

FINANCE AND PLANNING COMMITTEE
Committee Chairman Hunt

Date: August 9, 2001
Time: Following the Meeting of the Executive Committee
Place: Bluebonnet Ballroom South, E.H. Hereford University Center,
U. T. Arlington

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1. U. T. System: Recommendation to Approve Chancellor's Docket No. 106

RECOMMENDATION

It is recommended that Chancellor's Docket No. 106 be approved.

It is requested that the Committee confirm that authority to execute contracts, documents, or instruments approved therein has been delegated to appropriate officials of the respective institution involved.

2. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part One, Chapter I, Section 9 (Documents Executed on Behalf of the Board), Subsection 9.2, Subdivision 9.29, Subparagraph 9.291

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Academic Affairs, and the Vice Chancellor and General Counsel, that the Regents' Rules and Regulations, Part One, Chapter I, Section 9, relating to documents executed on behalf of the Board, be amended as set forth below in congressional style:

Sec. 9. Delegation to Act [~~Documents Executed~~] on Behalf of the Board.

...

9.2 Delegation of Authority to Execute and Deliver Contracts, Agreements, and Documents.--

...

9.29 The following contracts and agreements must be approved by the Board via the docket or the agenda, regardless of the contract amount:

9.291 Contracts and agreements of any kind or nature with a foreign government or agency thereof, except affiliation agreements and cooperative program agreements prepared on [the] standard forms approved by the Office of General Counsel, and material transfer agreements prepared on an approved standard form or satisfying the requirements set by the Office of General Counsel.

.....

BACKGROUND INFORMATION

The proposed amendments to the Regents' Rules and Regulations, Part One, modify Chapter I, Section 9, Subsection 9.2, Subdivision 9.29, Subparagraph 9.291 to add cooperative program and certain material transfer agreements to those foreign contracts and agreements not requiring approval by the U. T. Board of Regents via the docket or the agenda. The proposed title change to Section 9 better reflects the text of this Section.

3. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part Two, Chapter IV (Purchasing), Sections 1 through 5

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs and the Vice Chancellor and General Counsel that the Regents' Rules and Regulations, Part Two, Chapter IV related to purchasing, Sections 1 through 5 be amended as set forth below in congressional style:

Sec. 1. Purchasing Ethics.

- 1.1 First consideration shall be given to the objectives and policies of the System and its component institutions.
- 1.2 Every effort shall be made to obtain the best [~~maximum ultimate~~] value for each dollar of expenditure.
- 1.3 Honesty in sales representation shall be demanded, whether offered through the medium of oral or written statement, an advertisement, or a sample of the product.
- 1.4 Purchasing agents, [~~and~~] their staffs and others authorized by or under these regulations to make purchases shall not accept personal gifts or gratuities that might in any way result in an obligation to individuals or firms seeking business.
- 1.5 All purchases, regardless of the source of funds, shall be made using the method that provides the best value to the component institution or the System and in accordance with (a) the requirements of Sections 51.9335, 73.115, or 74.008, Texas Education Code, as applicable, [on a competitive basis] unless otherwise authorized by law, [U. T.] System policy, or approved component policy; and (b) the component's institutional Handbook of Operating Procedures.
- 1.6 No bidder or proposer shall receive special consideration [~~or be allowed to revise a bid after the time set for opening bids~~].

1.7 Any violations of these purchasing ethics shall be reported promptly by the chief business officer to the Executive Vice Chancellor for Business Affairs.

Sec. 2. Contacts with State Agencies and Vendors [~~the General Services Commission~~].--All contacts, whether oral or written, with State agencies [~~the General Services Commission~~] and with vendors regarding procurement activities are handled through the Office of General Counsel or the official purchasing agents and the divisions, departments, or offices to whom the purchasing function has been specifically delegated, unless advance written authorization is obtained from the purchasing agent or the chief business officer for other persons to do so.

Sec. 3. [Purchases of Supplies, Materials, Services, and Equipment.

3.1 ~~In making purchases of supplies, materials, services, and equipment on behalf of the System, the General Services Commission (the "Commission") is required to comply with the State Purchasing and General Services Act, Subtitle D, Title 10, Texas Government Code (the "Act"), including the rules and regulations promulgated by the Commission thereunder.~~

3.2 ~~The Act permits the Commission to delegate purchasing functions to a state agency, including an institution of higher education. The Act authorizes institutions of higher education to purchase materials, supplies, or equipment through group purchasing programs that offer discount prices to institutions of higher education, subject to rules to be promulgated by the Commission. In making purchases under such delegated authority or under such group purchasing programs subject to rules of the Commission, the System shall follow the Commission's applicable procedures or rules.~~

3.3 ~~The Act provides that the Commission's authority does not extend to acquisition of:~~

- ~~(a) specified categories of supplies, materials, services, or equipment for libraries operated as part of university systems or institutions of higher education;~~
- ~~(b) materials, supplies, or equipment purchased by state-owned hospitals or clinics through certain group purchasing programs;~~

- (c) ~~professional services or consulting services; or~~
- (d) ~~supplies, materials, services, or equipment for resale, for auxiliary enterprises, for organized activities relating to instructional departments, or from gifts or grants, including industrial or federal grants or contracts in support of research.~~

3.4 ~~The System has no obligation to comply with the Act or the rules and regulations issued thereunder in making purchases to which the Commission's authority does not extend, or for which the System's purchasing authority is not delegated from the Commission under the Act or expressly subject to rules by the Commission but rather is a different statute. With respect to such purchases not subject to the Act or the rules and regulations issued thereunder, the policies and procedures to be used by a System component shall be approved by its chief business officer pursuant to Section 4 below.~~

~~Sec. 4.]~~ Purchasing Procedures.

3.1~~[4.1]~~ The official purchasing agent of each component institution shall promulgate procedures to facilitate and expedite the purchasing function. Such procedures shall be developed in accordance with sound business practices and applicable State ~~[state]~~ law. Purchasing procedures shall be implemented only after appropriate review and approval for inclusion in the institutional Handbook of Operating Procedures, including review and approval of the chief business officer.

