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Board Meeting: 2/8-9/2006  
Austin, Texas

### WEDNESDAY, FEBRUARY 8

#### COMMITTEE MEETINGS

Audit, Compliance, and Management Review Committee	9:00 a.m.
Joint Meeting of the Audit, Compliance, and Management Review Committee and the Finance and Planning Committee	9:30 a.m.
Finance and Planning Committee	10:30 a.m.

#### BOARD MEETING

A. CONVENE IN OPEN SESSION TO RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551 (working lunch)	11:30 a.m. Chairman Huffines
1. Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers – Section 551.071	
a. U. T. Medical Branch – Galveston: Legal issues related to compliance	Mr. Burgdorf
b. U. T. Health Center – Tyler: Legal issues related to operations	Mr. Burgdorf
c. U. T. System: Discussion with counsel of pending legal issues	Mr. Burgdorf
2. Deliberations Regarding the Purchase, Exchange, Lease, Sale, or Value of Real Property – Section 551.072	
U. T. Southwestern Medical Center - Dallas: Authorization to ground lease approximately five acres of land located at 2232 Inwood Road, in Dallas, Dallas County, Texas, to Spaulding & Slye LLC, or a single purpose entity created by Spaulding & Slye LLC or its parent company, for the development of the first building in a planned multi-tenant biomedical research park	President Wildenthal Mr. Roan Ms. Mayne
3. Negotiated Contracts for Prospective Gifts or Donations – Section 551.073	
a. U. T. Health Science Center – Houston: Discussion and appropriate action regarding a negotiated gift feature involving a naming opportunity	Dr. Safady
b. U. T. M. D. Anderson Cancer Center: Discussion and appropriate action regarding a negotiated gift involving a naming opportunity	Dr. Safady

	<b>Board/Committee Meetings</b>	<b>Page</b>
4. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees – Section 551.074		
<b>U. T. System: Consideration of individual personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of presidents and institutional employees, and U. T. System officers and employees</b>		
B. RECONVENE IN OPEN SESSION TO CONSIDER ACTION, IF ANY, ON EXECUTIVE SESSION ITEMS AND TO CONSIDER AN AGENDA ITEM	<i>1:30 p.m.</i>	
<b>U. T. System Board of Regents: Presentation of the Accountability and Performance Report for 2005-2006 and request to accept Report</b>	<i>2:00 p.m.</i> <b>Action</b> <i>Dr. Malandra</i>	<b>1</b>
C. RECESS FOR COMMITTEE MEETINGS	<i>2:30 p.m.</i>	
<b>COMMITTEE MEETINGS</b>		
Facilities Planning and Construction Committee	<i>2:30 p.m.</i>	
Health Affairs Committee	<i>3:30 p.m.</i>	
Academic Affairs Committee	<i>4:30 p.m.</i>	
<b><u>THURSDAY, FEBRUARY 9</u></b>		
<b>COMMITTEE MEETING</b>		
Student, Faculty, and Staff Campus Life Committee	<i>9:00 a.m.</i>	
<b>BOARD MEETING</b>		
D. RECONVENE MEETING OF THE BOARD IN OPEN SESSION	<i>10:00 a.m.</i>	
E. APPROVAL OF MINUTES	<i>10:05 a.m.</i>	
F. CONSIDER AGENDA ITEMS		
1. <b>U. T. System Board of Regents: Certificate of appreciation to former President Larry R. Faulkner and recommended appointment as President Emeritus</b>	<i>10:10 a.m.</i> <b>Action</b>	<b>2</b>
2. <b>U. T. System Board of Regents: Amendment of Regents' Rules and Regulations, Series 31101, regarding evaluation of administrators</b>	<i>10:30 a.m.</i> <b>Action</b>	<b>4</b>
3. <b>U. T. System Board of Regents: Amendment of Regents' Rules and Regulations, Series 60101, related to gifts of art to include statuary depicting living persons</b>	<i>10:35 a.m.</i> <b>Action</b>	<b>6</b>
4. <b>U. T. System Board of Regents: Approval of composition of the Audit and Ethics Committee of The University of Texas Investment Management Company (UTIMCO)</b>	<i>10:40 a.m.</i> <b>Action</b>	<b>7</b>

	<b>Board/Committee Meetings</b>	<b>Page</b>
5. <b>U. T. System: Overview of Institute for Public School Initiatives featuring new initiatives including the Texas College Money Program</b>	10:50 a.m. <b>Report</b> <i>Dr. Walne</i> <i>Mr. Matt Orem</i> <i>Dr. Larry Burt</i>	<b>7</b>
G. RECESS FOR MEETINGS OF THE STANDING COMMITTEES AND COMMITTEE REPORTS TO THE BOARD	11:10 a.m.	
H. RECONVENE AS COMMITTEE OF THE WHOLE		
I. CONSIDER RESOLUTION ON GRADUATION RATES	11:45 a.m.	<b>78</b>
J. ADJOURN	12:00 Noon <i>approximately</i>	

**WEDNESDAY, FEBRUARY 8**

A. RECESS TO EXECUTIVE SESSION

(See Table of Contents Pages i - ii for Agenda Items)

B. RECONVENE IN OPEN SESSION FOR ACTION ON EXECUTIVE SESSION ITEMS, IF ANY, AND TO CONSIDER AN AGENDA ITEM

**U. T. System Board of Regents: Presentation of the Accountability and Performance Report for 2005-2006 and request to accept Report**

**RECOMMENDATION**

Dr. Geri H. Malandra, Associate Vice Chancellor for Institutional Planning and Accountability, will present the U. T. System Board of Regents' Accountability and Performance Report for 2005-2006 following the PowerPoint presentation attached on Pages 1 - 14 of the Supplemental Materials (Volume 2) of the Agenda Book. Following the presentation, the Board will be asked to accept the Report.

The Report, separately bound in a blue notebook, was mailed to the Board with this Agenda Book. Highlights of the Report may be found on the pages following the Highlights tab in the Report.

Additional copies of the Report will be available at the meeting.

C. RECESS FOR COMMITTEE MEETINGS

## **THURSDAY, FEBRUARY 9**

D. RECONVENE IN OPEN SESSION

E. APPROVAL OF MINUTES

F. CONSIDER AGENDA ITEMS

1. **U. T. System Board of Regents: Certificate of appreciation to former President Larry R. Faulkner and recommended appointment as President Emeritus**

### **RECOMMENDATION**

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and President Powers that authorization be granted to appoint former President Larry R. Faulkner as President Emeritus at U. T. Austin. Approval of this recommendation is being requested in accordance with the Regents' *Rules and Regulations*, Series 20301, relating to honorary titles.

### **BACKGROUND INFORMATION**

Dr. Faulkner served with distinction as President of U. T. Austin from April 13, 1998 through January 31, 2006. Under Dr. Faulkner's leadership, U. T. Austin has enhanced its national and international stature in the academic and research arenas and has provided unprecedented service to its many constituents and communities.

Dr. Faulkner led a highly successful capital campaign that raised more than \$1.6 billion. Total fund raising during his years as President approach \$2 billion. He has given more than 400 speeches annually as head of the University and chartered the Commission of 125, a group of citizens who worked for two years to create a citizens' vision of the University's next 25 years.

Other significant achievements have included development of the Jack S. Blanton Museum of Art, acquisition of the world-renowned Suida-Manning Collection of European paintings and drawings, and the Woodward-Bernstein Watergate archive. He established an innovative scholarship program that has helped to increase U. T. Austin's minority student enrollment during his tenure and set new highs for success among students (93 percent retention rate for freshmen, and 74 percent six-year graduation rate). He brought UTOPIA into use as an innovative tool for taking the University's intellectual and cultural assets to the public in a more effective way.

Under President Faulkner's leadership, U. T. Austin implemented an extensive network of services that support the University community, serving as a catalyst for positive change in Texas and beyond. The University's efforts to improve K-12 education include ongoing formal academic and outreach programs; special initiatives by a wide variety of academic, research, and administrative units, including operation of the U. T. Elementary Charter School; and volunteer activities of student organizations and individuals.

Some additional major accomplishments of Dr. Faulkner's administration are:

- Charged a Task Force on Curricular Reform with developing a plan for revision of the undergraduate curriculum.
- Created effective consultative process for proposing, debating, revising, and advancing recommendation on tuition.
- Introduced a holistic admissions process that takes into account many student background variables in the admissions process.
- Led effort to establish Texas-wide consortium to build and operate high-performance data networks for research and education.
- Established Department of Biomedical Engineering, Institute on Nanostructures and Nanomaterials, the Institute for the Humanities, the South Asia Institute, the University of Texas Film Initiative, the John A. and Katherine G. Jackson School of Geosciences, the Evening MBA program, and the National Center for Educational Accountability (NCEA).
- Completed Applied Computational Engineering and Sciences (ACES) Building; Connally Wing and Jamail Atrium at School of Law; San Jacinto Hall, the first new dormitory in 30 years; restored historic Dorothy Gebauer Building; built a new garage on the north side of campus; dedicated the Sarah M. and Charles E. Seay Building; completed and dedicated John A. and Katherine G. Jackson Geological Sciences Building; and reopened the Harry Ransom Humanities Research Center after a renovation project that brought its collections more effectively before the public.
- Reopened observation deck of the Tower in observance of the University's 116th birthday.
- Dedicated Martin Luther King, Jr., statue on the East Mall.

2. **U. T. System Board of Regents: Amendment of Regents' Rules and Regulations, Series 31101, regarding evaluation of administrators**

**RECOMMENDATION**

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Health Affairs, and the Vice Chancellor and General Counsel that the Regents' *Rules and Regulations*, Series 31101, regarding evaluation of administrators, be amended as set forth in congressional style on Page 5.

**BACKGROUND INFORMATION**

Changes in the evaluation process for academic administrators proposed will formalize the current process to require review by an appointed committee and to assure that a copy of each review report is sent to the appropriate Executive Vice Chancellor.

The proposed changes have been reviewed by the presidents and by the Faculty Advisory Council.

1. Title

Evaluation of Administrators

2. Rule and Regulation

Sec. 1 President's Evaluation. Evaluation of the president of each institution is primarily the responsibility of the appropriate Executive Vice Chancellor and shall occur annually.

Sec. 2 President's Responsibility. Subject to the requirements of Series 31102 of the Regents' *Rules and Regulations* concerning the evaluation of tenured faculty and Section 3 of this Series, the evaluation of the vice presidents and deans is primarily the responsibility of the president or delegate.

Sec. 3 Administrative Evaluations. Each academic administrator below the level of president of an ~~component~~ institution should be reviewed at least every six years. A committee appointed by the President or Provost of the institution shall conduct the review. A written report will contain the substance of the review.

3.1 Development of Policies. The institutional Academic Senate or other representative faculty body should be consulted in the development of the review policies and procedures.

3.2 The review shall be comprehensive and include input from faculty, staff, and students, and where appropriate alumni, community leaders, and other sources as identified in the charge to the committee from the President or Provost.

~~3.32 Faculty Input.~~ A summary of the report will ~~faculty input, to~~ be provided to the administrator under review and to the administrator's supervisor. The written report will be made available to the Executive Vice Chancellor for the campus, ~~should constitute a significant component of the evaluation report.~~

~~3.3 Involvement by Staff and Students.~~ The U. T. System Administration also recognizes and supports comparable involvement by staff members and students, as is now the practice for evaluation of academic administrators at several U. T. System component institutions.

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3. **U. T. System Board of Regents: Amendment of Regents' Rules and Regulations, Series 60101, related to gifts of art to include statuary depicting living persons**

**RECOMMENDATION**

The Chancellor concurs in the recommendation of the Counsel and Secretary to the Board, the Vice Chancellor and General Counsel, and the Vice Chancellor for External Relations that the Regents' *Rules and Regulations*, Series 60101, related to gifts of art, be amended to add a new Section 3 to include statuary depicting living persons as set forth below in congressional style and to renumber remaining Sections:

**2. Rule and Regulation**

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Sec. 2 Gifts Requiring Board Approval. All conforming gifts, including pledges, having a value of more than \$1,000,000 (in cash or in-kind) must be submitted to the Board of Regents for approval via the Docket, except those processed or administered by the Office of External Relations.

**Sec. 3 Gifts of Art**

32.1 Outdoor Works of Art. Approval by the Board is also required prior to the acceptance of a gift of an outdoor work of art. Considerations will include appropriateness with regard to the institution's Campus Master Plan and expense related to installation and/or continuing maintenance.

3.2 Gifts of Statuary Depicting Living Persons. No gift of statuary depicting a living person shall be accepted by an institution, unless intended for display in a museum or for addition to the collection of works of art for display in a museum. Proposed gifts of statuary intended for outdoor display require approval under Section 3.1 above; authority to accept proposed museum gifts of statuary depicting living persons, intended for display indoors, is delegated to the presidents.

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## BACKGROUND INFORMATION

This amendment to the Regents' *Rules and Regulations* is proposed to clarify the procedure for acceptance of gifts of statuary proposed to honor living individuals.

4. **U. T. System Board of Regents: Approval of composition of the Audit and Ethics Committee of The University of Texas Investment Management Company (UTIMCO)**

## RECOMMENDATION

The University of Texas Investment Management Company (UTIMCO) Board of Directors recommends that the U. T. System Board of Regents approve appointments to the Audit and Ethics Committee of the UTIMCO Board of Directors as follows:

Mr. Erle Nye (Chair)  
Mr. Woody L. Hunt  
Mr. Robert B. Rowling

## BACKGROUND INFORMATION

Section 66.08 of the *Texas Government Code* requires that the U. T. System Board of Regents approve the appointment of members of the Audit and Ethics Committee of the Board of Directors of UTIMCO. The Board of Directors of UTIMCO recommended these appointments at their meeting on November 16, 2005, conditional on the approval of the U. T. System Board of Regents.

Mr. Hunt, Mr. Nye, and Mr. Rowling have previously served on the Audit and Ethics Committee, as approved by the Board of Regents on March 10, 2005. Following a short break in service on the UTIMCO Board, Mr. Hunt was appointed as an external Director on November 10, 2005.

5. **U. T. System: Overview of Institute for Public School Initiatives featuring new initiatives including the Texas College Money Program**

## REPORT

Dr. Marina Ballantyne Walne, Executive Director for the U. T. System Institute for Public School Initiatives, will provide an overview of the Institute featuring new initiatives including the Texas College Money Program. She will be joined by Mr. Matt Orem, Program Coordinator for College Access Initiatives at U. T. System, and Dr. Larry Burt, Associate Vice President for Student Affairs at U. T. Austin.

A PowerPoint presentation is attached on Pages 15 – 22a of the Supplemental Materials (Volume 2) of the Agenda Book.

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

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

Audit, Compliance, and Management Review Committee: Chairman Estrada  
Agenda Book Page 9

Finance and Planning Committee: Chairman Rowling  
Agenda Book Page 18

Academic Affairs Committee: Chairman Krier  
Agenda Book Page 78

Health Affairs Committee: Chairman Clements  
Agenda Book Page 93

Facilities Planning and Construction Committee: Chairman Barnhill  
Agenda Book Page 100

H. RECONVENE AS COMMITTEE OF THE WHOLE

I. CONSIDER RESOLUTION ON GRADUATION RATES (Page 78)

J. ADJOURN



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FOR  
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW  
COMMITTEE**

**Committee Meeting: 2/8/2006  
Board Meeting: 2/9/2006  
Austin, Texas**

*Robert A. Estrada, Chairman  
Rita C. Clements  
Judith L. Craven, M.D.  
Cyndi Taylor Krier  
Robert B. Rowling*

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
<b>A. CONVENE</b>	9:00 a.m. <i>Chairman Estrada</i>		
1. <b>U. T. System Board of Regents: Report on the results of the audit of The University of Texas Investment Management Company's (UTIMCO) voluntary implementation of the Sarbanes-Oxley Act of 2002</b>	9:00 a.m. <b>Report</b> <i>Mr. Ricky Richter, Ernst &amp; Young, LLP</i>	Not on Agenda	<b>9</b>
2. <b>U. T. System: Approval to renew the contract with Ernst &amp; Young, LLP, as the external auditor for 2006 audit of funds managed by The University of Texas Investment Management Company (UTIMCO) and to negotiate for additional audit services related to UTIMCO</b>	9:05 a.m. <b>Action</b> <i>Mr. Chaffin Mr. Wallace</i>	<b>Action</b> <i>Regent Estrada</i>	<b>9</b>
3. <b>U. T. System Board of Regents: Review of Audit, Compliance, and Management Review Committee Charter and Responsibilities Checklist and result of the Committee's self-assessment</b>	9:10 a.m. <b>Discussion</b> <i>Mr. Chaffin</i>	Not on Agenda	<b>10</b>
4. <b>U. T. System: Report on System-wide Internal Audit Activity (Red, Orange, Yellow, Green Report)</b>	9:15 a.m. <b>Report</b> <i>Mr. Chaffin Ms. Barrett</i>	Not on Agenda	<b>11</b>
5. <b>U. T. System: Report on System-wide Institutional Compliance Activities</b>	9:20 a.m. <b>Report</b> <i>Mr. Chaffin Mr. Givens Ms. Knight</i>	Not on Agenda	<b>15</b>
<b>B. ADJOURN AND CONVENE JOINT MEETING WITH FINANCE AND PLANNING COMMITTEE</b>	9:30 a.m. <i>Chairman Estrada and Chairman Rowling</i>		
<b>U. T. System: Report on the Fiscal Year 2005 Annual Financial Report including the report on the U. T. System Financial Statement Audit performed by Deloitte &amp; Touche LLP</b>	<b>Report</b> <i>Mr. Rodney Lenfant, Deloitte &amp; Touche Mr. Wallace Mr. Chaffin</i>	Not on Agenda	<b>16</b>
<b>C. ADJOURN</b>	10:25 a.m.		

1. **U. T. System Board of Regents: Report on results of the audit of The University of Texas Investment Management Company's (UTIMCO) voluntary implementation of the Sarbanes-Oxley Act of 2002**

REPORT

Mr. Ricky Richter, Ernst & Young, LLP, will report on the results of the audit of The University of Texas Investment Management Company's (UTIMCO) voluntary implementation of the Sarbanes-Oxley Act of 2002.

The reports are set forth on Pages 23 - 32 of the Supplemental Materials (Volume 2) of the Agenda Book.

BACKGROUND INFORMATION

On February 9, 2005, the Board authorized U. T. System staff to negotiate and enter into an auditing services contract with Ernst & Young, LLP, to audit UTIMCO's voluntary implementation of the Sarbanes-Oxley Act of 2002.

2. **U. T. System: Approval to renew the contract with Ernst & Young, LLP, as the external auditor for 2006 audit of funds managed by The University of Texas Investment Management Company (UTIMCO) and to negotiate for additional audit services related to UTIMCO**

RECOMMENDATION

Committee Chairman Estrada recommends approval to renew the auditing services contract with Ernst & Young, LLP, to perform audits for the fiscal year ending August 31, 2006, for funds managed by The University of Texas Investment Management Company (UTIMCO) as listed below:

- a. Permanent University Fund (PUF)
- b. The University of Texas System General Endowment Fund (GEF)
- c. Permanent Health Fund (PHF)
- d. The University of Texas System Long Term Fund (LTF)
- e. The University of Texas Intermediate Term Fund (ITF)

Approval is also requested for U. T. staff to negotiate an amendment to the contract renewal with Ernst & Young, LLP, to provide additional audit services related to UTIMCO, including UTIMCO's voluntary implementation of the Sarbanes-Oxley Act of 2002.

## BACKGROUND INFORMATION

Fiduciary responsibility for the PUF, GEF, PHF, LTF, and ITF rests with the U. T. System Board of Regents. Section 66.08 of the *Texas Education Code* requires that U. T. System have an annual financial audit performed of the PUF.

A Request for Qualifications was distributed by U. T. System staff in April 2003. Four proposals were received. After a review of the proposals and firm interviews by Regent Estrada and U. T. System staff, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with Ernst & Young, LLP, at the July 7, 2003 Board of Regents' meeting. The contract was for one year with a right to renew in one-year increments for four years. The contract was renewed by the Board of Regents on February 4, 2004, and February 10, 2005. The fiscal year ending August 31, 2006, is the third year this contract has been up for renewal.

### **3. U. T. System Board of Regents: Review of Audit, Compliance, and Management Review Committee Charter and Responsibilities Checklist and results of the Committee's self-assessment**

## PURPOSE

On a periodic basis, the Audit, Compliance, and Management Review Committee reviews its Charter and Responsibilities Checklist to ensure any changes in regulatory requirements, authoritative guidance, and evolving oversight practices are reflected. The Chief Audit Executive has no substantive changes to the Charter or Checklist at this time; minor editorial changes are presented in congressional style on Pages 33 - 37 of the Supplemental Materials (Volume 2) of the Agenda Book.

Mr. Chaffin will then present the results of the recent Committee self-assessment.

## BACKGROUND INFORMATION

On November 12, 2003, the Committee approved the Action Plan to implement the "Spirit" of Sarbanes-Oxley Act of 2002. Included in the Action Plan was the establishment of a Committee Charter and Responsibilities Checklist. The Committee Charter specifies that the Committee's responsibilities in carrying out its oversight role will be delineated in the Checklist. The Checklist is updated regularly to reflect changes in regulatory requirements, authoritative guidance, and evolving oversight practices. The Charter was approved on November 13, 2003 and the Checklist was last updated on November 5, 2004.

4. **U. T. System: Report on System-wide Internal Audit Activity (Red, Orange, Yellow, Green Report)**

REPORT

Mr. Charles Chaffin, Chief Audit Executive, and Ms. Amy Barrett, Assistant Director for Audit, will report on System-wide audit activity for the first quarter of Fiscal Year 2006, including the status of significant audit recommendations.

The first quarter activity report on the Status of Outstanding Significant Recommendations is set forth on Pages 12 - 13. The report shows that satisfactory progress is being made on the implementation of all significant recommendations. Additionally, a list of other audit reports that have been issued by the System-wide audit program follows on Page 14.

Significant audit findings/recommendations are submitted to and tracked by the U. T. System Audit Office. Quarterly, the chief business officers are asked for the status of implementation, and the internal audit directors verify implementation. A summary report is provided to the Audit, Compliance, and Management Review Committee of the U. T. System Board of Regents. Additionally, the Committee members receive a detailed summary of "new" significant recommendations quarterly.

THE UNIVERSITY OF TEXAS SYSTEM  
Status of Outstanding Significant Recommendations

Report Date	Institution	Audit	4th Quarter		1st Quarter		Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Ranking Significance Material to Institution's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			
2004-02	UT Austin	Compliance Inspection: Account Reconciliation and Segregation of Duties		1		0	11/30/2005	Completed	C
2004-03	UT Austin	Information Security Management		2		1	6/30/2006	Satisfactory	C, O
2004-12	UTA	TAC 202 Information Security Compliance		1		1	2/28/2006	Satisfactory	C
2004-03	UTB	Contracts and Grants		1		1	3/31/2006	Satisfactory	C, O
2004-06	UTB	2003 Financial and Applications Controls Audit of the Financial Aid Office		1		1	1/31/2006	Satisfactory	C, O
2004-10	UTB	Physical Plant		3		3	4/30/2006	Satisfactory	C, O
2003-12	UTD	Lab and Biological Safety		1		1	2/28/2006	Satisfactory	C, O
2004-01	UTEP	Information Technology - General Controls Review		1		1	1/31/2006	Satisfactory	O
2004-07	UTEP	Facility Services		1		0	12/31/2005	Completed	O
2005-05	UTEP	Office of the Registrar		3		2	3/31/2006	Satisfactory	O
2005-08	UTEP	Texas Success Initiative		2		1	5/31/2006	Satisfactory	C, O
2005-10	UTEP	Human Subject Research				0	10/25/2005	Completed	C, O
2003-09	UTHC-T	Medical Services, Research, and Development Plan AFR		1		1	8/31/2007	Unsatisfactory	F, O
2004-04	UTHC-T	Capital Assets FYE 8/31/03		1		0	9/30/2005	Removed	C, O
2004-04	UTHC-T	Discretionary Funds		1		1	12/31/2005	Satisfactory	F, O
2004-09	UTHC-T	Cash and Cash Equivalents		1		0	10/31/2005	Completed	C, O
2005-04	UTHC-T	TAC 202 Compliance		1		1	9/1/2007	Satisfactory	C
2005-11	UTHC-T	IT Security Audit of Meditech and LSS Patient Information Systems				1	10/31/2006	Satisfactory	C
2005-11	UTHC-T	Hospital and Physician Billing Audit of Patient Registration Processes				1	4/1/2006	Satisfactory	F, O
2000-04	UTHSC-H	Medical Services, Research, and Development Plan Summary of Operations Review		1		0	10/1/2005	Completed	C
2004-02	UTHSC-SA	Medical Services, Research, and Development Plan Front-End Billing		2		3	2/28/2006	Satisfactory	O
2003-05	UTMB Galveston	Delivery of Operating Room Services		2		2	3/31/2006	Satisfactory	O
2003-08	UTMB Galveston	Pharmacy Costs of Goods Sold Review		1		1	1/31/2006	Satisfactory	O
2004-02	UTMB Galveston	Compliance Inspection: Account Reconciliation and Segregation of Duties		2		2	1/31/2006	Satisfactory	F, O
2004-07	UTMB Galveston	Office of Sponsored Programs (OSP) & Contracts and Grants (C & G)		6		6	9/30/2007	Satisfactory	F, C, O
2004-09	UTMB Galveston	Agreed Upon Procedures on Financial Statement Fund Balance		4		4	8/31/2006	Satisfactory	F, O
2004-09	UTMB Galveston	Endowment Compliance Program of the Office of University Advancement ("OUA")		1		1	9/30/2005	Satisfactory	C, O
2005-03	UTMB Galveston	Compliance Update with the HIPAA Final Security Rule (Institutional)		1		1	12/31/2005	Satisfactory	C, O
2005-06	UTMB Galveston	Audit of Department of Neurosciences and Cell Biology Control Self-Assessment		1		1	2/28/2006	Satisfactory	C
2005-07	UTMB Galveston	Compliance Update with the HIPAA Final Security Rule (Correctional Managed Care)		3		3	6/30/2006	Satisfactory	C, O
2005-08	UTMB Galveston	Audit of IRB Human Subjects Protection		2		2	1/1/2006	Satisfactory	C, O
2001-08	UTMDACC	Lotus Notes Environment		2		1	2/28/2006	Satisfactory	O
2001-10	UTMDACC	Disaster Recovery/Business Continuity Planning		1		0	2/28/2006	Completed	O
2004-01	UTMDACC	2003 Mainframe Disaster Recovery Test		1		0	12/31/2005	Completed	O
2004-01	UTMDACC	PeopleSoft Payroll		1		1	2/28/2007	Satisfactory	O
2005-08	UTPA	Contracts		1		1	12/31/2005	Satisfactory	O
2005-09	UTPA	College of Education				1	3/31/2006	Satisfactory	O



THE UNIVERSITY OF TEXAS SYSTEM  
Status of Outstanding Significant Recommendations

Report Date	Institution	Audit	4th Quarter		1st Quarter		Targeted Implementation Date	Overall Progress Towards Completion (Note 1)	Ranking Significance Material to Institution's Fin. Stmts. ("F"), Compliance ("C"), and/or Operations ("O")
			Ranking	# of Significant Findings	Ranking	# of Significant Findings			
2004-03	UTSA	Information Technology Organization and Planning Controls		2		2	5/31/2006	Satisfactory	F, O
2004-09	UTSA	Research Compliance - Time and Effort Reporting		1		1	9/1/2006	Satisfactory	C
2004-11	UTSA	Scholarship Management		1		1	3/31/2006	Satisfactory	O
2004-12	UTSA	Texas Administrative Code 202		2		1	2/1/2006	Satisfactory	O
2005-11	UTSA	Animal Research Audit				1	1/15/2006	Satisfactory	O
2002-08	UTSYS ADM	Travel and Entertainment Expenditures		1		0	10/31/2005	Completed	C, O
2003-09	UTSYS ADM	System Available Balances		1		0	10/31/2005	Completed	F
2005-04	UTT	East Texas Rural Fiscal and Physical Outreach Program Grant		1		1	3/1/2006	Satisfactory	C
Totals				63		54			

**STATE AUDITOR'S OFFICE AUDITS**

2004-06	UT Austin	Protection of Research Data at Higher Education Institutions		1		0	10/1/2005	Completed	O
2004-06	UT Southwestern	Protection of Research Data at Higher Education Institutions		3		1	12/31/2006	Satisfactory	O
2002-09	UTB	A Financial Review		1		1	8/31/2006	Satisfactory	F
2004-10	UTHSC-H	Cash Controls		3		0	1/1/2006	Completed	F
2004-06	UTHSC-SA	Protection of Research Data at Higher Education Institutions		2		2	8/31/2006	Satisfactory	O
2002-11	UTMB Galveston	Security Over Electronic Protected Health Information at Selected Texas Academic Medical Institutions		1		1	12/31/2005	Satisfactory	C
2002-05	UTMDACC	Statewide Single Audit report for Year Ended August 31, 2001		1		1	9/1/2006	Satisfactory	C
2002-11	UTMDACC	Security Over Electronic Protected Health Information at Selected Texas Academic Medical Institutions		2		1	6/30/2006	Satisfactory	C
2005-02	UTMDACC	Federal Portion of the Statewide Single Audit		2		1	2/28/2006	Satisfactory	C
2004-02	UTSA	Financial Review		3		3	2/28/2006	Satisfactory	F
2004-06	UTSYS ADM	Protection of Research Data at Higher Education Institutions		1		1	3/31/2006	Satisfactory	O
Totals				20		12			

**Color Legend:**

- Any audit with institutionally significant findings. Not necessarily a failure - just an area that needs high level attention. Corrective action will be taken subsequent to the quarter in which the finding was reported.
- Significant progress toward resolution was made during the quarter in which the significant finding was first reported.
- A red or orange audit becomes a yellow when significant progress continues beyond the quarter in which the significant finding was first reported.
- All issues have been appropriately resolved, including any issues resolved during the quarter in which they were first reported.

**Note:** **Completed** - The institutional Internal Audit Director deems the significant issues have been appropriately addressed and resolved.  
**Satisfactory** - The institutional Internal Audit Director believes that the significant issues are in the process of being addressed in a timely and appropriate fashion.  
**Unsatisfactory** - The institutional Internal Audit Director does not feel that the significant issues are being addressed in a timely and appropriate fashion.

