Finance and Planning Committee

THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS

July 2, 2002

FINANCE AND PLANNING COMMITTEE
THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS
AGENDA

July 2, 2002
12:45 p.m.
Board Room, 9th Floor, Ashbel Smith Hall

12:45 p.m.	1.	**Welcome and Opening Remarks**	*Chairman Hunt*
	2.	**Agenda Topics for August Board of Regents' Meeting**	
12:50 p.m.		a. Increase in Commercial Paper Program Authorization [Action Item] (Tab 2a)	*Mr. Philip Aldridge*
1:00 p.m.		b. Equipment Financing Program for 2003 [Action Item] (Tab 2b)	*Mr. Philip Aldridge*
1:05 p.m.		c. Payout Methodology and Rate for Long Term Fund / Permanent Health Fund [Action Item]	*Mr. Bob Boldt* *Ms. Cathy Iberg*
1:20 p.m.		d. UTIMCO Quarterly Report [Action Item]	*Mr. Bob Boldt*
1:25 p.m.		e. UTIMCO Annual Budget and Management Fee Schedule [Action Item]	*Mr. Bob Boldt*
1:35 p.m.		f. Non-Personnel Aspects of the Operating Budgets for the Fiscal Year Ending August 31, 2003 [Action Item] (Tab 2f)	*Mr. R.D. Burck*
1:55 p.m.		g. Full-Time Equivalent Limitation of Employees Paid from Appropriated Funds [Action Item] (Tab 2g)	*Mr. Randy Wallace*
2:00 p.m.		h. Proposed Amendments to the Regents' Rules Regarding Insurance on Money and Securities; Fidelity Bonds [Action Item] (Tab 2h)	*Mr. Phil Dendy*
2:10 p.m.		i. Update on Comprehensive Property Protection and Tropical Storm Allison Recovery [Action Item] (Tab 2i)	*Mr. Paul Pousson*
2:30 p.m.	3.	**Facility Assessment and Capital Renewal Study (Tab 3)**	*Mr. Sid Sanders*
2:50 p.m.	4.	**Quarterly Permanent University Fund/Available University Fund Report (Tab 4)**	*Mr. Philip Aldridge*
2:55 p.m.	5.	**Projected Permanent University Fund Bond Defeasance**	*Mr. Philip Aldridge*
3:00 p.m.	6.	**Out-of-State Students/Tuition Issues (Tab 6)**	*Dr. Mike Kerker*
3:10 p.m.	7.	**Deregulation Update (Tab 7)**	*Mr. Roger Starkey*
3:15 p.m.	8.	**Adjourn**	

The University of Texas System
Office of Finance

Request to Increase the Size of the RFS Commercial Paper Program

Finance and Planning Committee

July 2, 2002

Request

- The Office of Finance is requesting approval to increase the authorized size of the Revenue Financing System Commercial Paper Note, Series A program to $750 million.
- The commercial paper program is used to provide low-cost financing for certain equipment purchases and interim financing for debt-funded capital projects.
- The commercial paper program was initiated in 1990 with a program authorization of $100 million. The program authorization was increased to $150 million in 1993; to $250 million in 1995, and to $350 million in 1997.

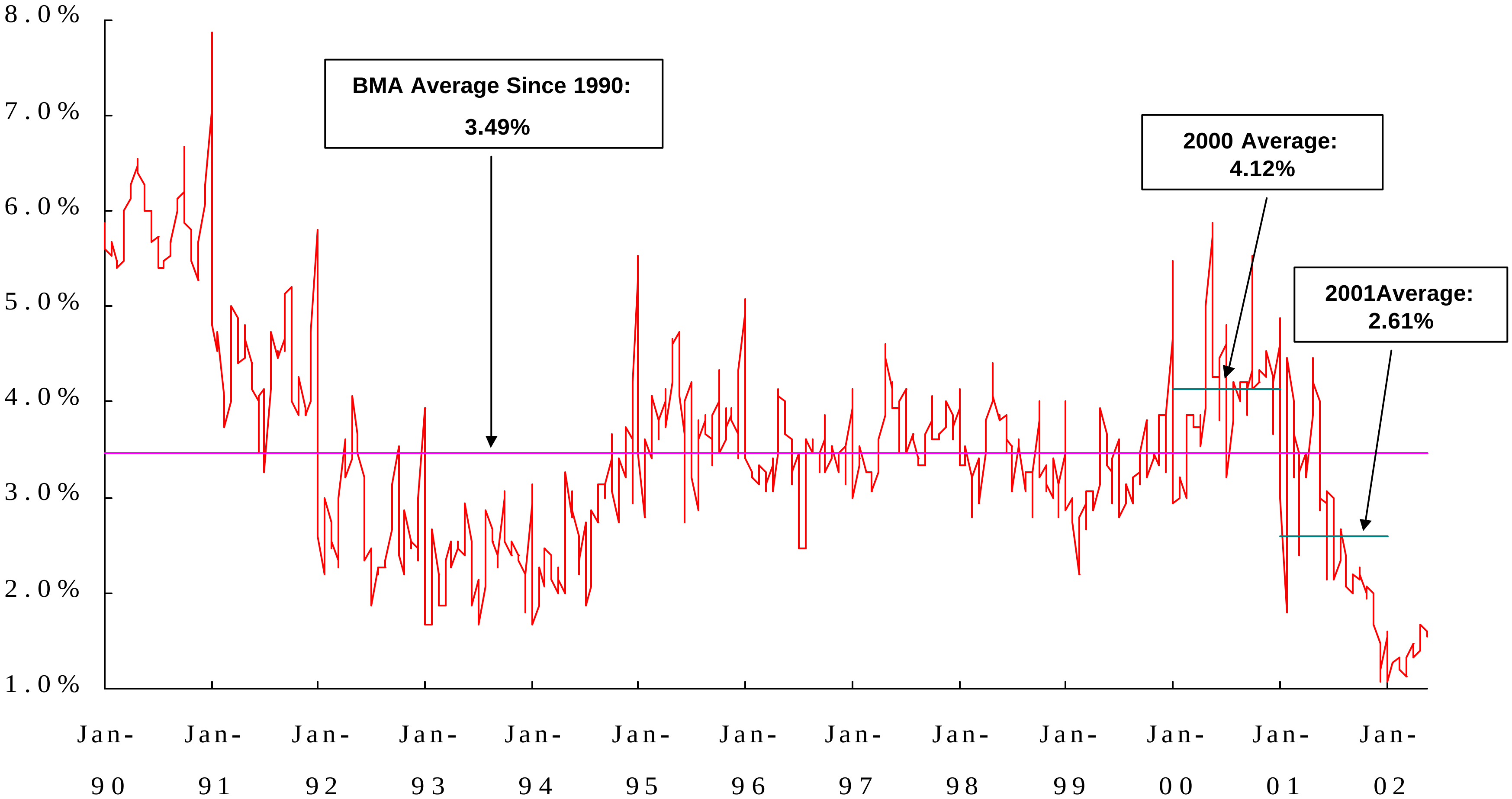
Rationale

- The authorized size of the commercial paper program has not been increased since 1997.

- The requested increase in the commercial paper program is commensurate with the growth in the CIP since 1997.

- In addition, the attractiveness of commercial paper has grown in recent years due to low interest rates and the increased awareness and utilization of equipment financing by the component institutions (in lieu of higher-cost vendor financing).

Short Term Tax-Exempt Rates Since 1990



Liquidity Status

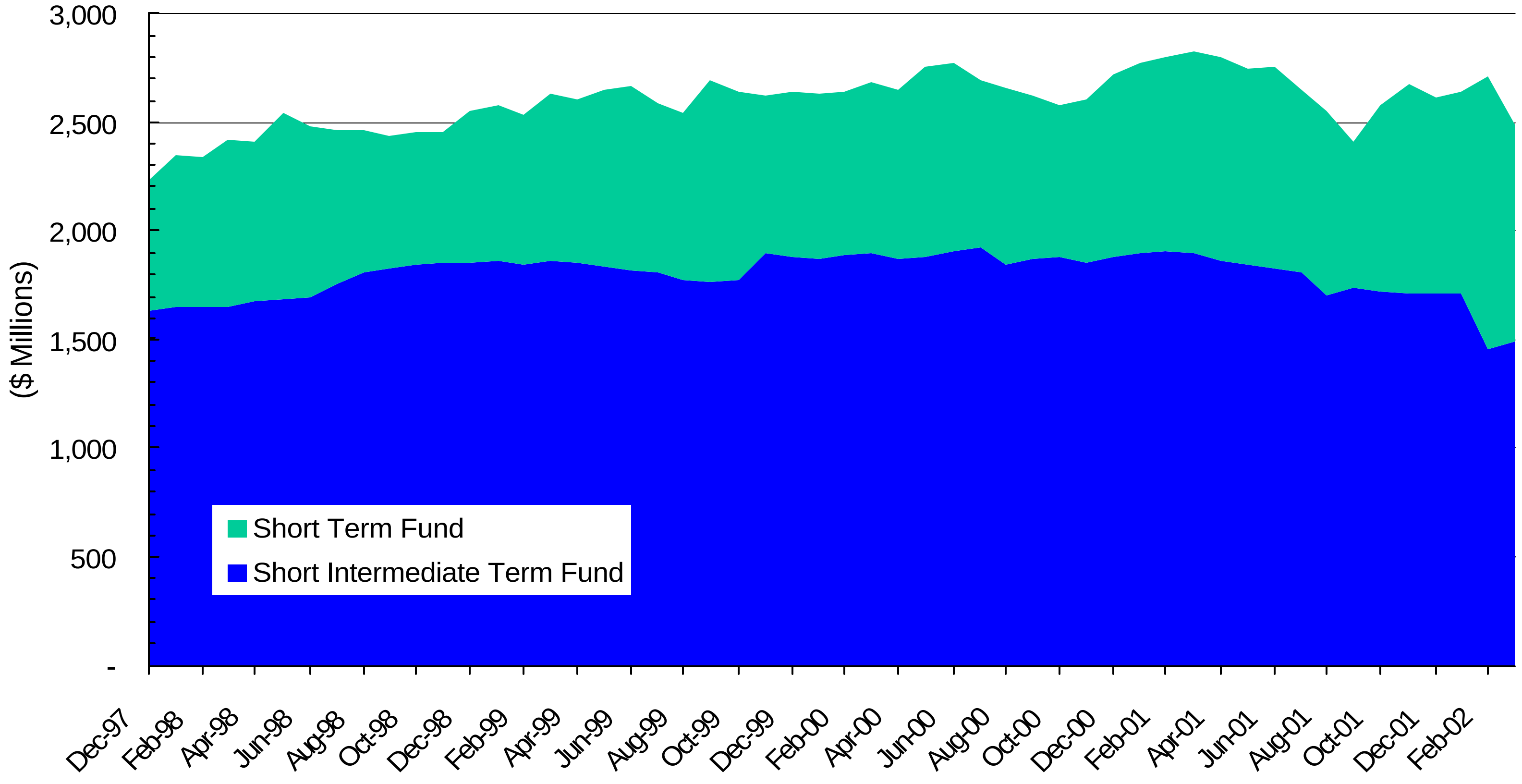
- The credit rating agencies require that all commercial paper issuers have access to liquidity to purchase the notes in the unlikely event that the notes cannot be remarketed to investors.

- The U.T. System utilizes the Short Intermediate Term Fund (“SITF”) for liquidity purposes.

- The SITF also provides liquidity for $81.7 million of RFS Bonds, Series 2001A. This commitment amount declines semi-annually.

- Additional liquidity support is available through the Short Term Fund (“STF”).

STF and SITF Monthly Fund Balances



Risk Mitigation

- The maximum amount of notes that can mature on any given day will be $75 million. Including interest at the maximum rate allowed by law, 15%, for the maximum number of days, 270, results in a total maximum daily amount due of $83.32 million.

- The daily maximum coverage is 18 times ($1.5 billion divided by $83.32 million).

- The invested STF and SITF fund balances have increased by $300 million since 1997.

- Since the origination of the program in 1990, U.T. System commercial paper notes have never failed to be remarketed.

Benefits of the Commercial Paper Program

- The RFS commercial paper program provides extremely efficient access to the short-term tax-exempt market resulting in low-cost financing to institutions.

- By providing internal liquidity, the System saves a minimum of $750,000 per annum versus obtaining external liquidity. The System also avoids other costs of renewing liquidity lines, principally legal fees, rating agency fees and internal costs.

- The SITF receives a market-based commitment fee that enhances the overall return of the fund.

Approval of Equipment Financing
FY 2003

- On behalf of the component institutions, the Office of Finance is requesting $49,838,000 of equipment financing for FY 2003.
- In 1994, the Board of Regents approved the use of Revenue Financing System (RFS) debt as an alternative to vendor lease purchase financing.
- The component institutions request equipment financing each year at the August Board meeting.
- To qualify, the equipment must have an aggregate value of $100,000 or more and have a useful life of at least three years.
- The Board approves the aggregate amount of equipment financing.