3.2~~[4.2]~~ Closed ~~[or noncompetitive]~~ specifications shall not be used except in unusual instances clearly justified as being essential to efficient operating performance. Reports of all such exceptions shall be maintained by the chief business officer.

~~Sec. 4~~[5]. Purchase from or Sale to an Officer or Employee.--Purchase from, or sale to, any officer or employee of the System or a component institution of any supplies, materials, services, equipment, or property must have the prior approval of the component president and the appropriate Executive Vice Chancellor or the Chancellor. Any such purchases shall be made only if the cost is less than from any other

known source. This Section does not apply to sales or purchases made at public auction or sales approved by the institutional president valued at \$5,000 or less.

BACKGROUND INFORMATION

The revisions to Part Two, Chapter IV, Sections 1 through 5 of the Regents' Rules and Regulations are intended to reflect the statutory authority of U. T. System and the component institutions to acquire goods and services using the purchasing method that provides the best value.

The 77th Texas Legislature amended Section 51.9335 of the Texas Education Code effective September 1, 2001, to permit institutions of higher education to acquire goods or services by the method that provides the best value to the institution. Obtaining this statutory authority was one of the deregulation issues included in the U. T. System legislative initiatives in the 77th Texas Legislature.

Medical components received prior statutory authorization to use best value purchasing methods; with the change to Section 51.9335 of the Texas Education Code, academic components may use such methods commencing September 1, 2001.

4. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part Two, Chapter VII, Section 8 (Disposal of Property of the System)

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs and the Vice Chancellor and General Counsel that the Regents'

Rules and Regulations, Part Two, Chapter VII, Section 8, regarding disposal of property of the U. T. System, be amended as set forth below in congressional style:

Sec. 8. Disposal of Property of the System.--The process outlined in this Section governs the sale and disposal of property, with the exception of sale of artwork or duplicate volumes which is covered by Section 11 of this Chapter.

8.1 Whenever any item of equipment becomes obsolete or useless for the needs and purposes of the department concerned, a written report of such fact shall be made to the chief business officer to determine whether or not such item of equipment is needed by any other department and, if so, to transfer and assign the equipment to such department.

8.2 If the chief business officer shall determine that the equipment is not needed for any department, ~~and~~ that is not practicable to store the equipment for possible future use, and that [he or she shall proceed to sell the item concerned. If] the equipment can be used for instructional purposes, it shall be made available to a public school or school district in accordance with Section 2175.304(b) of the Texas Government Code before disposing of the property in another manner. The instructional equipment may be transferred to the public school or school district for such consideration, or for no consideration, as the chief business officer determines appropriate.

8.3 Surplus or salvage data processing equipment, as defined by Section 2054.003(3)(A) of the Texas Government Code, that is not transferred to a public school or school district as provided in Subsection 8.2 of this Section or that is not disposed of under other law must be offered next and at no charge to a school district, open enrollment charter school, or the Texas Department of Criminal Justice in accordance with Subchapter C of Chapter 2175 of the Texas Government Code.

8.4 Surplus or salvage equipment that is not disposed of as provided in Subsections 8.1, 8.2, or 8.3 of this Section shall be disposed of in accordance with the following provisions.

8.41 [8-3] For items of little value or limited use where sale on competitive bids is not practicable, the chief business officer shall have the authority to dispose

of the property on the basis of negotiated bids or surplus auction in amounts under \$50,000.

- 8.42 [~~8-4~~] Sale of property estimated to bring \$50,000 or more shall be made on a basis of competitive bids.
- 8.43 [~~8-5~~] A sale in the amount of \$100,000 or more shall be approved in advance by the Chancellor and ratified by the Board through the institutional docket.
- 8.44 [~~8-6~~] Sales to employees are governed by the provisions of Part Two, Chapter IV, Section 5 of these Rules.

8.5 If an item of surplus or salvage equipment is not disposed of as provided in this Section and the chief business officer determines that the item is of nominal use or value, the chief business officer may direct that the item be donated to a civic or charitable organization or destroyed. If the chief business officer directs the donation of the item to a civic or charitable organization, he or she shall assure that the donation serves a proper public purpose appropriate to the function of the U. T. System or the U. T. System component institution, adequate consideration flows to the public, and sufficient controls are in place to ensure the public purpose is achieved.

BACKGROUND INFORMATION

The current text of Part Two, Chapter VII, Section 8 of the Regents' Rules and Regulations was adopted by the U. T. Board of Regents at the August 10, 2000 meeting. The process for disposal of surplus property is provided and reflects the requirement of Section 2175.304(b) of the Texas Government Code that surplus materials or equipment that can be used for instructional purposes be offered to a public school or school district. Part Two, Chapter VII, Section 8 of the Regents' Rules and Regulations does not currently permit the donation of surplus property.

Sections 2175.126(b) and 2175.128(b) of the Texas Government Code, as adopted by the 77th Texas Legislature, require that surplus data processing equipment that is not disposed of under other law be made available at no charge to a school district, open enrollment charter school, or the Texas Department of Criminal

Justice. School districts and open enrollment charter schools may then transfer the equipment to qualifying students pursuant to Section 32.102 of the Texas Education Code.

In 1993, the Attorney General of Texas issued an opinion (Texas Attorney General Opinion No. DM-268) that a donation of surplus property with nominal use or value to the governmental entity is permissible if: (1) the donation serves a public purpose appropriate to the function of the governmental entity; (2) adequate consideration flows to the public as a result of the donation; and (3) the governmental entity maintains sufficient controls to assure that the public purpose is met.

The proposed amendments to Part Two, Chapter VII, Section 8 of the Regents' Rules and Regulations reflect the statutory requirement to transfer surplus data processing equipment not disposed of in accordance with other law to a school district, open enrollment charter school, or the Texas Department of Criminal Justice, and include language to permit donations of surplus property in accordance with the three requirements identified in Texas Attorney General's Opinion DM-268.