**\* OTHER U. T. SYSTEM AUDITS COMPLETED - 9/2005 through 11/2005**

Month Received by System	Institution	Audit
2005-9	UT Arlington	Key Control Audit
2005-9	UT Arlington	Time and Effort Reporting Principles Review
2005-9	UT Arlington	Contracting Audit
2005-9	UT Arlington	Texas Administrative Code 202 Information Security Compliance Audit Follow-up
2005-9	UT Arlington	ProCard Follow-up Audit
2005-9	UT Dallas	Review of Time and Effort Reporting Principles
2005-9	UT Dallas	Change in Management Review of the Office of the Vice President for Business Affairs
2005-9	UT Pan American	Contracts Audit
2005-9	UT Pan American	NCAA Compliance - Team Travel Audit
2005-9	UT Pan American	Information Technology Vulnerability Assessment Follow-up
2005-9	UT Pan American	Time & Effort Reporting Audit
2005-9	UT Pan American	College of Education Audit
2005-9	UT San Antonio	Texas Administrative Code 202 - Security Program Compliance Review
2005-9	UT San Antonio	Security Review of Newly Acquired Systems: Streamlined Applicant Referral System
2005-9	UT San Antonio	Time and Effort Reporting Principles Review
2005-9	UT System Admin	Review of The University of Texas at Dallas Financial Condition
2005-9	UT System Admin	West Texas Operations Oil and Gas Company Audit
2005-9	UTHSC San Antonio	Research - Time and Effort Reporting Review
2005-10	UT Dallas	Business Expense Reimbursements
2005-10	UT San Antonio	Change in Management - Departmental Reviews
2005-10	UT San Antonio	Student Housing
2005-10	UT Southwestern	Deloitte & Touche External Audit
2005-10	UT Southwestern	Ambulatory Cash Receipts Review
2005-10	UT Southwestern	Federal Reporting of Charges
2005-10	UT Southwestern	Office of Post-Award Administration
2005-10	UT System Admin	Office of Facilities Planning and Construction Change in Management Audit
2005-10	UTHSC San Antonio	Practice Plan Financial Review
2005-10	UTHSC San Antonio	General Control Review Follow-up
2005-10	UTHSC San Antonio	Pediatric Dentistry Financial Review
2005-11	UT Brownsville	Audit of the Office of the Dean for the School of Business
2005-11	UT Brownsville	2005 Audit of Performance Measures
2005-11	UT Brownsville	Audit of the Office of the Registrar
2005-11	UT Brownsville	Time and Effort Reporting
2005-11	UT Dallas	Protection of Social Security Numbers
2005-11	UT Southwestern	Compliance Consulting
2005-11	UT Southwestern	Physician Licensing
2005-11	UT Southwestern	IDX Dictionary Maintenance
2005-11	UT Southwestern	Hospital Cash Receipting
2005-11	UT Southwestern	Medical Services, Research, and Development Plan Credentialing
2005-11	UT Southwestern	Medical Services, Research, and Development Plan Credit Balances
2005-11	UT System Admin	Audit of Information Technology Policies at UT System Institutions
2005-11	UT Tyler	Review of Time and Effort Reporting Principles
2005-11	UTHC Tyler	HIPAA Privacy Audit - 2005
2005-11	UTHC Tyler	IT Security Audit of the Meditech and LSS Patient Information Systems
2005-11	UTHC Tyler	Hospital and Physician Billing Audit of Patient Registration Processes
2005-11	UTHSC Houston	Report on the Implementation of Time and Effort Reporting Principles
2005-11	UTHSC Houston	Report on UTLINK Application Security
2005-11	UTHSC Houston	Report on the Department of Psychiatry and Behavioral Sciences
2005-11	UTHSC Houston	Report on Medical School Billing Compliance Department of Dermatology
2005-11	UTHSC Houston	Report on Medical School Billing Compliance Department of Psychiatry and Behavioral Sciences
2005-11	UTHSC Houston	Scripts Security
2005-11	UTHSC Houston	Follow-up on Open Recommendations
2005-11	UTMB Galveston	Pathology Laboratory Information Systems

5. **U. T. System: Report on System-wide Institutional Compliance Activities**

REPORT

Mr. Charles Chaffin, Chief Audit Executive and System-wide Compliance Officer, and Mr. David Givens, System-wide Compliance Supervisor, will brief the Audit, Compliance, and Management Review Committee on the first quarter report of the System-wide Compliance Program, set forth on Pages 38 - 41 of the Supplemental Materials (Volume 2) of the Agenda Book. Activity reports are presented to the Audit, Compliance, and Management Review Committee of the Board of Regents on a quarterly basis. The last activity report was sent on January 27, 2006.

Mr. Chaffin will then provide an update on the peer review activities at the institutions. Ms. Gayle Knight, Assistant Vice President for Institutional Compliance at U. T. Health Science Center - San Antonio, will present the results of their recent institutional peer review and the activities of the Institutional Compliance Advisory Committee.

**U. T. System: Report on the Fiscal Year 2005 Annual Financial Report including the report on the U. T. System Financial Statement Audit performed by Deloitte & Touche LLP**

**REPORT**

Mr. Randy Wallace, Associate Vice Chancellor, Controller and Chief Budget Officer, will discuss the Annual Financial Report preparation and compilation process, including certifications and representations made by the institutions. Mr. Wallace's PowerPoint presentation is set forth on Pages 42 - 49 of the Supplemental Materials (Volume 2) of the Agenda Book.

Mr. Rodney Lenfant, Deloitte & Touche LLP, will report on the results of the audit of the U. T. System Financial Statements for Fiscal Year 2005. Mr. Lenfant's PowerPoint presentation is set forth on Pages 50 - 59 of the Supplemental Materials (Volume 2) of the Agenda Book.

Additionally, Mr. Charles Chaffin, Chief Audit Executive, and Ms. Amy Barrett, Assistant Director, will report on the work performed at U. T. Arlington, U. T. Brownsville, U. T. Dallas, U. T. El Paso, U. T. Pan American, U. T. Permian Basin, U. T. San Antonio, U. T. Tyler, and U. T. Health Center - Tyler for Deloitte & Touche in support of the U. T. System Financial Statement Audit. The PowerPoint presentation is set forth on Pages 60 - 64 of the Supplemental Materials (Volume 2) of the Agenda Book. Reports on these institutions were sent on January 27, 2006.

The 2005 U. T. System Annual Financial Report as set forth on Pages 65 - 132 of the Supplemental Materials (Volume 2) of the Agenda Book, includes the Management's Discussion and Analysis that provides an overview of the financial position and activities of the U. T. System for the year ended August 31, 2005. The U. T. System Management Letter including management's response was sent on January 27, 2006.

**BACKGROUND INFORMATION**

The Annual Financial Report is required to be filed with the State Comptroller of Public Accounts annually on November 20 and is prepared in compliance with *Texas Government Code* Section 2101.011 and in accordance with the requirements established by the State Comptroller of Public Accounts.

In November 2003, the U. T. System Board of Regents approved an initiative to implement the "Spirit" of the Sarbanes-Oxley Act as a good faith effort toward

manifesting financial accountability and compliance in the public sector. As a result, in June 2004, the Board of Regents sought proposals for a comprehensive annual financial statement audit by an independent certified public accounting firm to obtain assurance that U. T. System has a sound financial base and adequate resources to support the mission of the organization and the scope of its programs and services.

A Request for Qualifications (RFQ) was distributed by U. T. System staff in June 2004. Two proposals were received. After a review of the proposals and firm interviews by Chairman Estrada and U. T. System staff, the Board of Regents authorized U. T. System staff to negotiate and enter into an auditing services contract with Deloitte & Touche LLP, at the July 16, 2004 Board of Regents' meeting. The contract, which terminates on April 1, 2006, provides U. T. System the option to renew for two additional one-year terms.



## TABLE OF CONTENTS FOR FINANCE AND PLANNING COMMITTEE

Committee Meeting: 2/8/2006

Board Meeting: 2/9/2006  
Austin, Texas

Robert B. Rowling, *Chairman*  
John W. Barnhill, Jr.  
H. Scott Caven, Jr.  
Cyndi Taylor Krier  
Colleen McHugh

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
<b>A. CONVENE JOINT MEETING WITH AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW COMMITTEE</b>	9:30 a.m. <i>Chairmen Estrada &amp; Rowling</i>		
1. <b>U. T. System: Report on the Fiscal Year 2005 Annual Financial Report including the report on the U. T. System Financial Statement Audit performed by Deloitte &amp; Touche LLP</b>	<b>Report</b> <i>Mr. Rodney Lenfant, Deloitte &amp; Touche</i> <i>Mr. Wallace</i> <i>Mr. Chaffin</i>	Not on Agenda	<b>16</b>
<b>B. CONVENE MEETING OF FINANCE AND PLANNING COMMITTEE</b>	10:30 a.m. <i>Chairman Rowling</i>		
2. <b>U. T. System: Discussion and appropriate action related to approval of Docket No. 125</b>	<b>Discussion, if needed</b>	<b>Action</b>	<b>18</b>
3. <b>U. T. System: Report on the Analysis of Financial Condition for Fiscal Year 2005</b>	10:30 a.m. <b>Report</b> <i>Mr. Wallace</i>	Not on Agenda	<b>18</b>
4. <b>U. T. System: Key Financial Indicators Report</b>	10:40 a.m. <b>Report</b> <i>Dr. Kelley</i>	Not on Agenda	<b>19</b>
5. <b>U. T. System: Approval of additional amount of equipment financing for Fiscal Year 2006 and resolution of parity debt</b>	10:55 a.m. <b>Action</b> <i>Mr. Aldridge</i>	<b>Action</b>	<b>28</b>
6. <b>U. T. System: Approval of the Fiscal Year 2007 Budget Preparation Policies and Calendar for budget operations</b>	11:00 a.m. <b>Action</b> <i>Mr. Wallace</i>	<b>Action</b>	<b>31</b>
7. <b>U. T. System Board of Regents: Approval to amend the Intermediate Term Fund Investment Policy Statement and approval of recommended distribution rate</b>	11:10 a.m. <b>Action</b> <i>Dr. Kelley</i>	<b>Action</b>	<b>34</b>
8. <b>U. T. System Board of Regents: Approval of revised Master Investment Management Services Agreement with The University of Texas Investment Management Company (UTIMCO)</b>	11:15 a.m. <b>Action</b> <i>Dr. Kelley</i>	<b>Action</b>	<b>47</b>

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
9. <b>U. T. System Board of Regents: Investments Report for the quarter ended November 30, 2005, and The University of Texas Investment Management Company (UTIMCO) Performance Summary Report</b>	<i>11:20 a.m.</i> <b>Report</b> <i>Mr. Boldt</i>	<b>Report</b>	<b>72</b>
<b>C. ADJOURN</b>	<i>11:30 a.m.</i>		

1. **U. T. System: Report on the Fiscal Year 2005 Annual Financial Report including the report on the U. T. System Financial Statement Audit performed by Deloitte & Touche LLP**

See Item on Pages 16 - 17 of the Audit, Compliance, and Management Review Committee.

2. **U. T. System: Discussion and appropriate action related to approval of Docket No. 125**

**RECOMMENDATION**

It is recommended that *Docket No. 125*, beginning on Page Docket - 1, be approved. The Docket is printed on green paper at the back of the Supplemental Materials (Volume 2) of the Agenda Book.

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

3. **U. T. System: Report on the Analysis of Financial Condition for Fiscal Year 2005**

The Analysis of Financial Condition is a broad annual financial evaluation that rates institutions based on the factors analyzed as either "Satisfactory," "Watch," or "Unsatisfactory." The Report on the Analysis of Financial Condition for Fiscal Year 2005 is set forth on Pages 133 -191 of the Supplemental Materials (Volume 2) of the Agenda Book.

An Executive Summary of the report may be found on Pages 135 -139. One institution's rating has been downgraded to "Unsatisfactory," one institution's rating remains at "Watch," and the rating of two institutions has been upgraded from "Watch" to "Satisfactory."

**REPORT**

A financial analysis is performed from each institution's Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets. The ratios presented in this report are ratios commonly used by bond rating agencies, public accounting firms, and consulting firms. The following ratios were analyzed: Operating Expense



Coverage, Annual Operating Margin, Return on Net Assets, Expendable Resources to Debt, Debt Burden, Debt Service Coverage, and Full-time Equivalent Student Enrollment (academic institutions only).

The Analysis of Financial Condition has been prepared since 1995 to track financial ratios to determine if the financial condition of the institutions is improving or declining. This analysis compares trends for Fiscal Years 2002 through 2005.

#### **4. U. T. System: Key Financial Indicators Report**

The Key Financial Indicators Report as set forth on Pages 20 - 27 representing the consolidated operating results will be discussed by Dr. Scott Kelley, Executive Vice Chancellor for Business Affairs.

#### **REPORT**

The Key Financial Indicators Report compares the results of operations, key revenues and expenses, reserves, and key financial ratios from 2002 through December 2005. Ratios requiring balance sheet data are provided for 2002 through 2005.











# THE UNIVERSITY OF TEXAS SYSTEM



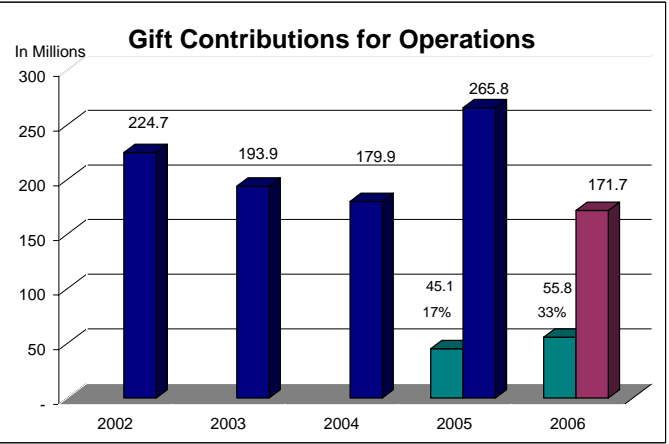
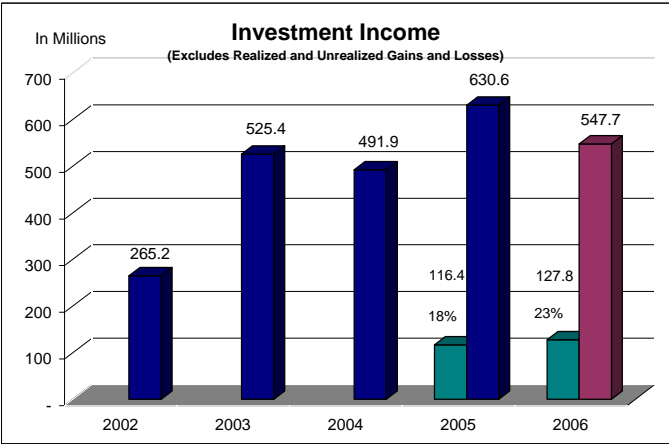
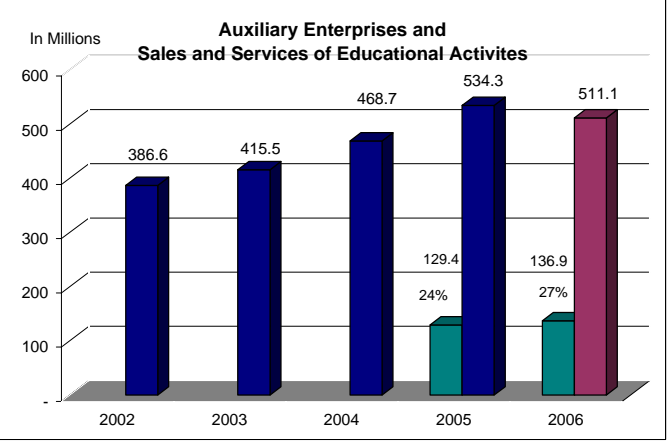
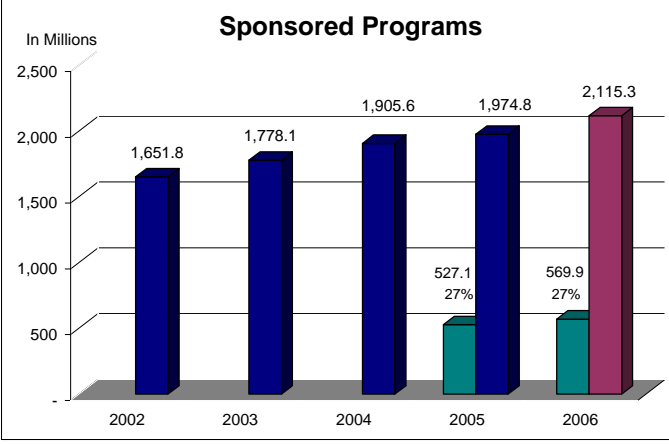
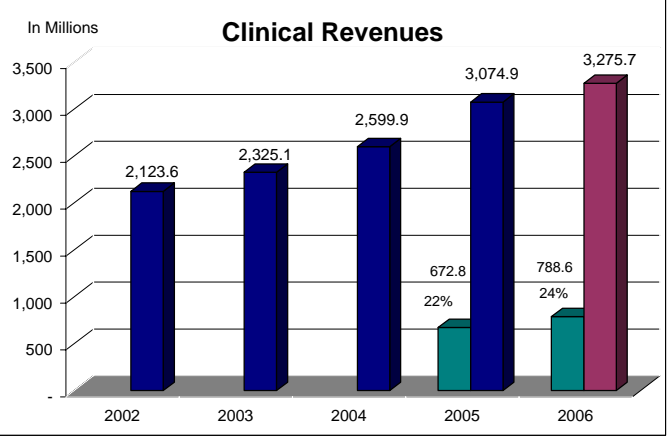
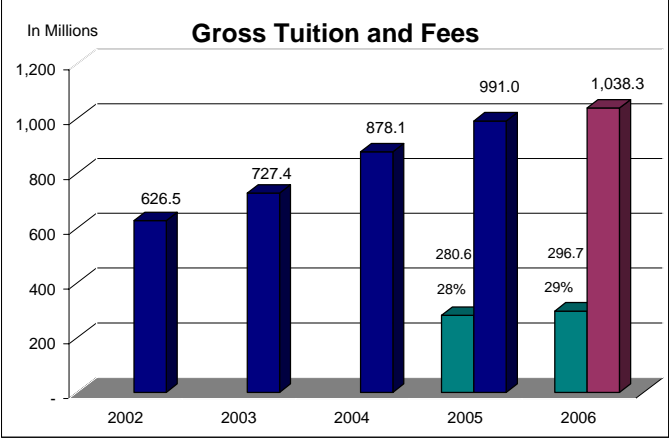
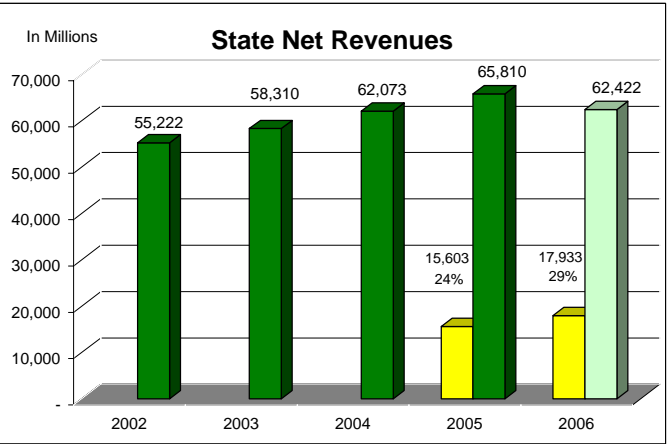
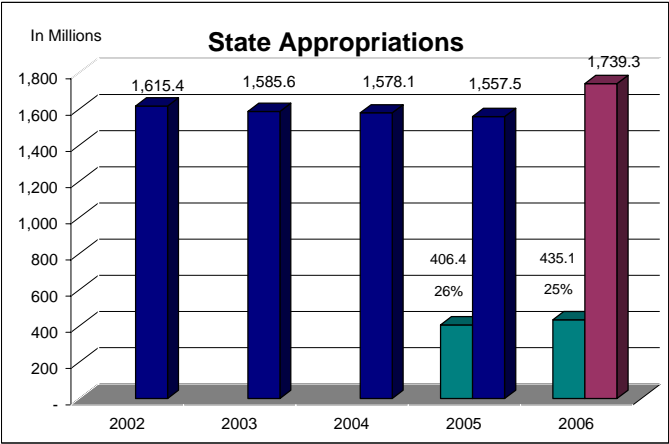
## QUARTERLY KEY STRATEGIC INDICATORS REPORT

1<sup>ST</sup> QUARTER FY 2006

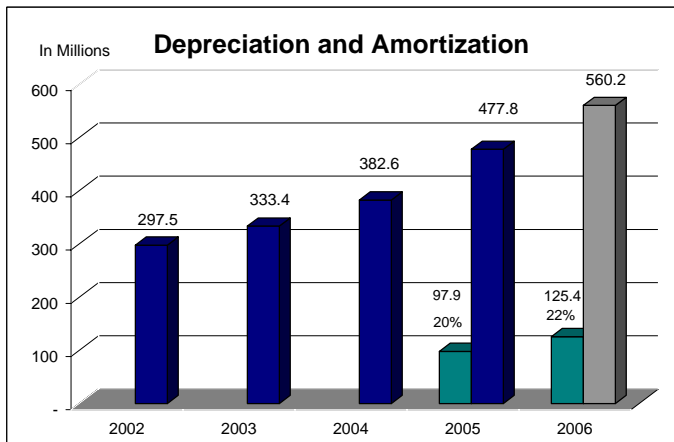
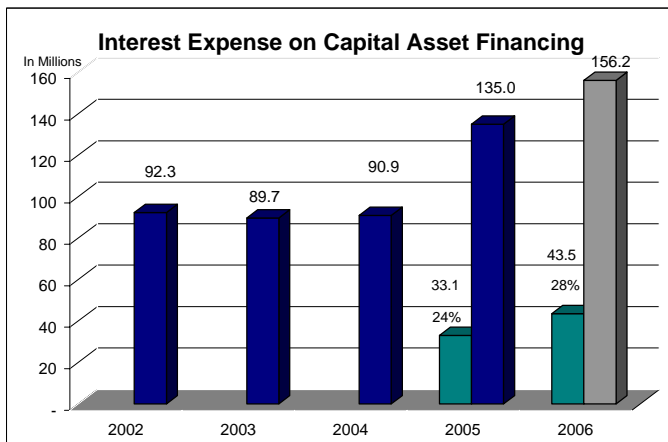
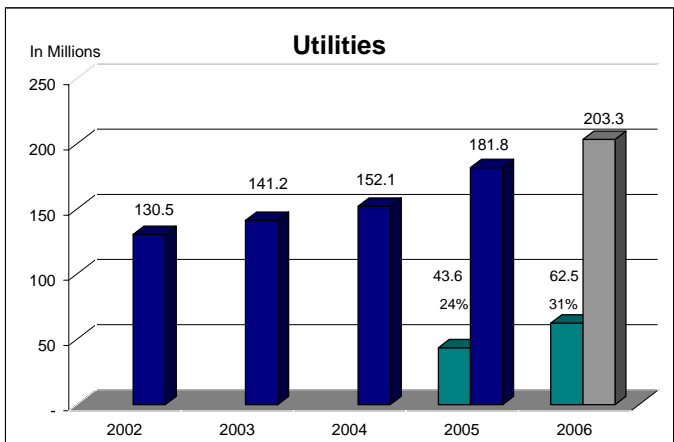
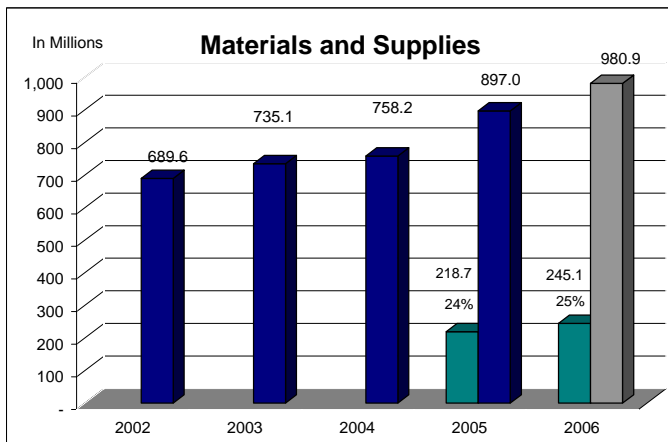
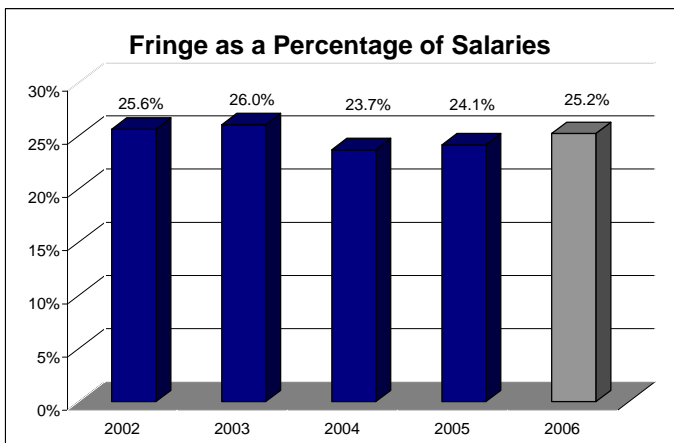
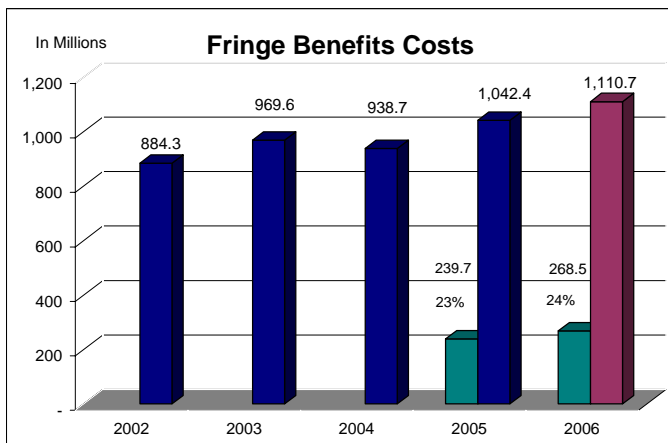
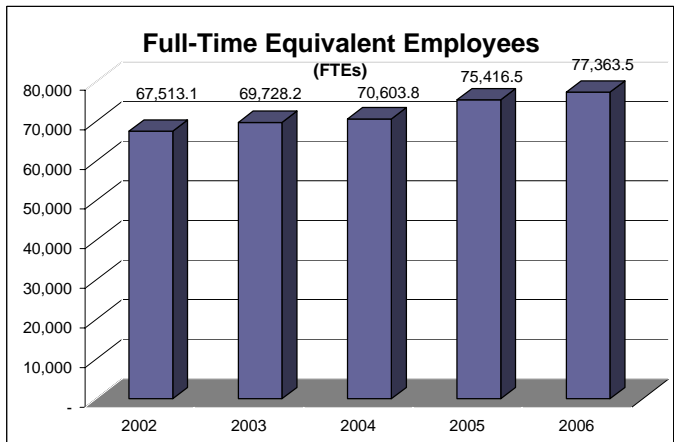
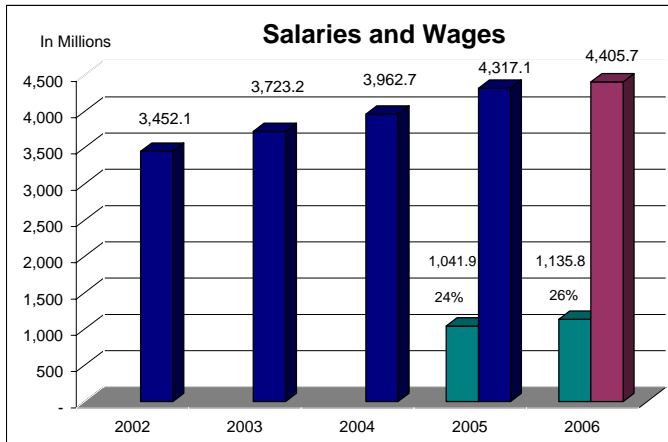
## KEY

	<b>Actual 2002 Through 2005 amounts</b> (SOURCE: Annual Financial Reports Fiscal Years 2002, 2003, 2004 and 2005)
	<b>2006 Budget amounts</b> (SOURCE: Operating Budget Summary 2006)
	<b>Projected 2006 amounts</b> (trend based on the average change of the previous four years of data)
	<b>Monthly Financial Report Year to Date amounts for November 2004 and November 2005</b>
	<b>Annual State Net Revenue Collections for 2002, 2003, 2004 and 2005</b> (SOURCE: Texas Revenue History by Source 1978-2005, State Comptroller's Office)
	<b>Year to Date State Net Revenue Collections for November 2005 and November 2006</b> (SOURCE: State Comptroller's Office)
	<b>Estimated State Revenue Collections for 2006</b> (SOURCE: January 2005 Biennial Revenue Estimate 2006-2007 Summary Tables, State Comptroller's Office)
	<b>2002, 2003, 2004 and 2005 Annual Average of FTEs, 1st Quarter 2006 FTEs</b> (SOURCE: State Auditor's Office Quarterly FTE Report)
	<b>Year to Date margin for December 2005</b> (SOURCE: Monthly Financial Report for December 2005)
	<b>Projected 2006 Margin</b>
	<b>Year to Date margin for December 2004</b> (SOURCE: Monthly Financial Report for December 2005)
	<b>Target Normalized Rates</b>
	<b>Aaa/Aa1 Median</b> (SOURCE: Moody's)
	<b>Aa2 Median</b> (SOURCE: Moody's)
	<b>Fair Facilities Condition Index (5% - 10%)</b>
	<b>Good Facilities Condition Index (Exceeds 10%)</b>