Institution	FY03 Requested Equipment Financing	FY02 Requested Equipment Financing	Debt Service Coverage FY03 – FY07 Min. to Max.	Use of Funds
U.T. Arlington	$4,000,000	$2,500,000	2.2 – 2.5	Computers, HVAC, Security, Vehicles, Elevators
U.T. Austin	$2,500,000	$4,100,000	1.6 – 1.9	Academic and Research Computers and Equipment
U.T. El Paso	$2,030,000	$7,915,000	1.3 – 2.2	Vehicles, Network Upgrades, HVAC, Smart Card
SMC Dallas	$8,125,000	$2,000,000	2.3 – 2.9	Radiology Oncology Equipment
UTMB Galveston	$10,000,000	$10,000,000	3.3 – 4.4	Hospital and Clinic Equipment
HSC San Antonio	$1,000,000	$0	1.3 – 1.5	Clinical Equipment
M.D. Anderson	$20,000,000	$5,000,000	3.2 – 6.9	Diagnostic Imaging, Radiation, Research Equipment
HC Tyler	$1,513,000	$0	1.6 – 2.4	Medical/Clinical Equipment
System Administration	$200,000	$200,000	N/A	Office Equipment
Total	$49,368,000	$31,715,000	2.0 – 3.0	

Non-Personnel Aspects of the Operating Budgets for the Fiscal Year Ending August 31, 2003 and Permanent University Fund Bond Proceeds Reserve Allocation for Library, Equipment, Repair and Rehabilitation Projects

This agenda item recommends approval of the non-personnel aspects of the U. T. System Operating Budget for fiscal year 2003. The Chancellor will give a presentation in support of the Operating Budget recommendations. The personnel aspects of the fiscal year 2003 budget, including Executive Compensation, will be considered in Executive Session at the August Board of Regents' meeting.

An appropriation of Permanent University Fund Bond Proceeds Reserves in the amount of $30 million is being recommended. This recommendation will be distributed and discussed at the Finance and Planning Committee meeting. The allocation of these reserves to the U. T. System component institutions was developed from prioritized lists of projects submitted by the component institutions and reviewed by U. T. System Administration staff.

Fiscal year 2003 funds from these reserves not expended or obligated by contract/purchase order within six months after the close of fiscal year 2003 are to be available for future System-wide reallocation unless specific authorization to continue obligating the funds is given by the Executive Vice Chancellor for Business Affairs on recommendation of the president and the appropriate executive vice chancellor.

THE UNIVERSITY OF TEXAS SYSTEM

OPERATING BUDGET
FISCAL YEAR 2003

PRESENTATION TO

The University of Texas System
FINANCE AND PLANNING COMMITTEE

July 2002

THE UNIVERSITY OF TEXAS SYSTEM

PROPOSED FY 2003 BUDGET
(Millions Of Dollars)

METHOD OF FINANCING

	FY 2002	FY 2003	Dollar & Percent Increase/Decrease	
GENERAL REVENUE	$ 1,507.6	$ 1,546.9	$ 39.3	2.6%
EDUCATIONAL AND GENERAL INCOME	1,479.9	1,664.0	184.1	12.4%
OTHER SOURCES OF EDUCATIONAL AND GENERAL OPERATING FUNDS	259.8	275.4	15.6	6.0%
FUNDING FROM PRIOR YEAR BALANCES FOR OPERATIONS & CAPITAL PROJECTS	16.8	65.0	48.2	286.9%
SYSTEM OFFICES	26.1	27.1	1.0	3.9%
DESIGNATED FUNDS				
MSRDP/DSRDP/PRS/AHFSP	769.7	877.7	108.0	14.0%
OTHER DESIGNATED ACTIVITIES	904.5	986.0	81.5	9.0%
AUXILIARY ENTERPRISES	305.5	329.4	23.9	7.8%
CURRENT RESTRICTED				
SPONSORED RESEARCH & SERVICES	831.2	931.3	100.1	12.0%
PRIVATELY SPONSORED RESEARCH	131.2	152.1	20.9	15.9%
GIFTS AND GRANTS	220.0	248.8	28.8	13.1%
TOTAL BUDGET	$ 6,452.3	$ 7,103.7	$ 651.4	10.1%

Note:
See Pages 2 and 3 for comments.

THE UNIVERSITY OF TEXAS SYSTEM
FY 2003 BUDGET
COMMENTS ON METHOD OF FINANCING

- Net ***GENERAL REVENUE*** increased $39.3 million as a result of increases in funding for staff group insurance and tuition revenue bonds. General Revenue decreased as a percent of the Total Expenditure Budget from 23.6% in Fiscal Year 2002 to 22.1% in Fiscal Year 2003.

- The net increase of $184.1 million in ***EDUCATIONAL AND GENERAL INCOME*** is the result of increased income from patients, overhead recovery and tuition. Overall Patient Income increased $133.0 million or 12.4% over FY 2002 largely due to increases at U. T. MB Galveston ($28.8 million) and U. T. MD Anderson ($92.8 million). Income from overhead recovery increased by 15.1% ($26.0 million) while tuition revenue grew 12.3% ($24.8 million).

- ***OTHER SOURCES OF EDUCATIONAL AND GENERAL OPERATING FUNDS*** increased $15.6 million. The increase primarily results from growth in the Available University Fund distribution to U. T. Austin ($9.6 million).

- ***FUNDING FROM PRIOR YEAR BALANCES*** including that used for capital projects increased $48.2 million due to planned uses of fund balance for capital projects at U. T. MD Anderson.

- ***SYSTEM OFFICES*** - funding requirements show an increase of $1.0 million or 3.9% due to primarily to salary increases and staff benefits.

- ***DESIGNATED FUNDS*** increased 11.3%. Estimates of Practice Plan revenues increased by $107.9 million or 14.0%. Other Designated Funds increased 9.0% or $81.5 million due in large part to increases in Designated Tuition and fees at academic institutions and miscellaneous other designated income.

- Increase of $23.9 million in ***AUXILIARY ENTERPRISES*** is due to increased fees and charges necessary to cover anticipated operating costs.

THE UNIVERSITY OF TEXAS SYSTEM
FY 2003 BUDGET
COMMENTS ON METHOD OF FINANCING

- ***SPONSORED RESEARCH AND SERVICES*** has increased 12.0% or $100.1 million as a result of increased research activities and overly conservative budgeting for Fiscal Year 2002. The greatest increases occurred at U. T. MD Anderson ($32.0 million), U. T. Austin ($24.0 million) and U. T. Southwestern ($16.7 million).

- ***PRIVATELY SPONSORED RESEARCH*** shows a net increase of $20.9 million or 15.9%. The largest increases were at U. T. MD Anderson ($11.0 million) and U. T. Southwestern ($9.7 million).

- ***GIFTS AND GRANTS*** has increased $28.8 million or 13.1% primarily resulting from increases at U. T. MD Anderson ($14.5 million) and U. T. Austin ($9.3 million).

PROPOSED FY 2003 BUDGET
(Millions Of Dollars)

EXPENDITURES

	FY 2002	FY 2003	Dollar & Percent Increase/Decrease	
INSTRUCTION & ACADEMIC SUPPORT	$ 1,071.3	$ 1,112.3	$ 41.0	3.8%
RESEARCH	153.5	176.6	23.1	15.0%
PUBLIC SERVICE	17.2	17.6	0.4	2.7%
HEALTH CARE	862.5	933.1	70.6	8.2%
INSTITUTIONAL SUPPORT	268.9	292.0	23.1	8.6%
STUDENT SERVICES	35.8	37.5	1.7	4.9%
STAFF BENEFITS	338.2	391.5	53.3	15.8%
OPERATIONS & MAINTENANCE OF PLANT	369.1	384.7	15.6	4.2%
SCHOLARSHIPS & FELLOWSHIPS	56.5	61.8	5.3	9.3%
CAPITAL PROJECTS	91.0	144.1	53.1	58.4%
SYSTEM OFFICES	26.1	27.1	1.0	3.9%
DESIGNATED				
MSRDP/DSRDP/PRS/AHFSP	769.2	861.2	92.0	11.9%
OTHER DESIGNATED ACTIVITIES	829.4	917.3	87.9	10.6%
AUXILIARY ENTERPRISES	309.5	331.0	21.5	7.0%
CURRENT RESTRICTED FUNDS				
SPONSORED RESEARCH AND SERVICES	831.2	931.3	100.1	12.0%
PRIVATELY SPONSORED RESEARCH	131.2	152.1	20.9	15.9%
OTHER GIFTS AND GRANTS	220.0	248.8	28.8	13.1%
TOTAL BUDGET	$ 6,380.6	$ 7,020.0	$ 639.4	10.0%

Note:
See Page 5 and 6 for comments.

THE UNIVERSITY OF TEXAS SYSTEM
FY 2003 BUDGET
COMMENTS ON EXPENDITURES

- ***INSTRUCTION & ACADEMIC SUPPORT*** increased $41.0 million or 3.8% primarily due to merit and state-mandated salary increases awarded to faculty and staff.

- ***RESEARCH*** increased $23.1 million or 15.0% due primarily to U. T. MD Anderson ($20.0 million). The increase results from a change in the budgeting methodology for recruitment and research startup funds and the reclassification of basic science faculty from Instruction to Research to more closely align the budget with their function.

- ***PUBLIC SERVICE*** increased by $0.4 million or 2.7%.

- ***HEALTH CARE*** increased $70.6 million or 8.2% due increases in patient care expenditures at U. T. MB Galveston and U. T. MD Anderson.

- ***INSTITUTIONAL SUPPORT*** increased $23.1 million or 8.6%. Academic institutions increased $7.7 million and health institutions increased $15.4 million. Increases are due to merit and mandated salary increases, new initiatives, and new staff.

- ***STUDENT SERVICES*** increased $1.8 million or 4.9%.

- ***STAFF BENEFITS*** increased $46.5 million or 15.8% due primarily to the rising cost of premium sharing for employees.

- ***OPERATIONS & MAINTENANCE OF PLANT*** increased $15.6 million or 4.2% primarily due to anticipated debt service on H.B. 658 tuition revenue bonds ($24.0 million) offset by declines in utility expenditures paid from Educational and General funds.

- ***SCHOLARSHIPS & FELLOWSHIPS*** increased $5.3 million or 9.3% largely due to growth in scholarships budgeted at U. T. Austin ($4.4 million).

- ***EDUCATIONAL AND GENERAL CAPITAL PROJECTS*** have increased $53.1 million or 58.4% due largely to planned expenditures at U. T. MD Anderson ($42.0 million) and U. T. MB Galveston ($11.2 million).

- ***SYSTEM OFFICES*** - funding requirements show an increase of $1.0 million or 3.9% due to salary increases, staff benefits, and new initiatives.

THE UNIVERSITY OF TEXAS SYSTEM
FY 2003 BUDGET
COMMENTS ON EXPENDITURES

- ***DESIGNATED FUND*** increases of $179.9 million or 11.2% are due to Practice Plan increases of $90.8 million, increased expenses associated with fees collected such as the U. T. Austin infrastructure charge and the information technology and library fees at U. T. Arlington and U. T. Dallas, and miscellaneous increases in Other Designated Activities.

- ***AUXILIARY ENTERPRISES*** increased by $21.5 million or 7.0% due to increases in operating costs and debt service.

- ***CURRENT RESTRICTED FUNDS*** expenditures track the increased revenue for these funds.

GLOSSARY OF TERMS

-- METHOD OF FINANCING --

GENERAL REVENUE -- Appropriations from the State General Revenue fund, which supplement the U. T. component institutional revenue in meeting operating expenditures such as Faculty Salaries, Utilities, and Institutional Support. Also includes Higher Education Assistance Fund (HEAF) appropriations that are a source of state appropriated general revenue to U. T. Brownsville and U. T. Pan American. HEAF funds are appropriated for construction, library, and equipment expenditures for Texas public universities that do not benefit from the Permanent University Fund (PUF) bond proceeds.

EDUCATIONAL AND GENERAL INCOME -- Revenues earned at the U. T. component institution for services provided or investments made. The categories include Tuition, net of Texas Public Education Grant (TPEG) funds and Skiles Act Fees (tuition allowed to be set aside for debt service), Student Fees, Overhead on Sponsored Projects (Indirect Cost Recoveries), Interest on Time Deposits, Organized Activities Related to Instruction (U. T. Dallas Callier Center), Other Income, and Income from Patients.

OTHER SOURCES OF EDUCATIONAL AND GENERAL OPERATING FUNDS -- Transfers from other fund groups or agencies, or funds from federal and state sources (other than the General Revenue Fund). The categories are as follows:

Available University Fund (U. T. Austin) -- Annual transfer of funds from the Available University Fund (AUF) to U. T. Austin for current operations.

Transfers from Other Fund Groups -- Earnings from other fund groups, such as Designated Funds, needed to maintain the operating level of expenditures in Educational and General Funds.

Texas Southmost College (TSC) Contract (U. T. Brownsville) -- A source of revenue unique to U.T. Brownsville, associated with the educational partnership between Texas Southmost College and U. T. Brownsville for TSC community college programs.

H.C.P.C. Funding -- Funding for the Harris County Psychiatric Center hospital operated by U. T. HSC Houston. The Texas Department of Mental Health & Mental Retardation (TDMHMR) and Harris County contract with U. T. HSC Houston to operate this facility.

State Grants and Contracts -- Funding received from the State of Texas or other states. Examples include TEXAS Grants and Advanced Technology and Advanced Research grants received from the Texas Higher Education Coordinating Board.

Medicare/Medicaid Cost Settlements -- Payments to hospitals, laboratories, or intermediaries resulting from Medicare/Medicaid tentative or final audit settlements due to determination of final reimbursement and/or audit adjustments.

FUNDING FROM PRIOR YEAR BALANCES FOR OPERATIONS AND CAPITAL PROJECTS -- Balances from prior fiscal year activity in Educational and General Funds needed to balance the current year's Operating Budget. Also included are funds from prior fiscal year balances that are specifically earmarked for capital project expenditures.