5. U. T. System: Recommended Approval of Non-Personnel Aspects of the Operating Budgets for the Fiscal Year Ending August 31, 2002, Including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans and Authorization for the Chancellor to Make Editorial Corrections Therein; and Approval of Permanent University Fund Bond Proceeds Reserve Allocation for Library, Equipment, Repair and Rehabilitation Projects

RECOMMENDATION

The Chancellor, with the concurrence of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Academic Affairs, and presidents of the U. T. System component institutions, recommends that the non-personnel aspects of the U. T. System Operating Budgets for the Fiscal Year ending August 31, 2002, including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans be approved.

It is further recommended that the Chancellor be authorized to make editorial corrections therein and that subsequent adjustments be reported to the U. T. Board of Regents through the institutional dockets.

It is requested that Permanent University Fund Bond Proceeds in the amount of \$30,000,000 be appropriated from reserves to fund Library, Equipment, Repair and Rehabilitation Projects for Fiscal Year 2002. In addition, it is recommended that the U. T. System component institutions be authorized to purchase approved equipment items and library materials and to contract for repair and rehabilitation projects following standard purchasing and contracting procedures within approved dollar limits. Substitute equipment purchases are to receive prior approval by the Chancellor and appropriate Executive Vice Chancellor and, where required, the U. T. Board of Regents. Transfers by the U. T. System Administration of allocated funds to institutional control or to vendors will coincide with vendor payment requirements. Final approval of specific repair and rehabilitation projects will be in accordance with procedures for construction projects established by the Board.

Fiscal Year 2002 funds from these reserves not expended or obligated by contract/ purchase order within six months after the close of Fiscal Year 2002 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.

This item requires the concurrence of the Academic Affairs and Health Affairs Committees.

BACKGROUND INFORMATION

The Chancellor will present a statement in support of the Operating Budget recommendations at the meeting on August 8, 2001.

Personnel aspects of the Operating Budgets will be considered in Executive Session (see Page 1b).

The appropriation of Permanent University Fund Bond Proceeds Reserves will be presented in the Fiscal Year 2002 Library, Equipment, Repair and Rehabilitation Budget. An allocation of \$30,000,000 is being requested for Library, Equipment, Repair and Rehabilitation Projects for Fiscal Year 2002. 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.

As required by the Available University Fund (AUF) Spending Policy, a forecast of revenues and expenses of the AUF for seven years, including the above allocation, has been prepared and is set forth on Page 45. The additional appropriation of Permanent University Fund Bond Proceeds for this allocation is within the policy as shown in the forecast.

6. U. T. System: Recommendation to Adopt the Six-Year Capital Improvement Program (CIP) for Fiscal Year 2002 Through Fiscal Year 2007; Approve the Capital Budget for Fiscal Years 2002 and 2003; Approve Redesignation of Previously Approved Projects in the CIP; Reduce Previously Appropriated Funds for Repair and Rehabilitation Projects Deleted or Decreased in Scope; Appropriate Additional Funds for Previously Approved Projects with Increased Total Project Costs; Appropriate Funds for New Repair and Rehabilitation Projects Initiated in the Capital Budget; and Approve the Use of Revenue Financing System Parity Debt for Repair and Rehabilitation Projects Initiated in the Capital Budget for Which Revenue Financing System Bonds are Identified as a Funding Source, Receipt of Parity Debt Certificate from the U. T. System Representative, and Determine that the Component Institutions for Whom the Parity Debt is being Requested Possess the Financial Capacity to Satisfy their Respective Debt Obligation

RECOMMENDATION

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

- a. Adopt the U. T. System Capital Improvement Program (CIP) for Fiscal Year 2002 through Fiscal Year 2007
- b. Approve the Capital Budget for Fiscal Year 2002 and Fiscal Year 2003
- c. Approve the redesignation of projects previously approved in the CIP as set forth on Page 50
- d. Reduce previously appropriated funds in an aggregate amount of \$52,241,000 for repair and rehabilitation projects deleted or decreased in scope in the FY 2002-2003 Capital Budget as reflected in the Deleted or Reduced Appropriations column on Pages 51 - 53
- e. Appropriate additional funding with increased total project costs for previously approved repair and rehabilitation

projects in an aggregate amount of \$54,362,200, as reflected in the FY 2002-2003 Capital Budget and as set forth in the Additional Appropriations column on Pages 51 - 53

- f. Appropriate funding in an aggregate amount of \$187,636,750 for new repair and rehabilitation projects initiated in the FY 2002-2003 Capital Budget, as reflected in the Appropriations for Projects Initiated in the Capital Budget column on Pages 51 - 53
- g. Approve the use of \$10,000,000 of Revenue Financing System Parity Debt for the U. T. Austin repair and rehabilitation project initiated in the FY 2002-2003 Capital Budget for which Revenue Financing System Bonds has been identified as all or a portion of the funding for the U. T. System component institution as set forth on Page 54.

Further, it is recommended that the U. T. System Administration be authorized, in consultation with the component institutions, to proceed with planning for projects contained in the Capital Budget portion of the Capital Improvement Program and to bring recommendations to the Chancellor and the U. T. Board of Regents in accordance with the Regents' Rules and Regulations, Part Two, Chapter VIII. (See Item 5 on Page 19 regarding amendments to the Regents' Rules and Regulations, Part Two, Chapter VIII.)

The Chancellor also concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as set out on Page 55, the U. T. Board of Regents resolves that:

- a. Parity Debt shall be issued to pay the projects' costs including any project costs prior to the issuance of such Parity Debt
- b. Sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the

Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System

- c. U. T. Austin, which is a “Member” as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the aggregate amount of \$10,000,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

BACKGROUND INFORMATION

The U. T. System Capital Improvement Program (CIP) details management’s plan to preserve and enhance the facility assets held in trust to sustain the public higher education mission of U. T. System component institutions. The CIP is a six-year projection of major repair and rehabilitation and construction projects to be implemented and funded from component institutions and U. T. System-wide revenue sources. Major repair and rehabilitation and construction projects are defined as those with a cost of at least \$2,000,000 and \$1,000,000, respectively. Projects that are architecturally or historically significant are identified as major projects regardless of cost.

Through periodic or continuous facility assessments by the component institutions, projects are identified to address deferred maintenance, code deficiencies, and capital renewal needs, as well as new construction. Projects included in the CIP correspond to the highest priority needs identified in the long-range strategic planning process and institutional capital renewal plans.