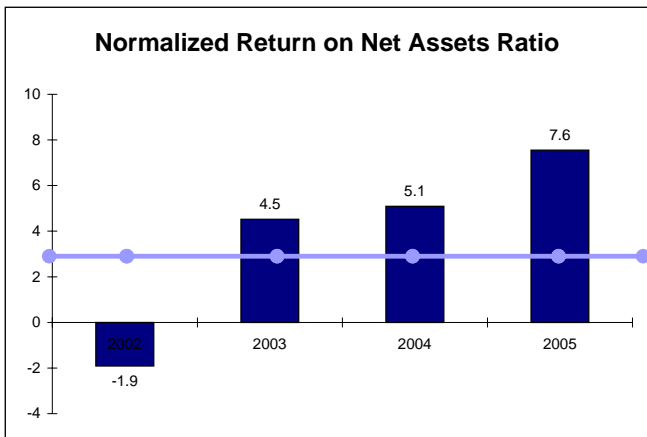
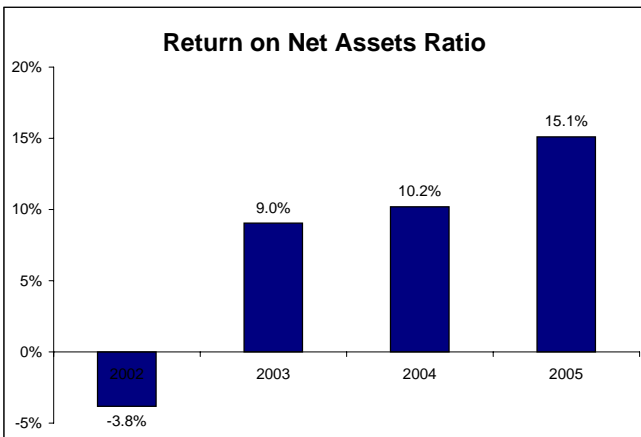
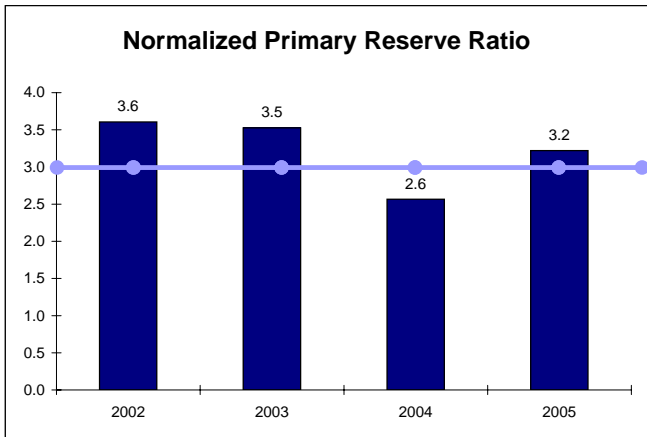
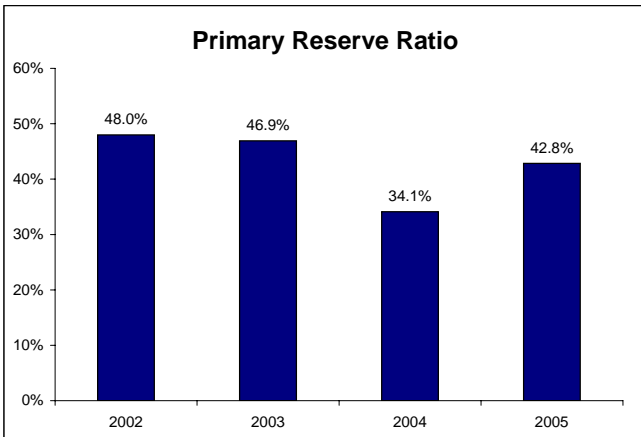
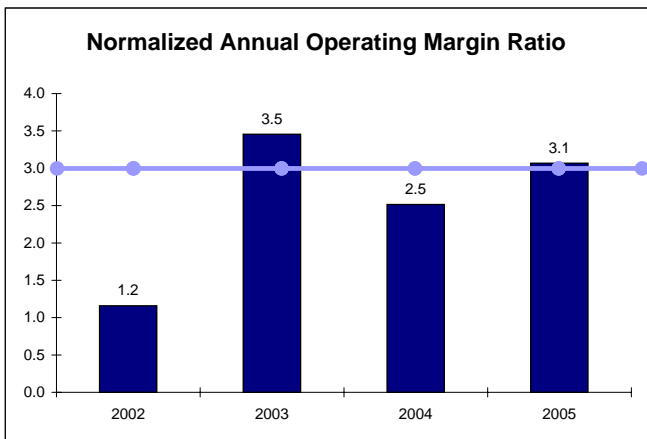
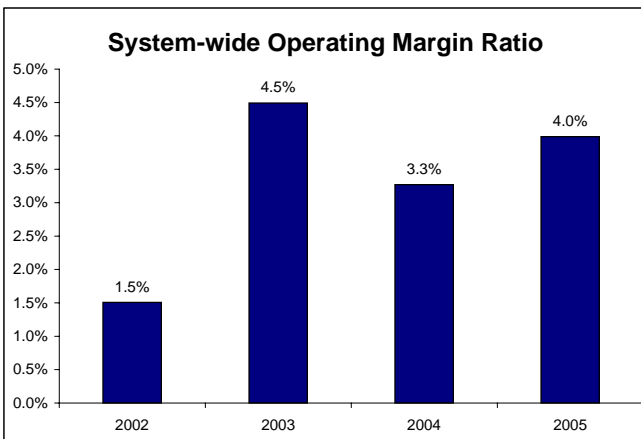
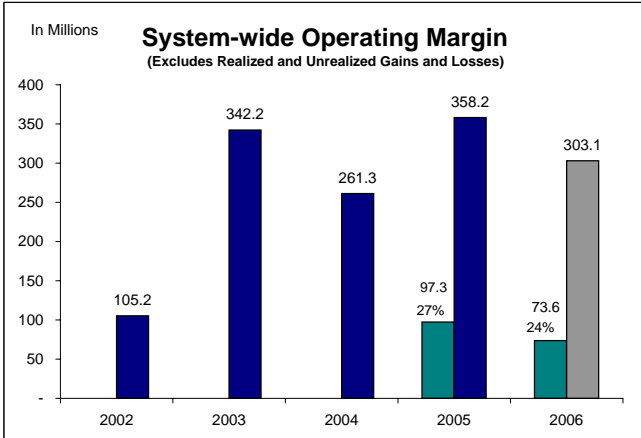
**KEY INDICATORS OF REVENUES  
ACTUAL 2002 THROUGH 2005  
PROJECTED 2006  
YEAR TO DATE 2005 AND 2006 FROM NOVEMBER MONTHLY FINANCIAL REPORT**



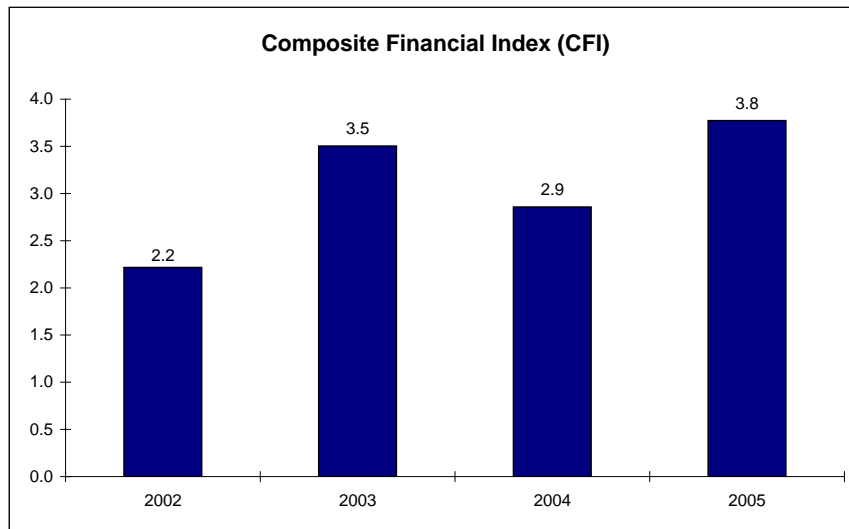
**KEY INDICATORS OF EXPENSES  
ACTUAL 2002 THROUGH 2005  
PROJECTED 2006  
YEAR TO DATE 2005 AND 2006 FROM NOVEMBER MONTHLY FINANCIAL REPORT**



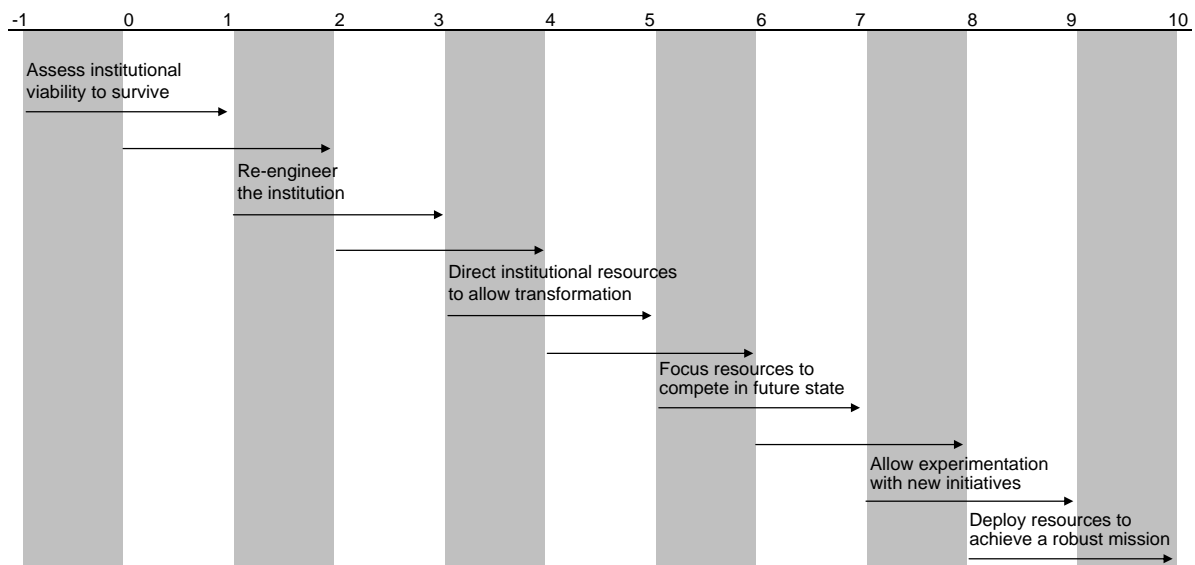
**KEY INDICATORS OF RESERVES**  
**ACTUAL 2002 THROUGH 2005**  
**YEAR TO DATE 2005 AND 2006 FROM NOVEMBER MONTHLY FINANCIAL REPORT**  
**PROJECTED 2006**



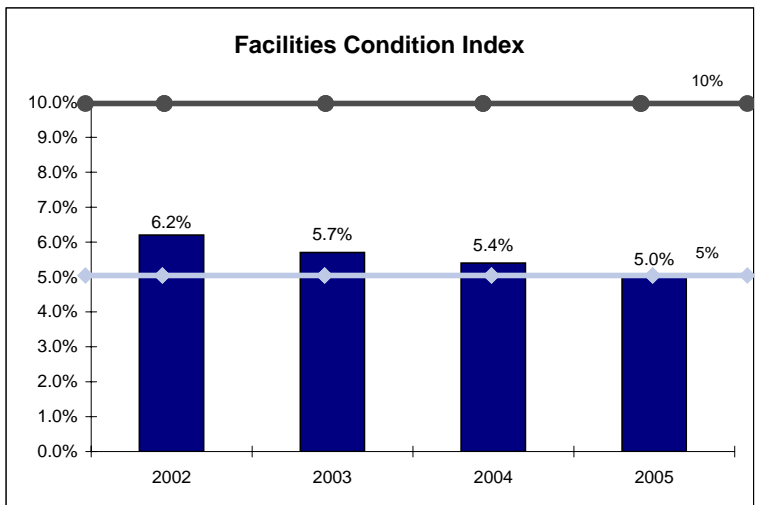
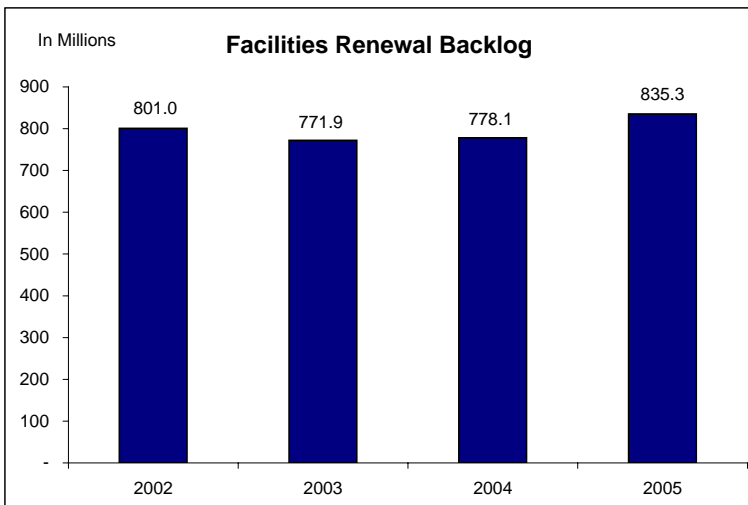
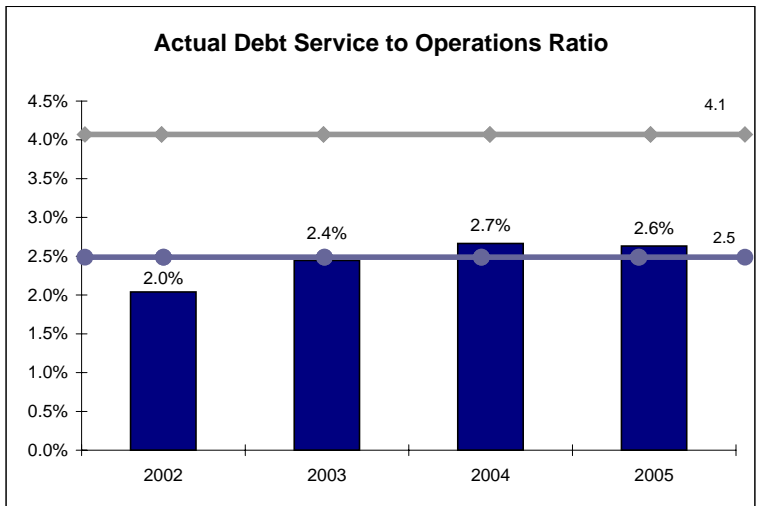
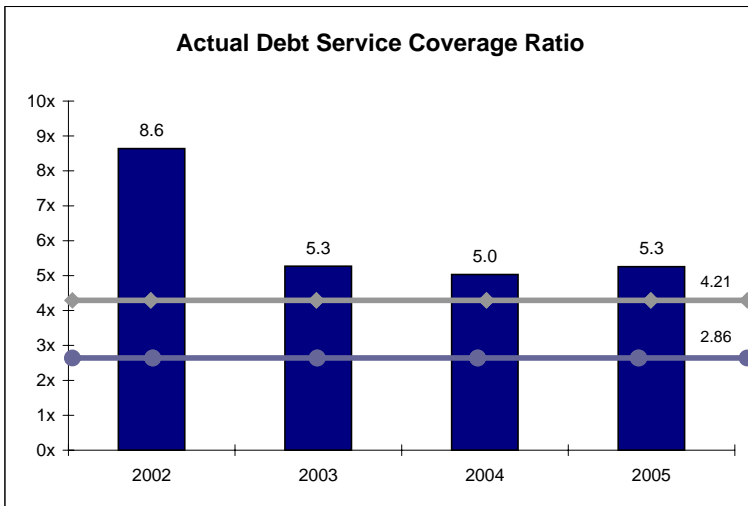
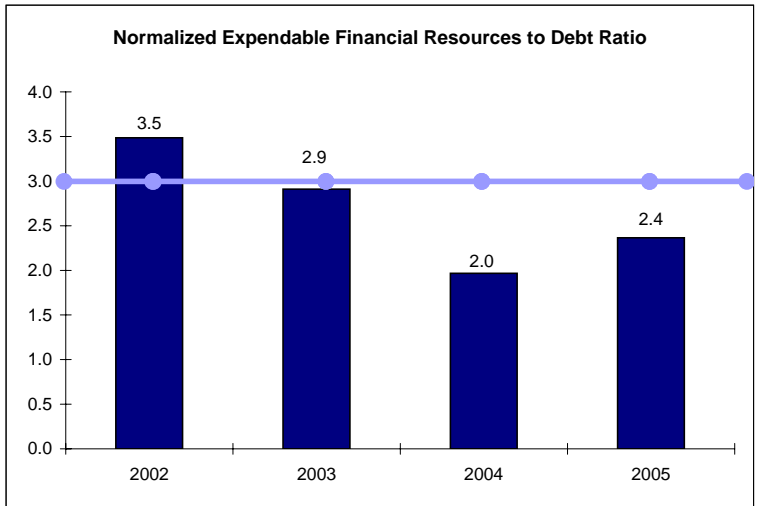
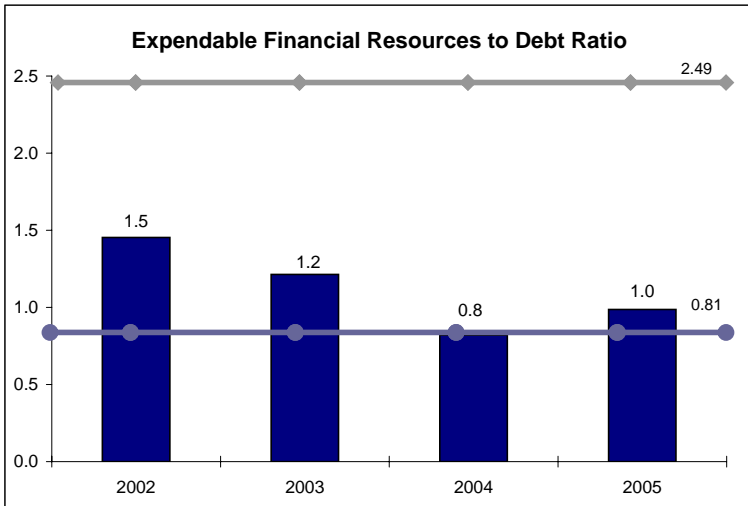
# KEY INDICATORS OF FINANCIAL HEALTH 2002 THROUGH 2005



### Scale for Charting CFI Performance

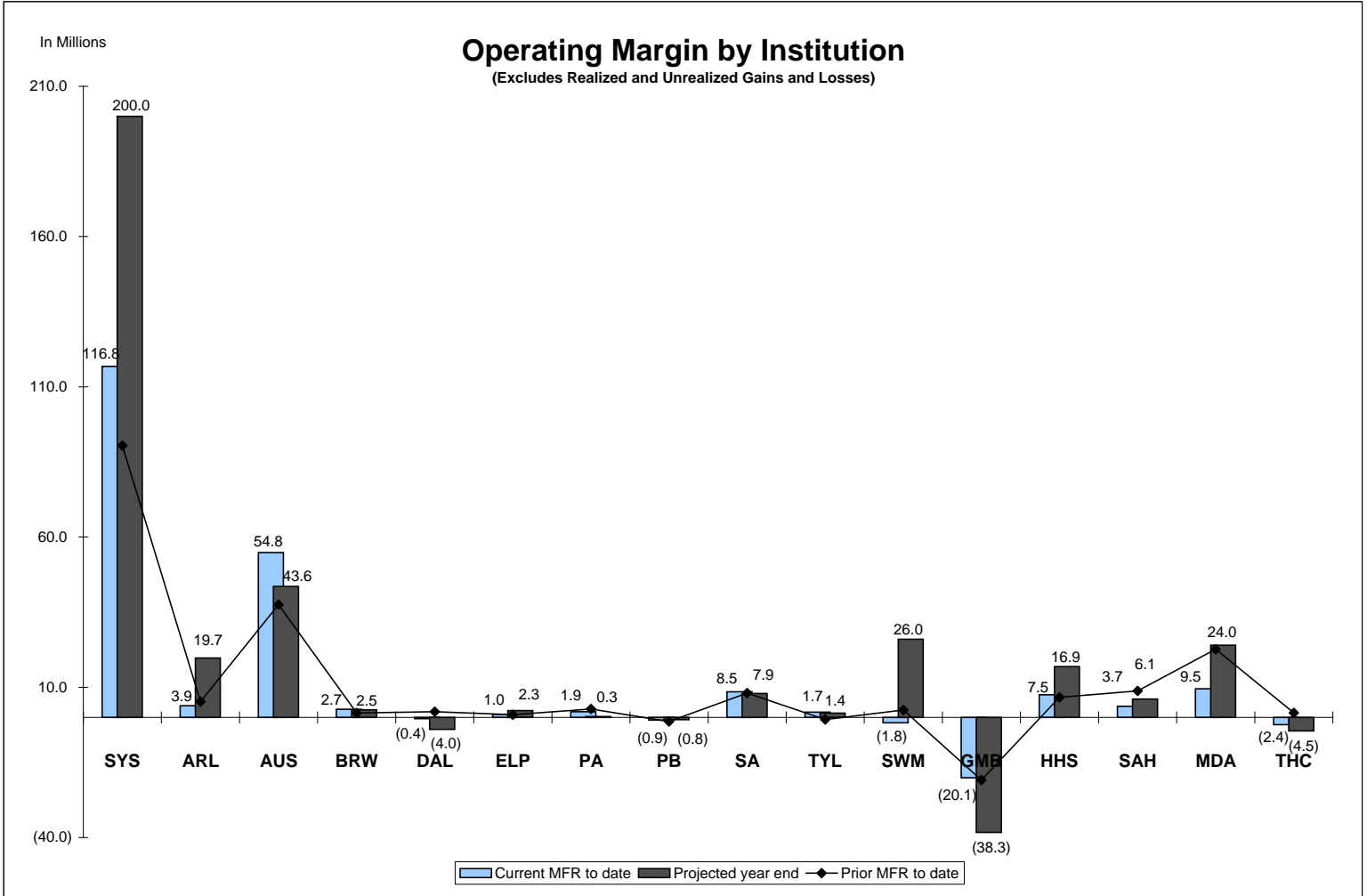


# KEY INDICATORS OF CAPITAL NEEDS AND CAPACITY 2002 THROUGH 2005





**KEY INDICATORS OF RESERVES**  
**YEAR TO DATE 2005 AND 2006 FROM DECEMBER MONTHLY FINANCIAL REPORT**  
**PROJECTED 2006 YEAR-END MARGIN**



5. **U. T. System: Approval of additional amount of equipment financing for Fiscal Year 2006 and resolution of parity debt**

RECOMMENDATION

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

- a. approve an additional aggregate amount of \$24,500,000 of Revenue Financing System Equipment Financing for Fiscal Year 2006 as allocated to those U. T. System institutions set out on Page 30; and
- b. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
  - parity debt shall be issued to pay the cost of equipment including costs incurred prior to the issuance of such parity debt;
  - 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. System Board of Regents relating to the Financing System;
  - the 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. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$24,500,000 for the purchase of equipment; and
  - this resolution satisfies the official intent requirements set forth in Section 1.150-2 of the *Code of Federal Regulations*, that evidences the Board's intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

In 1994, the U. T. System 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. Equipment financing is used for the

purchase of equipment in lieu of more costly vendor financing. 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.

At the August 11, 2005, meeting, the U. T. System Board of Regents approved \$95,511,000 for equipment financing in Fiscal Year 2006. This Agenda Item requests approval of an additional aggregate amount of \$24,500,000 for equipment financing.

Further details on the equipment to be financed and debt coverage ratios for individual institutions may be found on Page 30.

APPROVAL OF U. T. SYSTEM EQUIPMENT FINANCING  
FY 2006 (February)

Institution	\$ Amount of Request	Description of Equipment Purchases	DSC*
U. T. Brownsville	\$1,350,000	Telephone system replacement	2.4x
U. T. El Paso	150,000	Facilities Services-Timekeeping Software, Freight Elevator Improvements	1.8x
U. T. San Antonio	750,000	Scientific & Lab Equipment	2.9x
U. T. M. D. Anderson Cancer Center	20,000,000	Radiology, Pharmacy Pumps, Imaging, Surgical, Information Technology, Research Laboratory	4.6x
U. T. Health Center - Tyler	2,000,000	Clinical equipment	1.7x
U. T. System	250,000	Information technology equipment	NA

<b>Total</b>	<b>\$24,500,000</b>
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\* Debt Service Coverage ("DSC") based on actual results for FY 2005.

6. **U. T. System: Approval of the Fiscal Year 2007 Budget Preparation Policies and Calendar for budget operations**

**RECOMMENDATION**

With the concurrence of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and the Executive Vice Chancellor for Health Affairs, the Chancellor recommends that the U. T. System Board of Regents approve the Budget Preparation Policies and Calendar for use in preparing the Fiscal Year 2007 Operating Budget for the U. T. System as set out below:

**U. T. System Fiscal Year 2007 Budget Preparation Policies**

**General Guidelines** - The regulations and directives included in the General Appropriations Act enacted by the 79th Texas Legislature serve as the basis for these guidelines and policies. In preparing the draft of the 2007 Operating Budget, the president of each institution should adhere to guidelines and policies as detailed below and as included in the General Appropriations Act. The Chancellor will issue detailed instructions regarding the implementation of those regulations and directives into the institutional budget process.

Overall budget totals, including reasonable reserves, must be limited to the funds available for the year from General Revenue Appropriations, Estimates of Educational and General Income, and limited use of institutional unappropriated balances.

**Salary Guidelines** - Recommendations regarding salary policy are subject to the following directives:

1. **Salaries Proportional by Fund** - Unless otherwise restricted, payment for salaries, wages, and benefits paid from appropriated funds, including local funds and educational and general funds as defined in *Texas Education Code* Section 51.009 (a) and (c), shall be proportional to the source of funds.
2. **Merit Increases and Promotions** - Subject to available resources and resolution of any major salary inequities, institutions should give priority to implementing merit salary increases for faculty and staff.

Merit increases or advances in rank for faculty are to be on the basis of teaching effectiveness, research, and public service.

Merit increases or promotions for staff are to be based on evaluation of performance in areas appropriate to work assignments.

To be eligible for a merit increase, staff must have been employed by the institution for at least six consecutive months ending August 31, 2006, and at least six months must have elapsed since the employee's last merit salary increase.

3. Other Increases - Equity adjustments, competitive offers, and increases to accomplish contractual commitments should also consider merit where appropriate, subject to available resources.
4. New Positions - Subject to available resources, new administrative positions are to be requested only when justified by workloads or to meet needs for developing new programs.
5. Reporting - The Chancellor will issue guidance on reporting of salary changes and amounts. It is expected that required reports will encompass high-ranking and highly compensated staff along with those staff receiving significant changes in compensation.

Staff Benefits Guidelines - Recommendations regarding the State contribution for employee staff benefits such as group insurance premiums, teacher retirement, and optional retirement are subject to legislative determination via the General Appropriations Act.

Other Employee Benefits - Employer contributions to the self-insured Unemployment Compensation Fund are based on an actuarial study. Workers' compensation insurance rates are experience rated for each institution. Appropriate instructions will be issued regarding the implementation of Unemployment Compensation Fund and Workers' Compensation Insurance Benefits.

Other Operating Expenses Guidelines - Increases in Maintenance, Operation, Equipment, and Travel are to be justified by expanded workloads, for developing new programs, or for correcting past deferrals or deficiencies.

Budget Reductions and Limitations - The General Appropriations Act contains provisions requiring budget reductions and budget restrictions.

### BACKGROUND INFORMATION

The U. T. System Fiscal Year 2007 Budget Preparation Policies are consistent with the regulations and directives included in the General Appropriations Act enacted by the 79th Texas Legislature. As written, this policy provides general direction to the U. T. System institutions.

Historically, the planning and execution required to develop a proposed institutional budget within required timelines make it difficult to make determinations on individual salary recommendations. A Board Committee, chaired by former Regent Lowell Lebermann, recognized this challenge and recommended that individual salaries not be included in the institutional operating budgets submitted for approval to the Board of Regents but be available for review in separate salary rosters. This recommendation was adopted by the Board in December 1994. In August 2005, the Board of Regents adopted a recommendation no longer requiring separate salary rosters in advance of the August meetings. This change does not impact the current procedure for the Board to review the salaries for U. T. System executive officers, presidents, those reporting directly to the Board, and those earning \$1 million or greater.

**FY 2007**  
**Operating Budget Calendar**

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February 9, 2006	U. T. System Board of Regents approves budget policies
April 3 - 14, 2006	Major goals, priorities, and resource allocation hearings with System Administration
May 12, 2006	Draft budget documents due to System Administration
May 15 - 26, 2006	Technical budget review with System Administration
June 9, 2006	Final budget documents due to System Administration
June 22, 2006	High-ranking and highly compensated salary reports due to System Administration
July 13 - 14, 2006	U. T. System Board of Regents to approve executive compensation
July 27, 2006	Operating Budget Summaries mailed to U. T. System Board of Regents
August 10, 2006	U. T. System Board of Regents approves Operating Budget
August 14, 2006	Salary change report due to System Administration

7. **U. T. System Board of Regents: Approval to amend the Intermediate Term Fund Investment Policy Statement and approval of recommended distribution rate**

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs recommend that the U. T. System Board of Regents approve

- a. the proposed changes to the Intermediate Term Fund (ITF) Investment Policy Statement, as presented in congressional style on Pages 35 - 46 and
- b. the proposed ITF distribution rate.

BACKGROUND INFORMATION

The U. T. System Board of Regents (Board), at the July 8, 2005, meeting, authorized the centralization of management of the U. T. System operating reserves. The ITF Investment Policy Statement established the ITF as a pooled fund for the collective investment of operating assets and other intermediate and long-term assets under the sole control of the Board, as a fiduciary with full discretion as to investments. Investment policies are the responsibility of the Board. The ITF Investment Policy Statement was approved at the November 10, 2005, Board meeting. The ITF will be managed by The University of Texas Investment Management Company (UTIMCO) in conformity with the ITF Investment Policy Statement, with authority delegated by the Board pursuant to the Investment Management Services Agreement with UTIMCO.

UTIMCO staff and U. T. System staff collaborated on the development of the ITF Investment Policy Statement. In the course of preparation for the ITF launch, several accounting issues emerged. As a result of the increased understanding of operating funds accounting procedures at the institutions, the UTIMCO Board of Directors are recommending a change to the ITF Investment Policy Statement to provide for distributions from the ITF as noted on Pages 43 and 44. The proposed amendments to the ITF Investment Policy Statement were approved by the UTIMCO Board of Directors at its January 17, 2006, meeting.