SYSTEM OFFICES -- Funds from General Revenue and the Available University Fund (AUF) to help fund U. T. System Administration offices.

DESIGNATED FUNDS -- Revenues that "administration" has designated for specific purposes (not to be confused with "Restricted" Funds which are specified for a particular use by "outside donors"). The categories are as follows:

GLOSSARY OF TERMS

-- METHOD OF FINANCING --

MSRDP/PRS, DSRDP -- Medical Services Research and Development Plan/Physicians' Referral Service/Dental Services Research and Development Plan. These plans are trust funds established by the U. T. Board of Regents that operate under approved bylaws, authorizing the specific types of expenditures that can be made. The revenue in these plans is derived from the physicians' or dentists' fees for services to patients.

Allied Health Faculty Services Plan – This plan is similar to MSRDP/PRS and DSRDP plans as defined above with the exception that the revenue is derived from practitioner fees. Practitioners are defined as Physical Therapists, Prosthetists/Orthotists, Registered Dieticians, Medical Technologists and Rehabilitation Counselors.

Designated Activities -- Revenues related to various U. T. component institution programs (e.g., Texas Department of Criminal Justice (TDCJ) contract, continuing education programs, TPEG programs, etc.). Examples of revenues include TDCJ contract income at U.T.M.B. Galveston, and Designated Tuition charged to students upon registration and used for operational purposes. Distributions of income from the Tobacco settlement endowments established by the 76th Legislature are also included.

AUXILIARY ENTERPRISES -- Revenues derived from self-supporting U. T. component institution enterprises (e.g., bookstores, dormitories, inter-collegiate athletic programs, etc.), as well as Student Service Fees used to supplement the operations of enterprises which are not fully self-supporting.

CURRENT RESTRICTED FUNDS -- Federal, State, Local, and Private awards used for purposes specified by the "donors" in the agreements. The categories include Sponsored Research and Services, Privately Sponsored Research, and Other Gifts and Grants. Restricted gift income related to pledges should also be reported here.

GLOSSARY OF TERMS

-- SUMMARY OF EXPENDITURES --

INSTRUCTION & ACADEMIC SUPPORT—Expenditures for salaries, wages, and all other costs related to those engaged in the teaching function including the operating cost of instructional departments. This would include the salaries of faculty, teaching assistants, lecturers and teaching equipment. Library materials and related salaries are also included.

RESEARCH -- Expenditures for salaries and wages and other cost associated with the support of research conducted by faculty members.

PUBLIC SERVICE -- Expenditures for activities providing non-instructional services beneficial to individuals and groups external to the institution.

HEALTH CARE -- Expenditures of U. T. health-related institutions with teaching hospital affiliations for costs associated with operating the entity (i.e., labs, pharmacies, personnel salaries, etc.)

INSTITUTIONAL SUPPORT -- Expenditures for central executive-level activities concerned with management and long-range planning for the entire institution, such as the governing board, planning and programming, and legal services; fiscal operations, including the investment office; administrative data processing; space management; employee personnel and records; logistical activities that provide procurement, storerooms, safety, security, printing, and transportation services to the institution; support services to faculty and staff that are not operated as auxiliary enterprises; and activities concerned with community and alumni relations, including development and fund raising.

STUDENT SERVICES -- Expenditures for offices of admissions and of the registrar and activities with the primary purpose of contributing to students' emotional and physical well-being and intellectual, cultural, and social development outside the context of the formal instruction program.

STAFF BENEFITS – Expenditures for premiums or costs of staff benefits programs, including group insurance premiums, Old Age and Survivors Insurance, Workers' Compensation Insurance, and Unemployment Compensation Insurance.

OPERATION & MAINTENANCE OF PLANT -- Expenditures of current operating funds for the operation and maintenance of the physical plant. It includes all expenditures for operations established to provide services and maintenance related to grounds and facilities. Also included are utilities, fire protection, property insurance, and similar items. Specifically included are: salaries, wages, supplies materials and other expenses necessary to keep each building in good appearance and usable condition. Also includes expenses necessary to keep the buildings in a clean and sanitary condition, provide upkeep of all lands designated as campus proper (improved and unimproved) not occupied by actual buildings. Tuition and revenue related debt service are budgeted in this area.

SCHOLARSHIPS & FELLOWSHIPS -- Expenditures for scholarships and fellowships in the form of grants to students, resulting from selection by the institution or from an entitlement program.

CAPITAL PROJECTS -- Funds used for major repair, rehabilitation, and renovation of existing buildings and facilities, as well as funds to supplement major capital projects. Sources of funding typically include Educational and General funds or HEAF.

SYSTEM OFFICES -- Expenditures for salaries, wages, supplies, equipment, travel, and other miscellaneous categories necessary to carry out the day-to-day operations at U. T. System Administration.

DESIGNATED FUNDS -- Expenditures that "administration" has designated for specific purposes (not to be confused with "Restricted" Funds which are specified for a particular use by outside "donors"). The categories are as follows:

GLOSSARY OF TERMS

-- SUMMARY OF EXPENDITURES --

MSRDP/PRS, DSRDP -- Medical Services Research and Development Plan/Physicians' Referral Service/ Dental Services Research and Development Plan. These plans are trust funds established by the U. T. Board of Regents that operate under approved bylaws, authorizing the specific types of expenditures that can be made. The expenditures in these plans come from the services provided by physicians or dentists to patients and include outlays for supplies, equipment, salaries, and staff benefits.

Allied Health Faculty Services Plan – This plan is similar to MSRDP/PRS and DSRDP plans as defined above with the exception that the expenditures result from practitioners' services.

Designated Activities -- Expenditures related to various U. T. component institution programs (e.g., TDCJ contract, continuing education programs, TPEG programs, etc.) and Designated Tuition used for operational purposes. Examples of expenditures include payments for TDCJ hospital and managed care expenses, food, materials, and instructors at U. T. Medical Branch Galveston. Tobacco settlement endowment earnings are used for education, research and patient care. Debt service transfers to U. T. System Administration to pay bondholders, who helped finance related capital projects are also shown in this area.

AUXILIARY ENTERPRISES -- Expenditures of self-supporting component institution enterprises (e.g., bookstores, dormitories, inter-collegiate athletic programs, etc.). The outlays also include debt service transfers to U. T. System Administration to pay bondholders, who helped finance related capital projects in this area.

CURRENT RESTRICTED FUNDS -- Expenses related to Federal, State, Local, and Private awards used for purposes specified by the "donors" in the agreements. The categories include Sponsored Research and Services, Privately Sponsored Research, and Other Gifts and Grants.

Request to Exceed the Full-Time Equivalent Limitation on Employees Paid from Appropriation Funds

This request is in accordance with Article IX, Section 6.14 of Senate Bill 1 (General Appropriations Act) passed by the 77th Texas Legislature, Regular Session. This rider places a limit on the number of full-time equivalent (FTE) employees paid from Appropriated Funds that an institution may employ without written approval of the Governor and the Legislative Budget Board. In order to exceed the FTE limitation, a request must be submitted by the governing board and must include the date on which the board approved the request, a statement justifying the need to exceed the limitation, the source of funds to be used to pay the salaries, and an explanation as to why the functions of the proposed additional FTEs cannot be performed within current staffing levels.

Component	S.B. 1 FTE Limitation	Estimated Average FTE FY2003	Requested Increase In Number of FTEs
U. T. System Administration	223.80	258.40	34.60
U. T. Arlington	1,921.50	2,047.00	125.50
U. T. Brownsville	294.20	759.90	465.70
U. T. Dallas	1,163.50	1,304.80	141.30
U. T. El Paso	1,510.60	1,604.22	93.62
U. T. Pan American	1,257.00	1,394.35	137.35
U. T. Permian Basin	248.50	262.10	13.60
U. T. San Antonio	1,638.30	1,753.30	115.00
U. T. Tyler	353.30	393.30	40.00
U. T. SWMC - Dallas	1,669.50	1,739.50	70.00
U. T. H.S.C. – San Antonio	2,248.10	2,351.90	130.80
U. T. MDA Cancer Center	7,861.40	8,859.40	998.00

Proposed Amendments to the Regents' Rules Regarding Insurance on Money and Securities, Fidelity Bonds

BACKGROUND INFORMATION

Currently, the U. T. System purchases a crime insurance policy covering losses to money and securities. Coverage for losses arising from employee dishonesty has been included in this insurance policy, making the purchase of a blanket position fidelity bond unnecessary.

Part Two, Chapter III, Section 11 of the Regents' Rules and Regulations specifies the authority to purchase insurance on money and securities and to settle claims made against that policy. The section also specifies purchase authority and claims settlement procedures if U. T. System should decide to purchase a blanket position fidelity bond in lieu of employee dishonesty insurance.

The proposed changes to Part Two, Chapter III, Section 11 of the Regents' Rules and Regulations remove language regarding the purchase of bonds that is now outdated due to recent statutory changes and make the policy and settlement approval requirements consistent with those for other types of insurance as specified in Part Two, Chapter VII, Section 4 of the Regents' Rules and Regulations. Among those requirements are provisions for large partial settlements, which may be approved by the Chancellor.

RECOMMENDED CHANGES

Sec. 11. Insurance on Money and Securities; Fidelity Bonds.

11.1 Insurance on Money and Securities.~~--~~

11.11 The [~~As approved by the Board, the~~] System carries a blanket System-wide crime insurance policy insuring against loss of money or securities, including loss caused by employee dishonesty, at any of the component institutions. The terms of the policy shall be negotiated by the U. T. System Administration Director of Business and Administrative Services. The purchase or renewal of the policy shall be approved by the Executive Vice Chancellor for Business Affairs if the premium is in excess of $100,000. [~~The premium paid by each institution is separately computed and is based on the coverage applicable at each institution.~~]

11.12 At the time any loss occurs at any institution, the U. T. System Administration Director of Business and Administrative Services [~~Executive Vice Chancellor for Busines Affairs~~] shall be notified by the appropriate Chief Business Officer. The U. T. System Administration Director of Business and Administrative Services [~~and~~] shall approve all loss claims and settlements up to $50,000. Any settlement over $50,000 [~~$2,000~~] and up to $500,000 [~~under $10,000~~] shall be approved by the Executive Vice Chancellor for Business Affairs. Notification of the settlement will be given to the Board at the discretion of the Executive Vice Chancellor for Business Affairs. Settlements over $500,000 and up to $1,000,000 shall be approved by the Executive Vice Chancellor for Business Affairs and shall be reported to the Board for ratification. Settlements in excess [~~the amount~~] of $1,000,000 [~~$10,000 or more~~] must have the approval of the Board. [~~Money and securities coverage may be combined with the blanket position fidelity bond.~~]

11.13 If a loss is so extensive that partial settlements in excess of $1,000,000 are necessary, the Chancellor is delegated authority to execute all documents related to the partial settlement or adjustment. The Board will be notified by the Chancellor of all partial settlements made in excess of $500,000. Final settlement of claims in excess of $1,000,000 will require approval of the Board.

11.2 Fidelity Bonds.

11.21 If the System discontinues its employee dishonesty insurance coverage, [~~As approved by the Board,~~] the System may purchase, in accordance with all applicable State laws, [~~shall carry~~] a blanket position (fidelity) bond covering [~~that shall cover~~] employees of all component institutions. [~~All employees shall be covered in the amount of not less than $5,000 each. For total coverage in excess of $10,000, approval of the State Auditor is necessary~~.]

[~~11.22~~] [~~The Secretary of State and the State Comptroller of Public Accounts shall be each furnished with an original of the bond.~~]

11.22 [~~11.23~~] The premium for the bond shall be [~~is~~] prorated to the component institutions on the basis of the number of employees covered for which a premium charge is made and the excess coverage thereon.

11.23 [~~11.24~~] At the time a loss occurs, the U. T. System Administration Director of Business and Administrative Services shall be notified by the appropriate Chief Business Officer. The U. T. System Administration Director of Business and Administrative Services shall approve all loss claims and settlements up to $50,000. Any settlement over $50,000 and up to $500,000 shall be approved by the Executive Vice Chancellor for Business Affairs. Notification of the settlement will be given to the Board at the discretion of the Executive Vice Chancellor for Business Affairs. Settlements over $500,000 and up to $1,000,000 shall be approved by the Executive Vice Chancellor for Business Affairs and shall be reported to the Board for ratification. Settlements in excess of $1,000,000 [~~the Executive Vice Chancellor for Business Affairs shall be notified by the chief business officer and shall approve all loss claims and settlements. Any settlement over $2,000 and under $10,000 shall be reported to the Board for ratification. Settlements in the amount of $10,000 or more~~] must have the approval of the Board.

11.24 [~~11.25~~] If a loss is so extensive that partial settlements in excess of $1,000,000 are necessary, the Chancellor is delegated authority to execute all documents related to the partial settlement or adjustment. The Board will be notified by the Chancellor of all partial settlements made in excess of $500,000. Final settlement of claims in excess of $1,000,000 will require approval of the Board. [~~The blanket position fidelity bond coverage may be combined with money and securities coverage.~~]

Update on Comprehensive Property Protection Program (CPPP) and Tropical Storm Allison Recovery

History and Background

The CPPP was established in 1995 as a means of financing catastrophic property losses. The program combines a $5 million Self Insurance Fund that was initially funded by the Board of Regents and a commercial property insurance policy. Major losses that have been reported under this program are the Welch Hall fire of 1996, the Recreation Center fire of 2001 and damage from Tropical Storm Allison in 2001. The current CPPP fund balance is $2.8 million.