Adoption of the CIP provides authority for the U. T. System Administration and the institutional administration to expend up to 3% of the preliminary project cost of a project to develop the formal Project Building Program document, select the Project Architect, and develop preliminary project plans. These funds will be appropriated by the component institution initially but may be reimbursed to the component institution from project funds after design development approval and appropriation of

project funds by the U. T. Board of Regents. (See Item 5 on Page 19 regarding related amendments to the Regents' Rules and Regulations, Part Two, Chapter VIII.)

The Capital Budget is the first two years (FY 2002 and FY 2003) of the six-year CIP. Approval of the Capital Budget authorizes and appropriates funding amounts and sources for identified major repair and rehabilitation projects that are not architecturally or historically significant. Authorization of these projects and appropriation of these funds allows these projects to be presented to the Chancellor for design development plan approval and authorization for expenditure of funds, and subsequent execution of the project by the administrative staff, without returning to the U. T. Board of Regents for further approvals. The U. T. Board of Regents approves the design development plans for all major projects other than repair and rehabilitation projects that are not architecturally or historically significant.

The redesignation of projects in the CIP, as shown on Page 50, has been requested by the component institutions to more accurately reflect the work to be accomplished.

Future projects listed in the CIP are for consideration when funding has been secured.

Adjustments to appropriations and total project costs for 12 repair and rehabilitation projects are proposed. Reduced appropriations in an aggregate amount of \$52,241,000 are requested for five repair and rehabilitation projects, either deleted or reduced in scope. Additional appropriations in an aggregate amount of \$54,362,200 are requested for increased scopes of seven repair and rehabilitation projects. These changes are reflected in the Deleted or Reduced Appropriation and Additional Appropriation columns on Pages 51 - 53.

It is recommended that funds in the aggregate amount of \$187,636,750 be appropriated for repair and rehabilitation projects initiated in the Capital Budget and as described in the Appropriations for Projects Initiated in the Capital Budget column on Pages 51 - 53.

The proposed CIP will be the subject of a presentation by Chancellor Burck on August 8, 2001. The presentation will identify the economic impact of the proposed projects.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

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

EXECUTED this 19th day of July, 2001

/s/ Philip Aldridge
Assistant Vice Chancellor for Finance

7. U. T. Board of Regents: Proposed Adoption of Tenth Supplemental Resolution to the Master Resolution Authorizing the Issuance of Board of Regents of The University of Texas System Revenue Financing System Bonds in One or More Installments in an Aggregate Principal Amount Not to Exceed \$580,000,000; Authorization for Officers of U. T. System to Complete All Related Transactions; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity

RECOMMENDATION

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

- a. Adopt the Tenth Supplemental Resolution to the Master Resolution substantially in the form before the Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Revenue Financing System Bonds in one or more installments in an aggregate principal amount not to exceed \$580,000,000 maturing not later than August 15, 2032, to be used to refund a portion of the outstanding Revenue Financing System Commercial Paper Notes, Series A, to provide new money to fund construction and acquisition costs of projects in the Capital Improvement Program and to pay the costs of issuance and any original issue discount
- b. Authorize appropriate officers and employees of the U. T. System as set forth in the Tenth Supplemental Resolution to take any and all actions necessary to carry out the intentions of the U. T. Board of Regents, including determining the method of sale and the selection of the underwriters, within the limitations and procedures specified therein; making certain covenants and agreements in connection therewith; and resolving other matters incident and related to the issuance, sale, security, and delivery of such bonds.

The Chancellor also concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System (the "Master Resolution") adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as set out on Page 59, the U. T. Board of Regents resolves that:

- a. Parity Debt shall be issued to pay the project's cost including any costs incurred prior to the issuance of such Parity Debt
- b. Sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System
- c. The component institutions, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

BACKGROUND INFORMATION

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

Adoption of the Tenth Supplemental Resolution would authorize the issuance of Revenue Financing System Bonds in an aggregate principal amount not to exceed \$580,000,000 in one or more installments through August 31, 2002. In

addition to providing funding to projects included in the Fiscal Year 2002 Capital Budget, the \$580,000,000 includes an amount necessary to refund a portion of the outstanding Revenue Financing System Commercial Paper Notes, Series A. Generally, commercial paper debt is issued to fund projects during the construction phase and the debt is not amortized. When construction is complete, the commercial paper is refunded with 20-year, fixed-rate bonds. With municipal long-term interest rates at relatively low levels, outstanding commercial paper and new money for construction are being financed with fixed-rate bonds.

The initial installment will be comprised of Revenue Financing System Bonds, Series 2001B and Series 2001C.

Proceeds from the Series 2001B Bonds are expected to be used to refund a portion of the outstanding Revenue Financing System Commercial Paper Notes, Series A, in the amount of \$116,082,000 and to provide new money to fund project costs of approximately \$44,800,000. The remaining proceeds will be used to pay costs of issuance and provide for an original issue discount.

Proceeds from the Series 2001C Bonds are expected to be used to provide approximately \$88,303,000 of new money to fund Tuition Revenue Bond projects at specific U. T. System component institutions authorized by Sections 55.1722 and 55.1732 of the Texas Education Code.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

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

EXECUTED this 25th day of July, 2001

/s/ Philip Aldridge
Assistant Vice Chancellor for Finance

8. U. T. System: Request to Amend Section VIII of the Standard Bank Depository Agreement and to Delegate Editorial Authority

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs and the Vice Chancellor and General Counsel that the U. T. Board of Regents amend Section VIII of the Standard Bank Depository Agreement for the U. T. System as set out below in congressional style:

Section VIII. Delivery, Release and Substitution of Collateral

. . .
Written notice to the Board and the Custodian must be in the form as required by the Federal Reserve Bank holding the collateral [~~of a completed Securities and Exchange Commission Form 19-A (see "Request for Substitution of Non-U.S. Government or Agency Securities and or Immediate Withdrawal of any Securities Held by the Federal Reserve Bank of Dallas in Joint Safekeeping", Exhibit "C")~~]. . . .

It is further recommended that the Board delegate authority to make editorial changes to the Standard Bank Depository Agreement to the Office of Finance, with approval of the Office of General Counsel.