Alternative methods for setting the distribution rate were considered at an Investment Advisory Group meeting on January 10, 2006. Based on these discussions, the UTIMCO Board of Directors recommends that the distribution rate for the ITF be set at 3.0% per annum for the remainder of Fiscal Year 2006, 0.25% paid on a monthly basis as set forth in the amended ITF Investment Policy Statement, effective with the March 1, 2006, distribution. The proposed distribution rate was approved by the UTIMCO Board of Directors at its January 17, 2006, meeting.



# THE UNIVERSITY OF TEXAS SYSTEM INTERMEDIATE TERM FUND INVESTMENT POLICY STATEMENT

## **Purpose and Structure**

The University of Texas System Intermediate Term Fund (ITF) was established by the Board of Regents of The University of Texas System (Board of Regents) as a pooled fund for the collective investment of operating funds and other intermediate and long-term funds held by U. T. System institutions and U. T. System Administration.

## **ITF Organization**

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

## **ITF Management**

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment. Pursuant to Section 51.0031(c) of the *Texas Education Code*, the Board of Regents has elected the PUF prudent investor standard to govern its management of the ITF.

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

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company (UTIMCO), the ITF shall be managed by UTIMCO, which shall a) recommend investment policy for the ITF, b) recommend specific asset allocation targets, ranges, and performance benchmarks consistent with ITF objectives, and c) monitor ITF performance against ITF objectives. UTIMCO shall invest the ITF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including

changes to asset allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

### **ITF Administration**

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

### **Funds Eligible to Purchase ITF Units**

No account shall be eligible to purchase units of the ITF unless it is under the sole control, with full discretion as to investments, by the Board of Regents. Any account whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the ITF.

### **ITF Investment Objectives**

The ITF consists of intermediate and long-term funds held by the U. T. System Board of Regents, as a fiduciary, for the benefit of U. T. System institutions, U. T. System Administration, and other affiliated funds. ITF assets are pooled for efficient investment purposes and managed by UTIMCO over the intermediate to longer term.

The primary investment objective of the ITF is to preserve the purchasing power of ITF assets by earning a compound annualized return over rolling three-year periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index (CPI-U) plus 3%. The ITF's success in meeting this objective depends upon its ability to generate higher returns in periods of low inflation that will offset lower returns generated in years when the capital markets under-perform the rate of inflation.

The secondary ITF objective is to generate a return, net of all direct and allocated expenses, measured monthly by the independent custodian and reported at least quarterly, in excess of the approved Policy Portfolio benchmark over rolling three-year periods. The Policy Portfolio benchmark will be maintained by UTIMCO and will be comprised of a blend of asset class indices reported by the independent custodian and weighted to reflect ITF's approved asset allocation policy targets as defined in Exhibit A.

Limiting factors are that prudent diversification within each approved asset class must be maintained at all times; and a portfolio risk profile within the approved Policy Portfolio

risk range, as defined in Exhibit A and measured at least monthly by UTIMCO's risk model, must be sustained at all times. Liquidity of the ITF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

ITF return, asset allocation, and risk targets are subject to adjustment from time to time by the U. T. System Board of Regents.

### **Asset Allocation and Policy**

Asset allocation is the primary determinant of the volatility of investment return and, subject to the asset allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. The asset allocation is designed to accommodate the intermediate investment horizon of the ITF assets with enhanced returns at moderate managed risk levels. UTIMCO is responsible for measuring actual asset allocation at least monthly (incorporating the impact of derivative positions covered under the Derivative Investment Policy), and for reporting the actual portfolio asset allocation to the UTIMCO Board and the Board of Regents at least quarterly. While specific asset allocation positions may be changed within the ranges specified in Exhibit A based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval of the Board of Regents.

In the event that actual portfolio positions in asset categories move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the ITF asset values could warrant requesting approval of the UTIMCO Board Chairman for remedial action.

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

- A. U.S. Equities – U.S. equities represent ownership in U.S. companies that are traded in public markets. U.S. equities include common stocks, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, and futures. In addition, derivative applications that serve as a U.S. equity substitute will be classified as traditional U.S. equity. Global mandates that include a majority of U.S. equities will be included in U.S. equities. U.S. equities provide both current income and capital gains.
- B. Global ex U.S. Equities – Global ex U.S. equities represent ownership in global companies that are traded in public markets. The global ex U.S. markets include established (non-U.S. developed) and emerging markets.

Global ex U.S. equities include common stocks, exchange traded funds, and derivatives based on common stocks, including warrants, rights, options, and futures.

In addition, derivative applications that serve as a Global ex U.S. equity substitute will be classified as Global ex U.S. equities. Global mandates that include a majority of Global ex U.S. equities will be included in Global ex U.S. equities. Global ex U.S. equities provide both current income and capital gains.

Non-U.S. Developed Equity – Non-U.S. developed equities represent ownership in companies domiciled in developed economies (countries) included in the MSCI All – Country World Equity Index – excluding those classified as part of the MSCI Emerging Markets Equity Index. These securities are typically constituents of countries in Europe, the Americas (North/Latin/South) and the Far East with high per-capita income, mature capital markets, and stable governments. The benchmark for this asset category will be the MSCI EAFE Index, with net dividends.

Emerging Markets Equity – Emerging markets equities represent ownership in companies domiciled in emerging economies as defined by the current composition of the MSCI Emerging Markets Equity Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Equity Index qualification status (either through financial or qualitative measures). The benchmark for this asset category will be the MSCI Emerging Markets Equity Index, with net dividends.

- C. Hedge Funds – Hedge funds are broadly defined to include nontraditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable.

Directional Hedge Funds – Directional hedge fund investments include U.S. and international long/short equity or fixed income strategies and other such strategies that exhibit directional market characteristics using commodities, currencies, derivatives, or other global market instruments. These strategies attempt to exploit profits from security selection skills by taking long and short positions in various securities. These strategies may also include fund of hedge fund investments. Directional hedge fund investments are made through private placement agreements. Directional hedge fund investments may be held in an internal commingled investment fund managed by UTIMCO.

Absolute Return Hedge Funds – Absolute return hedge fund investments include arbitrage, event driven strategies, and other relative value strategies. Arbitrage strategies attempt to exploit pricing discrepancies between closely related securities, utilizing a variety of different tactics primarily within equity, fixed income, and convertible securities markets. Event driven strategies attempt to exploit discrete events such as bankruptcies, mergers, and takeovers. Absolute return hedge funds may include multi-strategy managers and fund of hedge fund investments. Absolute return hedge fund investments are made through private placement agreements. Absolute return hedge fund investments may be held in an internal commingled investment fund managed by UTIMCO.

D. Inflation Linked – Inflation linked investments are intended to provide some degree of inflation protection and generally consist of assets with a higher correlation of returns with inflation than other eligible asset classes. Inflation linked investments include:

REITS – REITS are real estate investment trusts that may be held as either trust certificates, derivative investments, or exchange traded funds. REITS own, and in most cases operate, income producing real estate.

Commodities – Commodities include natural resource investments including oil and gas interests and other hard assets. These investments may be held through partnerships, derivative investments, exchange traded funds or direct investments.

TIPS - TIPS are inflation protected securities with a return linked to the inflation rate. For diversification purposes, TIPS may include non-U.S. inflation protected fixed income securities as well as nominal fixed income securities.

E. Fixed Income – Fixed income investments include debt (whether U.S. or foreign) issued by Governments, various government enterprises and agencies, and domestic and foreign corporations. The principal securities include bonds, notes, bills and mortgage and asset-backed securities. In addition, derivative applications that serve as a fixed income substitute may be classified as fixed income.

F. Cash and Cash Equivalents – Short-term (generally securities with time to maturity of three months or less), highly liquid investments that are readily convertible to known amounts of cash, and which are subject to a relatively small risk of changes in value.

### **Performance Measurement**

The investment performance of the ITF will be measured by the ITF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, compared against the stated investment benchmarks of the ITF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

## **Investment Guidelines**

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

### General

- Investment guidelines for index, commingled funds, and limited partnerships managed externally shall be governed by the terms and conditions of the respective investment management contracts or partnership agreements.
- All investments will be U.S. dollar denominated assets unless held by an internal or external portfolio manager with the authority to invest in foreign currency denominated securities.
- Investment policies of any unaffiliated liquid investment fund must be reviewed and approved by UTIMCO's chief investment officer prior to investment of ITF assets in such liquid investment fund.
- No securities may be purchased or held which would jeopardize the ITF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.
- The ITF's investments in warrants shall not exceed more than 5% of the ITF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The ITF may utilize derivatives to: a) simulate the purchase or sale of an underlying market index while retaining a collateral balance for fund management purposes; b) facilitate trading; c) reduce transaction costs; d) seek higher investment returns when a derivative security is priced more attractively than the underlying security; e) hedge risks associated with ITF investments; or f) adjust the market exposure of the asset allocation, including the use of long and short strategies and other such strategies, provided that the ITF's use of derivatives complies with the Derivative Investment Policy approved by the UTIMCO Board and the Board of Regents. The Derivative Investment Policy shall serve the purpose of defining permitted applications under which derivatives can be used, which applications are prohibited, and the requirements for the reporting and oversight of their use. Derivative applications implemented in compliance with the Derivative Investment Policy shall be deemed to be specifically authorized by the UTIMCO Board for purposes of this Policy Statement. The objective of the Derivative Investment Policy is to facilitate risk management and provide efficiency in the implementation of the investment strategies using derivatives.

## Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- Highly liquid internal pooled investment funds managed by UTIMCO.
- Unaffiliated liquid investment funds as approved by UTIMCO's chief investment officer.
- ITF's custodian late deposit interest bearing liquid investment fund.
- Municipal short-term securities.
- Commercial paper rated in the two highest quality classes by Moody's Investors Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Negotiable certificates of deposit with a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps.
- Repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve.
- Bank as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.
  - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master Repurchase Agreement with UTIMCO.
  - Eligible collateral securities for repurchase agreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.
  - The maturity for a repurchase agreement may be from one day to two weeks.
  - The value of all collateral shall be maintained at 102% of the notional value of the repurchase agreement, valued daily.
  - All collateral shall be delivered to the ITF custodian bank. Tri-party collateral arrangements are not permitted.
  - The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the ITF's fixed income assets.
  - Overnight repurchase agreements may not exceed 25% of the ITF's fixed income assets.
- Mortgage Backed Securities (MBS) dollar rolls shall be executed as matched book transactions in the same manner as reverse repurchase agreements above. As above, the rules for trading MBS dollar rolls shall follow the Public Securities Association standard industry terms.

## Fixed Income

### Domestic Fixed Income

Permissible securities for investment include the securities within the component categories of the Lehman Brothers Aggregate Bond Index (LBAGG). These component categories include investment grade government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These sectors are divided into more specific sub-sectors:

- 1) Government securities: Treasury and Agency;
- 2) Corporate securities: Industrial, Finance, Utility, and Yankee;
- 3) Mortgage-backed securities: GNMA, FHLMC, and FNMA;
- 4) Asset-backed securities;
- 5) Taxable Municipal securities; and
- 6) Commercial Mortgage-backed securities.

In addition to the permissible securities listed above, the following securities shall be permissible:

- a) Floating rate securities with periodic coupon changes in market rates issued by the same entities that are included in the LBAGG as issuers of fixed rate securities;
  - b) Medium term notes issued by investment grade corporations;
  - c) Zero coupon bonds and stripped Treasury and Agency securities created from coupon securities; and
  - d) Structured notes issued by LBAGG qualified entities.
- U. S. Domestic Bonds must be rated investment grade, Baa3 or better by Moody's Investors Services, BBB- by Standard & Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition. An external investment manager may be authorized by the terms of an investment advisory agreement to invest up to a maximum of 50% of the total fixed income portfolio in below investment grade bonds.
  - Not more than 5% of the market value of domestic fixed income securities may be invested in corporate and municipal bonds of a single issuer.

### Non-U.S. Fixed Income

Non-dollar denominated bond investments shall be restricted to bonds rated equivalent to the same credit standard as the U. S. Fixed Income Portfolio unless an investment manager has been authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

- Not more than 50% of the ITF's fixed income portfolio may be invested in non-U.S. dollar denominated bonds.



- Not more than 15% of the ITF's fixed income portfolio may be invested in emerging market debt.
- International currency exposure may be hedged at UTIMCO's discretion or delegated by UTIMCO to an external investment manager.

### Equities

The ITF shall:

- Hold no more than 25% of its equity securities in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at market, or
- Hold no more than 5% of its equity securities in the securities of one corporation at cost.

### **ITF Accounting**

The fiscal year of the ITF shall begin on September 1st and end on August 31st. Market value of the ITF shall be maintained on an accrual basis in compliance with Government Accounting Standards Board Statements, Financial Accounting Standards Board Statements, or industry guidelines, whichever is applicable. The ITF's financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

### **Valuation of ITF Assets**

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all ITF net assets and the net asset value per unit of the ITF. The final determination of ITF net assets for a month end close shall normally be completed within six business days but determination may be longer under certain circumstances. Valuation of ITF assets shall be based on the books and records of the custodian for the valuation date.

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

### **ITF Distributions**

~~There will not be any planned distributions from the ITF. The earnings of the ITF will be reflected in the net asset value per unit of the ITF. The ITF shall provide monthly distributions to the unitholders. The UTIMCO Board will recommend the annual distribution (%) rate to the Board of Regents.~~

Distributions from the ITF to the unitholders shall be made monthly on the first business day of each month. To calculate the monthly distribution, the distribution rate (% divided by 12) will be multiplied by each unitholder's account, determined as follows:

- Net asset value of each unitholder's account on the last business day of the second prior month;
- Plus value of each unitholder's net purchase/redemption amount on the first business day of the prior month;
- Less the distribution amount paid to each unitholder's account on the first business day of the prior month.

### **Purchase and Redemption of ITF Units**

The ITF participants may purchase units on the first business day of each month upon payment of cash or reinvestment of distributions to the ITF, at the net asset value per unit of the ITF as of the prior month ending valuation date. Such purchase commitments are binding. The ITF participants may redeem ITF units on a monthly basis. The unit redemption shall be paid in cash as soon as practicable after the month end valuation date of the ITF. Redemptions from the ITF shall be at the market price per unit determined at the time of the redemption. Such redemption commitments are binding.

Participants of the ITF are required to provide notification of purchases and redemptions based on specific notification requirements as set forth in The University of Texas System Allocation Policy for Non-Endowment Funds.

### **Securities Lending**

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

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

### **Investor Responsibility**

As a shareholder, the ITF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the ITF. Notwithstanding the above, the UTIMCO Board shall

discharge its fiduciary duties with respect to the ITF solely in the interest of ITF unit-holders, in compliance with the Proxy Voting Policy, and shall not invest the ITF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

### **Amendment of Policy Statement**

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

### **Effective Date**

| The effective date of this policy shall be ~~November 10, 2005~~February 9, 2006, except for Exhibit A. Adherence to the policy targets and ranges may not be fully effective throughout the first six months after initial funding (expected February 1, 2006) as new portfolio investments are phased in. The selection of the effective date of Exhibit A, to be no later than September 1, 2006, shall be determined by UTIMCO's Chief Investment Officer and notification to the Chairmen of the UTIMCO Board and the Board of Regents shall occur at least 30 days prior to the effective date.

**EXHIBIT A**

**INTERMEDIATE TERM FUND  
POLICY TARGETS, RANGES, AND PERFORMANCE OBJECTIVES**

Asset Categories	Percent of Policy (%)		Benchmarks
	Policy Targets	Policy Ranges	
<b>U. S. Equities</b>	<b>15</b>	<b>5 to 20</b>	<b>Russell 3000 Index</b>
<b>Global ex U. S. Equities</b>	<b>10</b>	<b>0 to 15</b>	
Non - U. S. Developed Equity	5	0 to 10	MSCI EAFE Index with net dividends
Emerging Markets Equities	5	0 to 10	MSCI Emerging Markets Index with net dividends
<b>Hedge Funds</b>	<b>25</b>	<b>10 to 27.5</b>	
Directional Hedge Funds	12.5	5 to 20	Combination index: 50% S&P Event-Driven Hedge Index plus 50% S&P Directional/Tactical Hedge Fund Index
Absolute Return Hedge Funds	12.5	5 to 20	Combination index: 66.7% S&P Event-Driven Hedge Fund Index plus 33.3% S&P Arbitrage Hedge Fund Index
<b>Inflation Linked</b>	<b>25</b>	<b>10 to 35</b>	
REITS	10	0 to 15	Dow Jones Wilshire Real Estate Securities Index
Commodities	5	0 to 10	Combination Index: 66.7% GSCI minus .5% plus 33.3% DJ-AIG Commodity Index
TIPS	10	5 to 15	Lehman Brothers US TIPS Index
<b>Fixed Income</b>	<b>25</b>	<b>15 to 40</b>	Lehman Brothers Aggregate Bond Index
<b>Cash</b>	<b>0.0</b>	<b>0 to 20</b>	90 Day T-Bills

Expected Annual Return (%)	7.08
1 yr Downside Deviation (%)	-5.0
Standard Deviation (%)	7.5

Upper Risk Bound: 1 yr Downside Deviation (%)	-6.4	% of Target Risk 127%
Lower Risk Bound: 1 yr Downside Deviation (%)	-3.5	69%

8. **U. T. System Board of Regents: Approval of revised Master Investment Management Services Agreement with The University of Texas Investment Management Company (UTIMCO)**

**RECOMMENDATION**

The Chancellor, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor and General Counsel concur with the recommendation of The University of Texas Investment Management Company (UTIMCO) Board of Directors that the U. T. System Board of Regents (U. T. Board) approve the revised Master Investment Management Services Agreement (IMSA) effective February 9, 2006, as set forth in congressional style on Pages 50 - 71. The proposed revisions, approved by the UTIMCO Board of Directors on January 17, 2006, amend and restate the IMSA that was approved August 11, 2005, and became effective September 1, 2005.

**BACKGROUND INFORMATION**

Following is a comprehensive summary of proposed changes to the IMSA between the U. T. Board and UTIMCO. "Substantive changes" are those considered necessary or appropriate to reflect current policy of the U. T. Board, while the "Nonsubstantive changes" are intended to update and refine the IMSA to minimize the need for future amendment except through amendment of schedules and to facilitate easier reference to the substantive requirements of the IMSA.

**A. Primary Substantive Changes.**

1. Definitions. While not intended to be substantive, proposed definitional changes are designed to rationalize and update existing patchwork descriptions of the "accounts" governed by the Agreement and to drive the bulk of the changes throughout the document.

"Delegated Assets" and "Funds." The existing defined term "Accounts" has been bifurcated into: (i) a new definition of "Delegated Assets" encompassing the various institutional assets under the control and management of the U. T. Board that are invested in (ii) the various pooled investment Funds managed by UTIMCO. The definitions of the Funds managed by UTIMCO have been revised, updated (including the inclusion of the Intermediate Term Fund), and moved to a new schedule intended to enable more efficient amendment by the parties as Accounts are added or changed. Revised definitions expressly contemplate the possible inclusion of institutional funds of third party foundations dedicated to the support of the U. T. System and its institutions that are under the control and management of the U. T. Board by contract or otherwise (see revised Sec. 1(e)(vi) on Page 52).

"Investment Policies." The definition of "Investment Policies" has been revised to clarify its inclusion of generally applicable policies such as those regarding Asset Allocation, Derivatives, Liquidity, Risk Measurement and Management, Valuation, and Error Correction in Performance Presentation.

2. Delegation of Investment Authority. New language has been added to Section 2(a), the general delegation of authority to UTIMCO, clarifying the U. T. Board's general reservation of authority regarding investment management matters.

Section 2(b) is also revised to limit the obligation of UTIMCO to look to the Chancellor for guidance on non-Investment Policy matters that might implicate other policies of the U. T. Board, to decisions involving media relations, intergovernmental relations, and selected legal issues, with a general delegation to the UTIMCO Board and UTIMCO President of the responsibility to make all decisions necessary to implement the Investment Policies.

3. Investment Management. Various subsections of Section 3 regarding investment management services have been revised to clarify and set forth in more detail certain investment management responsibilities.

3(a). Investment Policies.

i. Added language providing that annual review of Investment Policies will include "such other matters as the U. T. Board or its staff designees may request."

ii. Added language stating process for review and appropriate action on proposed changes will follow U. T. Board agenda process and schedule.

3(b). Investment Management. Added language in first sentence clarifying UTIMCO oversight of investment management shall be "pursuant to the Investment Policies."

3(g). Disclosure of Information. Revised to incorporate changes to second paragraph (new language added in August 2005 to conform to new disclosure law) requested by UTIMCO, and to incorporate cross-reference to new Section 12 regarding confidentiality provisions of contracts with third parties.

## **B. Nonsubstantive Changes.**

1. Title. The name of the Agreement has been changed to "Master Investment Management Services Agreement with UTIMCO," in recognition that the U. T. Board has and may in the future have "Investment Management Services Agreements" with other parties such as the Comptroller and affiliated foundations.

2(b). Policy Matters. Revised to clarify UTIMCO's obligation to consult with the Chancellor on legal issues is limited to those issues that implicate policies of the U. T. Board other than the Investment Policies.

2(c). Meetings and Agendas. Relocated provision regarding obligation of UTIMCO directors to participate in joint annual meeting, consistent with UTIMCO Bylaws from prior Section 2(h).

3(f). Reporting. Revised to more clearly tie reporting to current U. T. System compliance standards and processes "adopted or approved by the U. T. Board."

3(h). Other Services. Added or relocated specific references in this Section to distribution services, online Fund information system, and training functions.

4. Investment Manager as Fiduciary; Training and Education. Deleted second paragraph regarding training and relocated to 3(h).

5. Custody of Assets. Stylistic revisions intended to make reference to agreements with Custodians more generic, to permit changes over time without amendment of the IMSA.

6. Use of Unaffiliated Investment Managers. Added specific cross-reference to Investment Policies.

7. Investment Management Fees; Direct Expenses. Reordered sections by anticipated relevant importance.

10. Representations and Warranties of Parties. The provision regarding Investment Company Act compliance has been relocated from Section 14 to a new Section 10(b) and slightly revised.

11. Compliance with Bylaws, Policies, Regulations and Financial Disclosure Requirements. Investment Policies have been added to the list of governing instruments.

15. Termination. Language has been added to clarify that the right to fees earned prior to termination is subject to the UTIMCO charter documents (i.e., provisions regarding disposition of surplus).

16. Amendments. Language has been added clarifying that amendments must be signed by duly authorized representatives of each party.

18. Non-Assignability. This section has been tightened up to conform with Texas corporate law standards concerning transactions deemed to constitute assignments of contracts.

20. Indemnification. Language added to subsection 20(d)(ii) clarifying need for due notice.

## MASTER INVESTMENT MANAGEMENT SERVICES AGREEMENT WITH UTIMCO

This Investment Management Services Agreement (this “Agreement”) by and between the Board of Regents (the “U. T. Board”) of The University of Texas System (the “U. T. System”) and The University of Texas Investment Management Company (“UTIMCO”), a Texas nonprofit corporation, is effective ~~September 1, 2005~~ February 9, 2006 (the “Effective Date”), and supersedes all earlier agreements by and between the U. T. Board and UTIMCO regarding the subject matter hereof.

### RECITALS

WHEREAS, the U. T. Board, pursuant to the Constitution and statutes of the State of Texas, is responsible for the investment of the Permanent University Fund, the local and institutional ~~fund~~assets of the U. T. System and the ~~fund~~assets of various trusts and foundations for which it serves as trustee, all of which ~~fund~~assets are under the control and management of the U. T. Board;

WHEREAS, Section 66.08, *Texas Education Code*, as amended, authorizes the U. T. Board, subject to certain conditions, to enter into a contract with a nonprofit corporation for the corporation to invest ~~fund~~assets under the control and management of the U. T. Board, as designated by the U. T. Board;

WHEREAS, UTIMCO has been organized under the laws of the State of Texas, including the Texas Non-Profit Corporation Act, Tex. Rev. Civ. Stat. Ann. art. 1396-1.01 *et seq.*, for the express purpose of investing ~~fund~~assets under the control and management of the U. T. Board, as designated by the U. T. Board, in accordance with the laws of the State of Texas;

WHEREAS, the U. T. Board desires to continue an Agreement with UTIMCO for UTIMCO to invest certain designated ~~fund~~assets under the control and management of the U. T. Board;

WHEREAS, UTIMCO desires to enter into this Agreement with the U. T. Board and to invest certain designated ~~fund~~assets under the control and management of the U. T. Board; and

WHEREAS, all conditions precedent to the execution and delivery of this Agreement have been fully satisfied and fulfilled, including, without limitations, the conditions established by Section 66.08, *Texas Education Code*, as amended.

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



## AGREEMENT

### Section 1. Definitions.

Accounts shall mean those funds for which the U. T. Board has responsibility, namely (a) the Permanent University Fund, excluding PUF Lands, (b) the Permanent Health Fund, (c) the U. T. Board Accounts and (d) the U. T. Board Trust Accounts.

Available University Fund or AUF shall mean the fund that consists of the distributions made to it from the total return on all investment assets of the Permanent University Fund, including the net income attributable to the surface of PUF Lands, all as provided by Article VII, Section 18 of the Texas Constitution.

- (a) Affiliate shall mean an entity directly or indirectly controlling, controlled by, or under common control with UTIMCO, including an entity with whom UTIMCO has an express or implied agreement regarding the direct or indirect purchase of investments by each from the other.
- (b) Cash Reserves shall mean cash on hand plus investments, plus prepaid expenses, less accounts payable, less other liabilities.
- (c) Claims shall mean all claims, lawsuits, causes of action and other legal actions and proceedings of whatever nature brought against (whether by way of direct action, counter claim, cross action, or impleader) any Indemnified Party and all requests or demands for indemnification made by any third party upon any Indemnified Party, even if groundless, false or fraudulent, so long as the claim, lawsuit, cause of action, other legal action or proceeding, request or demand is alleged or determined, directly or indirectly, to arise out of, result from, relate to or be based upon, in whole or in part, the duties, activities, acts or omissions of any person arising under this Agreement.
- (d) Custodian or Custodians shall mean a commercial bank, trust company or other entity selected by UTIMCO to hold and ~~safekeep~~safe-keep physical securities representing investment assets of any ~~Account~~Fund and to perform the other functions listed in Section 5 hereof.

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

- (e) Delegated Assets shall mean those assets under the control and management of the U. T. Board that are invested in the Funds managed by UTIMCO hereunder, pursuant to the corresponding Investment Policies as such assets may be directed for investment by the U. T. Board or its designees from time to time pursuant to its Investment Policies or otherwise. The Delegated Assets may include, without limitation, the following funds or categories of assets:

- (i) The Permanent University Fund established pursuant to Article VII, Section 11 of the Texas Constitution (the “Permanent University Fund” or “PUF”); provided that, for purposes of this Agreement and the delegation of investment management responsibilities hereunder, the PUF excludes the approximately 2.1 million acres of land located in 19 Texas counties, primarily in West Texas, and constituting a part of the PUF (the “PUF Lands”), as to which the U. T. Board retains complete investment management authority and responsibility;
  - (ii) Any and all funds or assets under the control and management of the U. T. Board as owner, administrator, contractual investment manager, or otherwise, including without limitation endowment funds and operating assets, other than the Permanent University Fund, the Permanent Health Fund and the U. T. Board Trust Accounts (collectively, “U. T. System Funds”);
  - (iii) The assets of charitable remainder trusts, foundations and other separately invested assets for which the U. T. Board serves as trustee on behalf of itself and other co-beneficiaries (“U. T. Board Trust Accounts”);
  - (iv) The permanent assets for health-related institutions established pursuant to Chapter 63, *Texas Education Code*, for which the U. T. Board is an administrator (collectively, the “Permanent Health Fund” or “PHF”);
  - (v) U. T. System Funds or U. T. Board Trust Accounts which, by election of the U. T. Board or by requirement of the trust indenture or donative instrument, are invested separately and apart from other U. T. System Funds and the PUF (collectively, “Separately Invested Funds” or “SIFs”); and
  - (vi) Institutional assets of third-party non-profit charitable foundations or tax-exempt charitable organizations to the extent dedicated to the support of the educational purposes of the U. T. System and under the control and management of the U. T. Board by contract (collectively, “Foundation Funds”).
- (f) **Funds** shall mean the separate investments or pools of assets in which the Delegated Assets are to be invested pursuant to the corresponding Investment Policies, as specified in Schedule A hereto and in the corresponding Investment Policies, each of which may be amended by the U. T. Board from time to time as provided for herein.
- (g) **Indemnified Parties** shall mean UTIMCO and any of its officers, directors, employees and agents.
- (h) **Investment Policies** shall mean the written investment policies determined and approved by the U. T. Board relating to the Permanent University Fund, General Endowment Fund, Permanent Health Fund, Long Term Fund, Separately Invested Funds, Short Intermediate Term Fund and the Short Term Fund. Amendments may be presented by UTIMCO to the U. T. Board for review and approval. Funds, and all generally applicable written investment-related policies determined and approved by the U. T. Board that govern the management of investments for some or all Funds, such as the policies regarding Asset

Allocation, Derivatives, Liquidity, Risk Measurement and Management, Valuation, and Error Correction in Performance Presentation, but excluding internal UTIMCO operational guidelines as to which approval of the U. T. Board is not required, which include the UTIMCO Soft Dollar Policy and the Proxy Voting Policy (the Proxy Voting Policy being governed by the provisions of the individual Investment Policies related to proxy voting).

~~Long Term Fund or LTF shall mean the long term pooled investment fund previously established by the U. T. Board for the collective investment of all endowment and other long term funds of institutions of the U. T. System.~~

- (i) Losses shall mean losses, costs, damages, expenses, judgments and liabilities of whatever nature (including, but not limited to, attorneys', accountants' and other professionals' fees, litigation and court costs and expenses, amounts paid in settlement, amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other person under any arrangement providing for indemnification of that person) directly or indirectly resulting from, arising out of or relating to one or more Claims.