In November 2001, the CPPP insurance policy renewed in a severely hardened insurance market. The premium increased significantly, and the policy now excludes losses caused by wind, flood and terrorism.

"Non-Named Windstorm" Tornado Coverage

Prior to binding coverage, U.T. System's insurance broker represented that, subject to the $5 million deductible, the policy would cover a loss caused by a tornado as long as the tornado was not spawned by a named windstorm. U. T. System Administration has recently learned that this is not the case and that the CPPP insurance policy does not include coverage for tornadoes.

The current policy covers our most frequent type of loss, fire, and other perils excluding wind and flood. In the event of a "non-named windstorm" tornado loss, the CPPP Self-Insurance Fund will continue to finance this exposure under the current 5-year payback schedule (50% paid by component with the loss, 50% paid by all components). However, the maximum annual financing available through the CPPP Self Insurance Fund is $5 million.

The broker has been put on notice that if a wind loss that exceeds our deductible occurs, we have been damaged and expect coverage based on their representations.

Restructure of CPPP

Prior to the discovery of the tornado exclusion, U. T. System Administration and the Risk Management Advisory Committee had been exploring options to reduce premiums and U. T. System's dependency on insurance market cycles by taking advantage of our ability to fund losses with low-cost debt and increasing our deductible. In cooperation with Office of Finance staff, we created a financial model that evaluated several deductible options using loss projections developed by our actuary.

The results of the model indicated that self-insurance was the most cost-effective means of financing the majority U. T. System's projected losses given the current cost of insurance. This study and the new knowledge of the tornado exclusion have led us to examine alternative structures for the CPPP program and to re-enter the insurance market to seek tornado coverage.

The recommended new structure of the CPPP consists of two distinct programs. One is a total self-insurance program that covers losses caused by named windstorms and flood. To protect the self-insurance fund, component institutions in the Tier 1 wind zone and/or Flood Zone A would be required to purchase Texas Windstorm Association and National Flood Insurance Program policies. Because these policies provide an underlying layer of protection for the program, the institutions that purchase these policies would receive direct credit to offset their annual fund contributions.

The second program would cover fire and all other perils, including "non-named windstorm" tornadoes, if cost effective. This program includes insurance, but with a significant deductible. In order to finance the self-insurance portion of this program and, component institutions would make annual contributions to self-insurance funds in addition to premiums. Both programs would continue to require institutional deductibles ranging from $100,000 to $250,000 per occurrence before being eligible to receive program funds.

Exhibits 1 and 2 provide a textual and graphical overview of each program. The lower portion of each exhibit includes each component's estimated, annual premium and fund contributions in the columns that are shaded in yellow. It also includes an example of annual fund replenishment and debt service payments if a large loss should occur. These columns are shaded in blue.

The critical elements of each program such as ultimate cost, deductibles, coverage terms and conditions, etc. are subject to change and will not be finalized until the insurance marketing process is complete. The recommended programs have been reviewed with the Chief Business Officers of each component institution or their delegates. All institutions support both the Fire and All Other Perils and Named Windstorm and Flood programs.

It is recommended that the Board of Regents authorize the Executive Vice Chancellor for Business Affairs or his delegates to move forward with the proposed new structure of the CPPP. Implementation of the Fire and All Other Perils program may occur as early as mid-August if we are able to cancel and rewrite the existing policy at more favorable terms.

It is further recommended that the Board of Regents allocate $5.5 million of Available University Fund monies to the CPPP to offset the cost of fund contributions to the component institutions for the first year. The institutions experienced approximately a 300% increase in premiums this fiscal year. The new structure would result in an additional $3 million annual expense for the component institutions.

The program will be evaluated every year and consideration will be given to purchasing insurance with lower retentions if premium costs significantly decrease.

Tropical Storm Allison Recovery – UTHSC Houston

Summary of Financial Impact	($ in Millions)
• Facilities (Physical Damage)	$103.0
• Business Interruption (BI)	$ 10.0
• Mitigation (Preventative Measures)	$ 60.0
• Total Estimated Costs	$173.0

Funding Sources	
• Insurance	$ 76.0*
• Institutional Funds (BI Absorption)	$ 10.0
• FEMA (Facilities and Mitigation)	$ 61.0
• Legislative/Other	$ 26.0
	$173.0

* Insurance has already paid $22 million. Total payments from our insurers could range from $51 million to $103 million. Anticipated date for final settlement is late summer or early fall 2002.

Fire and All Other Perils Program - $50 million Deductible

Exhibit 1

Program Description

- $300 million limits
- $50 million annual aggregate deductible
- Policy premium ~ $2.5 million
- Annual Fund contribution $2.5 million

Deductible

- 1st $5 million – 50%/50% as in current program (5 yr.)
- $5 million to $50 million – Debt Financing
  - o Debt Service - 30% component with loss, 70% fund

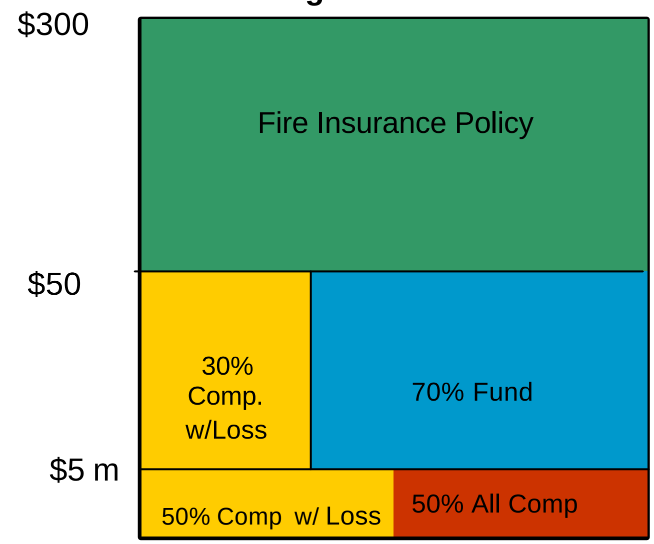
Advantages

- Increased benefit if favorable loss experience
- Reduced dependency on insurance market cycles

Disadvantages

- Greater exposure if poor loss experience

Program Structure



Loss Scenario: $34 mill. Fire Loss at UTSA

Institution	Total Insured Values	Premium	Annual Fund Contribution	Total Annual Payments	Annual Fund Replenishment 5 Years	Annual Fund Replenishment 5 Years	Annual Debt Payment (30% of $29 mill. debt)	Annual Net Fund Payment (70% of $29 mill. debt)	Total Insurance Payment
UT Arlington	$622,731,456	$ 106,889	$ 106,889	$ 213,777		$ 21,378			
UT Austin	$4,477,008,205	$ 768,455	$ 768,455	$ 1,536,909		$ 153,691			
UT Brownsville	$28,259,090	$ 4,851	$ 4,851	$ 9,701		$ 970			
UT Dallas	$282,202,120	$ 48,438	$ 48,438	$ 96,877		$ 9,688			
UT El Paso	$458,621,375	$ 78,720	$ 78,720	$ 157,440		$ 15,744			
UT Pan American	$315,580,829	$ 54,168	$ 54,168	$ 108,336		$ 10,834			
UT Permian Basin	$86,463,468	$ 14,841	$ 14,841	$ 29,682		$ 2,968			
UT San Antonio	$440,434,631	$ 75,598	$ 75,598	$ 151,197	$ 500,000	$ 15,120	$ 759,000		
UT Tyler	$125,198,901	$ 21,490	$ 21,490	$ 42,979		$ 4,298			
UT SWMC Dallas	$1,460,366,719	$ 250,664	$ 250,664	$ 501,328		$ 50,133			
UT MB Galveston	$2,007,949,450	$ 344,654	$ 344,654	$ 689,308		$ 68,931			
UT HSC Houston	$903,995,854	$ 155,166	$ 155,166	$ 310,332		$ 31,033			
UT HSC SA	$829,602,131	$ 142,397	$ 142,397	$ 284,794		$ 28,479			
UT MDACC	$2,209,257,025	$ 379,207	$ 379,207	$ 758,414		$ 75,841			
UT HC Tyler	$236,748,170	$ 40,637	$ 40,637	$ 81,273		$ 8,127			
UT System Admin.	$80,552,091	$ 13,826	$ 13,826	$ 27,653		$ 2,765			
TOTALS	**$14,564,971,514**	**$ 2,500,000**	**$ 2,500,000**	**$ 5,000,000**	**$ 500,000**	**$ 500,000**	**$ 759,000**	**$ 1,769,000**	**$ -**

*Premium and Fund Contribution amounts subject to change depending on insurance quotes, final coverages and values.

Named Windstorm and Flood Program – $50 million Self Insurance Program

Exhibit 2

Program Description

- NFIP and Texas Windstorm Assoc. policies primary
- Self Insurance Fund - $50 million program
- Annual Fund contribution $3 million (risk weighted – location, 10% all non-coastal/flood plane locations)

Debt Financing

- Debt Service - 40% component with loss, 60% fund

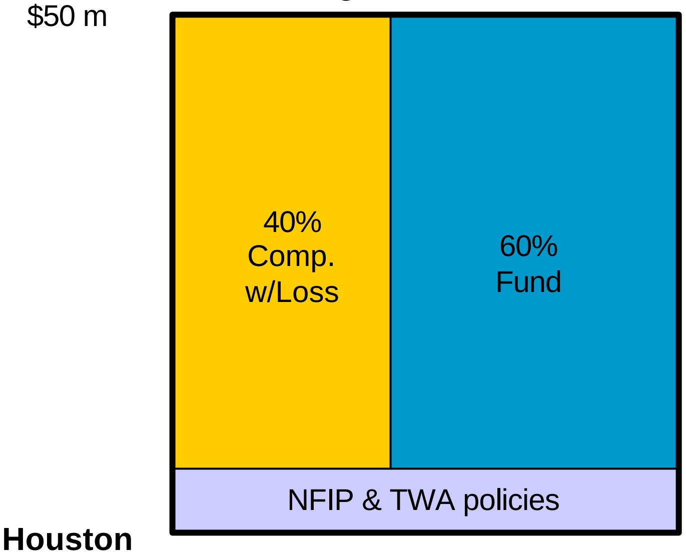
Advantages

- Some level of wind and flood coverage in place
- Avoids costly premium expense
- Reduces dependency on market cycles

Disadvantages

- Does not address losses in excess of $50 million

Program Structure



Loss Scenario: $115 mill. Wind/Flood Loss at UTHSC Houston

Institution	Total Insured Values	Annual Fund Contribution	Total Annual Payments by Components	Annual Debt Payment (40% of $50 mill. debt)	Annual Net Fund Payment (60% of $50 mill. debt)	Total Uninsured Loss
UT Arlington	$615,672,337	$ 24,870	$ 24,870			
UT Austin	$4,355,853,945	$ 242,329	$ 242,329			
UT Brownsville	$28,259,090	$ 32,669	$ 32,669			
UT Dallas	$278,902,120	$ 11,266	$ 11,266			
UT El Paso	$429,608,601	$ 17,354	$ 17,354			
UT Pan American	$315,580,829	$ 110,215	$ 110,215			
UT Permian Basin	$68,696,366	$ 2,775	$ 2,775			
UT San Antonio	$440,434,631	$ 18,245	$ 18,245			
UT Tyler	$91,578,037	$ 3,699	$ 3,699			
UT SWMC Dallas	$906,063,268	$ 38,596	$ 38,596			
UT MB Galveston	$1,239,786,896	$ 1,433,261	$ 1,433,261			
UT HSC Houston	$487,229,358	$ 611,019	$ 611,019	$ 1,750,000		$ 65,000,000
UT HSC SA	$457,743,864	$ 18,491	$ 18,491			
UT MDACC	$1,223,728,028	$ 427,100	$ 427,100			
UT HC Tyler	$150,818,057	$ 6,092	$ 6,092			
UT System Admin.	$49,943,181	$ 2,017	$ 2,017			
TOTALS	**$11,139,898,607**	**$ 3,000,000**	**$ 3,000,000**	**$ 1,750,000**	**$ 2,600,000**	**$ 65,000,000**

*Fund Contribution amounts will change depending on insured values reported prior to program implementation.

The University of Texas System Facilities Renewal Model

I. Purpose of the Study

This report is the culmination of a System-wide project to estimate and document backlog of capital renewal needs and to project future facility renewal requirements for each campus. At the request of the Chancellor, the Office of Facilities Planning and Construction initiated this study in 2000. The System includes almost 58 million gross square feet of space in some 1400 buildings with a current replacement value for buildings alone of almost $12.5 billion. With an investment of such magnitude it is essential to understand the capital renewal needs, both current backlog needs as determined by the existing conditions of this facility inventory and predictable future needs as the inventory continues to age.

In order to accomplish this study an advisory committee that included the Physical Plant Directors/Vice Presidents of three academic and three health institutions was assembled. The advisory committee, working with OFPC, developed the objectives for this project, designed the Request for Qualifications, selected the software contractor for the project and provided on-going oversight during the study.

In October 2001 Pacific Partners Consulting Group was selected to prepare a statistically valid, predictive, model for facility renewal. The model establishes lifecycles for the major building systems and estimated costs to renew those systems as well as forecasting future renewal requirements. Working with the advisory committee, Pacific Partners customized the model assumptions and output reports for the specific circumstances of The University of Texas System campuses. With these customized assumptions, a detailed study of the facilities for each campus was conducted on a building-by-building and subsystem-by-subsystem basis.