BACKGROUND INFORMATION

The Standard Bank Depository Agreement was amended on September 30, 1966, October 28, 1967, and October 11, 1991. In August 1999, the U. T. Board of Regents approved revisions to the Standard Bank Depository Agreement to include the use of surety bonds as collateral for bank deposits and to allow a decrease in the market value of collateral to be held against deposits from 103% to 102% of the value of the deposits.

The proposed amendment to Section VIII of the agreement is needed as the Federal Reserve Bank no longer requires the use of Securities and Exchange Commission Form 19-A.

Additionally, approval is requested to authorize future editorial changes to be made by the Office of Finance, with approval by the Office of General Counsel, as long as the latest copy of the Standard Bank Depository Agreement is kept on file as a standard Office of General Counsel contract. Substantive changes to the Standard Bank Depository Agreement are to be submitted to the Board for approval through the Docket.

9. U. T. System: Request to Approve an Aggregate Amount of Equipment Financing for Fiscal Year 2002 and Approve the Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. Board of Regents approve an aggregate amount of \$21,715,000 under the Revenue Financing System for equipment to be purchased in Fiscal Year 2002 as follows:

| | |
|--|-------------|
| U. T. Arlington | \$2,500,000 |
| U. T. Austin | \$4,100,000 |
| U. T. El Paso | \$7,915,000 |
| U. T. Southwestern Medical Center - Dallas | \$2,000,000 |
| U. T. M. D. Anderson Cancer Center | \$5,000,000 |
| U. T. System Administration | \$ 200,000 |

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

on February 14, 1991, and amended on October 8, 1993, and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as set out on Page 64, the U. T. Board of Regents resolves that:

- a. Parity Debt shall be issued to pay the project's cost prior to the issuance of such Parity Debt
- b. Sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the Board relating to the Financing System
- c. The component institutions and U. T. System Administration, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the aggregate amount of \$21,715,000 for the purchase of equipment
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

BACKGROUND INFORMATION

At the April 14, 1994 meeting, the U. T. Board of Regents approved the use of Revenue Financing System debt for equipment purchases in accordance with the Guidelines Governing Administration of the Revenue Financing System. The guidelines specify that the equipment to be financed must have a useful life of at least three years. The debt is amortized twice a year with full amortization not to exceed 10 years.

This agenda item requests approval of an aggregate amount of \$21,715,000 for equipment financing for Fiscal Year 2002, of which \$5,843,000 represents the carryover of equipment authorized for purchase during FY 2001 by U. T. Austin and

U. T. El Paso for \$1,600,000 and \$4,243,000, respectively. Both components have purchased equipment that is not completely installed, and because payment is not due until installation is complete, payment will occur in FY 2002.

With the issuance of the equipment debt, the debt service coverage for the U. T. System is projected to range from 2.4 times to 3.0 times for the next six years (see Page 65). Any aggregate financing amount approved by the U. T. Board of Regents for a fiscal year, but not used, may not be carried forward. For Fiscal Year 2001, the Board approved \$21,430,000 of equipment financing, of which \$7,003,000 had been issued as of July 1, 2001.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

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

EXECUTED this 26th day of July, 2001

/s/ Philip Aldridge
Assistant Vice Chancellor for Finance

10. U. T. System: Request for Approval to Exceed the Full-Time Equivalent Limitation on Employees Paid from Appropriated Funds as Required by the General Appropriations Act of the 77th Texas Legislature, Article IX, Section 6.14

RECOMMENDATION

The Chancellor concurs in the recommendation of the U. T. System Executive Officers and the presidents of certain U. T. System component institutions that the U. T. Board of Regents approve those institutions, as set forth in the table on Page 67, to exceed the number of full-time equivalent (FTE) employees that are authorized in the General Appropriations Act. Also, as required by Article IX, Section 6.14 of the General Appropriations Act, it is recommended that the U. T. Board of Regents submit a request to the Governor's Office and the Legislative Budget Board to grant approval for these institutions to exceed the authorized number of FTE employees paid from Appropriated Funds.

BACKGROUND INFORMATION

The proposed request is in accordance with Article IX, Section 6.14 of Senate Bill 1 (General Appropriations Act) passed by the 77th Texas Legislature. 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.

**The University of Texas System
 REQUEST TO EXCEED FULL-TIME EQUIVALENT LIMITATION
 ON EMPLOYEES PAID FROM APPROPRIATED FUNDS
 (Senate Bill No. 1, Article IX, Section 6.14)
 Fiscal Year 2002**

| Component | S. B. 1 FTE Limitation | Estimated Average FTE FY2002 | Requested Increase in Number of FTEs |
|---|------------------------------|------------------------------------|---|
| U. T. System Administration | 223.80 | 247.80 | 24.00 |
| U. T. Arlington | 1,921.50 | 1,982.58 | 61.08 |
| U. T. Dallas | 1,163.50 | 1,231.30 | 67.80 |
| U. T. El Paso | 1,510.60 | 1,664.89 | 154.29 |
| U. T. Permian Basin | 248.50 | 255.75 | 7.25 |
| U. T. San Antonio | 1,638.30 | 1,696.30 | 58.00 |
| U. T. Tyler | 353.30 | 393.30 | 40.00 |
| U. T. Southwestern Medical Center - Dallas | 1,669.50 | 1,731.30 | 61.80 |
| U. T. M. D. Anderson Cancer Center | 7,861.40 | 8,211.40 | 350.00 |

11. U. T. System: Request to Approve Transfer of Funds Between Legislative Appropriation Items During the Biennium Beginning September 1, 2001

RECOMMENDATION

The Chancellor, with the concurrence of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Academic Affairs, and presidents of the U. T. System component institutions, recommends that the U. T. Board of Regents adopt the resolution which follows to provide for the most effective utilization of the General Revenue Appropriations during the biennium beginning September 1, 2001:

RESOLUTION

Pursuant to the appropriate transfer provisions of the General Appropriations Act of the 77th Legislature, it is hereby resolved that the State Comptroller be requested to make necessary transfers within the Legislative Appropriations (and/or Cost Centers) from the General Revenue Fund for each of the following entities as authorized by the Chief Financial Officer of each entity as follows:

The University of Texas at Arlington
The University of Texas at Austin
The University of Texas at Brownsville
The University of Texas at Dallas
The University of Texas at El Paso
The University of Texas - Pan American
The University of Texas of the Permian Basin
The University of Texas at San Antonio
The University of Texas at Tyler
The University of Texas Southwestern Medical Center
at Dallas
The University of Texas Medical Branch at Galveston
The University of Texas Health Science Center at
Houston
The University of Texas Health Science Center at
San Antonio

The University of Texas M. D. Anderson Cancer
Center
The University of Texas Health Center at Tyler
The University of Texas System Administration

BACKGROUND INFORMATION

This resolution is a standard action by the U. T. Board of Regents at the beginning of each biennium and is pursuant to Article III, Section 4(1) of the General Appropriations Act passed by the 77th Texas Legislature.