~~Permanent Health Fund or PHF shall mean collectively the permanent funds for health-related institutions established pursuant to Chapter 63, *Texas Education Code*, for which the U. T. Board is an administrator.~~

~~Permanent University Fund or PUF shall mean the constitutional fund known by that name and established pursuant to Article VII, Section 11 of the Texas Constitution.~~

~~Permanent University Fund Lands or PUF Lands shall mean approximately 2.1 million acres of land located in 19 Texas counties, primarily in West Texas, and constituting a part of the Permanent University Fund.~~

~~Separately Invested Funds or SIFs shall mean U. T. System Funds or U. T. Board Trust accounts which, by election of the U. T. Board or by requirement of the trust indenture or donative instrument, are invested separately and apart from other U. T. System Funds and the PUF.~~

~~Short Intermediate Term Fund or SITF shall mean the short intermediate term pooled investment fund previously established by the U. T. Board for the collective investment of funds (other than endowment and other long term funds, including the Permanent University Fund) of the institutions of the U. T. System.~~

~~Short Term Fund or STF shall mean the money market mutual fund or funds approved by UTIMCO from time to time as an investment for U. T. System Funds.~~

- (i) Surplus Cash Reserves shall mean Cash Reserves on the last day of the fiscal year in excess of twenty-five percent (25%) of the upcoming fiscal year's projected operating budget plus approved capital expenditures budgeted for the upcoming fiscal year operating and capital budgets approved by the U. T. Board.

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

~~U. T. Board Trust Accounts shall mean the assets of charitable remainder trusts, foundations and other separately invested funds for which the U. T. Board serves as trustee on behalf of itself and other co-beneficiaries.~~

~~U. T. System Funds shall mean all funds under the control and management of the U. T. Board, other than the Permanent University Fund, the Permanent Health Fund and the U. T. Board Trust Accounts.~~

## **Section 2. Delegation of Investment Authority; Retention of Policy Setting Authority.**

### **(a) General:**

~~The U. T. Board retains ultimate fiduciary responsibility and authority for all matters related to the investment of the Delegated Assets. Pursuant to that responsibility and authority, the U. T. Board hereby appoints UTIMCO as its investment manager with complete authority to act for the Board in the investment of the AccountsFunds, subject, however, to such limitations and restrictions as are set forth in the Investment Policies. UTIMCO shall furnish the U. T. Board with continuous investment management services and shall invest and reinvest the assets of the AeeountsFunds in such ways and at such times as are consistent with the Investment Policies and Section 4 hereof. UTIMCO shall be responsible for overall management of the U. T. Board's investment affairs as eovered byset forth in this Agreement and shall manage each AeeountFund as a discretionary account.~~

### **(b) Policy Matters:**

~~The U. T. Board, as ultimate fiduciary for the AeeountsFunds, retains policy setting authority. Unless otherwise provided in writing by the U. T. Board, UTIMCO shall look to the Chancellor to provide primary oversight and management concerning matters other than the core investment duties delegated above, including relations with the media, legal issues (such as public disclosure of information) that implicate policies of the U. T. Board other than the Investment Policies, public disclosure of information and intergovernmental relations, and other matters arising out of UTIMCO's activities as investment manager under this Agreement that implicate policies of the U. T. Board other than investment policy. Except for the forgoing matters, theThe UTIMCO Board of UTIMCODirectors and the President of UTIMCO shall be responsible for making all decisions necessary to implementing the investment policyInvestment Policies. of the U. T. Board and performing those core investment duties delegated above. It shall be the responsibility of the President of UTIMCO to inform the Chancellor of unresolved policy issues not governed by the Investment Policies immediately so that appropriate oversight and management can be provided by the Chancellor. UTIMCO hereby agrees to abide by such oversight and management decisions made by the Chancellor. The President of UTIMCO shall confer with the Chancellor on the above-mentioned matters where the Chancellor has primary oversight and management and on other matters that may implicate broader policies of the U. T. Board.~~

(c) **Meetings and Agendas:**

- (i) The UTIMCO President shall consult with the Chairman and the Vice Chairmen of the UTIMCO Board, including the Chancellor as Vice Chairman for Policy, on the draft agenda for meetings of the UTIMCO Board at least ~~two~~three (2)(3) weeks prior to each regular UTIMCO Board meeting.
- (ii) UTIMCO shall participate in an annual joint meeting of the UTIMCO Board of Directors and the U. T. Board as referenced in Art. III, § 7 of the UTIMCO Bylaws.

**Section 3. Description of Investment Management Services.**

During the term of this Agreement, UTIMCO shall provide the following services in conjunction with the investment of the ~~Accounts~~Funds:

(a) **Investment Policies:**

~~UTIMCO shall review current investment policies~~Investment Policies for each ~~Account~~Fund, ~~including without limitation policies concerning Asset Allocation, Liquidity, Proxy Voting, and Derivatives,~~ at least annually by June 1 of each year. Such review shall include distribution (spending) guidelines, long-term investment return expectations and expected risk levels, asset allocation targets and ranges for each eligible asset class, expected returns for each asset class and fund, ~~and designated performance benchmarks for each asset class~~ and such other matters as the U. T. Board or its staff designees may request. After UTIMCO completes its assessment, it shall forward any recommended changes to U. T. System staff ~~with adequate time for review prior to being submitted to the U. T. Board for review and approval.~~ for review and appropriate action, following the established schedule for the submission of proposed agenda topics for meetings of the U. T. Board.

(b) **Investment Management:**

UTIMCO shall oversee the investment management process pursuant to the Investment Policies. Such oversight shall include without limitation the development of an investment outlook based on global economic and capital market forecasts, the rebalancing of allocations to each asset class within ranges in response to changes in the investment outlook, and the selection of a combination of portfolio managers to construct portfolios designed to generate the expected returns of each asset class.

(c) **Investment Performance:**

~~UTIMCO shall monitor and report on investment performance for the PUF, PHF and U. T. Board accounts. Such~~each of the Funds. With respect to all Funds other than the SIFs, such responsibilities shall include the calculation and evaluation of performance of investment returns for each asset classesclass and individual portfolios,Fund portfolio against establishedapproved benchmarks over various periods of time, and the periodic review of performance benchmarks. With respect to all Funds, such responsibilities shall also include the reporting of investment performance of Separately Invested Assets and U. T. Board Trust Accounts as such specific Funds as may be requested by the U. T. Board, and the reporting to regulatory agencies and others regarding investments under management to the extent required by applicable law.

(d) **Operations:**

UTIMCO shall execute such operational responsibilities as the purchase and sale of investments, the settlement of all trades (to the extent such trades are not settled by the Custodian or brokers), the accounting for all transactions at the portfolio level in accordance with generally accepted accounting principles, the preparation and delivery of periodic financial reports on all ~~funds~~Funds, and the maintenance of complete books and records (internally or through contract with the designated Custodian for the assets under management) reflecting transactions and balances of the ~~Accounts~~Funds.

(e) **Maintenance of and Access to Books and Records:**

UTIMCO shall maintain the books and records for each ~~Account~~Fund on the basis of a fiscal year ending August 31st (or such other fiscal year as the U. T. Board may establish from time to time), and shall keep full separate records of all transactions with respect to each ~~Account~~Fund.

The books and records of the ~~Accounts~~Funds and any and all records concerning UTIMCO and UTIMCO's operations shall be available during normal business hours for inspection by an ~~authorized representative~~representatives of U. T. System. UTIMCO shall provide full audit access to any and all information concerning the operations of UTIMCO, including information necessary to review UTIMCO expenditures for compliance and reasonableness with the approved budget, to auditors representing the U. T. Board and/or the State Auditor.

(f) **Reporting:**

In connection with the annual audited financial statements of UTIMCO, effective with the August 31, 2004 financial statements, UTIMCO shall provide all compliance-related information, reports and certifications, and shall cause the chief executive officer and the chief financial officer of UTIMCO shall to provide such certifications similar to those required by Section 302 of the Sarbanes-Oxley Act of 2002, Corporate Responsibility for Financial Reports, as may be specified by the U. T. Board and U. T. System compliance policies and procedures adopted or approved by the U. T. Board. UTIMCO will follow the U. T. System compliance guidelines as outlined in the Action Plan to Enhance Institutional Compliance, as it may be amended from time to time, including providing the U. T. Board or its ~~designees~~designees with quarterly compliance reports.

(g) **Disclosure of Information:**

The U. T. Board is committed to a policy of full and fair disclosure to the public. As part of that commitment with respect to private investments in the ~~Accounts~~Funds, UTIMCO shall disclose to the public with respect to such private investments all information required to be disclosed pursuant to Section 552.0225 of the *Texas Government Code* regarding "Right of Access to Investment Information" ("private investment information"). UTIMCO shall make no private investment with an entity unless the U. T. Board and UTIMCO have clear and unequivocal authority to disclose to the public the private investment information, described immediately above, relating to such investment.

Before UTIMCO declines to disclose any information it has collected, assembled or maintained in its role as investment manager for the U. T. Board that is requested under the Texas Public Information Act, the President of UTIMCO shall notify the U. T. System Vice Chancellor and General Counsel and solicit his or her input to the process. UTIMCO shall disclose the information unless (i) it is confidential and excepted as provided in Section 552.143 of the *Texas Government Code* regarding “Confidentiality of Certain Investment Information,” or (ii) as to any other information, the Vice Chancellor and General Counsel, after consultation with the Chancellor, approves a Public Information Act request to the Attorney General of Texas. In addition, the U. T. Board reserves the right and authority, in its sole discretion, to disclose, or direct the disclosure of, any information at any time, to the extent such disclosure would not result in a violation of applicable law or breach or result in a default under any agreement binding upon UTIMCO or the U. T. Board.

In addition to and not in lieu of the foregoing, UTIMCO will comply with the provisions of Section 12 below regarding confidentiality provisions of contracts with third parties.

**(h) Other Services:**

UTIMCO shall perform other investment management services ~~including but not limited to 1)~~, including without limitation:

- (i) attending meetings of the U. T. Board and making such reports as the U. T. Board may request from time to time, 2) attending an annual Joint Meeting between the UTIMCO Board of Directors and the U. T. System Board of Regents as referenced in Article III, Section 7 of the UTIMCO Bylaws, 3) rendering services to managers of private equity investments in which UTIMCO has decided to invest, 4) attending meetings of governing bodies of companies in which UTIMCO’s managed Accounts have invested, 5) voting of securities (or proxies with respect thereto) held as investments of the Accounts according to written policies of the U. T. Board; 6) providing U. T. System institutions with annual endowment reports reflecting, among other things, changes in the investment value of such institution's endowment and distributions made to such institution to support the activities for which the endowment was established; 7);
- (ii) rendering services to managers of private equity investments in which UTIMCO has decided to invest;
- (iii) attending meetings of governing bodies of companies in which assets of Funds have been invested pursuant to this Agreement;
- (iv) voting of securities (or proxies with respect thereto) held as investments of the Funds in accordance with the Investment Policies and the UTIMCO Proxy Voting Policy and any other relevant written policies or rules of the U. T. Board;
- (v) providing U. T. System institutions with annual endowment reports reflecting, among other things, changes in the investment value of such institution’s

endowment and distributions made to such institution to support the activities for which the endowment was established;

- (vi) providing charitable trust administration services such as portfolio management, annual tax return preparation, annual trust reporting to donors and remittance of quarterly distributions; providing annual reporting of investment transactions and balances and distributing funds/assets to authorized beneficiaries on foundation accounts; 8) effecting distributions directly or through the Custodian to U. T. System institutions or other named beneficiaries from the Accounts; 9) supporting and maintaining on-line account information system for endowment accounts; and 10) any other services necessary to provide investment management of the Accounts.;
- (vii) effecting distributions directly or through the Custodian to U. T. System institutions or other named beneficiaries from the Funds;
- (viii) supporting and maintaining online information systems for endowment funds;
- (ix) providing training and education to members of the UTIMCO Board of Directors as may be determined in consultation with U. T. System staff to assure that all duties required of directors under the Texas Non-Profit Corporation Act and that matters related to legal and fiduciary responsibilities of the directors, including current regulations for determining reasonable compensation, are outlined and discussed fully; and
- (x) any other services necessary to provide investment management of the Funds.

#### **Section 4. Investment Manager as Fiduciary; ~~Training and Education.~~**

UTIMCO acknowledges that it ~~will be acting~~ acts as a fiduciary ~~with respect to managing~~ in its management of the investments of the ~~Accounts~~ subject Funds pursuant to the Investment Policies and applicable law. The U. T. Board recognizes that all individual investment transactions involve a variety of significant potential risks, including, without limitation, market risk, liquidity risk, credit risk, cash flow risk, operational risk and counterparty risk, although taken as a whole these transactions are also expected to manage risk. The U. T. Board agrees that (i) UTIMCO will not be liable for any losses incurred in the ~~Accounts~~ Funds as a result of investments made pursuant to the Investment Policies and applicable law, and (ii) UTIMCO will not be liable for actions of co-fiduciaries. The U. T. Board also acknowledges that UTIMCO shall not be liable for, and, to the fullest extent authorized by the Constitution and laws of the State of Texas, agrees to hold UTIMCO harmless from the consequences of, any action taken or omitted to be taken by the U. T. System or any of its employees or agents prior to March 1, 1996.

~~UTIMCO agrees to provide training and education to members of the UTIMCO Board of Directors to assure that all duties required of directors under the Texas Non-Profit Corporation Act and that matters related to legal and fiduciary responsibilities of the Directors, including current regulations for determining reasonable compensation, are outlined and discussed fully.~~



## **Section 5. Custody of Assets.**

UTIMCO shall select one or more Custodians, each of which shall be approved by the U. T. Board, which shall also enter into or approve each agreement with the Custodian(s).

UTIMCO shall use ~~eustodians~~the Custodian(s) for safekeeping, settlement of security purchases, sales, collection of income and other duties, as may be more fully described in the existing eustodyrelevant agreement(s) between UTIMCO and the Custodian, which agreement, together with the U. T. Board's rights, duties and obligations thereunder, has been assigned to UTIMCO. the Custodian(s) and the U. T. Board or UTIMCO (as agent of the U. T. Board). In addition, UTIMCO may from time to time use a brokerage firm to settle security sales on behalf of the U. T. Board and may invest in a regulated mutual fund, externally managed commingled funds, or other investments in which assets are held outside of the bank custody relationship. Any physical certificates not held in safekeeping with a Custodian shall be held in safekeeping at a local bank as designated by UTIMCO.

## **Section 6. Use of Unaffiliated Investment Managers.**

UTIMCO shall be entitled to use unaffiliated investment advisors to invest all or part of the ~~Accounts~~Funds and to perform other duties, subject to any restrictions in the relevant Investment Policies.

## **Section 7. Investment Management Fees; Direct Expenses.**

For services performed hereunder, UTIMCO shall be compensated in the amounts and in the manner set forth below:

### **(a) Annual Budget and Management Fee:**

#### **(i) Budget Approval Policy**

UTIMCO shall submit to the U. T. Board its proposed annual budget for the following fiscal year (an "Annual Budget") within the time frame specified by the U. T. Board for other annual budget submissions. The Annual Budget shall include all estimated expenses associated with the management of the ~~Accounts~~Funds. The Annual Budget shall also include an annual UTIMCO management fee (an "Annual UTIMCO Management Fee") which shall include all operating expenses associated with the general management of the ~~Accounts~~Funds, including, without limitation, reasonable salaries, benefits and performance compensation of portfolio management and support personnel, expenses for consulting services, office space lease expenses, office furniture and equipment expenses, professional, legal, payroll, and other general services expenses, travel, insurance, capital expenditures, and other miscellaneous expenses incurred by UTIMCO in connection with the performance of its obligations hereunder. In addition to its Annual Budget, UTIMCO shall annually submit its capital expenditures budget approved by the UTIMCO Board of Directors to the U. T. Board for approval.

(ii) Allocation Formula

At the same time that UTIMCO submits its Annual Budget, it shall also submit to the U. T. Board an allocation formula for charging the Annual Budget to the ~~Accounts~~Funds. Items proposed in the Annual Budget and the allocation formula may be approved, disapproved, or approved with modification by the U. T. Board. Any such Budget item or formula allocation that is disapproved or approved with modification may be promptly reviewed and revised by UTIMCO and resubmitted to the U. T. Board for additional consideration.

(iii) Charging of Funds for Management Fee

On or before the first day of each fiscal quarter, UTIMCO shall be entitled to charge each ~~Account~~Fund with its allocable share (determined in accordance with the allocation formula then in effect) of one-fourth of the amount of the Annual UTIMCO Management Fee to pay UTIMCO's operating expenses for the succeeding fiscal quarter. UTIMCO may, with the approval of the U. T. Board, revise the Annual UTIMCO Management Fee and allocation formula at any time during a fiscal year. Any statements for partial quarters at the beginning or end of this Agreement shall be prorated to reflect the actual time services were rendered during such partial quarters.

(iv) Payment of Third Party Vendors

UTIMCO is hereby authorized to pay from each ~~Account~~Fund direct expenses incurred for portfolio management, ~~custodian~~Custodian, auditing, and other services which are performed by external vendors specifically for each ~~Account~~Fund.

(b) Directors FeesCash Reserves:

Within 90 days after the end of each fiscal year, UTIMCO will distribute back to the Funds which generated the surplus that portion of the Surplus Cash Reserves as may be directed by the U. T. Board, in its sole discretion, from time to time. Such distribution back to the Funds shall be in the same proportion that the Funds contributed to the Cash Reserves.

(c) UTIMCO Management Service on Outside Boards:

Members of UTIMCO management, with the approval of the UTIMCO Board, may serve as directors of companies in which UTIMCO has directly invested ~~Account~~Fund assets. In such event, any and all compensation paid to UTIMCO management for their services as directors shall be endorsed over to UTIMCO and considered a part of UTIMCO's fee income and reflected in the Budget. Furthermore, UTIMCO Board approval of UTIMCO management's services as directors of investee companies shall be conditioned upon the extension of UTIMCO's Directors and Officers Insurance Policy coverage to UTIMCO management's services as directors of investee companies.

(d) ~~e)~~ **Fees for Services Rendered:**

Members of UTIMCO management may perform services for which UTIMCO receives a fee (“Service Fees”) from investment promoters or investee companies in consideration of the UTIMCO staff’s private investment activities and/or investment origination activities. Such Service Fees shall be considered additional fee income to UTIMCO. UTIMCO may also receive commitment fees, standby fees and other similar fees (“Capital Fees”) accruing or inuring to the capital invested on behalf of the ~~Accounts~~Funds managed by UTIMCO. Such Capital Fees shall be credited to the ~~Accounts~~Funds from which such investments are funded.

(e) ~~d)~~ **Miscellaneous Fees:**

UTIMCO management may perform specialized services for ~~accounts~~assets that are separately invested for which UTIMCO receives a fee from the ~~account~~Fund. These fees primarily relate to maintenance of computer programs for the ~~separately invested accounts~~SIFs. Such Miscellaneous Fees shall be considered additional fee income to UTIMCO and reflected in the Budget.

~~e)~~ ~~————~~ **Cash Reserves:**

~~Within 90 days after the end of each fiscal year, UTIMCO will distribute back to the Accounts which generated the surplus that portion of the Surplus Cash Reserves as may be directed by the U. T. Board, in its sole discretion, from time to time. Such distribution back to the Accounts shall be in the same proportion that the Accounts contributed to the Cash Reserves.~~

**Section 8. Brokerage Commissions.**

The U. T. Board acknowledges and agrees that the investment management fees provided for in Section 7 are in addition to any compensation that may be due to a broker or dealer in effecting and executing transactions on behalf of UTIMCO. UTIMCO is hereby authorized and empowered, with full discretion, to issue instructions in accordance with the Investment Policies to such unaffiliated brokerage firms as may be selected by UTIMCO for the execution of orders for the purchase, sale, exchange and general investment of the ~~Accounts~~Funds; provided that UTIMCO shall not select a brokerage firm that is an Affiliate of UTIMCO or any of its officers, directors or employees. All orders for ~~Account~~Fund transactions shall be placed in such markets and through such brokers as UTIMCO determines will offer the most favorable price, execution and commission cost of each order. The U. T. Board acknowledges and agrees that UTIMCO may, from time to time ~~and~~ in accordance with applicable law and UTIMCO’s Soft Dollar Policy and Procedures, ~~may~~ pay commissions to brokers that are higher than those that might be obtainable elsewhere in order to obtain from such brokers research and other services expected to enhance the long-term value of the ~~Accounts~~Funds.

**Section 9. Valuation of ~~Account~~Fund Assets.**

The valuation of ~~the account~~each Fund shall be determined in accordance with the Investment Policies approved by the U. T. Board for ~~the accounts~~such Fund.

## Section 10. Representations and Warranties of Parties.

### ~~U. T. Board.~~

~~A. The U. T. Board (a) is duly established and validly existing under the laws of the State of Texas and is an agency of the State of Texas, (b) has all power and authority and all material government licenses, authorizations, consents and approvals required to carry on its business as now conducted, and (c) has full power and authority to execute, deliver and perform this Agreement.~~

~~(a) The U. T. Board represents and warrants that:~~

~~(i) B. The execution, delivery and performance by the U. T. Board of this Agreement have been duly authorized by all necessary action and do not contravene, or result in the violation of or constitute a default under, any provision of applicable law or regulation, or any order, rule or regulation of any court, governmental agency or instrumentality or any agreement, resolution or instrument to which the U. T. Board is a party or by which it or any of its property is bound.~~

~~C. No authorization, consent, approval, permit, license, or exemption of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality that has not been obtained or issued is or will be necessary for the valid execution, delivery or performance by the U. T. Board of this Agreement. D. This, and this Agreement constitutes a valid and binding agreement of the U. T. Board.~~

~~(ii) E. There is no action, suit or proceeding pending or, to the knowledge of the U. T. Board, threatened against or affecting the U. T. Board or the U. T. System, or relating to this Agreement, in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of the U. T. Board to enter into, and perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.~~

~~(iii) F. The U. T. Board has approved:~~

~~(A) (1) the Articles of Incorporation and Bylaws of UTIMCO;~~

~~(B) (2) the Investment Policies;~~

~~(C) (3) the Audit and Ethics committee Committee of UTIMCO; and~~

~~(D) (4) the Code of Ethics of UTIMCO.~~

~~G. The U. T. Board has been provided with the opportunity to ask questions of, and it has received answers thereto satisfactory to it from, UTIMCO and its representatives regarding this Agreement and has obtained all additional information requested by it of UTIMCO and its representatives prior to entering into this Agreement.~~

### ~~UTIMCO.~~

(b) UTIMCO represents and warrants that:

~~A. UTIMCO (a) is duly organized and validly existing as a Texas nonprofit corporation under the laws of the State of Texas, particularly the Texas Nonprofit Corporation Act, Tex. Rev. Civ. Stat. Ann. art. 1396-1.01 et seq., (b) has all corporate power and authority and all material government licenses, authorizations, consents and approvals required to carry on its business as now conducted, and (c) has full power and authority to execute, deliver and perform this Agreement.~~

(i) ~~B. The execution, delivery and performance by UTIMCO of this Agreement have been duly authorized and this Agreement constitutes a valid and binding agreement of UTIMCO. by all necessary action by UTIMCO and do not contravene, or result in the violation of or constitute a default under, any provision of applicable law or regulation, or any order, rule or regulation of any court, governmental agency or instrumentality or any agreement, resolution or instrument to which UTIMCO is a party or by which it or any of its property is bound.~~

~~C. No authorization, consent, approval, permit, license, or exemption of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality that has not been obtained or issued is or will be necessary for the valid execution, delivery or performance by UTIMCO of this Agreement.~~

~~D. This Agreement constitutes a valid and binding agreement of UTIMCO.~~

(ii) ~~E. There is no action, suit or proceeding pending or, to the knowledge of UTIMCO, threatened against or affecting UTIMCO, or relating to this Agreement in any court or before or by any governmental department, agency or instrumentality which, if adversely determined, would materially affect the ability or authority of UTIMCO to enter into, and to perform its obligations under, this Agreement, or which in any manner questions the validity or enforceability of this Agreement.~~

(c) Investment Company Act and State Securities Act:

The parties to this Agreement acknowledge and agree that UTIMCO is not currently required to, and shall not engage in any activities that would require it to, register as an “investment company” under Title 15 United States Code Section 80a-8 (the Investment Company Act of 1940), as amended, and Tex. Rev. Civ. Stat. Ann. art. 581-1 et seq. (The Securities Act).

## **Section 11. Compliance with Bylaws, Policies, Regulations and Financial Disclosure Requirements.**

In the performance of this Agreement, ~~UTIMCO’s Directors, Officers, and Employees~~ shall abide by, and cause its directors, officers, and employees to abide by, the following policies:

a) (A) UTIMCO Code of Ethics as approved by the U. T. Board;

b) (B) UTIMCO Bylaws as approved by the U. T. Board;

e) (C) All UTIMCO policies;

⊕ (D) Applicable portions of the U. T. Board’s Regents’ Rules and Regulations; and

(E) All U. T. Board-approved Investment Policies, resolutions, and applicable law.

Financial advisors and service providers as defined in *Texas Government Code* Section 2263.002 shall comply with the disclosure requirements contained in *Texas Government Code* Section 2263.005, in addition to any obligations regarding disclosure of private investment information and the like as contemplated by Section 3(g) of this Agreement.

**Section 12. Contracts with Third Parties.**

UTIMCO covenants and agrees that each agreement, contract, or understanding it enters into with any third party will comply with all applicable law (including without limitation *Texas Government Code* Sections 2263.002 and 2263.005 as referenced in Section 11 above), and will not contain any term or provision limiting the ability of UTIMCO, the U. T. Board, the U. T. System, or any of its institutions to comply with any provision of applicable law, including without limitation any covenant regarding non-disclosure of confidential information or similar subject matter that would purport to limit the ability of UTIMCO or the U. T. Board to comply with any provision of the Texas Public Information Act or other law regarding public disclosure; provided that any contract provision regarding non-disclosure of confidential information must be approved by the Vice Chancellor and General Counsel of the U.T. System or his/her designee.

UTIMCO further covenants and agrees that it will not enter into any contracts indemnifying or holding harmless any third party to a greater extent than the scope of the indemnification of the Indemnified Parties by the U. T. Board without the prior consent and approval of the Vice Chancellor and General Counsel of the U. T. System.

**Section 13. ~~Section 12.~~ UTIMCO's Open Meeting Policy.**

Except as otherwise provided in Section 66.08, *Texas Education Code*, UTIMCO shall comply with all applicable provisions of the Texas Open Meetings Act, Chapter 551 of the *Texas Government Code*.

**Section 14. ~~Section 13.~~ Prohibition Against Service to Other Clients.**

In accordance with Section 66.08, *Texas Education Code*, UTIMCO shall not engage in any business other than managing the ~~Accounts~~Funds under this Agreement.

**Section 14. ~~Investment Company Act and State Securities Act.~~**

~~The parties to this agreement acknowledge that UTIMCO shall not be required to register as an "investment company" under Title 15 *United States Code* Section 80a-8 (the Investment Company Act of 1940), as amended, and Tex. Rev. Civ. Stat. Ann. art. 581-1 *et seq.* (The Securities Act).~~

**Section 15. Termination.**

The U. T. Board may terminate this Agreement at any time by written notice to UTIMCO, effective immediately upon receipt of such notice by UTIMCO, subject to reasonable allowance for settlement of pending trades. UTIMCO may terminate this Agreement upon ninety (90)

days' written notice to the U. T. Board. There shall be no penalty for termination; however, UTIMCO shall be entitled to all management fees, compensation, and benefits earned prior to the effective date of termination, subject to UTIMCO's Articles of Incorporation and Bylaws and applicable law.

**Section 16. Amendments.**

No amendment hereto shall be effective unless executed by duly authorized representatives of each party in the same manner as this Agreement.

**Section 17. Notices.**

All notices or communications hereunder shall be in writing and shall not be effective until hand delivered ~~and received to the other party, or,~~ sent by overnight delivery, or sent by United States Certified or Registered Mail, postage prepaid, to the ~~addressed~~ other party. ~~The at the following are the designated addresses for such notices or communications and which may only be changed by communication notice sent~~ in the manner required by this paragraph:

To U. T. Board:

Board of Regents of The University of Texas System  
Attn: Counsel and Secretary  
201 West Seventh Street, Suite 820  
Austin, Texas 78701  
Tel. (512) 499-4402  
Fax. (512) 499-4425

To UTIMCO:

The University of Texas Investment Management Company  
Attn: President and CEO  
401 Congress Avenue, Suite 2800 ~~221 West Sixth St., Suite 1700~~  
Austin, Texas 78701  
Tel. (512) 225-1600  
Fax. (512) 225-1660

**Section 18. Non-Assignability.**

~~No Assignment~~ This Agreement is personal to the parties hereto, and no assignment of this Agreement by UTIMCO, whether by contract, merger, consolidation, or operation of law, shall be made without having obtained other than with the prior written consent of the U. T. Board ~~nor is the Agreement assignable by the U. T. Board~~ and in compliance with applicable law.

**Section 19. No Waiver of Breach.**

A waiver of a breach of any provision of this Agreement shall not constitute a waiver of any subsequent breach of that provision or a breach of any provision hereof. Failure of either party

to enforce at any time or from time to time any provision of this Agreement shall not be construed as a waiver thereof.

## **Section 20. Indemnification.**

**(a) Agreements to Indemnify:**

To the fullest extent authorized by the Constitution and laws of the State of Texas, the U. T. Board shall indemnify and hold harmless each of the Indemnified Parties against any and all Losses, including Losses resulting from the negligence of the Indemnified Party claiming indemnification; provided, however, the U. T. Board shall not be obligated to indemnify an Indemnified Party against Losses to the extent such Losses are caused by (i) an act or omission that involves intentional misconduct or a knowing violation of law by the Indemnified Party claiming indemnification, (ii) a transaction from which the Indemnified Party claiming indemnification received an improper benefit, (iii) an act or omission for which the liability of the Indemnified Party claiming indemnification is expressly provided by an applicable statute, or (iv) an act or omission constituting gross negligence by the Indemnified Party claiming indemnification; provided further that indemnification payments by the U. T. Board shall be paid from the same sources as the Annual Fee pursuant to Section 7.

**(b) Reimbursement:**

Each Indemnified Party shall reimburse the U. T. Board for payments made by the U. T. Board pursuant to this Section to the extent of any proceeds, net of all expenses of collection, actually received by it from any insurance with respect to any Loss. At the request and expense of the U. T. Board, each Indemnified Party shall have the duty to claim any such insurance proceeds and such Indemnified Party shall assign its rights to such proceeds, to the extent of such required reimbursement, to the U. T. Board.

