Budget to include a project at U. T. Austin for Welch Hall Safety Improvements at a preliminary project cost of \$24,000,000
- b. Appropriate \$21,500,000 in General Fee Balances and \$2,500,000 in Property Protection Plan Reserves for total project funding.

BACKGROUND INFORMATION

The approval of these recommendations will allow U. T. Austin to move forward immediately with repairs to damage which resulted from a major fire in Welch Hall in October 1996, as well as with necessary life and safety improvements. A U. T. Austin engineering and safety consulting team has developed, in cooperation with the City of Austin Fire Department, a comprehensive package of physical modifications and renovations for Welch Hall, as well as a plan for an expanded laboratory safety program.

The project has a preliminary cost of \$24,000,000 and will include installation of a complete fire sprinkler system, construction of fire separation compartments, renovation of elevators, modification and possible relocation of chemical storage rooms, installation of an emergency power system, upgrading the building fire alarm system and creation of additional fire exits from some laboratories.

Approval of this item will amend the FY 1996-2001 Capital Improvement Program and the FY 1996-1997 Capital Budget as noted above.

Executive Session of the Board

BOARD OF REGENTS
EXECUTIVE SESSION
Pursuant to Texas Government Code
Chapter 551, Sections 551.071, 551.072, 551.073, and 551.074

Date: February 5, 1997

Time: 3:00 p.m.

Place: Fourth Floor Conference Room, O.Henry Hall,
601 Colorado Street, Austin, Texas

1. Consultation with Attorney Regarding Pending and/or Contemplated Litigation or Settlement Offers - Section 551.071
 - a. U. T. Health Science Center - Houston:
Proposed Settlement of Medical Liability Litigation
 - b. U. T. Health Science Center - San Antonio:
Proposed Settlement of Medical Liability Claim
2. Deliberations Regarding the Purchase, Exchange, Lease or Value of Real Property - Section 551.072
U. T. Dallas: Request for Authorization to Purchase Phase V of the Waterview Park Apartments in Richardson, Collin, and Dallas Counties, Texas; Authorization to Submit the Transaction to the Coordinating Board; and Authorization to Execute All Documents Related Thereto
3. Negotiated Contracts for Prospective Gifts or Donations - Section 551.073

**4. Personnel Matters Relating to Appointment, Employment,
Evaluation, Assignment, Duties, Discipline, or Dis-
missal of Officers or Employees - Section 551.074**

**U. T. Permian Basin: Consideration of
Recommendation of Hearing Tribunal
Regarding Termination of Tenured Faculty
Member**