12. U. T. System: Proposed Amendments to the Regental Policy Regarding the Sick Leave Pool

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Academic Affairs, and the Vice Chancellor and General Counsel that the Regental Policy relating to the sick leave pool be amended as set forth below in congressional style:

...

2. DEFINITIONS.

...

- 2.2 “Employee” means an eligible [a-regular] employee of a component institution of the U. T. System or the U. T. System Administration [as defined in the General Appropriations Act]. An eligible employee is defined as employed to work at least 20 hours per week for a period of at least four and one-half

months, and not employed in a position for which the employee is required to be a student as a condition of the employment.

- 2.3 “Immediate family” means an individual ~~[those persons living in the same household with the employee who are either]~~ related ~~[to the employee]~~ by kinship, adoption, or marriage who lives in the same household; a foster child of the employee who resides in the employee’s household and is under the conservatorship of the Texas Department of Protective and Regulatory Services; and a minor child of the employee regardless of whether the child lives in the same household. Sick leave may be taken to care for members of an employee’s family who do not reside in the ~~[or are certified by the Texas Department of Human Services as foster children of the employee or, if not living in the]~~ same household, only if the time taken is necessary to provide care to a spouse, child, or parent of the employee who needs care due to a documented medical condition. This provision for taking leave does not extend to an employee’s parents-in-law if they do not live in the same household ~~[are totally dependent upon the employee for personal care or services on a continuing basis].~~

...

3. POOL ADMINISTRATOR.

...

- 3.2 The decision of the pool administrator regarding ~~[contributions to and]~~ withdrawals from the sick leave pool shall be final.

4. SICK LEAVE POOL.

- 4.1 ~~[An employee who desires to contribute sick leave to the pool must submit an application to the pool administrator.~~
- 4.2] Contributions to the pool must be in units of eight (8) hours. State employees are permitted to contribute an unlimited number of hours to the sick leave pool. Retiring employees are also permitted to contribute to the sick leave pool and may do so in increments of less than eight (8) hours.

4.2[3] ~~The [Upon approval of an application, the]~~ pool administrator shall credit the sick leave pool with the sick leave contributed by an employee and shall direct the human resources office to deduct a corresponding amount from that employee's accrued sick leave.

4.3[4] Sick leave contributed to the pool may not be designated for the use of a particular person.

4.4[5] Although contributions are voluntary, employees who leave State [state] employment should be encouraged to contribute to the pool, unless there is a possibility that they will be reemployed by the State within twelve months and thereby eligible to have their sick leave balance restored.

5. WITHDRAWAL OF SICK LEAVE FROM THE POOL.

...

5.3 The employee may use sick leave assigned from the pool in the same manner as sick leave earned by the employee [accrued pursuant to the General Appropriations Act] and shall be treated for all purposes as if the employee were absent on earned sick leave [in the same manner and shall be entitled to accrue the same benefits as an employee who uses such accrued sick leave].

.....

BACKGROUND INFORMATION

House Bill 569, 77th Texas Legislature, amends Section 661.003 of the Texas Government Code to delete application and approval requirements related to an employee's contributions of earned sick leave to the sick leave pool effective September 1, 2001. The proposed amendments to Sections 2 - 5 of the Sick Leave Pool Policy, approved by the Board of Regents in February 1996 and editorially amended in September 2000, conform the policy to changes in State law.

13. U. T. Board of Regents: Request to Change Trustee and Record Keeper for The University of Texas Governmental Retirement Arrangement Effective September 1, 2001, and Authorization to Execute All Documents Related Thereto

RECOMMENDATION

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

- a. Resign as trustee and record keeper of The University of Texas Governmental Retirement Arrangement (UTGRA) effective August 31, 2001
- b. Appoint the U. T. M. D. Anderson Cancer Center Physicians Referral Service Retirement Board (PRS Retirement Board) to serve as trustee and record keeper for UTGRA effective September 1, 2001
- c. Authorize the Executive Vice Chancellor for Business Affairs, or his delegate, to negotiate the appropriate agreements to carry out the foregoing actions, and to take all steps necessary and execute all documents required to complete the actions outlined above, subject to approval of all such documents as to legal form by the Office of General Counsel.

BACKGROUND INFORMATION

On August 14, 1997, the U. T. Board of Regents established UTGRA, effective October 1, 1997. UTGRA was created under Section 415(m) of the Internal Revenue Code of 1986, as amended, for governmental employees and allows eligible employees participating in the Optional Retirement Program to place

retirement contributions in excess of \$35,000 into a tax-deferred account. On June 19, 2001, the Internal Revenue Service issued a favorable Private Letter Ruling approving the structure of the UTGRA plan as a qualified governmental excess benefit arrangement.

The U. T. Board of Regents currently serves as the UTGRA trustee although it was the long-term intent that a trustee focused on retirement plans be appointed at a later time. The U. T. Board of Regents shall, at its discretion, authorize an external organization to provide trustee services and record keeping services for UTGRA. The U. T. M. D. Anderson Physicians Referral Service Retirement Board (PRS Retirement Board) is being recommended as trustee effective September 1, 2001.