**(c) Notice:**

In case any Claim shall be brought or, to the knowledge of any Indemnified Party, threatened against any Indemnified Party in respect of which indemnity may be sought against the U. T. Board, such Indemnified Party shall promptly notify the U. T. Board in writing; provided, however, that any failure so to notify shall not relieve the U. T. Board of its obligations under this Section.

**(d) Defense:**

The U. T. Board shall have the right to assume the investigation and defense of all Claims, including the employment of counsel and the payment of all expenses. Each Indemnified Party shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of such counsel shall be paid by such Indemnified Party unless (i) the employment of such counsel has been specifically authorized by the U. T. Board, in writing, (ii) the U. T. Board has failed to assume the defense and to employ counsel following due notice, or (iii) the named parties to any such action (including any impleaded parties) include both an Indemnified Party and the U. T. Board, and such Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the U. T. Board (in which case, if such



Indemnified Party notifies the U. T. Board in writing that it elects to employ separate counsel at the U. T. Board's expense, the U. T. Board shall not have the right to assume the defense of the action on behalf of such Indemnified Party; provided, however, that the U. T. Board shall not, in connection with any one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegation or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys for the Indemnified Parties, which firm shall be designated in writing by such Indemnified Parties).

(e) **Cooperation; Settlement:**

Each Indemnified Party shall use reasonable efforts to cooperate with the U. T. Board in the defense of any action or Claim. The U. T. Board shall not be liable for any settlement of any action or Claim without its consent but, if any such action or Claim is settled with the consent of the U. T. Board or there be final judgment for the plaintiff in any such action or with respect to any such Claim, the U. T. Board shall indemnify and hold harmless the Indemnified Parties from and against any Loss by reason of such settlement or judgment as provided in Subsection (a) of this Section.

(f) **Survival; Right to Enforce:**

The provisions of this Section shall survive the termination of this Agreement, and the obligations of the U. T. Board hereunder shall apply to Losses or Claims whether asserted prior to or after the termination of this Agreement. In the event of failure by the U. T. Board to observe the covenants, conditions and agreements contained in this Section, any Indemnified Party may take any action at law or in equity to collect amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the U. T. Board under this Section.

**Section 21. Claims By and Against Managed Funds Assets.**

UTIMCO is authorized and empowered to seek, demand, collect, recover, and receive any and all sums of money, debts, dues, rights, property, effects, or demands due, payable, or belonging, or that may become due, payable, or belonging to the PUF of the U. T. Board or any Fund from any person or persons as a result of any investment transaction and to execute any and all necessary or proper receipts, releases, and discharges hereof, and any other instruments as may be necessary or appropriate from time to time relating to the handling, management, control, and disposition of any investment.

The authority granted in this Section does not include the authority to institute litigation on behalf of the U. T. Board, any Fund, or any associated assets, or to settle contested claims or litigation that may result in ~~UTIMCO receiving receipt of~~ less than full value for the claim or the payment of damages or awards. The settlement of any contested claim or litigation for less than full value requires the prior approval of the U. T. System Vice Chancellor and General Counsel and appropriate U. T. System officials, as set out in the Regents' *Rules and Regulations*.

**Section 22. Communications.**

UTIMCO and the U. T. System will assure that communications are clear and timely. UTIMCO will provide notice of actions taken in meetings of the UTIMCO Board and committees to members of the U. T. Board through the Office of the Board of Regents. U. T. will provide notice of actions taken by the U. T. Board related to UTIMCO issues to members of the UTIMCO Board of Directors through the President and CEO of UTIMCO.

**Section 23. Authority to Purchase, Exchange, and Sell Securities.**

UTIMCO may purchase, exchange, and sell, for and on behalf of the Permanent University Fund or the U. T. Board, any and all securities of any description whatever and from any source, including gifts and bequests, registered in the name of the ~~PUF or the~~ U. T. Board, or in any other form of registration of such securities held for the account of the ~~PUF or the~~ U. T. Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said U. T. Board. In addition, external investment managers appointed by UTIMCO may purchase, sell, or exchange securities, pursuant to written agreement with UTIMCO.

**Section 24. Authority to Assign and Transfer Securities.**

UTIMCO may assign and transfer any and all securities of any description whatever and from any source, including gifts and bequests, and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any securities registered in the name of ~~the~~ ~~PUF or~~ the U. T. Board, or in any other form of registration of such securities held for the account of the ~~PUF or the~~ U. T. Board in whatever manner, including all fiduciary capacities and including those registered in the names of trusts or foundations managed and controlled by said U. T. Board. In addition, ~~custodian~~ Custodian banks appointed by UTIMCO may assign and transfer securities and execute any and all documents necessary to the consummation of any sale, assignment, or transfer of any security owned by the U. T. Board.

**Section 25. No Third Party Beneficiaries.**

UTIMCO and the U. T. Board each agree that there are no third party beneficiaries of this Agreement.

**Section 26. Governing Law.**

This Agreement and all matters arising under or related to it shall be governed by the Constitution and laws of the State of Texas. Venue for any action brought by any party hereto concerning the subject matter of this Investment Management Services Agreement shall be in Travis County, Texas.

BOARD OF REGENTS OF THE  
UNIVERSITY OF TEXAS SYSTEM

Date: \_\_\_\_\_

By \_\_\_\_\_  
Chairman

THE UNIVERSITY OF TEXAS INVESTMENT  
MANAGEMENT COMPANY

Date: \_\_\_\_\_

By \_\_\_\_\_  
Chairman

## Schedule A

### Funds

This Schedule A setting forth the Funds managed by UTIMCO pursuant to this Agreement as fiduciary on behalf of the U. T. Board, in which the Delegated Assets are to be invested as directed by the U. T. Board pursuant to its Investment Policies, may be amended from time to time by the U. T. Board in consultation with UTIMCO to add or remove Funds, change fund allocations, reflect revisions to the corresponding Investment Policies, or otherwise. The Funds covered under this Agreement as of the Effective Date of this Agreement, and the corresponding Investment Policies, are as follows:

- a. **Permanent University Fund:** The PUF (as defined in Section 1(e)(i)) will be separately invested in accordance with the PUF Investment Policy Statement.
- b. **Permanent Health Fund:** The PHF (as defined in Section 1(e)(iv)) will be separately invested in accordance with the PHF Investment Policy Statement.
- c. **Separately Invested Funds:** The SIFs (as defined in Section 1(e)(v)) will be separately invested in accordance with the SIF Investment Policy Statement.
- d. **Long Term Fund (“LTF”):** The long-term pooled investment fund previously established by the U. T. Board for the collective investment of all endowment and other long-term funds of institutions of the U. T. System, with investments made in accordance with the LTF Investment Policy Statement.
- e. **General Endowment Fund (“GEF”):** The pooled fund for the collective investment of long-term funds under the control and management of the U. T. Board. The PUF, PHF, LTF or other long-term funds may invest in the GEF as authorized by the U. T. Board in each Fund’s investment policy statement, and the GEF funds will be invested in accordance with the GEF Investment Policy Statement.
- f. **Short Intermediate Term Fund (“SITF”):** Selected U. T. System Funds (as defined in Section 1(e)(ii)) (other than endowment and other long-term funds, including the Permanent University Fund) designated from time to time by the U. T. Board or its U. T. System staff designees will be collectively invested in the short intermediate term pooled investment fund governed by the SITF Investment Policy Statement.
- g. **Short Term Fund (“STF”):** Selected U. T. System Funds designated from time to time by the U. T. Board or its U. T. System staff designees will be invested in the STF, which is the money market mutual fund or funds approved by UTIMCO from time to time as an investment for U. T. System Funds, in accordance with the STF Investment Policy Statement.

- h.** **Institutional Index Funds:** The Institutional Index Funds currently comprise the following two index Funds:
- (i) **The U.S. Debt Index Fund B,** a U.S. debt index fund which replicates the Lehman Brothers Aggregate Bond Index fund and is currently managed by Barclays Global Investors (BGI) for UTIMCO.
- (ii) **The Equity Index Fund B,** an equity index fund which replicates the S&P 500 index and is currently managed by BGI for UTIMCO.
- i.** **The Intermediate Term Fund (“ITF”):** The ITF was established by the U. T. Board as a pooled fund for the collective investment of operating assets and other intermediate and long-term assets held by U. T. System institutions and U. T. System administration. The ITF will be invested in accordance with the ITF Investment Policy Statement.

9. **U. T. System Board of Regents: Investments Report for the quarter ended November 30, 2005, and The University of Texas Investment Management Company (UTIMCO) Performance Summary Report**

REPORT

The Investments Report for the quarter ended November 30, 2005, are as set forth on Pages 73 - 77.

Item I on Page 73 reports activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the quarter end was 1.84% versus its composite benchmark return of 2.37%. The PUF's net asset value increased by \$137.9 million since the beginning of the quarter to \$9,564.6 million. This change in net asset value includes increases due to contributions from PUF land receipts and net investment return and a decrease due to a \$100.0 million distribution towards the annual distribution from the PUF to the Available University Fund.

Item II on Page 74 reports activity for the General Endowment Fund (GEF) investments. The GEF's net investment return for the quarter was 1.72% versus its composite benchmark return of 2.37%. The GEF's net asset value increased \$62.3 million since the beginning of the quarter to \$4,989.1 million.

Item III on Page 75 reports activity for the Short Intermediate Term Fund (SITF). Total net investment return on the SITF was negative .20% for the quarter versus the SITF's performance benchmark of .06%. The SITF's net asset value decreased by \$13.9 million since the beginning of the quarter to \$1,208.5 million. This decrease in net asset value was due to net withdrawals, distributions and investment return to the SITF.

Item IV on Page 76 presents book and market value of cash, debt, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus money market fund, increased by \$74.0 million to \$2,517.8 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$46.2 million versus \$47.2 million at the beginning of the period; equities: \$364.9 million versus \$256.5 million at the beginning of the period; and other investments: \$1.2 million versus \$1.6 million at the beginning of the period.

The November 30, 2005, UTIMCO Performance Summary Report is attached on Page 77.

# I. PERMANENT UNIVERSITY FUND

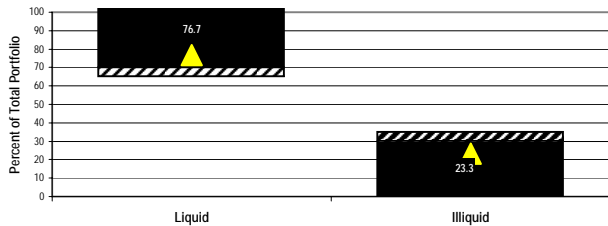
## Investment Reports for Periods Ended November 30, 2005

Prepared in accordance with Texas Education Code Sec. 51.0032

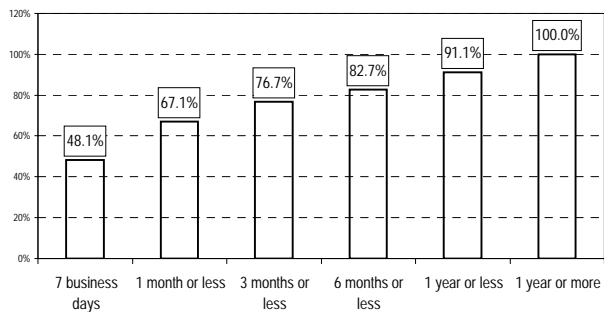
### Summary of Capital Flows

	Fiscal Year Ended August 31, 2005	Quarter Ended November 30, 2005	Fiscal Year Ended August 31, 2006
(\$ millions)			
Beginning Net Assets	\$ 8,087.9	\$ 9,426.7	\$ 9,426.7
PUF Lands Receipts	193.0	70.1	70.1
Investment Return	1,538.0	183.7	183.7
Expenses	(51.0)	(15.9)	(15.9)
Distributions to AUF	(341.2)	(100.0)	(100.0)
Ending Net Assets	\$ 9,426.7	\$ 9,564.6	\$ 9,564.6

### PUF Liquidity Policy Profile As of November 30, 2005

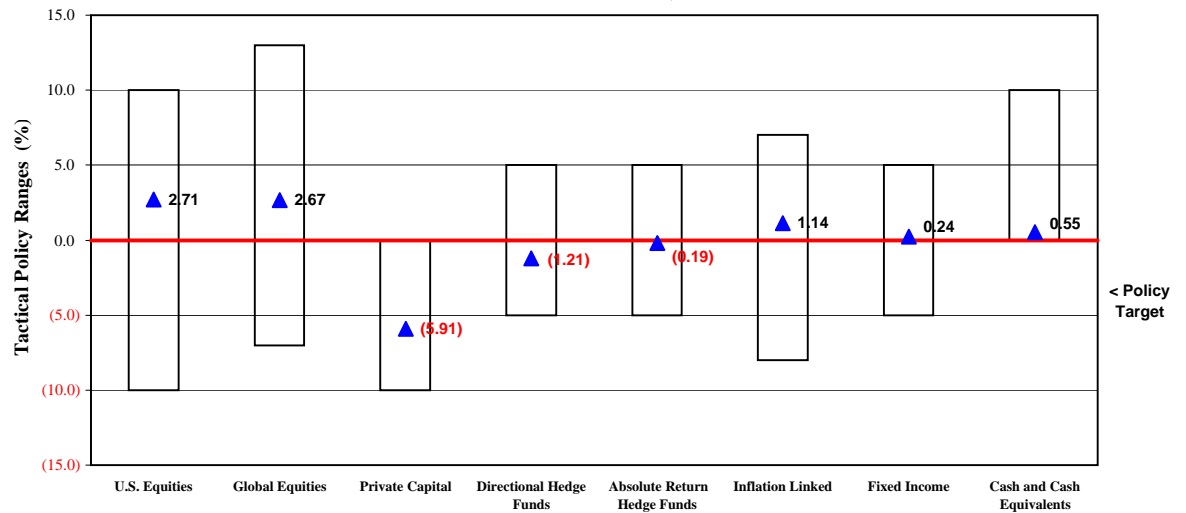


### PUF Detailed Liquidity Profile as of November 30, 2005



	November 30, 2005		Three Months to Date				
			Returns		Value Added		
	Portfolio Exposure	Policy Target	Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
Cash and Cash Equivalents	0.55%	0.00%	0.94%	0.90%	0.01%	0.00%	0.01%
U.S. Equities	22.71%	20.00%	3.06%	2.84%	0.03%	0.04%	0.07%
Global Equities	19.67%	17.00%	5.45%	6.69%	0.04%	-0.22%	-0.18%
Directional Hedge Funds	8.79%	10.00%	0.31%	0.93%	0.01%	-0.06%	-0.05%
Absolute Return Hedge Funds	14.81%	15.00%	0.41%	-0.16%	0.00%	0.08%	0.08%
Inflation Linked	14.14%	13.00%	-1.82%	-1.68%	-0.07%	-0.02%	-0.09%
Fixed Income	10.24%	10.00%	-1.73%	-1.38%	-0.02%	-0.04%	-0.06%
<b>Total Marketable Securities</b>	<b>90.91%</b>	<b>85.00%</b>	<b>1.47%</b>	<b>1.68%</b>	<b>0.00%</b>	<b>-0.22%</b>	<b>-0.22%</b>
Private Capital	9.09%	15.00%	5.52%	6.30%	-0.19%	-0.12%	-0.31%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>1.84%</b>	<b>2.37%</b>	<b>-0.19%</b>	<b>-0.34%</b>	<b>-0.53%</b>

### Deviations From Policy Targets Within Tactical Policy Ranges As of November 30, 2005



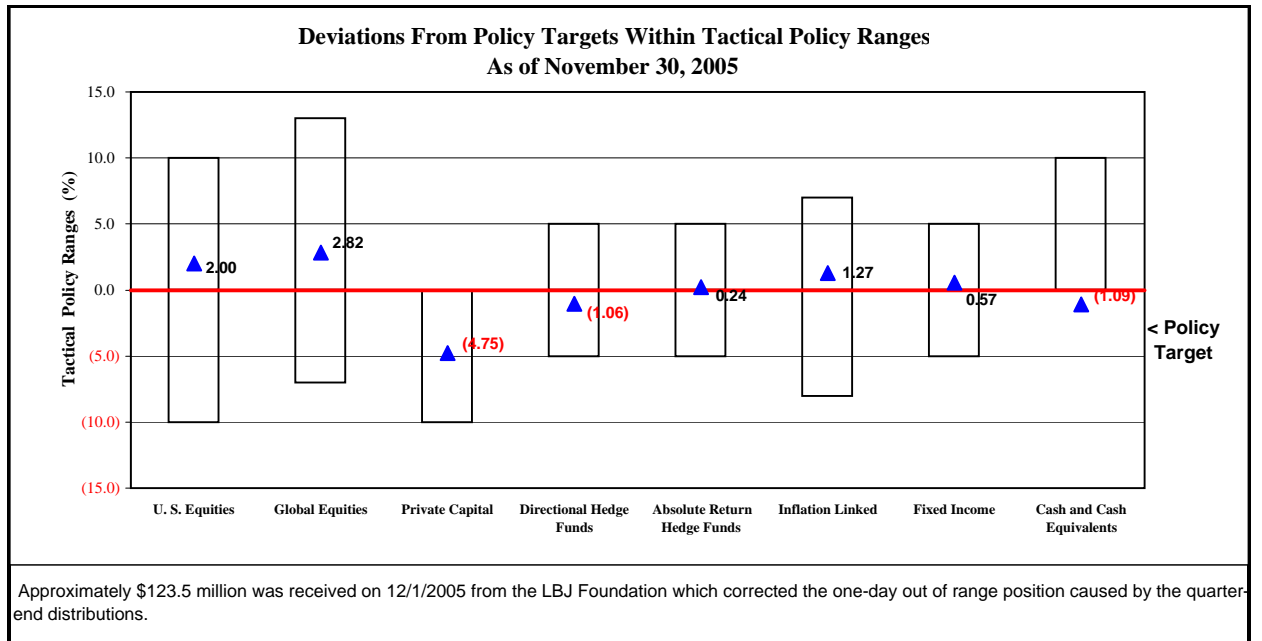
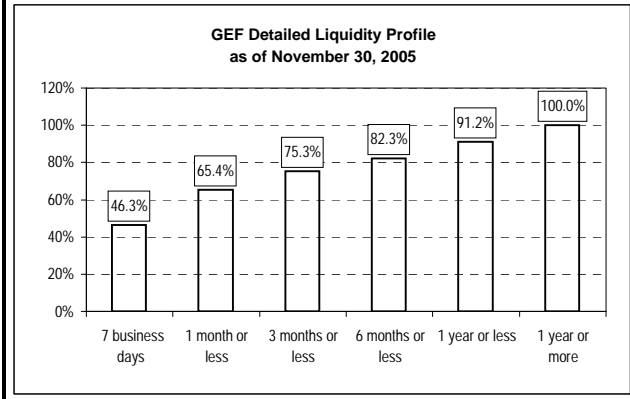
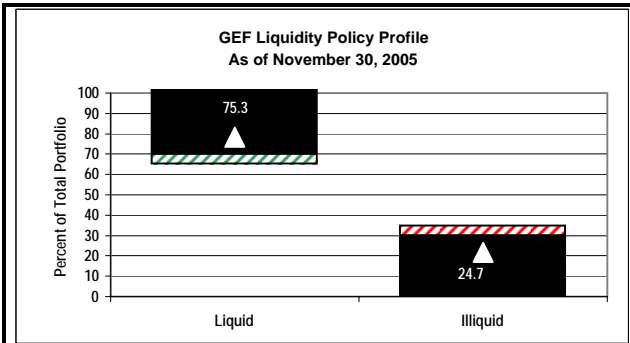
## II. GENERAL ENDOWMENT FUND

### Investment Reports for Periods Ended November 30, 2005

Prepared in accordance with *Texas Education Code Sec. 51.0032*

<b>Summary of Capital Flows</b>			
	Fiscal Year Ended August 31, 2005	Quarter Ended November 30, 2005	Fiscal Year Ended August 31, 2006
(\$ millions)			
Beginning Net Assets	\$ 4,207.6	\$ 4,926.8	\$ 4,926.8
Contributions	139.2	32.0	32.0
Withdrawals	(4.7)	-	-
Distributions	(206.4)	(53.9)	(53.9)
Investment Return	814.2	92.0	92.0
Expenses	(23.1)	(7.8)	(7.8)
Ending Net Assets	\$ 4,926.8	\$ 4,989.1	\$ 4,989.1

	November 30, 2005		Three Months to Date				
	Portfolio Exposure	Policy Target	Returns		Value Added		Total
			Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	
Cash and Cash Equivalents	-1.09%	0.00%	0.94%	0.90%	0.01%	0.00%	0.01%
U.S. Equities	22.00%	20.00%	3.00%	2.84%	0.00%	0.03%	0.03%
Global Equities	19.82%	17.00%	5.29%	6.69%	0.02%	-0.25%	-0.23%
Directional Hedge Funds	8.94%	10.00%	0.22%	0.93%	0.01%	-0.07%	-0.06%
Absolute Return Hedge Funds	15.24%	15.00%	0.37%	-0.16%	0.00%	0.08%	0.08%
Inflation Linked	14.27%	13.00%	-1.86%	-1.68%	-0.06%	-0.02%	-0.08%
Fixed Income	10.57%	10.00%	-1.61%	-1.38%	-0.03%	-0.02%	-0.05%
<b>Total Marketable Securities</b>	<b>89.75%</b>	<b>85.00%</b>	<b>1.39%</b>	<b>1.68%</b>	<b>-0.05%</b>	<b>-0.25%</b>	<b>-0.30%</b>
Private Capital	10.25%	15.00%	4.73%	6.30%	-0.12%	-0.23%	-0.35%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>1.72%</b>	<b>2.37%</b>	<b>-0.17%</b>	<b>-0.48%</b>	<b>-0.65%</b>



Approximately \$123.5 million was received on 12/1/2005 from the LBJ Foundation which corrected the one-day out of range position caused by the quarter-end distributions.



**III. SHORT INTERMEDIATE TERM FUND**  
**Investment Report for Periods Ended November 30, 2005**  
Report prepared in accordance with *Texas Education Code Sec. 51.0032*

(\$ millions)		
	FY04-05	FY05-06
	Full Year	1st Qtr
Beginning Net Assets	\$ 1,178.0	\$ 1,222.4
Net Contributions (Withdrawals)	46.0	(0.5)
Investment Return	30.0	(2.6)
Expenses	(0.5)	(0.1)
Distributions of Income	(31.1)	(10.7)
Ending Net Assets	\$ 1,222.4	\$ 1,208.5
Net Asset Value per Unit	9.914	9.805
No. of Units (End of Period)	123,305,429	123,251,937
Total Net Investment Return	2.48%	-0.20%

**IV. SEPARATELY INVESTED ASSETS**  
**Summary Investment Report at November 30, 2005**  
Report prepared in accordance with *Texas Education Code Sec. 51.0032.*

	(\$ thousands)													
	FUND TYPE													
	CURRENT PURPOSE DESIGNATED		RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		OPERATING FUNDS		TOTAL	
ASSET TYPES	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
<b>Cash &amp; Equivalents:</b>														
Beginning value 08/31/05	2,857	2,857	3,336	3,336	56,790	56,790	677	677	-	-	2,380,148	2,380,148	2,443,808	2,443,808
Increase/(Decrease)	322	322	2,809	2,809	(526)	(526)	(76)	(76)	120,846	120,846	(49,405)	(49,405)	73,970	73,970
Ending value 11/30/05	3,179	3,179	6,145	6,145	56,264	56,264	601	601	120,846	120,846	2,330,743	2,330,743	2,517,778	2,517,778
<b>Debt Securities:</b>														
Beginning value 08/31/05	-	-	263	215	29,765	30,076	16,312	16,921	-	-	-	-	46,340	47,212
Increase/(Decrease)	-	-	-	(4)	85	(410)	(131)	(599)	-	-	-	-	(46)	(1,013)
Ending value 11/30/05	-	-	263	211	29,850	29,666	16,181	16,322	-	-	-	-	46,294	46,199
<b>Equity Securities:</b>														
Beginning value 08/31/05	27	9,198	1,915	1,605	41,129	46,823	21,183	24,998	-	-	211,588	173,882	275,842	256,506
Increase/(Decrease)	-	(1,566)	(12)	26	(449)	286	(804)	(159)	-	-	104,199	109,798	102,934	108,385
Ending value 11/30/05	27	7,632	1,903	1,631	40,680	47,109	20,379	24,839	-	-	315,787	283,680	378,776	364,891
<b>Other:</b>														
Beginning value 08/31/05	-	-	1,547	1,547	-	-	223	86	-	-	-	-	1,770	1,633
Increase/(Decrease)	-	-	(342)	(342)	2	2	11	-	-	-	-	-	(329)	(340)
Ending value 11/30/05	-	-	1,205	1,205	2	2	234	86	-	-	-	-	1,441	1,293

Details of individual assets by account furnished upon request.

## UTIMCO Performance Summary

November 30, 2005

	Net Asset Value 11/30/2005 (in Millions)	Periods Ended November 30, 2005 (Returns for Periods Longer Than One Year are Annualized)										
		One Month	Fiscal Year To Date	Three Months	Six Months	Calendar Year To Date	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
<b>ENDOWMENT FUNDS</b>												
Permanent University Fund	\$ 9,564.6	2.23	1.84	1.84	7.48	10.15	12.82	14.11	15.83	10.12	7.02	9.48
General Endowment Fund		2.12	1.72	1.72	7.29	9.91	12.54	13.95	15.99	10.26	N/A	N/A
Permanent Health Fund	931.7	2.12	1.70	1.70	7.24	9.80	12.42	13.83	15.85	10.13	7.38	N/A
Long Term Fund	4,057.4	2.13	1.71	1.71	7.25	9.80	12.44	13.83	15.88	10.17	7.22	10.21
Separately Invested Funds	315.7	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total Endowment Funds</b>	<b>14,869.4</b>											
<b>OPERATING FUNDS</b>												
Short Term Fund	2,330.7	0.32	0.94	0.94	1.76	2.84	3.01	2.12	1.80	1.83	2.40	4.02
Short Intermediate Term Fund	1,208.5	0.39	(0.20)	(0.20)	0.53	1.62	1.92	1.93	2.08	2.13	3.26	4.76
Institutional Index Funds:												
BGI US Bond Index Fund	-	0.44	(1.38)	(1.38)	(0.47)	1.47	2.41	3.43	4.10	4.88	6.14	N/A
BGI Equity Index Fund	283.7	3.78	2.88	2.88	5.90	4.93	8.53	10.68	12.15	4.19	0.68	N/A
<b>Total Operating Funds</b>	<b>3,822.9</b>											
<b>Total Investments</b>	<b>\$ 18,692.3</b>											
<b>BENCHMARKS (1)</b>												
Permanent University Fund: Policy Portfolio		2.20	2.37	2.37	6.68	9.64	11.58	12.74	12.23	7.38	4.89	10.10
General Endowment Fund: Policy Portfolio		2.20	2.37	2.37	6.68	9.64	11.58	12.74	12.23	7.38	4.94	10.01
Short Term Fund: 90 Day Treasury Bills Average Yield		0.33	0.90	0.90	1.66	2.74	2.96	2.08	1.77	1.79	2.39	3.87
Short Intermediate Term Fund: Composite (3/93-7/04) and Merrill Lynch 1-3 Year Treasury Index (8/04-current)		0.32	0.06	0.06	0.59	1.28	1.49	1.43	1.76	2.57	3.87	4.86
Institutional Bond Index Fund: Lehman Brothers Aggregate Bond Index		0.44	(1.38)	(1.38)	(0.48)	1.46	2.40	3.41	4.00	4.82	6.06	6.21
Institutional Equity Index Fund: Standards & Poor's 500 Index (S&P 500)		3.78	2.88	2.88	5.88	4.88	8.44	10.63	12.10	4.13	0.64	9.28
<b>VALUE ADDED (2)</b>												
Permanent University Fund		0.03	(0.54)	(0.54)	0.80	0.51	1.25	1.38	3.60	2.74	2.13	(0.62)
General Endowment Fund		(0.08)	(0.65)	(0.65)	0.61	0.27	0.97	1.21	3.76	2.88	N/A	N/A
Permanent Health Fund		(0.08)	(0.68)	(0.68)	0.56	0.16	0.85	1.09	3.62	2.75	2.43	N/A
Long Term Fund		(0.07)	(0.66)	(0.66)	0.57	0.16	0.86	1.09	3.65	2.79	2.28	0.20
Short Term Fund		0.00	0.04	0.04	0.10	0.10	0.06	0.04	0.02	0.04	0.01	0.15
Short Intermediate Term Fund		0.08	(0.26)	(0.26)	(0.07)	0.34	0.43	0.50	0.32	(0.44)	(0.60)	(0.11)
Institutional Bond Index Fund		0.00	0.00	0.00	0.01	0.00	0.01	0.02	0.10	0.05	0.08	N/A
Institutional Equity Index Fund		0.00	0.01	0.01	0.02	0.06	0.09	0.05	0.06	0.05	0.04	N/A

(1) - Effective May 6, 2004, benchmark returns for the PUF policy portfolio have been restated for prior periods beginning June 1, 1993 through September 30, 2000 and for the GEF/LTF policy portfolio for prior periods beginning June 1, 1993 through September 30, 2001 to correct the following technical errors in benchmark construction and calculation: (a) to reflect actual asset class target allocations which were in place, or the practical implementation of changes to those policy allocations, and (b) to distinguish between PUF and GEF/LTF historical investment objectives and distribution policies by accurately representing actual asset class allocations during those periods.

Benchmark returns for the PUF and GEF/LTF policy portfolios were also restated for all prior period beginning June 1, 1993 through December 31, 2003 to replace various benchmark returns reported previously for the Private Capital asset class. Specifically, the Wilshire 5000 + 4%, the benchmark used prior to January 1, 2004, was replaced with the Venture Economics Periodic IRR Index, a more appropriate benchmark measure for the actual Private Capital portfolio.

Complete details of the [restatement](#) and previous policy portfolio benchmark history are documented on the UTIMCO website at [www.UTIMCO.org](http://www.UTIMCO.org) or are available upon request.

(2) - Value added is a measure of the difference between actual returns and benchmark or policy portfolio returns for each period shown. Value added is a result of the active management decisions made by UTIMCO staff and external managers.