From January 2002 through April 2002 OFPC and Pacific Partners worked extensively with the facility management staff of each campus beginning with substantial training on data collection needed for the model. The campus staff then worked with Pacific Partners to input all pertinent facility data including, building name, building size, building type, occupancy date, subsystem types within the building, history of capital renewal within each building, etc. Pacific Partners then ran the model and provided the campus with initial reports of predicted renewal needs. The campus staff used these initial results to do more detailed, targeted evaluations of the conditions of those facility subsystems identified by the model. The results of the detailed evaluations were then fed back into the model, in many cases extending the life of a subsystem that the model had predicted should be requiring renewal. This process was repeated multiple times for each campus in an attempt to obtain the most refined information.

II. Goals of the Study

- Develop a credible model to predict annual financial requirements for facilities renewal and document the existing backlog of renewal requirements in a consistent way for all campuses.
- Provide a basis for a financial plan that will address renewal needs as well as current backlog needs.
- Deliver a model to each campus with associated staff training so that facility renewal needs can be updated annually and progress in meeting those needs can be measured.
- Provide a planning tool for campus use which provides a useful life "systems" profile of each building, as a way of predicting future funding needs and assist in project planning and packaging in order to maximize financial resources.
- Provide an assessment tool with clear, common definitions of terms for institutions to manage facility fiscal needs, allow management oversight, the ability to benchmark facility conditions over time and benchmark UT System with its peer institutions.

III. Essential Concepts of the Study

- All building subsystems within a building type have predictable lifecycles beyond which capital renewal will be required.
- By tailoring the model assumptions to type and quality of construction that has been installed it is possible to predict current (backlog) and future capital renewal needs for a given inventory of facilities.
- A building subsystem is included in the backlog if it meets any of the following conditions: (1) The subsystem has already failed. (2) The subsystem is past its useful life and is functioning, but with substantial degradation of efficiency or performing at substantial increased maintenance cost. (3) The subsystem is past its useful life and is continuing to perform, but has a substantial risk of near-term failure.
- A predictive model based on building type and subsystem lifecycle allows facility management staff to better plan and optimize the allocation of available resources.

IV. Results of the Study

Each campus will receive a status report profiling the facility condition of that campus. This report will identify the capital renewal needs for the campus that are currently in backlog. It will also give the average annual renewal needs as well as actual renewal curve. Each campus will be responsible for updating the model annually. The update will consist of noting changes in the physical plant and infrastructure that have occurred during the prior twelve months including renovations, additions, new construction, minor capital projects and 'special repair' projects. Experience has shown this process to take just a few days.

Included with the report is a licensed copy of this model and guidelines for maintaining the database and generating future reports. A System-wide, consolidated report and model have also been developed.

V. Conclusions

- System-wide we currently have a total backlog of $800 million; however, for a System of our size it is not unreasonable. Our facility conditions are apparently better than the University of California and Oregon University, two other systems for which we have indices.

- Component facility conditions are closely correlated to age of inventory.

- Health components, on average, are in better condition due to regulatory requirements, programmatic changes, and available revenue streams, and lower average age.

- To maintain current facility condition on average, we need to invest $80 million annually for Academic E&G facilities and $110 million annually for Health facilities.

- We are entering a window of increasing capital renewal needs for the next 10 years that includes an anticipated $900 million in the next 5 years.

VI. Recommendations

- Each component develops a prioritized plan on how to approach its renewal needs.

- Such a plan may include phasing facilities out of service.

- Such a plan may recommend new construction over renewal due to institutional mission, i.e., research, science, technology, and educational need change dramatically over 30 to 40 years.

- Presentation to the Texas Higher Education Coordinating Board as a preferred model for documentation and reporting of capital renewal needs.

Quarterly Permanent University Fund Update

Board of Regents of The University of Texas System

Finance and Planning Committee

July 2, 2002

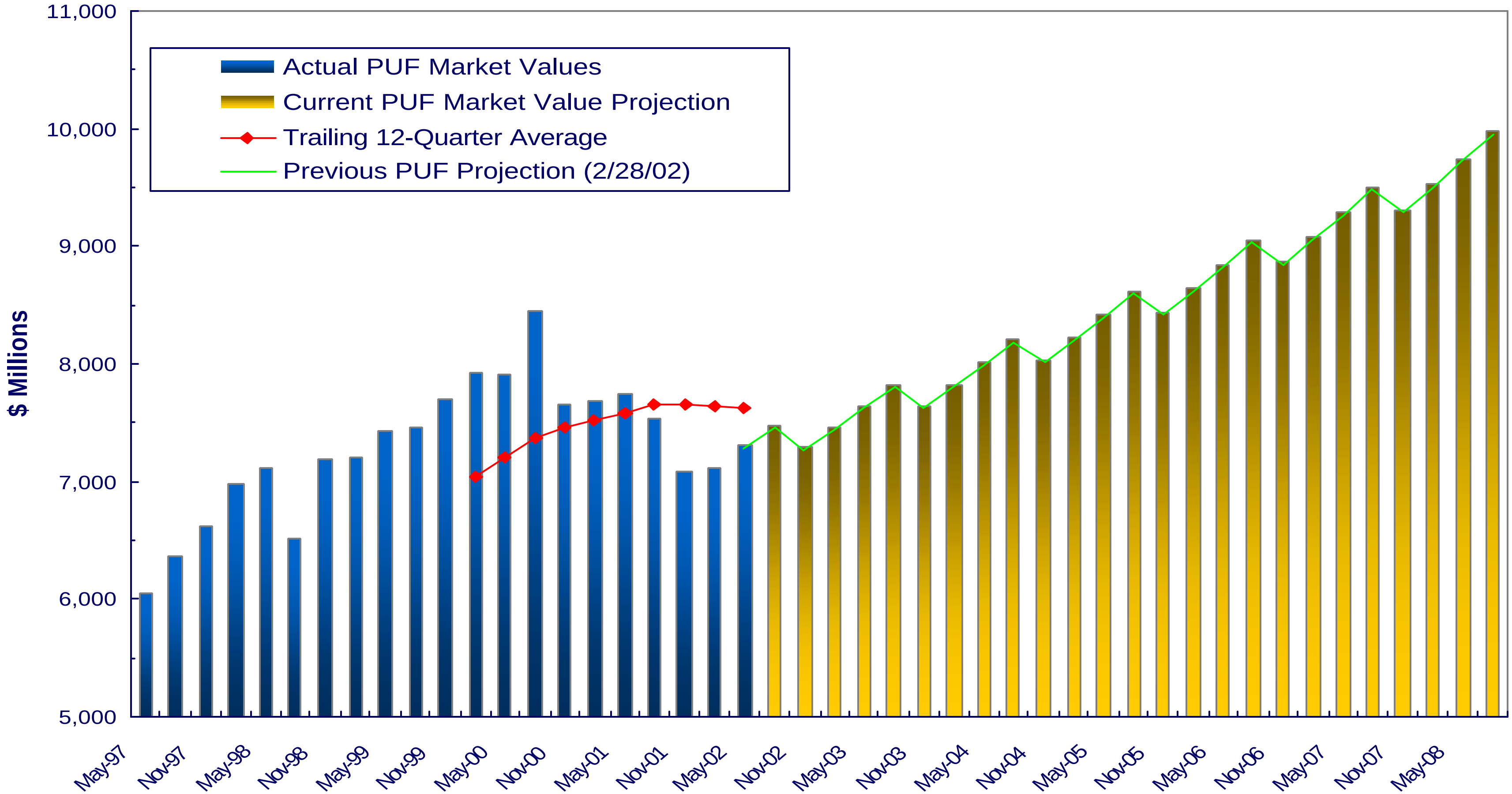
Quarterly Permanent University Fund Update – Executive Summary

- **As of May 31, 2002, the market value of the PUF was $7.303 billion. The FY 2003 distribution to the AUF will be $363.0 million, an increase of $24.6 million over the $338.4 million distributed during FY 2002.**

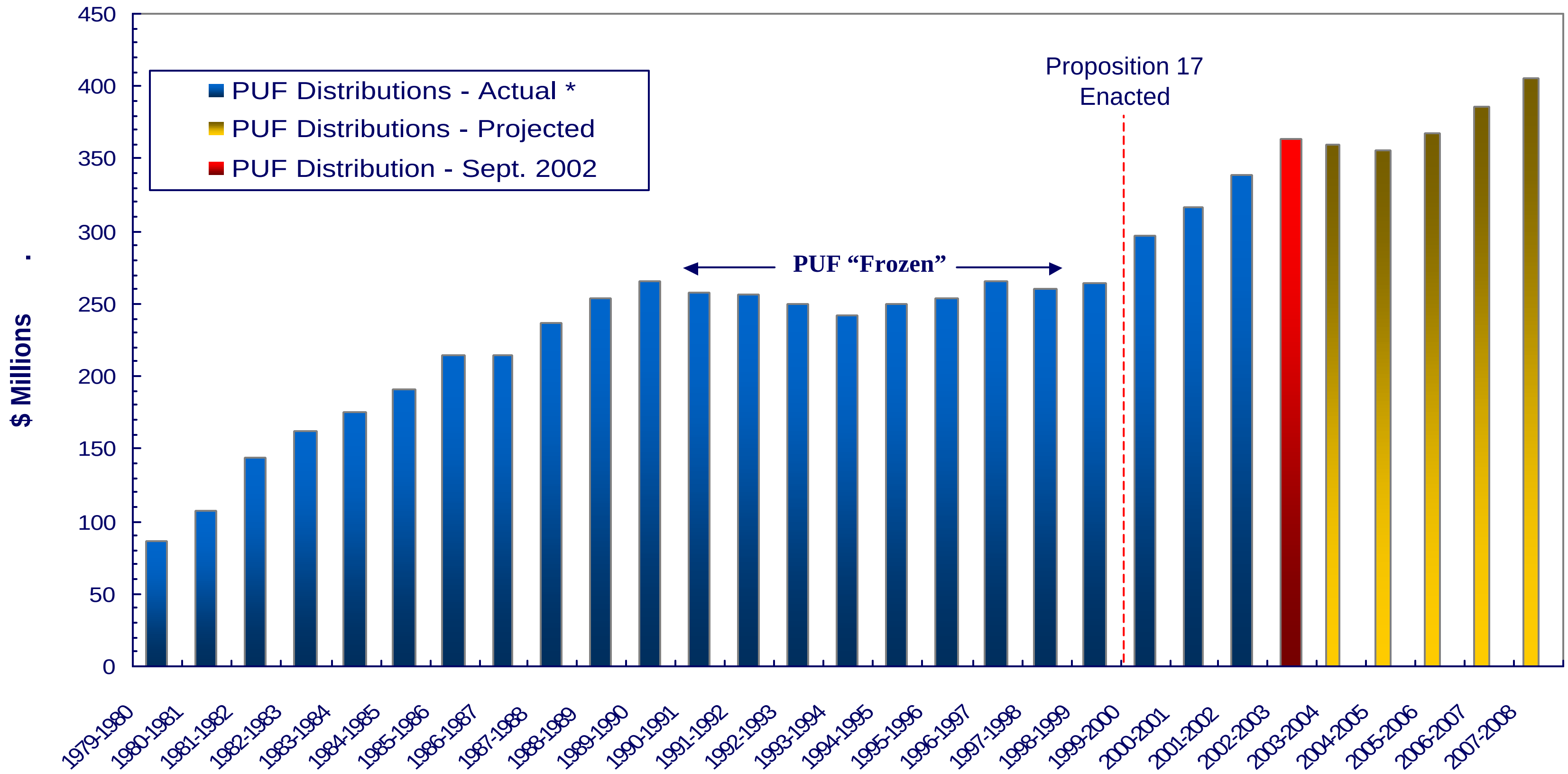
- **The current PUF debt capacity is projected as $115.2 million, up from $102.7 million projected in April 2002. This increase is primarily the result of higher than forecasted returns on the PUF and greater projected utilization of variable rate debt.**

- **The current analysis incorporates the revised PUF debt service as a result of the Series 2002A and Series 2002B refundings. The analysis also incorporates the proposed $50 million cash defeasance of outstanding PUF debt during FY 2002. Similar cash defeasances of outstanding debt were accomplished in FY 1998, FY 1999, and FY 2000, thereby reducing future debt service payable from the AUF.**

Permanent University Fund – Market Value Through May 31, 2002



Permanent University Fund Distributions



* Effective September 1, 1997, a statutory amendment changed the distribution of income from cash to an accrual basis, resulting in a one-time distribution adjustment to the AUF of $47.3 million, which is not reflected.

Permanent University Fund – Debt Capacity
Base Case Assumptions

- PUF Distribution equals 4.75% of the PUF net asset value for the trailing 12 quarters, beginning FY 2003.
- U.T. Austin Excellence Funds equal 45% of the income available to U.T. System.
- AUF balance never falls below $45 million. Includes all PUF projects approved through May 2002.
- Forecasted PUF distribution amounts provided by UTIMCO based on long-term expected average annual rate of return of 9.35%, starting from the PUF market value as of May 31, 2002.
- Annual LERR appropriations of $30 million are projected to continue from FY 2003 through FY 2008.
- Includes PUF Refunding Bonds, Series 2002A and PUF Bonds, Series 2002B. Remaining new PUF debt service structured as 20-year, tax-exempt debt with level debt service.
- The analysis includes the proposed $50 million cash defeasance of outstanding PUF debt in July 2002. A $9 million cash defeasance of PUF debt was accomplished in December 2001.
- Projected debt service costs based on current forward interest rates (averaging approximately 5.40%). This analysis assumes the PUF arbitrage exemption is permanently restored.