The PRS Retirement Board members presently serve as trustees for two of the U. T. M. D. Anderson Cancer Center retirement programs, each of which is authorized under Section 457 of the Internal Revenue Code of 1986, as amended, to provide retirement benefits for the faculty and senior administrators of the institution. The PRS Retirement Board consists of two retirees and 10 active U. T. M. D. Anderson Cancer Center employees, with an attorney in an ex officio capacity.

The U. T. System Director of Human Resources currently serves as the UTGRA plan administrator and certain U. T. System Administration staff members provide administrative services for UTGRA. If the PRS Retirement Board is appointed as the trustee and record keeper, the U. T. System Director of Human Resources will remain the plan administrator and may utilize the services of the PRS Retirement Board to provide the necessary UTGRA administrative services.

There are numerous advantages to the proposed arrangements including the following:

- a. Because U. T. M. D. Anderson Cancer Center is a component institution of the U. T. System, the PRS Retirement Board is familiar with the U. T. System and the UTGRA program and the manner in which it is currently administered
- b. The PRS Retirement Board has experience serving as trustee of the two U. T. M. D. Anderson Cancer Center retirement plans, one a defined benefit plan and one a defined contribution plan
- c. The PRS Retirement Board has in place the hardware and software infrastructure and the appropriate level of staffing to perform the administrative responsibilities for UTGRA that

they currently provide to the two retirement plans, including maintenance of all participant records and plan reconciliation

- d. The PRS Retirement Board reports annually to the State Pension Review Board and is a member of the Texas Association of Public Employee Retirement Systems.

- 14. U. T. System Administration and U. T. Austin: Request for Approval to Amend Resolution Regarding the List of Individuals Authorized to Negotiate, Execute, and Administer Classified Government Contracts (Key Management Personnel)

RECOMMENDATION

The Chancellor recommends that the U. T. Board of Regents approve the amended resolution set out below updating the roster of administrative officials of the U. T. System authorized to negotiate, execute, and administer classified government contracts as shown in item a. and the list of named members of the U. T. Board of Regents as shown in item d.:

BE IT RESOLVED:

- a. That those persons occupying the following positions among the officers of The University of Texas System shall be known as Key Management Personnel as described in the Department of Defense National Industrial Security Program Operating Manual for safeguarding classified information:
 - R. D. Burck, Chancellor, Chief Executive Officer, U. T. System
 - Larry R. Faulkner, President, U. T. Austin
 - Juan M. Sanchez, Vice President for Research, U. T. Austin
 - G. Charles Franklin, Senior Vice President and Chief Financial Officer, U. T. Austin
 - Wayne K. Kuenstler, Director, Office of Sponsored Projects, U. T. Austin; U. T. System a.k.a. U. T. Austin Security Supervisor
 - Bobby C. McQuiston, Associate Director, Office of Sponsored Projects, U. T. Austin

- b. That the said Key Management Personnel have been processed or will be processed for a personnel clearance for access to classified information, to the level of the facility clearance granted to the institution, as provided for in the aforementioned National Industrial Security Program Operating Manual, and all replacements for such positions will be similarly processed for security clearance.
- c. That the said Key Management Personnel are hereby delegated all of the Board's duties and responsibilities pertaining to the projection of classified contracts of the Department of Defense, or User Agencies of its Industrial Security Program, awarded to the institutions of The University of Texas System Administration or U. T. Austin.
- d. That the following named members of the U. T. Board of Regents shall not require, shall not have, and can be effectively excluded from access to all classified information in the possession of The University of Texas System and do not occupy positions that would enable them to affect adversely the policies and practices of the institutions of The University of Texas System in the performance of classified contracts for the Department of Defense, or User Agencies of its Industrial Security Program, and need not be processed for a personnel clearance:

Members of the U. T. Board of Regents:

Charles Miller, Chairman
Rita C. Clements, Vice-Chairman
A. W. "Dub" Riter, Jr., Vice-Chairman
Raul R. Romero, Vice-Chairman
Judith L. Craven, M.D.
Woody L. Hunt
Cyndi Taylor Krier
Patrick C. Oxford
A. R. (Tony) Sanchez, Jr.

BACKGROUND INFORMATION

The proposed resolution is needed to comply with the Department of Defense National Industrial Security Program Operating Manual requirements. Other than updating the members of the U. T. Board of Regents in item d. of the resolution and

including the Chancellor as a member of the Key Management Personnel in item a., the proposed resolution is identical to the one adopted by the U. T. Board of Regents in November 2000.

15. U. T. Health Science Center - San Antonio: Request for Authorization to Sell Approximately 80 Acres of Land Located in Universal City, Bexar County, Texas, and Authorization to Execute All Documents Related Thereto

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and President Cigarroa that the U. T. Board of Regents authorize the U. T. System Real Estate Office and the Office of General Counsel, on behalf of U. T. Health Science Center - San Antonio, to negotiate the sale of approximately 80 acres of land located in Universal City, Bexar County, Texas, to the Alamo Community College District for the construction of a community college campus.

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

BACKGROUND INFORMATION

The Alamo Community College District in Bexar County, Texas, is seeking to acquire land on which to build a new community college to serve the northeast portion of the County. One of the sites being considered is the subject property consisting of approximately 80 acres located in Universal City, Texas. It is bounded by Kitty Hawk Road on the west and Old Cimarron Trail on the north. The property is part of a bequest of 319 acres of land and financial assets from the late Mrs. Berneice Castella for the benefit of U. T. Health Science Center - San Antonio.

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

1. U. T. System: Report on Investments for the Fiscal Quarter Ended May 31, 2001

REPORT

Pages 79 - 85 contain the Summary Reports on Investments for the fiscal quarter ended May 31, 2001. As of March 1, 2001, the Permanent Health Fund (PHF) and the Long Term Fund (LTF) purchased units in the newly created General Endowment Fund (GEF) in exchange for their contribution of investment assets. The PHF and the LTF owned 23.8% and 76.2%, respectively, of the GEF as of March 1, 2001. The GEF, established by the U. T. Board of Regents effective on March 1, 2001, is a pooled fund for the collective investment of long-term funds under the control and management of the Board. The GEF is organized as a mutual fund in which the PHF and LTF purchase and redeem units quarterly at the GEF's market value per unit. The GEF provides for greater efficiencies and cost savings than was possible when the investments of the PHF and LTF were managed separately.