## TABLE OF CONTENTS FOR ACADEMIC AFFAIRS COMMITTEE

Committee Meeting: 2/8/2006

Board Meeting: 2/9/2006  
Austin, Texas

Cyndi Taylor Krier, *Chairman*  
John W. Barnhill, Jr.  
Judith L. Craven, *M.D.*  
Robert A. Estrada  
Colleen McHugh

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
<b>Convene</b>	4:30 p.m. <i>Chairman Krier</i>		
1. <b>U. T. System: Reports from academic presidents, Executive Vice Chancellor Sullivan, and Academic Affairs Committee members</b>	4:30 p.m. <b>Report</b> <i>Presidents Dr. Sullivan</i>	Not on Agenda	<b>78</b>
2. <b>U. T. System: Approval of resolution to improve graduation rates</b>	4:40 p.m. <b>Action</b> <i>Dr. Sullivan</i>	<b>Action</b>	<b>78</b>
3. <b>U. T. System: Student learning assessment report</b>	4:50 p.m. <b>Report</b> <i>Dr. Reyes</i>	Not on Agenda	<b>79</b>
4. <b>U. T. Brownsville: Authorization to accept invitation from the Red River Athletic Conference and to negotiate and finalize terms for athletic conference membership</b>	5:10 p.m. <b>Action</b> <i>Dr. Sullivan</i>	<b>Action</b>	<b>79</b>
5. <b>U. T. Permian Basin: Authorization to accept invitation from Heartland Conference and to negotiate and finalize terms for athletic conference membership</b>	5:15 p.m. <b>Action</b> <i>Dr. Sullivan</i>	<b>Action</b>	<b>82</b>
6. <b>U. T. Arlington: Authorization to lease approximately 20,000 square feet of improvements and associated parking located at 1401 Jones Street, Fort Worth, Tarrant County, Texas, from the Board of Directors of Tax Increment Reinvestment Zone Number Three, City of Fort Worth, for The University of Texas at Arlington Fort Worth Higher Education Center</b>	5:20 p.m. <b>Action</b> <i>President Spaniolo Ms. Mayne</i>	<b>Action</b>	<b>84</b>
7. <b>U. T. Tyler: Authorization to purchase real property and improvements located at 3620 Varsity Drive, Tyler, Smith County, Texas, from Josephine R. Black, at fair market value as established by an independent appraisal, for campus expansion needs and initial use as office space</b>	5:25 p.m. <b>Action</b> <i>President Mabry Ms. Mayne</i>	<b>Action</b>	<b>87</b>

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
8. <b>U. T. Dallas: Campus Fire and Life Safety Improvements and Campus Infrastructure Upgrades - Amendment of the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to include project; authorization of institutional management; and appropriation of funds and authorization of expenditure</b>	<i>5:30 p.m.</i> <b>Action</b> <i>Mr. Dixon</i>	<b>Action</b>	<b>89</b>
9. <b>U. T. Dallas: Power Distribution Upgrade Study - Amendment of the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to include project; appropriation of funds and authorization of expenditure; and resolution regarding parity debt</b>	<i>5:35 p.m.</i> <b>Action</b> <i>Mr. Dixon</i>	<b>Action</b>	<b>90</b>
10. <b>U. T. Dallas: Approval to expand planning authority for Masters and Ph.D. degrees in Biomedical Engineering and Ph.D. degrees in Mechanical Systems, Industrial, and Chemical Engineering</b>	<i>5:40 p.m.</i> <b>Action</b> <i>President Daniel Dr. Sullivan</i>	<b>Action</b>	<b>91</b>
11. <b>U. T. Dallas: Discussion of compact priorities</b>	<i>5:45 p.m.</i> <b>Report</b> <i>President Daniel Dr. Sullivan</i>	Not on Agenda	<b>92</b>
<b>Adjourn</b>	<i>6:00 p.m.</i>		

1. **U. T. System: Reports from academic presidents, Executive Vice Chancellor Sullivan, and Academic Affairs Committee members**

REPORT

The academic presidents and Executive Vice Chancellor Sullivan will report on efforts to improve graduation rates. Reports may also include, time permitting, areas such as new research grants, significant collaborations with external agencies, or other topics deemed to be important. This is a quarterly update to the Academic Affairs Committee of the U. T. System Board of Regents.

Committee members may also report on topics of importance.

2. **U. T. System: Approval of resolution to improve graduation rates**

RECOMMENDATION

The Chancellor recommends that the Board approve the following resolution to improve the graduation rates at all U. T. System academic institutions:

RESOLUTION

WHEREAS, The Board recognizes the importance of the State of Texas Initiative "Closing the Gaps by 2015," a plan to close the educational gaps in student participation and success within Texas, as well as between Texas and other states;

WHEREAS, Graduation rates are a critical component of such plan;

WHEREAS, Although the Board recognizes the progress in student participation among the academic institutions, the Board is not satisfied with the status of student success (graduation rates) among the academic institutions;

WHEREAS, The Board understands that each academic institution has a set of contextual factors that affect graduation rates, such as the proportions of students who are full-time, part-time, Coordinated Admissions Program enrollees, joint degree students, and transfer students; and

WHEREAS, The Board wishes to enhance the quality of the educational experience and does not approve lowering academic standards nor inflation of grades among academic institutions.

THEREFORE, BE IT RESOLVED that on behalf of The University of Texas System, the Board expresses concern about the student success rates among all academic institutions and thus makes improving graduation rates one of its highest educational priorities for the next decade, and the Board directs:

- That all academic institution presidents align institutional policies to maximize their positive impact on graduation rates -- policies such as financial aid, academic advising, performance reviews, tuition, course scheduling, campus housing, curriculum, admissions, and any other institutional policy that improves graduation rates;
- That all academic institution presidents develop specific targets by April 15, 2006, to meet or exceed national averages for four-year, five-year, and six-year graduation rates for full-time, part-time, and transfer students; and
- That all academic institution presidents report each quarter the specific steps taken to align policies and to improve graduation rates and that they provide statistics and progress toward the specified targets annually to the Board for each group of students.

**3. U. T. System: Student learning assessment report**

REPORT

Dr. Pedro Reyes, Associate Vice Chancellor for Academic Planning and Assessment, will lead a discussion about the student learning assessment project for The University of Texas System following a PowerPoint presentation on Pages 192 - 197 in the Supplemental Materials (Volume 2) of the Agenda Book. An Executive Summary of the College Learning Assessment Project is on Pages 198 - 206 in the Supplemental Materials (Volume 2) of the Agenda Book.

**4. U. T. Brownsville: Authorization to accept invitation from the Red River Athletic Conference and to negotiate and finalize terms for athletic conference membership**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and President García that the U. T. System Board of Regents authorize U. T. Brownsville to accept an invitation and to negotiate a contract for Red River Athletic Conference membership.

## BACKGROUND INFORMATION

Texas Southmost College (TSC) joined the National Junior College Athletic Association (NJCAA) in 1978 and continued to participate in the conference after the partnership with The University of Texas System was implemented in 1992. TSC has had success in women's volleyball and men's and women's golf in gaining berths to national tournaments. At the junior college level, U. T. Brownsville/Texas Southmost College (UTB/TSC) scholarships student-athletes for two years, and if those student-athletes want to continue to play competitive collegiate sports and earn a bachelor's degree, they must transfer from U. T. Brownsville after their sophomore year. After 13 years as a successful partnership, UTB/TSC finds this arrangement counterproductive to the institution.

In Spring 2004, the UTB/TSC Futures Commission 2020 - Student Life Task Force recommended that the University add more sports and begin to compete in a different (higher) association and conference. The basis of this recommendation was tri-fold: anticipation of student enrollment growth, need for student retention, and importance of campus life. The sentiment of the Futures Commission was: "We are a university, and we should compete in a four-year conference."

After considering the recommendation from the Student Life Task Force, which included students, staff, faculty, and community members, the University examined its options with the National Association of Intercollegiate Athletics (NAIA) and the National Collegiate Athletic Association (NCAA). The NAIA gives institutions the autonomy to determine to what degree they want to sponsor athletics with no minimum number of sports that must be sponsored. The NAIA allows institutions to determine the amount of athletic aid, up to a certain level, that would be offered. In comparison, the NCAA requires new institutions to sponsor a minimum of 10 sports and provide a minimum amount of scholarship dollars split equally by gender.

After weighing the options of moving to the four-year conferences or remaining in the present two-year conference, UTB/TSC concluded that the NAIA would best serve its immediate needs. The University needs the lesser restrictions on adding more sports. The NAIA is structured into 14 regions to better serve its membership. Each region is governed by a regional management committee that includes various conference and independent representatives. The NAIA administers championships and programs in balance with the overall educational experience. Through Champions of Character, the NAIA seeks to create an environment in which every student-athlete, coach, official, and spectator is committed to the true spirit of competition through respect, integrity, responsibility, servant leadership, and sportsmanship. This program will provide educational opportunities to emphasize the positive character-building traits available through competition at the collegiate level.



By moving into the NAIA and gaining membership into a new conference, UTB/TSC expects the following advantages:

- a. help increase retention,
- b. help develop ethical character standards,
- c. enhance student life and participation on campus,
- d. create more opportunities for student-athletes to follow their dreams,
- e. create greater community involvement and pride in the University and the "Scorpion" brand name, and
- f. increase its ability to attract new students and new donors to the University.

In August 2005, a new Director of Athletics was hired and with the support of the TSC Board of Trustees terms were negotiated to leave the NJCAA. UTB/TSC was invited into membership in the NAIA on September 26, 2005. On September 27, 2005, UTB/TSC applied to the Red River Athletic Conference (RRAC). On December 3, 2005, the University was invited into membership in the RRAC beginning in Fall 2006. The RRAC includes Texas, New Mexico, and Oklahoma. Its member schools include:

Bacone College - Muskogee, Oklahoma  
Houston Baptist University - Houston, Texas  
Huston-Tillotson College - Austin, Texas  
Jarvis Christian College - Hawkins, Texas  
Northwood University - Cedar Hill, Texas  
Paul Quinn College - Dallas, Texas  
College of the Southwest - Hobbs, New Mexico  
Southwestern Assemblies of God University - Waxahachie, Texas  
Texas A&M International University - Laredo, Texas  
Texas College - Tyler, Texas  
The University of Texas of the Permian Basin - Odessa, Texas (See Item 5 on Page 82 related to authorization for U. T. Permian Basin to accept an invitation from the Heartland Conference)  
Texas Wesleyan University - Fort Worth, Texas  
Wiley College - Marshall, Texas

For the next fiscal year, UTB/TSC has proposed an athletic fee that will increase the athletic department's budget, which would then allow the University to add men's and women's soccer, a part-time athletic trainer, and a sports information director and to move a part-time coach to full-time status and support increased costs in travel.

5. **U. T. Permian Basin: Authorization to accept invitation from Heartland Conference and to negotiate and finalize terms for athletic conference membership**

**RECOMMENDATION**

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and President Watts that the U. T. System Board of Regents authorize U. T. Permian Basin to accept an invitation and to negotiate a contract for Heartland Conference membership.

**BACKGROUND INFORMATION**

U. T. Permian Basin started a limited program of athletics in 1994 with club volleyball and club soccer teams. U. T. Permian Basin competed as an independent member of the National Association for Intercollegiate Athletics (NAIA) beginning in 1995. In 1998, the University joined the Red River Athletic Conference (RRAC) as a charter member. Currently, 13 institutions have membership in the Red River Athletic Conference.

Since U. T. Permian Basin's athletic program was implemented in 1994, it has grown to include 13 intercollegiate sports. U. T. Permian Basin students support intercollegiate athletics with a \$7 per credit hour fee. Athletics are an important part of the University's transformation from a commuter to a traditional campus. Home games are a vital part of the University's campus life. There are several National Collegiate Athletic Association (NCAA) Division II universities within a reasonable proximity of U. T. Permian Basin that will not schedule the University's teams because it is not an NCAA Division II member.

Using the last two years as a reference point, U. T. Permian Basin has scheduled a total of 24 home contests against non-conference opponents. It is estimated that should the University become an NCAA Division II member, U. T. Permian Basin would have the potential to schedule 94 possible home opponents. Joining the NCAA at the Division II level will allow U. T. Permian Basin to schedule more home contests on a regular basis, which will cut down on costs and missed athlete class time. Increased numbers of home contests would enrich student life on campus as the institution continues its transformation.

A change in national affiliation from the NAIA to the NCAA will also require a change in conference membership. Currently, U. T. Permian Basin is a member of the RRAC. An invitation has been extended to join the NCAA Division II Heartland Conference.

Membership of the Heartland Conference includes:

St. Mary's University - San Antonio, Texas  
St. Edward's University - Austin, Texas  
University of the Incarnate Word - San Antonio, Texas  
Dallas Baptist University - Dallas, Texas  
Montana State University-Billings - Billings, Montana  
Lincoln University - Jefferson City, Missouri  
Panhandle State University - Goodwell, Oklahoma  
Western New Mexico University - Silver City, New Mexico

Area NCAA II institutions include:

West Texas A&M University - Canyon, Texas  
Eastern New Mexico University - Portales, New Mexico  
Angelo State University - San Angelo, Texas  
Abilene Christian University - Abilene, Texas  
Midwestern State University - Wichita Falls, Texas  
Tarleton State University - Stephenville, Texas

U. T. Permian Basin identifies the following benefits to membership in NCAA Division II and the Heartland Conference:

- a. The NCAA brand name should bring value to the University and the athletic program.
- b. Membership in the NCAA at the Division II level will result in a more consistent high level of competition commensurate with the quality of U. T. Permian Basin's athletics program.
- c. Membership in the Heartland Conference will benefit U. T. Permian Basin in three important areas:
  1. stability in conference membership;
  2. enhanced name recognition of conference member institutions; and
  3. the ability to schedule other NCAA Division II teams in the region and area that are likely to lead to traditional rivalries.
- d. Membership in the NCAA and the Heartland Conference will be a positive step in the development of the University.

6. **U. T. Arlington: Authorization to lease approximately 20,000 square feet of improvements and associated parking located at 1401 Jones Street, Fort Worth, Tarrant County, Texas, from the Board of Directors of Tax Increment Reinvestment Zone Number Three, City of Fort Worth, for The University of Texas at Arlington Fort Worth Higher Education Center**

**RECOMMENDATION**

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

- a. sublease from the Board of Directors of Tax Increment Reinvestment Zone Number Three, City of Fort Worth, for a term not to exceed 10 years, plus a three-month renewal option, approximately 20,000 square feet of improvements and associated parking located at 1401 Jones Street in downtown Fort Worth, Tarrant County, Texas; and
- b. authorize the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to execute all documents, instruments, and other agreements, subject to approval of all such documents as to legal form by the Office of General Counsel, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendation.

**BACKGROUND INFORMATION**

U. T. Arlington proposes to sublease the property for use as The University of Texas at Arlington Fort Worth Higher Education Center. The U. T. System Board of Regents authorized U. T. Arlington to offer academic courses in Fort Worth at its meeting in November 2004. The Texas Higher Education Coordinating Board approved the creation of the Center in February 2005. Fort Worth is currently not served by a four-year state-assisted higher education institution; the Center is intended to address this need and create better access to higher education for the citizens of Fort Worth and Tarrant County.

U. T. Arlington plans to move its existing academic programs from its Fort Worth Riverbend Campus in east Fort Worth to the subleased space at 1401 Jones Street in downtown Fort Worth. The academic programs include the Cohort MBA program and upper-level and graduate programs of the Colleges of Engineering and Education, as well as the new Executive MBA program. The Fort Worth Riverbend Campus lacks sufficient instructional space to support these growing programs, so many courses are

taught at other facilities, including Bell Helicopter and Tarrant County College. The new location at 1401 Jones Street in downtown Fort Worth also creates the opportunity to offer continuing education courses during the daytime hours.

The University selected the property as the site for its Fort Worth Higher Education Center after an extensive search of downtown Fort Worth properties. After an initial review of various properties, U. T. Arlington issued a Request for Proposals (RFP) to several property owners. The property to be subleased is a former Santa Fe Railway warehouse built in the 1930s and designated as historic by the City of Fort Worth. It was renovated in 2003.

U. T. Arlington chose the Jones Street property for a number of reasons. The property was offered with rent abatements and with no operating expenses other than electricity, thereby reducing the University's financial risk and management efforts. The property includes substantial on-site parking and is located next to transit facilities, facilitating access to the Higher Education Center. U. T. Arlington will be the dominant tenant at the distinctive facility. Signage on the building will be compatible with the building's current historic signage and visible from Interstate Highway 30 and the Tarrant County Convention Center, thus creating an immediate, recognizable image.

U. T. Arlington will use existing cash balances to fund approximately \$1.2 million for the design and construction of tenant improvements for offices, classrooms, and ancillary spaces. U. T. Arlington will pay rent and electricity costs using Designated Tuition.

The 10-year sublease will include a three-month renewal option to permit U. T. Arlington to extend the lease so that it does not terminate mid-semester. A non-disturbance agreement will be obtained from the sublandlord's landlord, Ron Investments, Ltd., to assure that the University's leasehold interest will continue in the event of a termination of the primary lease. U. T. Arlington envisions the leasehold as an interim measure until the academic programs are established and the University finds a permanent campus facility.

#### Transaction Summary

Institution:	U. T. Arlington
Type of Transaction:	Sublease
Improvements:	Approximately 20,000 square feet on two floors out of a 30,791 square foot building; for the first three months, U. T. Arlington will occupy only approximately 6,000 square feet
Parking:	110 spaces, on-site; an additional 20 spaces will be available during evenings and weekends

Location: 1401 Jones Street, Fort Worth, Tarrant County, Texas; see attached map

Sublandlord: The Board of Directors of Tax Increment Reinvestment Zone Number Three, City of Fort Worth

Third-Party Selection Process and Rationale: U. T. Arlington considered about a dozen buildings in downtown Fort Worth and then issued a Request for Proposals for several properties; the institution selected the facility due to its competitive economics, ample on-site parking, and positive image

Annual Rent: Rent for 6,000 square feet of initial space will be \$7.00 per square foot for two months; then rent for the 20,000 square feet will be \$0 for year one, substantially abated in years two through four, \$16.24 per square foot in year five, and then rising gradually to \$17.29 per square foot in year 10; the net effective (average) rent after the initial partial occupancy is \$11.51 per square foot; total base rent over the term will be approximately \$2,250,733.

Operating Expenses: Sublandlord is responsible for the maintenance and replacement of all common areas and parking, and all operating expenses except electricity; U. T. Arlington is responsible for paying for electricity, estimated to initially cost \$40,000 annually; U. T. Arlington will maintain the leasehold improvements

Lease Term: 10 years plus a three-month renewal option

Source of Funds: U. T. Arlington will use existing cash balances to fund \$1.2 million of primarily classroom and office interior leasehold improvements and roof-mounted signs; Designated Tuition will be used to fund space lease costs

Intended Use: U. T. Arlington Fort Worth Higher Education Center



7. **U. T. Tyler: Authorization to purchase real property and improvements located at 3620 Varsity Drive, Tyler, Smith County, Texas, from Josephine R. Black, at fair market value as established by an independent appraisal, for campus expansion needs and initial use as office space**

#### RECOMMENDATION

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

- a. purchase the real property and improvements located at 3620 Varsity Drive, Tyler, Smith County, Texas, from Josephine R. Black, at fair market value as established by an independent appraisal, plus all due diligence expenses, closing costs, and other costs and expenses to complete the acquisition of the property as deemed necessary or advisable by the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate; and
- b. authorize the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to execute all documents, instruments, and other agreements, subject to approval of all such documents as to legal form by the Office of General Counsel, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendation.

#### BACKGROUND INFORMATION

U. T. Tyler desires to purchase the subject property and improvements, consisting of a 1,812 square foot house on a 12,281 square foot lot, for a price not to exceed the fair market value of \$140,000 as established by an independent appraisal. The house is built with the same brick used to construct the U. T. Tyler campus buildings, and is on a prominent corner across Varsity Drive from the northeastern corner of the campus, near the R. Don Cowan Fine and Performing Arts Center and the current Engineering Building.

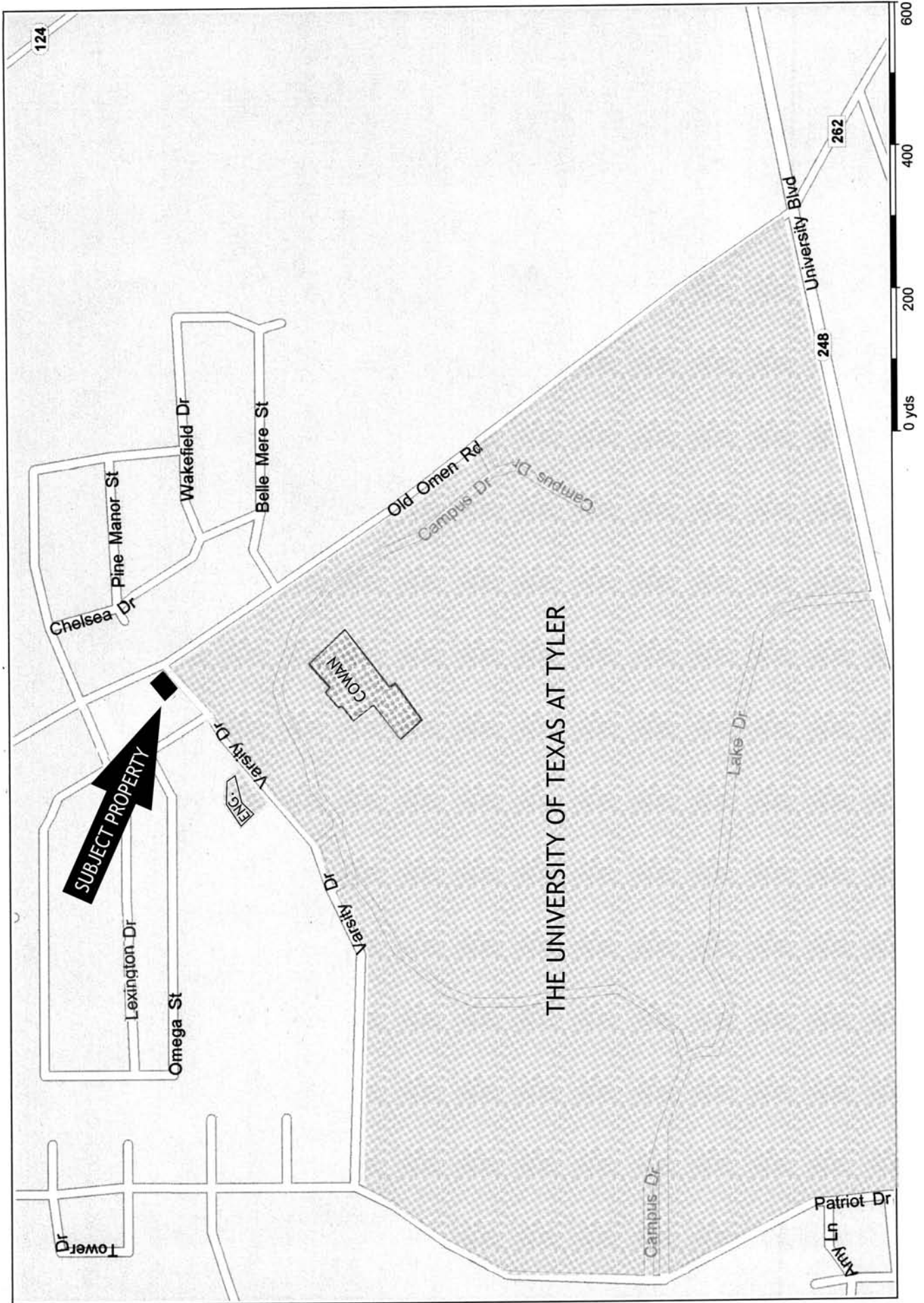
The improvements will be used as additional office space, possibly for the Development and Alumni Affairs Office or an academic research center.



To fund the purchase, U. T. Tyler will use private gifts or unrestricted fund balances. The terms and conditions of the purchase are reflected in the transaction summary below:

Transaction Summary

Institution:	U. T. Tyler
Type of Transaction:	Purchase
Total Area:	12,281 square foot residential lot
Improvements:	1,812 square foot brick house
Location:	3620 Varsity Drive, Tyler, Smith County, Texas; see attached map
Seller:	Josephine R. Black
Purchase Price:	\$140,000
Appraised Value:	\$140,000 (Appraisal Associates, December 5, 2005)
Source of Funds:	Private gifts or unrestricted fund balances
Intended Use:	Campus expansion needs and initial use as office space



**8. U. T. Dallas: Campus Fire and Life Safety Improvements and Campus Infrastructure Upgrades - Amendment of the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to include project; authorization of institutional management; and appropriation of funds and authorization of expenditure**

**RECOMMENDATION**

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Daniel that the U. T. System Board of Regents amend the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to include the Campus Fire and Life Safety Improvements and Campus Infrastructure Upgrades project at The University of Texas at Dallas as follows:

**Project Number:** 302-242

**Institutionally Managed:** Yes  No

**Architecturally or Historically Significant:** Yes  No

**Project Delivery Method:** Competitive Sealed Proposals

**Substantial Completion Date:** November 2007

<b>Total Project Cost:</b>	<u>Source</u>	<u>Proposed</u>
	Permanent University Fund Bond Proceeds	\$8,226,000

- a. approve a total project cost of \$8,226,000 with funding from Permanent University Fund Bond Proceeds;
- b. authorize U. T. Dallas to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts; and
- c. appropriate and authorize expenditure of funds.

**BACKGROUND INFORMATION**

**Project Description**

U. T. Dallas is requesting institutional management to construct 10 infrastructure-related projects. Improvements will include campus security, fire and life safety systems, and upgrades to aging building mechanical, electrical, and plumbing systems.

U. T. Dallas Facilities Management personnel have the experience and capability to manage all aspects of the work.

This proposed off-cycle project has been approved by U. T. System staff and meets the criteria for inclusion in the Capital Improvement Program.

**9. U. T. Dallas: Power Distribution Upgrade Study - Amendment of the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to include project; appropriation of funds and authorization of expenditure; and resolution regarding parity debt**

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Daniel that the U. T. System Board of Regents amend the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to include the Power Distribution Upgrade Study project at The University of Texas at Dallas as follows:

**Project Number:** 302-243

**Architecturally or Historically Significant:** Yes  No

**Project Delivery Method:** NA

**Substantial Completion Date:** June 2006

<b>Total Project Cost:</b>	<u>Source</u>	<u>Proposed</u>
	Revenue Financing System Bond Proceeds	\$175,000

- a. approve a preliminary project cost of \$175,000 with funding from Revenue Financing System Bond Proceeds;
- b. appropriate and authorize expenditure of funds; and
- c. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
  - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;
  - 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. System Board of Regents relating to the Financing System; and

- U. T. Dallas, 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. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$175,000.

## BACKGROUND INFORMATION

### Debt Service

The \$175,000 in Revenue Financing System debt is expected to be repaid from Designated Tuition funds. Overall debt service coverage for the institution is expected to average 1.90 times from FY 2006 through 2011.

### Project Description

U. T. Dallas is requesting a study to provide a review of aging campus power distribution and central plant equipment. Deliverables from the study will include the scope, cost, and schedule for needed system improvements. Much of the current system is 30 years old, in poor condition, and unreliable, and replacement costs are no longer available. The study and program would also evaluate performance contract opportunities and parameters.

This project is below the Capital Improvement cost threshold but is being added to the Capital Improvement Program due to the use of debt financing.

This proposed off-cycle project has been approved by U. T. System staff and meets the criteria for inclusion in the Capital Improvement Program.

10. **U. T. Dallas: Approval to expand planning authority for Masters and Ph.D. degrees in Biomedical Engineering and Ph.D. degrees in Mechanical Systems, Industrial, and Chemical Engineering**

## RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs and President Daniel that

- a. degree planning authority for U. T. Dallas be expanded to include Masters and Ph.D. degrees in Biomedical Engineering and Ph.D. degrees in Mechanical Systems, Industrial, and Chemical Engineering; and

- b. the proposal be submitted to the Texas Higher Education Coordinating Board for review and appropriate action.

### BACKGROUND INFORMATION

The Ph.D. programs in Biomedical Engineering, Mechanical Systems, Industrial, and Chemical Engineering will be designed to train future scientists and engineers to use the latest technology in the field.

The primary objective of the Ph.D. programs is to prepare a new generation of scholars in academic programs, industry, business, and nongovernmental organizations.

### **11. U. T. Dallas: Discussion of compact priorities**

#### REPORT

President Daniel and Executive Vice Chancellor Sullivan will lead a discussion about compact priorities for The University of Texas at Dallas as set out in the compact on Pages 207 - 224 in the Supplemental Materials (Volume 2) of the Agenda Book. Dr. Daniel's PowerPoint presentation is on Pages 225 - 232 in the Supplemental Materials (Volume 2) of the Agenda Book.



## TABLE OF CONTENTS FOR HEALTH AFFAIRS COMMITTEE

**Committee Meeting: 2/8/2006**

**Board Meeting: 2/9/2006**  
Austin, Texas

Rita C. Clements, *Chairman*  
H. Scott Caven, Jr.  
Judith L. Craven, *M.D.*  
Cyndi Taylor Krier  
Robert B. Rowling

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
<b>Convene</b>	3:30 p.m. <i>Chairman Clements</i>		
1. <b>U. T. System: Quarterly report on health issues by Executive Vice Chancellor Shine</b>	3:30 p.m. <b>Report</b> <i>Dr. Shine</i>	Not on Agenda	<b>93</b>
2. <b>U. T. Health Science Center - San Antonio: Pre-Clinical Laboratories Renovation - Amendment of the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to include project; authorization of institutional management; and appropriation of funds and authorization of expenditure</b>	3:45 p.m. <b>Action</b> <i>Mr. Dixon</i>	<b>Action</b>	<b>93</b>
3. <b>U. T. Health Science Center - San Antonio: Authorization to acquire 13.37 acres of unimproved land located at the northeast corner of Floyd Curl Drive and Sid Katz Drive, described as 13.37 acres out of the Manuel Tejada Survey No. 89, Abstract No. 741, City of San Antonio, Bexar County, Texas, from the Board of Trustees of the San Antonio Medical Foundation, either by gift or by purchase at less than the fair market value as established by an independent appraisal, for campus expansion needs to accommodate the proposed Medical Arts and Research Center (MARC)</b>	3:50 p.m. <b>Action</b> <i>President Cigarroa</i> <i>Ms. Mayne</i>	<b>Action</b>	<b>94</b>
4. <b>U. T. Health Science Center - San Antonio: Laboratory Animal Resources Renovation - Amendment of the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to include project; authorization of institutional management; and appropriation of funds and authorization of expenditure</b>	4:00 p.m. <b>Action</b> <i>Mr. Dixon</i>	<b>Action</b>	<b>97</b>
5. <b>U. T. M. D. Anderson Cancer Center: Discussion of compact priorities</b>	4:05 p.m. <b>Report</b> <i>President Mendelsohn</i> <i>Dr. Shine</i>	Not on Agenda	<b>98</b>

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
6. <b>U. T. Medical Branch - Galveston: Approval to expand planning authority for a Doctor of Physical Therapy degree in the School of Allied Health Sciences</b>	<i>4:25 p.m.</i> <b>Action</b> <i>President Stobo</i>	<b>Action</b>	<b>98</b>
<b>Adjourn</b>	<i>4:30 p.m.</i>		



1. **U. T. System: Quarterly report on health issues by Executive Vice Chancellor Shine**

REPORT

Executive Vice Chancellor Shine will report on health matters of interest to the U. T. System. This is a quarterly update to the Health Affairs Committee of the U. T. System Board of Regents.