Permanent University Fund – Debt Capacity

Base Case

Additional PUF Debt Capacity ($115.2 Million)		$0.0	$115.2	$0.0	$0.0	$0.0	$0.0	$0.0
Cumulative Additional PUF Debt Capacity		$0.0	$115.2	$115.2	$115.2	$115.2	$115.2	$115.2

Available University Fund Operating Statement Forecast Data ($ Millions)	Actual FY 01	Estimated FY 02	Projected FY 03	FY 04	FY 05	FY 06	FY 07	FY 08
PUF Distribution Amount	$317.08	$338.43	$363.02	$359.10	$356.06	$367.89	$386.02	$405.42
Surface & Other Income	9.3	7.3	7.4	7.4	7.5	7.5	7.6	7.6
Divisible Income	326.3	345.8	370.4	366.5	363.6	375.4	393.6	413.0
UT System Share (2/3)	217.6	230.5	246.9	244.3	242.4	250.3	262.4	275.3
AUF Interest Income	12.4	8.2	8.2	10.7	12.0	12.9	13.8	14.7
Income Available to U.T.	229.9	238.7	255.1	255.1	254.4	263.2	276.2	290.1
TRANSFERS:								
UT Austin Excellence Funds (45%)	(102.5)	(107.2)	(114.8)	(114.8)	(114.5)	(118.4)	(124.3)	(130.5)
PUF Debt Service on Approved Projects	(60.7)	(67.2)	(75.8)	(102.1)	(104.5)	(107.5)	(110.5)	(113.4)
PUF Cash Defeasance of Outstanding Debt		(59.0)	-	-	-	-	-	-
PUF Debt Service on Add. Debt Capacity	-	-	(6.2)	(9.6)	(9.6)	(9.6)	(9.6)	(9.6)
System Adm	(28.1)	(26.2)	(28.7)	(30.2)	(31.9)	(33.5)	(35.2)	(37.0)
Other	(2.1)	(2.5)	(4.5)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Debt Service (Bldg Rev)	(3.4)	(3.4)	(3.4)	(3.4)	-	-	-	-
Net Surplus/(Deficit)	33.1	(26.8)	21.7	(6.1)	(7.1)	(6.9)	(4.4)	(1.5)
Ending AUF Balance - System	76.2	49.4	71.0	65.0	57.8	51.0	46.5	45.0
PUF Debt Service Coverage	3.79:1	3.13:1	3.11:1	2.28:1	2.23:1	2.25:1	2.30:1	2.36:1

Permanent University Fund – Debt Capacity Sensitivities

Board-Determined	Board-Determined	Board-Determined	Market-Dependent	Market-Dependent								
Annual LERR	U.T. Austin Excellence	PUF Distribution Rate	PUF Investment Return	Change in Tax-Exempt Rates	Additional Debt Capacity ($ Millions) FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	TOTAL FY 2003-FY 2008	Projected PUF Market Value in FY 2030
$30 Million	45.0%	4.75%	9.35%	NA	115.2	0.0	0.0	0.0	0.0	0.0	115.2	26,675,867,618
$30 Million	45.0%	4.75%	9.35%	NA	115.2	0.0	0.0	0.0	0.0	0.0	115.2	26,675,867,618
$20 Million	45.0%	4.75%	9.35%	NA	125.2	10.0	10.0	10.0	10.0	10.0	175.2	26,675,867,618
$10 Million	45.0%	4.75%	9.35%	NA	135.2	20.0	20.0	20.0	20.0	20.0	235.2	26,675,867,618
None	45.0%	4.75%	9.35%	NA	145.2	30.0	30.0	30.0	30.0	30.0	295.2	26,675,867,618
$30 Million	**40.0%**	4.75%	9.35%	NA	287.1	0.0	0.0	0.0	0.0	0.0	287.1	26,675,867,618
$30 Million	**45.0%**	4.75%	9.35%	NA	115.2	0.0	0.0	0.0	0.0	0.0	115.2	26,675,867,618
$30 Million	**50.0%**	4.75%	9.35%	NA			"Negative" Debt Capacity					26,675,867,618
$30 Million	45.0%	**4.50%**	9.35%	NA	40.0	0.0	0.0	0.0	0.0	0.0	40.0	28,481,484,725
$30 Million	45.0%	**4.75%**	9.35%	NA	115.2	0.0	0.0	0.0	0.0	0.0	115.2	26,675,867,618
$30 Million	45.0%	**5.00%**	9.35%	NA	191.4	0.0	0.0	0.0	0.0	0.0	191.4	24,970,913,292
$30 Million	45.0%	4.75%	**8.35%**	NA	93.2	0.0	0.0	0.0	0.0	0.0	93.2	20,344,355,136
$30 Million	45.0%	4.75%	**9.35%**	NA	115.2	0.0	0.0	0.0	0.0	0.0	115.2	26,675,867,618
$30 Million	45.0%	4.75%	**10.35%**	NA	138.9	0.0	0.0	0.0	0.0	0.0	138.9	34,871,978,682
$30 Million	45.0%	4.75%	9.35%	**+ 50 bps**	92.9	0.0	0.0	0.0	0.0	0.0	92.9	26,675,867,618
$30 Million	45.0%	4.75%	9.35%	**NA**	115.2	0.0	0.0	0.0	0.0	0.0	115.2	26,675,867,618
$30 Million	45.0%	4.75%	9.35%	**-50 bps**	139.1	0.0	0.0	0.0	0.0	0.0	139.1	26,675,867,618

Out-of-State Students / Tuition Issues

At the Academic President's Retreat, several areas concerning the out-of-state students and tuition issues were discussed. As a result of those discussions, it was noted that the General Appropriations Act (see Attachment A) limits enrollment to 10 percent nonresident in medical and dental programs and 20 percent in law programs, while the U. T. Board of Regents' Rules and Regulations extend similar limitations to all programs within the U. T. System component institutions (See Attachment B).

The recommendation to propose changes to the Regents' Rules and Regulations to remove the language extending the limitations to all programs will be discussed.

Attachment A

General Appropriations Act
Special Provisions Relating Only to State Agencies
of Higher Education

Section 13. **Limitation of Nonresident Enrollment in Certain State-supported Professional Schools.**

1. None of the funds appropriated by this Act may be expended for the establishment, operation, or maintenance, or for the payment of any salaries to the employees in, any wholly or partially state-supported medical, dental, or law school which: (a) imposes a limitation on the number of students that it admits, (b) in an academic semester denies admission to one or more Texas residents who apply for admission and who reasonably demonstrate that they are probably capable of doing the quality of work that is necessary to obtain the usual degree awarded by such school, and (c) in the same academic semester admits, as either class, nonresidents of the State of Texas in a number greater than 10 percent of the class of which such nonresidents are a part. Limitation of nonresident enrollment at The University of Texas Law School, Texas Tech University School of law, and the University of Houston Law Center may be increased to 20 percent of the class of which nonresidents are a part provided that the admission of such nonresident students is on the basis of academic merit alone. By the provisions of this paragraph it is intended to withhold funds appropriated by this Act from state-supported medical, dental, and law schools which limit their enrollments and which fill more than 10 percent of their classes with non-resident students in the case of medical and dental schools, and 20 percent in the case of the University of Texas Law School, Texas Tech University Law School and the University of Houston Law Center, when the result of admitting a nonresident denies admission to a qualified Texas applicant. This provision shall not apply to the funds appropriated to the Coordinating Board for the funding of Baylor College of Medicine or to funds appropriated for tuition equalization grants for student attending private colleges.

2. In addition, The University of Texas Southwestern Medical Center at Dallas may admit up to 25 competitively recruited medical students in each entering class for a specialized six-year program of clinical and research training designed to lead to the MD and PhD degrees irrespective of whether those student are Texas residents.

3. Texas medical schools may enroll up to 6 competitively recruited medical students, who already possess the DDS degree, in each second year medical school class for a specialized six year program in oral and maxillofacial surgery comprised of the last three years of medical school and a three year residency program irrespective of whether those student are Texas residents.

Board of Regents' Rules and Regulations
Part Two, Subchapter One, Section 8

. . . .

Sec. 8. Admission of Nonresident Students.--No nonresident of the State of Texas shall be enrolled as a new or transfer student in any school, college, or degree-granting program at any component institution of the System when all of the three following conditions occur: (1) when there is a limitation on the number of students who will be enrolled in the class of which such nonresident would be a member if he or she were enrolled; (2) when the result of enrolling such nonresident would be to increase to greater than 10% the percentage of nonresidents enrolled in the class of which such nonresident would be a member if he or she were enrolled; and (3) when at the time of the proposed enrollment of such nonresident, admission to the school, college, or degree-granting program is being denied to one or more Texas residents who have applied for admission and who reasonably demonstrate that they are probably capable of doing the quality of work that is necessary to obtain the usual degree awarded by the school, college, or degree-granting program. It is provided, however, that the nonresident enrollment at the School of Law, The University of Texas at Austin, may be equal to 15% of each class of which nonresidents are a part provided that the admission of such nonresidents is on the basis of academic merit alone.

. . . .

Deregulation Update
Executive Summary

During the past few months, various staff members with the U.T. System Administration and the U.T. component institutions have developed potential deregulation issues to be considered during the 78th session of the legislature.

The list of issues contains suggestions for improvements in policies and procedures affecting academic oversight, financial management, human resources, information technology, procurement, reporting and other administrative matters. Items included represent initiatives to gain efficiencies, minimize costs, increase revenue, or remove obstacles to an institution's ability to respond to needs or opportunities to better serve the public.

There are currently fifty-two potential deregulation issues on the list. Sixteen of the fifty-two issues were considered during the last legislative session, but not implemented.

The fifty-two deregulation issues, if fully implemented, would result in savings or cost avoidance in excess of $12 million annually. This savings estimate is based on all funds of the U.T. System components. The estimate does not include an assessment of impact on other institutions of higher education. In general, however, the impact on other colleges and universities in Texas would be consistent with the impact on the U.T. System.

Since these issues affect not only U. T. components, but also colleges and universities throughout Texas, the list of issues has been forwarded to the other University Systems in Texas for their consideration.

The Board of Regents will consider the final report during the August Board meeting.

Higher Education
Deregulation Issues for the 78th Legislature

Ref #	*Issue*	*Est. Cost Savings/Revenue Enhancement, All Funds*
A-1	**Modify Texas Academic Skills Program (TASP).** Requirements for the Texas Academic Skills Program (TASP) should be reexamined. The Texas Assessment of Academic Skills (TAAS) exit exam from high school and/or local placement exams may be more effective tools for guiding students into appropriate college level courses. In any case, individual component institutions should be responsible for guiding students into appropriate entry-level courses and accountable for the effectiveness of their course advising processes. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Minimal Savings
A-2	**Review doctoral hour limit.** Current law imposes a 100 semester credit hour cap on fundable hours for each doctoral student with certain exceptions. Managing the exceptions and maintaining the data system to ensure compliance has added significant administrative costs to the operation of doctoral granting institutions of higher education. It would be appropriate to reassess the public benefits resulting from this requirement. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Minimal Savings
A-3	**Review undergraduate hour limit.** Current law imposes a credit hour cap on fundable hours for each undergraduate student with certain exceptions. Managing the exceptions and maintaining the data systems to ensure compliance has added significant administrative costs to the operations of component institutions. It would be appropriate to reassess the public benefits resulting from this requirement. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Minimal Savings

Higher Education
Deregulation Issues for the 78th Legislature

Ref #	***Issue***	***Est. Cost Savings/Revenue Enhancement, All Funds***
A-4	**Review Appropriations Act rider capping non-resident enrollment at certain professional schools.** This rider precludes the expenditure of appropriated funds for state-supported medical, dental or law schools if more than 10 percent of a class is composed of nonresidents. The rider further stipulates that the limitation of nonresident enrollment at the University of Texas Law School, Texas Tech Law School and the University of Houston Law Center may be increased to 20 percent of the class. The governing board of an institution should make decisions on limitations of enrollment of nonresidents. [Legislative Change] **RECOMMENDATION: Pursue this issue during the next legislative session.**	None
A-5	**Modify faculty development leave limitations.** Under current law, governing boards must approve development leaves for faculty members. This function could be handled at presidential level. [Legislative Change] **RECOMMENDATION: Pursue this issue during the next legislative session.**	Minimal Savings
FM-1	**Exempt institutions of higher education from state mandated FTE and travel caps.** <u>Employment Cap</u> - The Appropriations Act places a limitation on employment levels for institutions of higher education. Institutions of higher education do not receive funding on a per employee basis. Each institution receives an appropriation to carry out its education and research missions. This employment limitation does not take into consideration exceptional items that were funded by the legislature. <u>Travel Reduction</u> - The Appropriations Act limits travel expenditures to 100% of the prior year's travel expenditures. The Appropriations Act also increased travel lodging rates and the cost of airfare and rental cars has continued to rise. Since most of the state business meetings are held in Austin, travel is required for representatives of component institutions outside of the Austin area. Because the cost of travel is increasing and the travel necessary to attend critical meetings cannot be jeopardized, the travel limitation should be reconsidered for institutions of higher education. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Minimal Savings