Item I on Pages 79 - 80 reports summary activity for the Permanent University Fund (PUF) investments and a comparison of the asset allocation of the PUF versus the endowment neutral policy portfolio and net investment return. Total net investment return for the quarter was .37% versus the neutral policy portfolio return of 1.17%.

Item II on Pages 81 - 83 reports summary activity for the GEF, the PHF's and LTF's percentage ownership of the GEF, and a comparison of the asset allocation of the GEF versus the endowment neutral policy portfolio and net investment return. Total GEF net investment return for the quarter was .62% versus the neutral policy portfolio return of 1.17%.

Item III on Page 84 reports summary activity for the Short Intermediate Term Fund (SITF). Total net investment return on the SITF was 1.49% for the quarter versus the SITF's performance benchmark of 1.49%.

Item IV on Page 85 presents book and market value of cash, fixed income, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of component operating funds held in the Dreyfus money market fund, increased by \$12 million to \$955 million during the third quarter. Asset values for the remaining asset classes were fixed income securities: \$111 million versus \$107 million at previous quarter-end; equities: \$181 million versus \$114 million at previous quarter-end; and other investments of \$7 million versus \$1 million at previous quarter-end.

2. U. T. System: Request to Amend the Fund Distributions Section of the Permanent University Fund (PUF) Investment Policy Statement

RECOMMENDATION

The Finance and Planning Committee recommends that the U. T. Board of Regents amend the Fund Distributions section of the Permanent University Fund (PUF) Investment Policy Statement as set out in congressional style on Pages 87 - 88, to reflect an increase in the distribution rate from 4.5% to 4.75% effective for the fiscal year beginning September 1, 2002.

BACKGROUND INFORMATION

The U. T. Board of Regents approved the Investment Policy Statement for the Permanent University Fund (PUF) at its November 11, 1999 meeting. The Investment Policy Statement was then amended at the February 9, 2000 meeting to set the annual distribution to the Available University Fund (AUF) at an amount equal to 4.5% of the trailing twelve quarter average of the net asset value of the PUF for the quarter ending February of each year. On May 10, 2001, the U. T. Board of Regents approved a distribution amount for September 1, 2001 of \$338,433,636 based on a 4.5% distribution rate. The distribution amount is determined in advance of the succeeding fiscal year for budget planning purposes.

At the July 10, 2001 meeting of the U. T. Board of Regents' Finance and Planning Committee, the adequacy of the distribution rate was discussed. The Committee's discussion included consideration of the significant needs currently facing the U. T. System versus the impact on the future market value of the PUF as a result of increasing the current distribution rate. Based on this discussion, the Finance and Planning Committee is recommending an increase in the distribution rate to 4.75% to be effective for the fiscal year beginning September 1, 2002.

3. U. T. Board of Regents: Request for Approval of the Annual Budget and Management Fee Schedule for The University of Texas Investment Management Company (UTIMCO)

RECOMMENDATION

The Board of Directors of The University of Texas Investment Management Company (UTIMCO) recommends that the U. T. Board of Regents approve the Annual Budget and Management Fee Schedule for the fiscal year ending August 31, 2002, as set forth on Page 90.

BACKGROUND INFORMATION

The Investment Management Services Agreement by and between the U. T. Board of Regents and UTIMCO requires that UTIMCO submit its annual budget and management fee schedule to the U. T. Board of Regents for approval. The annual budget consists of UTIMCO's management fee and a budget for direct expenses of the funds managed by UTIMCO. The management fee for the fiscal year ending August 31, 2002, will increase 2.0% from \$6,569,921 to \$6,698,276. Budgeted direct expenses will increase 3.4% from \$24,429,795 to \$25,270,571. The UTIMCO Board of Directors approved the proposed budget and management fee on June 26, 2001.

4. U. T. Board of Regents: Proposed Reappointment of Member to the Board of Directors of The University of Texas Investment Management Company (UTIMCO)

RECOMMENDATION

The Board of Directors of The University of Texas Investment Management Company (UTIMCO) recommends that the following individual be reappointed to the UTIMCO Board of Directors to serve until the expiration of his term, or until his successor is chosen and qualifies, or until his earlier resignation or removal:

Mr. J. Luther King, Jr., Fort Worth, Texas, for reappointment to a term ending April 1, 2004.

BACKGROUND INFORMATION

Section 66.08 of the Texas Education Code requires that the U. T. Board of Regents appoint all members of the Board of Directors of The University of Texas Investment Management Company (UTIMCO). The proposed nominee above represents a non-U. T. Regent director from the investment and business community. The nominee was approved by the UTIMCO Board of Directors on April 24, 2001.

Mr. J. Luther King, Jr., has been a UTIMCO director since 1997 and was a member of the U. T. System Investment Advisory Committee from 1991 to 1995. He is President and Founder of Luther King Capital Management, a Certified Investment Counselor, and manages approximately \$4.5 billion for over 300 clients. Mr. King is a Chartered Financial Analyst, member of the Advisory Committee to the Texas MBA Investment Fund, Trustee and member of the Executive Committee at Texas Christian University, Treasurer and Board member of the Texas Southwestern Cattle Raisers Foundation, and Chairman of Board of Governors of the Investment Counsel Association of America. He is also a former member of the Advisory Committee to the State Treasurer of Texas, and current and former Board member of numerous civic, professional, and corporate entities.

INFORMATIONAL REPORTS

1. U. T. System: Discussion of the June 2001 Monthly Financial Report

REPORT

Mr. Kerry L. Kennedy, Executive Vice Chancellor for Business Affairs, will discuss the June 2001 Monthly Financial Report for the U. T. System.

2. U. T. System: Report on Strategic Planning

REPORT

Mr. Vance McMahan, strategic planning consultant with TVM Consulting, Austin, Texas, will report on the long-range plan for the U. T. System.

3. U. T. System: Status Report on the Technology Transfer Commission

REPORT

Dr. Dennis K. Stone, Chairman of the U. T. System Technology Transfer Commission and Vice President, Office for Technology Development at U. T. Southwestern Medical Center - Dallas, will report on the status of the work of the Commission.