Higher Education
Deregulation Issues for the 78th Legislature

Ref #	*Issue*	*Est. Cost Savings/Revenue Enhancement, All Funds*
FM-2	**Allow educational and general funds to be accounted for and treated separately from general revenue funds.** The current requirement to deposit tuition and certain other cash receipts in the State Treasury requires time-consuming procedures at both state universities and The State Comptroller's Office. This funds transfer process creates redundancies and additional tasks that would be unnecessary if these funds were retained and accounted for locally by the component institutions. The issue of potential negative impact on the general revenue fund needs to be addressed. [Legislative Change] **RECOMMENDATION: Discuss with the Comptroller and possibly pursue during the next legislative session.**	Significant Savings
FM-3	**Consider elimination of state reimbursable payroll processing by institutions of higher education and allow reimbursement based only on summary reporting.** Currently, institutions of higher education process their payrolls for all employees (both General Revenue (GR) and all other fund groups) on in-house payroll systems. Institutions then submit detailed payroll transactions to The State Comptroller's Office on employees to be paid from GR funds appropriated to the institution or to be paid from local funds held in the State Treasury. This proposal would eliminate the detailed reporting of payroll information required for GR reimbursement of salaries and OASI benefits and allow summary reporting in order to receive GR fund reimbursement. Detailed payroll data reporting is currently contained in the Human Resources Information System (HRIS). Therefore, detailed reporting for reimbursement is redundant, burdensome and costly. [Agency Change and Legislative Change] **RECOMMENDATION: Discuss with the Comptroller and possibly pursue during the next legislative session.**	Moderate Savings
FM-4	**Permit discounting of designated tuition and mandatory fees for classes taught during off-peak hours (1pm-4pm).** Most students choose to take classes in the morning hours. Students may opt for afternoon classes if there is a financial incentive to do so. Allowing component institutions to discount tuition and fees may provide for better utilization of classroom space that is currently underutilized most afternoons during fall and spring semesters.[Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Better utilization of classroom space

Higher Education
Deregulation Issues for the 78th Legislature

Ref #	*Issue*	*Est. Cost Savings/Revenue Enhancement, All Funds*
FM-5	**Modify Regulations - Convert to per diem allowances for both meals and lodging, similar to the federal reimbursement process.** The current system requires detailed receipt retention for documentation of lodging and meal expenses. This change would reduce record collection and retention requirements currently required, and would simplify the reimbursement and audit processes related to travel reimbursements.[Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Moderate Savings
FM-6	**Eliminate requirement to hold state health endowment fund distributions in the State Treasury.** Currently, state health endowment fund income (tobacco settlement funds) is retained in the State Treasury. Component institutions make expenditures on programs funded by the state health endowment and then file for reimbursement with the State Comptrollers Office. Allowing these funds to be held locally will allow elimination of the time consuming process of filing for reimbursement and allow for a more efficient operation of the program.[Agency Change and Legislative Change] **RECOMMENDATION: Discuss with the Comptroller and possibly pursue during the next legislative session.**	Minimal Savings
FM-7	**Authorize debit cards not only for students, but also for faculty and staff.** Current law limits the use of debit card programs to students enrolled at an institution. Removing this limitation would allow faculty and staff to participate in a debit card program. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Minimal Savings
FM-8	**Eliminate Appropriations Act rider prohibiting funds being expended to replace or duplicate the Driscoll Children's Hospital in caring for children with special healthcare needs.** This provision has the potential to limit UT medical students and residency training activities in pediatrics at the new Regional Academic Health Center at Harlingen and other training sites to be opened in south Texas. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	None

Higher Education
Deregulation Issues for the 78th Legislature

Ref #	***Issue***	***Est. Cost Savings/Revenue Enhancement, All Funds***
FM-9	**Allow the Board for Lease of University Lands to meet by telephone conference call.** The Board for Lease of University Lands has responsibility for leasing oil and gas rights on University Lands. The Board is composed of two University of Texas Regents, one Texas A&M Regent and the Land Commissioner. Although the Board is composed primarily of members of governing boards of institutions of higher education, the Board is not authorized to meet by telephone conference call like governing boards of institutions of higher education. The Board for Lease of University Lands has only two regularly scheduled meetings a year. There are occasions that a meeting of the Board is necessary for the purpose of conducting a single item of business that needs to be taken care of prior to the next regularly scheduled meeting. Members of the Board are never located in the same city and are therefore required to travel to the meeting site at state or university expense. This is an inefficient use of state and university funds. **RECOMMENDATION: Pursue during the next legislative session.**	Minimal Savings
FM-10	**Allow funds appropriated for South Texas Border Initiative (STBI) programs to be used for appropriate administrative support for programs in the specified regions, by departments on the UTHSCSA campus.** Current Appropriation Act provisions (Article III; Rider 2,f) restrict the use of STBI funds on administrative support costs in the specified regions as well as on the UTHSCSA campus. This lack of funding available for administrative support prevents the UTHSCSA from providing adequate and quality services to the STBI programs, as well as compromises the quality of administrative support provided to other institutional programs. By enabling the UTHSCSA to utilize a portion of South Texas funding for administrative support, we can bring the level of services provided to these programs to an appropriate level and not continue to redirect administrative support funding appropriated for other institutional programs to STBI. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Moderate Savings

Higher Education
Deregulation Issues for the 78th Legislature

Ref #	*Issue*	*Est. Cost Savings/Revenue Enhancement, All Funds*
FM-11	**Eliminate or modify state law relating to privacy of medical records**. In 2001, the legislature passed SB 11 relating to protecting the privacy of medical records. Prior to the passage of this bill, Congress addressed this issue by passing the Health Insurance Portability and Accountability Act (HIPAA). The state statute will have a major impact on all U. T. components because of onerous compliance issues and vague and conflicting interpretations of state law and federal regulations (HIPAA). The U. T. Health components are expected to expend over $3 million in consultant and legal fees to come into compliance with HIPAA and SB 11. This amount does not include the ongoing costs of compliance. Additionally, it is estimated that U. T. academic institutions will spend at least $480,000 to become compliant with both statutes; again, this does not include the ongoing costs of compliance. While much of these costs relate to the federal statute (HIPAA), the state statute is much more onerous and will require additional expenditures to comply. Furthermore, the state statute, in most people's judgment, does not add measurably to protection of the privacy of health information. Texas is the only state with a medical privacy statute that goes beyond the requirements of HIPAA. The state statute should be amended to be consistent with HIPAA or should be repealed. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Significant Savings

Higher Education
Deregulation Issues for the 78th Legislature

Ref #	*Issue*	*Est. Cost Savings/Revenue Enhancement, All Funds*
FM-12	**Authorize institutions of higher education to enter into contingency fee contracts and hire outside counsel for technology development or transfer matters.** Current state law severely restricts the use of contingent fee contracts for outside counsel. Yet, for matters such as patent infringement lawsuits, such lawsuits are too expensive to maintain if outside counsel must be engaged on an hourly fee basis. Thus, institutions may forego instituting a patent infringement lawsuit because of the financial risk to the institution. If outside counsel could instead be hired on a contingent fee basis, the outside counsel, instead of the institution, bears the risk of an unfavorable outcome in the lawsuit and the institution no longer has a disincentive to pursue the litigation. Additionally, state law requires a state agency to obtain the approval of the Attorney General before hiring outside counsel, unless the state agency has other authorization for hiring counsel. Texas Education Code Ch. 153, enacted in the last legislative session, gives institutions of higher education broad authority to engage in technology transfer activities, which include patent licensing, and evidences the legislature's interest in encouraging the economic growth and diversification of the state by encouraging technology development. Providing authorization in Texas Education Code Ch. 153 for the hiring of outside counsel will mean that Attorney General approval is no longer required and will allow institutions of higher education to more quickly address legal issues related to technology development as the issues arise. With the rapid and ever changing nature of technology development, the ability to react quickly is essential. These changes will allow institutions of higher education to engage outside counsel to assist with legal matters related to technology development on a contingent fee basis, an hourly rate basis, or any other basis that the governing board considers appropriate and will not be required to first obtain the approval of the Attorney General before hiring outside counsel. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Potential revenue enhancement and efficiency

Higher Education
Deregulation Issues for the 78th Legislature

Ref #	*Issue*	*Est. Cost Savings/Revenue Enhancement, All Funds*
HR-1	**Allow employees to accumulate State compensatory time, with prior supervisory approval, regardless of where the work is performed. For purposes of leave accounting, a home office will be considered to be the same as an employee's regular worksite, if the employee is participating in an approved telecommuting program.** Under current law, an employee of a state agency may not accumulate state compensatory time for work performed away from an employee's place of employment. The employee's personal residence may not be considered the employee's place of employment. This would provide equal benefits for employees who telecommute and may encourage them to telecommute during peak workload times.[Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Moderate Savings
HR-2	**Permit institutions of higher education to be exempted from mandated across-the-board salary increases provided there is a pay for performance program in place at the institution.** A large percentage of salary costs at component institutions are covered by funds generated by the institution. This is especially true at many of the health component institutions where a significant percentage of revenue is self-generated, as opposed to appropriated. The state mandated salary increase hampers an institution's ability to recognize employee performance through merit compensation because the funds necessary for the program must be used to comply with mandated salary increases.[Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Significant - The savings varies based on the amount of the mandated across-the-board increase, the amount of funding provided by the State, and the timing of the increase.
HR -3	**Exempt institutions of higher education from the requirement that the state fully subsidize the cost of automatic (basic insurance) coverage for all eligible employees/retirees based upon "state contribution amount" legislated each biennium.** The fixed cost of mandated state insurance contribution restricts an employer's ability to address alternative funding/cost-sharing initiatives for health insurance costs. This prevents an opportunity to determine the balance between a competitive benefit plan (one that will attract and retain employees) and one that must remain cost effective. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Minimal Savings

Higher Education
Deregulation Issues for the 78th Legislature

Ref #	*Issue*	*Est. Cost Savings/Revenue Enhancement, All Funds*
HR-4	**Authorize the governing boards of institutions of higher education to reduce or waive tuition and fees for employees and their dependents who satisfy admission requirements for a given institution.** This would provide a significant benefit for employees that are similar to tuition waivers found in other institutions of higher education, and increase the competitiveness of Texas state colleges and universities with institutions offering such benefits. [Legislative Change] **RECOMMENDATION: Pursue this issue during the next legislative session.**	Significant Savings - While there would be costs associated with reducing tuition and fees for employees and their dependents, this proposed legislative change could greatly enhance recruitment and retention of faculty and staff.
HR-5	**Modify State law to require 10 years of service to continue group insurance coverage upon retirement or separation for all employees hired after September 1, 2003.** Current State law allows retirees who are eligible for retirement under the Teacher Retirement System (TRS) or Optional Retirement Program (ORP) to maintain or enroll in U. T. group retiree insurance benefits after three years in service. This measure will result in a cost savings because U. T. System would not be required to pay for the cost of lifetime premium sharing or group insurance participation for those hired after September 1, 2003, who have worked less than 10 years. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Moderate Savings
HR-6	**Allow employees to collect both hazardous duty pay and longevity pay.** Under current law, employees who receive hazardous duty pay, such as police officers, are not entitled to receive longevity pay as other employees. All employees should be allowed to receive longevity pay, as a reward for their continued service to the state in addition to hazardous duty pay if they are commissioned police officers during the time they are serving in positions designated as hazardous. This change will provide an added incentive to valuable, experienced employees and will make it easier to retain them in the workforce. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Minimal Cost

Higher Education
Deregulation Issues for the 78th Legislature

Ref #	*Issue*	*Est. Cost Savings/Revenue Enhancement, All Funds*
HR-7	**Increase vacation accrual for new employees to eight hours per month.** Under current law, new employees only accrue 7 hours per month for vacation leave. Increasing the minimum accrual to 8 hours per month will provide new employees a full day off per month. This will help to attract and retain valuable employees. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.** The proposal is to collapse the first two categories on the state vacation accrual table to create one category such that eligible new state employees with 0 to 5 years will accrue vacation at 8 hours per month for full time employment. There will be no modification to the remainder of the table.	Minimal Cost
HR-8	**Change the rehire waiting period for Teacher Retirement System (TRS) retirees from one calendar year to 30 days.** Under current law, institutions of higher education must wait one year before they can rehire a TRS retiree. Changing the waiting period to 30 days would allow institutions to bring back valuable and experienced employees to help them fulfill their educational mission. [Legislative Change] **RECOMMENDATION: Pursue during next legislative session.**	Minimal savings
HR-9	**Allow Optional Retirement Program (ORP) participants to transfer to the Teacher Retirement System (TRS) retirement plan.** A recent change in Federal law (Economic Growth and Tax Relief Reconciliation Act of 2001) allows for individuals to transfer retirement systems, if permitted by state law. State law could be changed to allow ORP members to transfer to the TRS System. This would allow employees an additional incentive to remain employed by component institutions if they felt they would benefit from the change. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session provided that a favorable private letter ruling is received from the Internal Revenue Service. This measure could require significant cost to transfer participants.**	Unable to determine financial impact. Potential savings in reduction of matching, but potential cost overall.

Higher Education
Deregulation Issues for the 78th Legislature

Ref #	*Issue*	*Est. Cost Savings/Revenue Enhancement, All Funds*
IT-1	**Eliminate institutions of higher education from Department of Information Resources (DIR) oversight.** Currently, institutions of higher education are included in the definition of "state agency" as it relates to information technology projects. This causes institutions of higher education to be subject to administrative requirements of the DIR, which are clearly designed for administrative state agencies, rather than institutions of higher education. This change will remove higher education from burdensome rules of DIR in a manner similar to how HB 1545 removed higher education from General Service Commission purchasing regulations. [Legislative Change] **RECOMMENDATION: Pursue this issue during the next legislative session.**	Moderate Savings
IT-2	**Exempt institutions of higher education from proposed Department of Information (DIR) rules concerning accessibility of information.** These rules are designed with a typical state agency, not institutions of higher education in mind. This proposed rule may threaten intellectual property rights and it also has the potential for thwarting the creation of curriculum materials for distance education classes. [Legislative and Agency Change] **RECOMMENDATION: Discuss with the Department of Information Resources and pursue this issue during the next legislative session.**	Moderate Savings
IT-3	**Eliminate or modify Legislative Budget Board (LBB) requirement that agencies must gain approval from the LBB before purchasing any information technology (IT) item.** Currently, the LBB requires that all purchase requests not previously approved under the biennial operating plan process be approved by the LBB. Institutions of higher education may purchase hundreds of items such as PCs in a fiscal year. Although like items can be grouped and approval requested only once for the entire group, purchase requests are normally submitted individually throughout the year. [Agency Change] **RECOMMENDATION: Discuss with the Legislative Budget Board.**	Minimal Savings

Higher Education
Deregulation Issues for the 78th Legislature

Ref #	***Issue***	***Est. Cost Savings/Revenue Enhancement, All Funds***
IT-4	**Exempt higher education from required use of the West Texas Disaster Recovery and Operations Center (WTDROC).** The Appropriations Act provides that the Department of Information Resources (DIR) manage the operations of a disaster recovery and operations data center on the campus of Angelo State University. The Appropriations Act also requires all state agencies and institutions of higher education to utilize the center for testing disaster recovery plans, for disaster recovery services and for data center operations. If an agency or institution does not wish to use the center for these services, they must obtain a waiver from the Legislative Budget Board (LBB). An agency or institution must show that the requested service requirements cannot be provided at a reasonable cost. It is impractical and not cost effective to move computing facilities of institutions of higher education to a West Texas facility. The time, effort and expense needed to complete the studies necessary for a waiver are burdensome. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Significant Savings
IT-5	**Exempt institutions of higher education from the requirement to submit a Biennial Operating System (BOP) or Information Technology Strategic Plan to the Legislative Budget Board (LBB).** The LBB Biennial Operating Plan (BOP) reporting system, ABEST, is an inappropriate tool for collecting biennial operation plan information for institutions of higher education because of the significant differences in funding sources and mechanisms between institutions of higher education and other state agencies. As a result, the BOP provides little value in terms of providing information for analytical use. Creating the BOP is a very time consuming process that should not be performed if the resulting information is of little use either to the state or to the institution. Additionally, HB 1545 exempted higher education from creation of an agency strategic plan. The BOP is now part of the agency strategic plan, and by extension it should also be exempted. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Moderate Savings

Higher Education
Deregulation Issues for the 78th Legislature

Ref #	*Issue*	*Est. Cost Savings/Revenue Enhancement, All Funds*
PRO-1	**Discuss several rule changes with the Texas Building and Procurement Commission.** These issues include: elimination of the requirement to print a vendor's franchise tax statement prior to award of bid; require the vendor awarded the contract for credit card procurements to report credit card expenditures with HUB's; require vendor agreement to contain a contract clause that payments for vendor indebtedness to the state be withheld from payments due the vendor. [Agency Change] **RECOMMENDATION: Discuss with the Texas Building and Procurement Commission.**	Moderate Savings
RPT-1	**Discuss reduction in duplicate reporting with the Legislative Budget Board (LBB).** Require a review of new reporting requirements to determine if the information is available in an existing report and require preparation of a fiscal note estimating cost to the state for the new report. The Higher Education Coordinating Board has been very successful in reducing the impact of their reporting requirements for institutions of higher education. A significant part of this success may be attributed to a policy that requires all proposed new reporting requirements be submitted to a committee that reviews the proposal and determines if other sources for the required data exist. A similar review process for reporting requirements generated by other state agencies and the legislature could be implemented to ensure that data sources are being effectively utilized to provide needed information. [Agency Change] **RECOMMENDATION: Discuss with the Legislative Budget Board.**	Undetermined
RPT-2	**Review contract workforce reporting with the State Auditors office.** This legislation could be fine-tuned so that large entities and corporations do not have to be reported as part of the contract workforce. The State Auditors' rules implementing the legislation have created additional review and analysis, and appear to have expanded upon the original intent of the legislation. [Legislative and Agency Change] **RECOMMENDATION: Discuss with the State Auditors office and possibly pursue during the next legislative session.**	Minimal Savings
RPT-3	**Discuss additional improvements in the composition of the Legislative Appropriations Request (LAR) with the Legislative Budget Board (LBB).** The LBB has requested user input into the LAR submission process in the past which has helped to improve the process; however, there are still changes that can be made to make the reporting process less burdensome. [Agency Change] **RECOMMENDATION: Discuss with the Legislative Budget Board.**	Minimal Savings

Higher Education
Deregulation Issues for the 78th Legislature

Ref #	*Issue*	*Est. Cost Savings/Revenue Enhancement, All Funds*
RPT-4	**Eliminate the requirement for the Legislative Budget Board Non-resident Bidders Report.** The Non-resident Bidder Report is not a report of bidders, but a report of awarded vendors that reside outside of Texas. Texas is in a global marketplace with advertising of procurement opportunities in the Texas Marketplace. This report seems outdated since we do not solicit just in Texas or in the USA. [Legislative Change] **RECOMMENDATION: Discuss with the Legislative Budget Board and possibly pursue during the next legislative session.**	Minimal Savings
RPT-5	**Eliminate the Binding Encumbrance Report.** Quarterly reporting of binding encumbrances is of little value to the state or to any agency of the state, because appropriations do not lapse on a quarterly basis. Current policy allows the Comptroller to "sweep" General Revenue (GR) funds two years after those funds are appropriated. This should be sufficient incentive for agencies and institutions to manage GR expenditures efficiently prior to that known deadline. [Legislative Change] **RECOMMENDATION: Discuss with the Comptroller and Legislative Budget Board and possibly pursue during the next legislative session.**	Minimal Savings
RPT-6	**Consolidate reporting of financial/budgetary information.** Currently, The Higher Education Coordinating Board (THECB), The Comptroller's Office, LBB and other agencies request financial information separately, creating redundant reporting efforts. THECB, Comptroller's Office, LBB and other agencies could download the information from annual financial reports that agencies are required to post on their websites. This would enhance uniformity of amounts reported and eliminate reporting efforts. [Agency Change] **RECOMMENDATION: Discuss with the Legislative Budget Board.**	Moderate Savings
RPT-7	**Consolidate vehicle fleet management plan reporting requirements (HB 3125, 76th Legislature).** All agencies and institutions currently report costs associated with vehicle fleet management to the Texas Building and Procurement Commission. Every effort should be made to review data required under existing reports and new reports required by HB 3125 in order to eliminate redundancies and data requirements that are irrelevant to any on-going reporting purpose. [Agency Change] **RECOMMENDATION: Discuss with the Texas Building and Procurement Commission.**	Minimal Savings

Higher Education
Deregulation Issues for the 78th Legislature

Ref #	Issue	Est. Cost Savings/Revenue Enhancement, All Funds
RPT-8	**Modernize the Uniform Statewide Accounting System (USAS).** USAS was created to facilitate state agency accounting processes. However, there are significant problems involved in its use including: a) duplicate record keeping is required to facilitate reconciliation between USAS and agency accounting systems; b) significant staff hours are involved in the reconciliation process and in seeking reimbursement of local funds for state payments; c) faulty electronic communication, and changing USAS payment requirements, payment scheduling, and online audits delay payments; d) the USAS is not user friendly. [Agency Change] **RECOMMENDATION: Discuss with the Comptroller of Public Accounts.** Due to the numerous financial reporting changes that went into effect in FY 2002 (GASB 34/35), the Uniform Statewide Accounting System (USAS) is currently being reviewed by the Comptroller of Public Accounts. The Comptroller's office is taking input from state agencies and institutions of higher education on the redesign of the USAS.	Moderate Savings
RPT-9	**Consider centralization and standardization of contractor reporting.** Several state agencies, including the LBB, State Auditors' office and members of the Legislature, require the reporting of similar contractor information at differing intervals using several different reporting methods. Each state agency or institution of higher education is required to provide very similar information about contractors on a daily, quarterly, annual, or "upon request" basis. A uniform set of data with consistently defined categories of contractor information reported on a quarterly basis to one central office would save time and money. [Legislative and Agency Change] **RECOMMENDATION: Discuss with the Legislative Budget Board and possibly pursue during the next legislative session.**	Minimal Savings

Higher Education
Deregulation Issues for the 78th Legislature

Ref #	*Issue*	*Est. Cost Savings/Revenue Enhancement, All Funds*
RPT-10	**Exempt institutions of higher education from statewide capital expenditure plan reporting as specified in the General Appropriations Act.** Institutions of higher education are already required to submit capital planning information to the Texas Higher Coordinating Board for project approval; therefore resubmitting capital planning information to the Bond Review Board is inefficient. Institutions of higher education prepare a capital improvement plan and many of the projects included in a component institutions' capital improvement plan are funded with sources other than debt and therefore do not impact debt capacity. Additionally, debt issued by institutions of higher education is typically secured by the revenues of that institution; therefore, it does not impact the state's debt capacity. Exemption from this reporting requirement will save time and reduce paperwork. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Minimal Savings
RPT-11	**Modify requirement for institutions of higher education to submit construction/capital projects to the Texas Higher Education Coordinating Board (THECB) for review.** Texas higher education systems have a thorough review process for all construction/capital projects and all projects must be approved by the respective Board of Regents. Submission of projects to the THECB for review is a duplication of work and has a significant impact on project schedules. Institutions with processes in place should only be required to submit an annual plan of projects to the THECB.[Agency Change] **RECOMMENDATION: Discuss with the Texas Higher Education Coordinating Board (THECB).**	Minimal Savings
RPT-12	**Eliminate the LBB Quarterly Investment Report.** The information contained in this report is contained in a number of other areas, including the University of Texas Investment Management Company (UTIMCO) website and the UTIMCO Annual Report.[Legislative Change] **RECOMMENDATION: Discuss with the Legislative Budget Board and possibly pursue during the next legislative session.**	Minimal Savings
RPT-13	**Eliminate recycled products reporting.** Currently, all state agencies/institutions are required to report annually all purchases of recycled, remanufactured, and environmentally sensitive products to the Texas Building and Procurement Commission and in the agency/institutions' annual financial report. Data gathering for these reports is difficult and cumbersome.[Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Minimal Savings

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Ref #	*Issue*	*Est. Cost Savings/Revenue Enhancement, All Funds*
RPT-14	**Eliminate contract reporting requirement**. State law requires that all agencies/institutions report not later than the 10th day after entering into a contract for $14,000 or more for: a) consulting services; b) professional services; c) construction services; and d) major information systems (over $100,000). U. T. System institutions enter into many different types of contracts that exceed $14,000. Hundreds of hours are spent gathering information and entering data on spreadsheet forms for submission to the Legislative Budget Board.[Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Minimal Savings
RPT-15	**Eliminate Uniform Statewide Accounting System (USAS) to Automated Budget and Evaluation System of Texas (ABEST) Annual Reconciliation.** Extensive time and effort is spent recording and reconciling these reports. It is unclear what value this process has for any agency/institution. [Agency Change] **RECOMMENDATION: Discuss with the Comptroller of Public Accounts.** Due to the numerous financial reporting changes that went into effect in FY 2002 (GASB 34/35), the Uniform Statewide Accounting System (USAS) is currently being reviewed by the Comptroller of Public Accounts. The Comptroller's office is taking input from state agencies and institutions of higher education on the redesign of the USAS.	Minimal Savings
RPT-16	**Clarify reporting requirements on donations for scholarships and endowed programs.** The Appropriations Act stipulates that a state university that fails to award a scholarship created or endowed by a donor, must report that fact to the donor and the Texas Higher Education Coordinating Board (THECB). Additionally, the Appropriations Act states that if a state university, within five years of receiving a donation, diminishes its financial support from local funds for a program created or endowed by a donor, the institution shall notify the donor, the THECB and the Legislative Budget Board. Upon request of the donor, the university must return the donation or endowment. The reporting requirements should be modified to be consistent with donor agreements. **RECOMMENDATION: Pursue during the next legislative session.**	Minimal Savings

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Ref #	*Issue*	*Est. Cost Savings/Revenue Enhancement, All Funds*
RPT-17	**Clarify reporting requirements on endowed chairs that are unfilled.** The Appropriations Act states that for each endowed chair that remains unfilled for a period of three consecutive years, the institution must provide a report to the donor disclosing the vacant status of the chair. Furthermore, institutions must report to the Legislative Budget Board the average length of time endowed chairs have remained unfilled and the percent of endowed chairs unfilled within the fiscal year being reported. The reporting requirements should be modified to be consistent with donor agreements. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Minimal Savings
RPT-18	**Provide an exception to the Public Information Act for information regarding major donors to institutions of higher education.** These records often contain personal data about donors and their gifts that the donor would prefer not be made public, sometimes because he or she has asked to remain anonymous. This would protect the privacy and financial investment decisions of donors. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Minimal Savings
RPT-19	**Modify financial disclosure statement filings for outgoing members of the Board of Regents.** Under current law, members of governing bodies who hold office on January 1 must file a financial disclosure statement with the Texas Ethics Commission by the end of April of that year even if he or she leaves the appointed position on February 1. Since most appointments expire in the early part of the year, it would seem preferable to move the triggering date to April 1. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Minimal Savings
RPT-20	**Modify requirement to send Board of Regent minutes to other state agencies.** Copies of the minutes of meetings are available on the University of Texas System Board of Regents web site. [Legislative Change] **RECOMMENDATION: Pursue during the next legislative session.**	Minimal Savings