2. **U. T. Health Science Center - San Antonio: Pre-Clinical Laboratories Renovation - Amendment of the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to include project; authorization of institutional management; and appropriation of funds and authorization of expenditure**

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Cigarroa that the U. T. System Board of Regents amend the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to include the Pre-Clinical Laboratories Renovation project at The University of Texas Health Science Center at San Antonio as set forth below:

**Architecturally or Historically Significant:**

(Note: Item is before the Board; see Item 1 on Page 100.)

**Project Delivery Method:** Competitive Sealed Proposals

**Substantial Completion Date:** May 2007

**Total Project Cost:**

<u>Source</u>	<u>Proposed</u>
Dental Services, Research and Development Plans (DSRDP)	\$4,500,000

- a. approve a total project cost of \$4,500,000 with funding from Dental Services, Research and Development Plans (DSRDP);
- b. authorize U. T. Health Science Center - San Antonio to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts; and
- c. appropriate and authorize expenditure of funds.

## BACKGROUND INFORMATION

### Project Description

U. T. Health Science Center - San Antonio is requesting institutional management for the renovation of approximately 11,500 gross square feet in the Pre-Clinical Laboratories in the existing Dental School to provide the latest teaching methods and technology in the delivery of dental care.

The Pre-Clinical Laboratories in the Dental School were built in the early 1970s to support state-of-the-art dental education. The student workspaces were compatible with the delivery of technical dentistry that was used at that time. Teaching approaches such as closed-circuit television made the facility a model environment. Many new approaches to the delivery of dental care have evolved, making the current design and arrangement of the laboratories outmoded. Technology to support education has also drastically changed and patient simulation is now a very sophisticated and vital part of contemporary dental education. The current infrastructure of the laboratories is not compatible with the use of these modern approaches.

U. T. Health Science Center - San Antonio Facilities Management personnel have the experience and capability to manage all aspects of the work.

This proposed off-cycle project has been approved by U. T. System staff and meets the criteria for inclusion in the Capital Improvement Program.

3. **U. T. Health Science Center - San Antonio: Authorization to acquire 13.37 acres of unimproved land located at the northeast corner of Floyd Curl Drive and Sid Katz Drive, described as 13.37 acres out of the Manuel Tejada Survey No. 89, Abstract No. 741, City of San Antonio, Bexar County, Texas, from the Board of Trustees of the San Antonio Medical Foundation, either by gift or by purchase at less than the fair market value as established by an independent appraisal, for campus expansion needs to accommodate the proposed Medical Arts and Research Center (MARC)**

## RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Cigarroa that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. Health Science Center - San Antonio, to

- a. acquire by gift or by purchase at less than fair market value as established by an independent appraisal, the unimproved land located at the northeast corner of Floyd Curl Drive and Sid Katz Drive, San Antonio, Bexar County,

Texas, described as 13.37 acres out of the Manuel Tejada Survey No. 89, Abstract No. 741, City of San Antonio, Bexar County, Texas, from the Board of Trustees of the San Antonio Medical Foundation, with payment for (1) the Foundation's infrastructure costs and engineering and legal fees, if the acquisition is by gift, and (2) all due diligence expenses, closing costs, and other costs and expenses to complete the acquisition of the property as deemed necessary or advisable by the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate, for the site of the proposed Medical Arts and Research Center (MARC); and

- b. authorize the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to execute all documents, instruments, and other agreements, subject to approval of all such documents as to legal form by the Office of General Counsel, and take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations.

#### BACKGROUND INFORMATION

The subject property consists of 13.37 acres of unimproved land located at the northeast corner of Floyd Curl Drive and Sid Katz Drive, San Antonio, Texas, in the South Texas Medical Center. The U. T. Health Science Center - San Antonio North Campus is located directly across Floyd Curl Drive. The Children's Cancer Center Research Institute and Ronald McDonald House are located nearby. The property has a substantial amount of frontage on Floyd Curl and Sid Katz Drives, providing multiple access points and superior visibility.

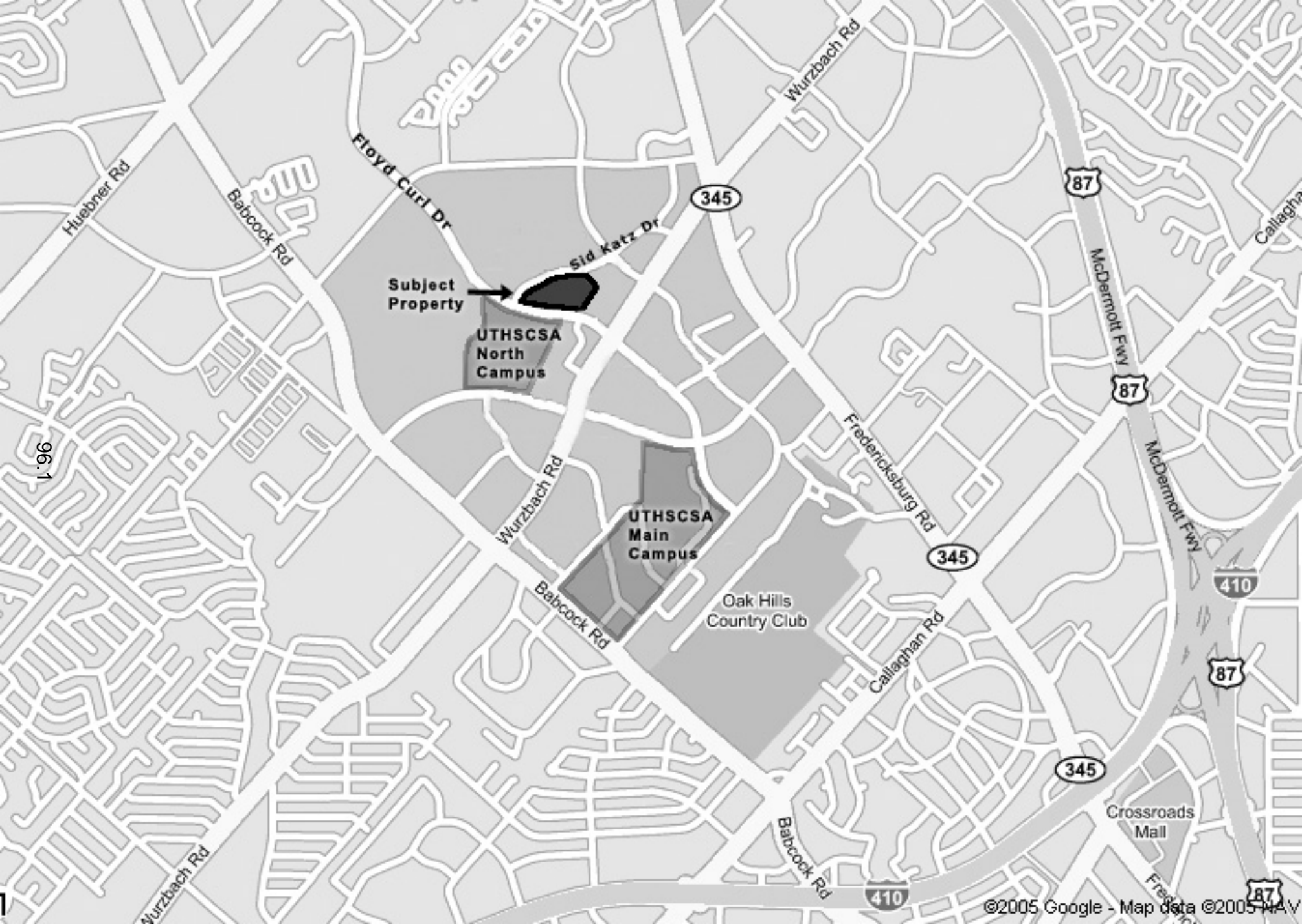
Although the property has been proposed as a gift from the San Antonio Medical Foundation, the Foundation has requested that U. T. Health Science Center - San Antonio reimburse the Foundation for infrastructure costs and engineering fees it has incurred to serve the property with roads and utilities and legal fees to transfer the property to the institution. Infrastructure costs are approximately \$266,000, and the engineering and legal fees are approximately \$35,000. The acquisition may alternatively be structured as a bargain purchase with a purchase price that equals the infrastructure costs and engineering and legal fees, which price will be less than the fair market value of the property as established by an independent appraisal.

U. T. Health Science Center - San Antonio plans to locate the MARC on the property. This facility will support ambulatory clinical care services and clinical research activities for the School of Medicine Faculty Practice Plan. The MARC project was approved by the U. T. System Board of Regents at its November 2005 meeting.

Net revenues generated by medical services, parking, rent, and royalties will be used to fund the payment to the San Antonio Medical Foundation of approximately \$301,000 of infrastructure costs and legal and engineering fees. The terms and conditions of the acquisition are reflected in the transaction summary below:

Transaction Summary

Institution:	U. T. Health Science Center - San Antonio
Type of Transaction:	Gift with payment by U. T. Health Science Center - San Antonio of approximately \$301,000 for infrastructure costs and engineering and legal fees, or bargain purchase at a purchase price in that same amount, which is the property's pro-rata share of actual infrastructure costs and engineering and legal fees incurred by the San Antonio Medical Foundation
Total Area:	13.37 acres
Improvements:	None
Location:	Northeast corner of Floyd Curl Drive and Sid Katz Drive, described as 13.37 acres out of the Manuel Tejada Survey No. 89, Abstract No. 741, City of San Antonio, Bexar County, Texas; see attached map
Seller:	Board of Trustees of the San Antonio Medical Foundation
Appraised Value:	\$4,650,000 (Noble & Associates, October 24, 2005)
Source of Funds:	Net revenues generated by medical services, parking, rent, and royalties
Intended Use:	Campus expansion needs to accommodate the proposed U. T. Health Science Center - San Antonio Medical Arts and Research Center



Subject Property

UTHSCSA  
North  
Campus

UTHSCSA  
Main  
Campus

Oak Hills  
Country Club

Crossroads  
Mall

**4. U. T. Health Science Center - San Antonio: Laboratory Animal Resources Renovation - Amendment of the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to include project; authorization of institutional management; and appropriation of funds and authorization of expenditure**

**RECOMMENDATION**

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Cigarroa that the U. T. System Board of Regents amend the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to include the Laboratory Animal Resources Renovation project at The University of Texas Health Science Center at San Antonio as set forth below:

**Architecturally or Historically Significant:**

(Note: Item is before the Board; see Item 1 on Page 100.)

**Project Delivery Method:** Construction Manager at Risk

**Substantial Completion Date:** May 2007

<b>Total Project Cost:</b>	<u>Source</u>	<u>Proposed</u>
	Grant (NIH)	\$3,000,000
	Unexpended Plant Funds	<u>\$2,500,000</u>
		\$5,500,000

- a. approve a total project cost of \$5,500,000 with funding of \$3,000,000 from National Institutes of Health (NIH) Grants and \$2,500,000 from Unexpended Plant Funds;
- b. authorize U. T. Health Science Center - San Antonio to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts; and
- c. appropriate and authorize expenditure of funds.

**BACKGROUND INFORMATION**

**Project Description**

U. T. Health Science Center - San Antonio is requesting institutional management to renovate approximately 11,000 gross square feet of existing space in the Medical School in the Department of Laboratory Animal Resources (LAR) to better enhance research projects on drug and alcohol abuse.

A major area of growth in research involves animal studies on drug and alcohol abuse. Currently eight NIH-funded investigators use animals in studies that must be conducted within a secure, appropriately configured animal facility. The animal facility at U. T. Health Science Center - San Antonio was not designed originally to accommodate procedure rooms in close proximity to animal housing rooms. The proposed renovation will markedly increase the efficiency of ongoing NIH-funded projects and will further accommodate anticipated future growth in this area of research. The plan includes customized housing and laboratory space for mice, rats, pigeons, and non-human primates within the existing animal facility and additional laboratories for mice and rats in new space that will be made available to LAR as part of the renovation. The plan also includes rooms to accommodate support activities for projects, drug storage and preparation, computer control rooms, and wet laboratories.

U. T. Health Science Center - San Antonio Facilities Management personnel have the experience and capability to manage all aspects of the work.

This proposed off-cycle project has been approved by U. T. System staff and meets the criteria for inclusion in the Capital Improvement Program.

**5. U. T. M. D. Anderson Cancer Center: Discussion of compact priorities**

REPORT

President Mendelsohn and Executive Vice Chancellor Shine will lead a discussion about compact priorities for U. T. M. D. Anderson Cancer Center as set out in the compact on Pages 233 - 251 in the Supplemental Materials (Volume 2) of the Agenda Book. Dr. Mendelsohn's PowerPoint presentation is on Pages 252 - 260 in the Supplemental Materials (Volume 2) of the Agenda Book.

**6. U. T. Medical Branch - Galveston: Approval to expand planning authority for a Doctor of Physical Therapy degree in the School of Allied Health Sciences**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and President Stobo that

- a. degree planning authority for U. T. Medical Branch - Galveston be expanded to include a Doctor of Physical Therapy (DPT) program in the School of Allied Health Sciences; and

- b. the proposal be submitted to the Texas Higher Education Coordinating Board for review and appropriate action.

### BACKGROUND INFORMATION

The proposed program would complement and strengthen the undergraduate, graduate, and professional programs offered at U. T. Medical Branch - Galveston and would not duplicate other programs in the state or region.

There is a clear and well-defined need for physical therapists in the future, both nationally and in Texas. The State of Texas needs a DPT program to maintain the quality of and access to health care provided to people with chronic diseases and disabilities commonly seen by physical therapists. A DPT will more adequately address improvements in health professional education recommended by the Institute of Medicine report, *Health Professions Education: A Bridge to Quality*.





## TABLE OF CONTENTS FOR FACILITIES PLANNING AND CONSTRUCTION COMMITTEE

Committee Meeting: 2/8/2006

Board Meeting: 2/9/2006  
Austin, Texas

John W. Barnhill, Jr., Chairman  
H. Scott Caven, Jr.  
Rita C. Clements  
Robert A. Estrada  
Colleen McHugh

	Committee Meeting	Board Meeting	Page
<b>Convene</b>	2:30 p.m. Chairman Barnhill		
1. <b>U. T. System: Consideration of designation of projects as architecturally or historically significant</b>	2:30 p.m. <b>Action</b> Mr. Dixon	Not on Agenda	100
• U. T. Austin Hogg Auditorium Renovation			
• U. T. Austin Library Storage Facility			
• U. T. Pan American Administration Annex			
• U. T. Pan American Animal Research Facility			
• U. T. Pan American Business Administration Addition and Renovation			
• U. T. Health Science Center - San Antonio Pre-Clinical Laboratories Renovation			
• U. T. Health Science Center - San Antonio Laboratory Animal Resources Renovation			
• U. T. M. D. Anderson Cancer Center Rotary House International Phase III			
2. <b>U. T. Austin: LBJ Plaza Renovation/Lady Bird Johnson Center - Request for approval of design development</b>	2:33 p.m. <b>Action</b> Mr. Dixon	<b>Action</b>	110
3. <b>U. T. Austin: Applied Research Lab Expansion - Phase II - Amendment of the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to increase total project cost; approval of design development; approval of evaluation of alternative energy economic feasibility; and appropriation of funds and authorization of expenditure</b>	2:37 p.m. <b>Action</b> Mr. Dixon	<b>Action</b>	111
4. <b>U. T. Austin: Darrell K Royal - Texas Memorial Stadium Expansion - Amendment to the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to increase total project cost; approval of design development; appropriation of funds and authorization of expenditure; and resolution regarding parity debt</b>	2:41 p.m. <b>Action</b> Mr. Dixon	<b>Action</b>	112

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
5. <b>U. T. Austin: The University of Texas Executive Education and Conference Center - Amendment to the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to increase total project cost; approval of design development; approval of evaluation of alternative energy economic feasibility; revise the funding sources; appropriation of funds and authorization of expenditure; and resolution regarding parity debt</b>	2:44 p.m. <b>Action</b> <i>Mr. Dixon</i>	<b>Action</b>	115
6. <b>U. T. M. D. Anderson Cancer Center: U. T. Research Park Utilities and Central Maintenance Facilities - Request for approval of design development for Stage I of the project; approval of evaluation of alternative energy economic feasibility; and appropriation of funds and authorization of expenditure</b>	2:48 p.m. <b>Action</b> <i>Mr. Dixon</i>	<b>Action</b>	117
7. <b>U. T. Austin: Painter Hall - Mechanical System Upgrade - Amendment of the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to increase total project cost; revise the funding source; appropriation of funds and authorization of expenditure; and resolution regarding parity debt</b>	2:51 p.m. <b>Action</b> <i>Mr. Dixon</i>	<b>Action</b>	119
8. <b>U. T. San Antonio: Downtown Campus Cladding Repairs - Amendment of the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to increase total project cost and appropriation of funds and authorization of expenditure</b>	2:54 p.m. <b>Action</b> <i>Mr. Dixon</i>	<b>Action</b>	121
9. <b>U. T. Health Science Center - Houston: Data Center Relocation - Amendment of the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to decrease total project cost and revise funding sources</b>	2:58 p.m. <b>Action</b> <i>Mr. Dixon</i>	<b>Action</b>	122
10. <b>U. T. Austin: Jack S. Blanton Museum of Art Phase I and II - Request for acceptance of gifts of outdoor works of art</b>	3:02 p.m. <b>Action</b> <i>Mr. Dixon</i>	<b>Action</b>	123
11. <b>U. T. Southwestern Medical Center - Dallas: North Campus Phase 4 - Request for acceptance of gift of outdoor work of art</b>	3:07 p.m. <b>Action</b> <i>Mr. Dixon</i>	<b>Action</b>	127
12. <b>U. T. Austin: Request to name the grand foyer and lobby area in the Edgar A. Smith Building of the Jack S. Blanton Museum of Art as the Joe R. and Teresa Lozano Long Grand Foyer</b>	3:11 p.m. <b>Action</b> <i>Dr. Safady</i>	<b>Action</b>	129
13. <b>U. T. Tyler: Request to name the Baseball Field as the Bob and Mary Irwin Baseball Field</b>	3:15 p.m. <b>Action</b> <i>Dr. Safady</i>	<b>Action</b>	130
14. <b>U. T. Southwestern Medical Center - Dallas: Request to name the Biomedical Research and Advanced Imaging Building as the Bill and Rita Clements Advanced Medical Imaging Building</b>	3:18 p.m. <b>Action</b> <i>Dr. Safady</i>	<b>Action</b>	131
15. <b>U. T. System: Construction Cost Forecasting - Mitigating the Impacts of Hurricanes Katrina and Rita</b>	3:20 p.m. <b>Report</b> <i>Mr. Dixon/ Mr. Stanley Scott</i>	Not on Agenda	132
<b>Adjourn</b>	3:30 p.m.		

1. **U. T. System: Consideration of designation of projects as architecturally or historically significant**

- U. T. Austin Hogg Auditorium Renovation
- U. T. Austin Library Storage Facility
- U. T. Pan American Administration Annex
- U. T. Pan American Animal Research Facility
- U. T. Pan American Business Administration Addition and Renovation
- U. T. Health Science Center - San Antonio Pre-Clinical Laboratories Renovation
- U. T. Health Science Center - San Antonio Laboratory Animal Resources Renovation
- U. T. M. D. Anderson Cancer Center Rotary House International Phase III

**RECOMMENDATION**

It is recommended that the Committee review the following projects scheduled for architectural selection for possible designation as architecturally or historically significant pursuant to the Regents' *Rules and Regulations*, Series 80302:

**U. T. Austin**

Hogg Auditorium Renovation (See Page 102)

Proposed Project Cost: \$15,000,000

Anticipated Delivery Method: Construction Manager at Risk

Library Storage Facility (See Page 103)

Proposed Project Cost: \$4,800,000

Anticipated Delivery Method: Construction Manager at Risk

**U. T. Pan American**

Administration Annex (See Page 104)

Proposed Project Cost: \$7,000,000

Anticipated Delivery Method: Construction Manager at Risk

Animal Research Facility (See Page 105)

Proposed Project Cost: \$5,000,000

Anticipated Delivery Method: Construction Manager at Risk

Business Administration Addition and Renovation (See Page 106)

Proposed Project Cost: \$6,000,000

Anticipated Delivery Method: Construction Manager at Risk

**U. T. Health Science Center - San Antonio**

Pre-Clinical Laboratories Renovation (See Page 107)

Proposed Project Cost: \$4,500,000

Anticipated Delivery Method: Competitive Sealed Proposals  
(See Item 2 on Page 93)

Laboratory Animal Resources Renovation (See Page 108)

Proposed Project Cost: \$5,500,000

Anticipated Delivery Method: Construction Manager at Risk  
(See Item 4 on Page 97)

**U. T. M. D. Anderson Cancer Center**

Rotary House International Phase III (See Page 109)

Proposed Project Cost: \$21,000,000

Anticipated Delivery Method: Competitive Sealed Proposals

**Hogg Auditorium Renovation – Project No. 102-049**  
**U. T. Austin**

**Project Description.** This project will renovate the existing Hogg Auditorium, approximately 25,000 GSF, including replacement of or upgrade to the HVAC, plumbing and electrical systems. Also included in the project is the replacement of the sound and lighting systems, configuration of the stage and lobby areas, as well as a general refurbishment of the building interior. Additional modifications will address the requirements associated with disability accommodations and life safety.

**Proposed Site.** The project will primarily be within the existing facility on the main campus original 40 acres. There may be some underground construction for expanding rest room facilities immediately outside and underground to the north of the building.

**Age.** Original construction in 1933.

**Current/Past Use of the Building, and Compliance with the Campus Master Plan.**

This project complies with the master plan and the renovation will renew an important campus building and allow it to continue its support of the architectural context of the campus as a whole. Hogg Auditorium was constructed in 1933 and at the time of completion was the largest performance hall on campus. The planned renovation would provide a medium sized performance venue for events which do not require a facility on the scale of Bass Concert Hall in the Performing Arts Center.

**Other Relevant Information.** This renovation will meet the University's need for another 40-50 years.

**Library Storage Facility, Project No. 102-016**  
**U. T. Austin, J. J. Pickle Research Campus**

**Project Description.** This project will consist of construction of a 12,000 gross square foot high-density storage facility at Pickle Research Campus for archival acquisitions, slightly used library material, and possibly shared space for other U. T. System institutions.

**Proposed Site.** The proposed location is adjacent to, but south and/or west of the current library storage facility.

**Age.** This is a new facility.

**Current/Past Use of the Building, and Compliance with the Campus Master Plan.**

This is a new facility and complies with the Campus Master Plan.

**Other Relevant Information.** The existing library storage facility reached capacity by summer of 2003, reaching capacity in approximately half the time originally estimated when it was completed in 1991. Additional space will be used for growing archive collections and may include some shared library storage space for other higher education institutions. The current facility has clearly demonstrated that high-density storage is an effective and efficient way to store slightly used library and archival materials. This building is to be a state-of-the-art high-density storage facility in support of General Libraries and support the University in its quest for excellence.

## **Administration Annex U. T. Pan American**

**Project Description.** The Administration Annex is currently included in the FY 2006-2011 Capital Improvement Program at a Total Project Cost of \$7,000,000. This project will provide for an additional 43,000 square feet of administration office expansion. The facility will be dedicated to provide needed administrative support required to sustain operations, projected growth, and growing enrollment.

**Proposed Site.** The building site is currently proposed to be located to the north of, and shall connect to, the existing Marialice Shary Shivers Administration Building. The new facility will be designed to complement the established architectural vocabulary of the campus and adjacent structures.

**Age.** This will be a new facility expanding and supporting the total administrative operations of the University, and shall expand the services of the Marialice Shary Shivers Administration Building constructed in 1982.

**Current/Past Use of the Building, and Compliance with the Campus Master Plan.** This project is in keeping with the U. T. Pan American Master Plan for the campus, and will continue to support operations and programs administered and served by curriculums developed by the Office of the President.

**Other Relevant Information.** U. T. Pan American will solicit qualifications for architects and construction managers using the Construction Manager at Risk project delivery method. Current projections anticipate completion of the facility in FY 2007.

## **Animal Research Facility U. T. Pan American**

**Project Description.** The Animal Research Facility is currently included in the FY 2006-2011 Capital Improvement Program at a Total Project Cost of \$5,000,000. This project will provide a 20,000 square foot research facility to replace the existing old, outdated, and unusable facility currently on campus. The facility will be dedicated to provide technological research opportunities in conjunction with the newly constructed Regional Academic Health Center (RAHC).

**Proposed Site.** The facility is currently proposed to be located and connected to the southern and eastern limits of the existing Science Building. The new facility will be designed to enclose the existing courtyard and provide for access and service via an adjacent service drive located on the northeast corner of the existing Science Building. The proposed new structure shall complement the established architectural vocabulary of the campus and adjacent structures.

**Age.** This will be a new facility expanding and supporting the research operations of the existing Science Building which was constructed in 1997.

**Current/Past Use of the Building, and Compliance with the Campus Master Plan.** This project is in keeping with the U. T. Pan American Master Plan for the main campus, and will continue to support operations and programs administered and served by curriculums developed by the College of Science and Engineering.

**Other Relevant Information.** U. T. Pan American will solicit qualifications for architects and construction managers using the Construction Manager at Risk project delivery method. Current projections anticipate completion of the facility in FY 2007.



## **Business Administration Addition and Renovation U. T. Pan American**

**Project Description.** The Business Administration Addition and Renovation is included in the FY 2006-2011 Capital Improvement Program at a Total Project Cost of \$6,000,000. This project will provide for an additional 25,000 square feet dedicated to construction of new offices for graduate assistants, new classroom space, and new 150-seat multipurpose instructional space.

**Proposed Site.** The building renovation and expansion is currently proposed for the north façade of the existing structure. The expansion will be designed to blend architecturally with the existing Business Administration Building and compliment the established architecture of the campus.

**Age.** This will be a new expansion to the original facility which was constructed in 1975.

**Current/Past Use of the Building, and Compliance with the Campus Master Plan.** This project is in keeping with the U. T. Pan American Master Plan for the main campus, and will continue to support operations and programs administered and served by curriculums developed by the Business Administration program.

**Other Relevant Information.** U. T. Pan American will solicit qualifications for architects and construction managers using the Construction Manager at Risk project delivery method. Current projections anticipate completion of the facility in FY 2009.

**Pre-Clinical Laboratories Renovation  
U. T. Health Science Center - San Antonio**

**Project Description.** This project will renovate approximately 11,500 square feet to utilize the latest teaching methods and technology in the delivery of dental care.

**Proposed Site.** Renovations will occur in the existing Dental School on the central campus.

**Age.** This facility was constructed in 1975. There will be no modifications to the exterior of the building.

**Current/Past Use of the Building, and Compliance with the Campus Master Plan.** This project is in keeping with the U. T. Health Science Center – San Antonio’s master plan for the central campus. The space has always been used for state-of-the-art dental education.

**Other Relevant Information.** This project will upgrade the space to accommodate current teaching methods for delivery of dental care.

## **Laboratory Animal Resources Renovation U. T. Health Science Center - San Antonio**

**Project Description.** This project will renovate approximately 11,000 square feet of existing space in the Medical School to increase and enhance research opportunities in the Laboratory Animal Research facilities.

**Proposed Site.** The space is within the existing Medical School located on the central campus. There will be no modifications to the exterior of the building.

**Age.** The facilities in which these areas exist were constructed between 1968 and 1978.

**Current/Past Use of the Building, and Compliance with the Campus Master Plan.** This project is in keeping with the U. T. Health Science Center – San Antonio’s master plan for the central campus. This space has always been used for Laboratory Animal Research.

**Other Relevant Information.** This project is being partially funded by an NIH construction grant to accommodate new research programs and to develop the space for more efficient use.

## **Rotary House International Phase III U. T. M. D. Anderson Cancer Center**

**Project Description.** The Rotary House International Phase III project is shown on the FY 2006-2011 Capital Improvement Program at a Preliminary Project Cost of \$21,000,000. The project will expand the existing Rotary House International Hotel. This phase will provide approximately 100 additional rooms and suites for patients and their families similar to the rooms and suites constructed during Phase II.

**Proposed Site.** The Rotary House International Phase III project will adjoin the existing hotel on U. T. M. D. Anderson Cancer Center's main campus near the corner of Holcombe and Braeswood in Houston, Harris County, Texas.

**Age.** The original Jesse H. Jones Rotary House International hotel was completed during 1992. Phase II was completed during 2000 which added 126 guest rooms and suites.

**Current/Past Use of the Building, and Compliance with the Campus Master Plan.** The Rotary House International Hotel provides temporary housing for cancer patients and their families needing access to our treatment facilities. This project complies with U. T. M. D. Anderson Cancer Center's master plan for this site, and is a continuation of the development of this site.

**Other Relevant Information.** The exterior will blend with the exterior of the existing hotel and complete the development of the site. Parking for guests will be available in the new Braeswood Parking Garage across the street from the hotel.

**2. U. T. Austin: LBJ Plaza Renovation/Lady Bird Johnson Center - Request for approval of design development**

**RECOMMENDATION**

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Faulkner that the U. T. System Board of Regents approve the design development for the LBJ Plaza Renovation/Lady Bird Johnson Center project at The University of Texas at Austin as follows:

**Project Number:** 102-208  
**Architecturally or Historically Significant:** Yes  No   
**Project Delivery Method:** Construction Manager at Risk  
**Substantial Completion Date:** February 2007

<b>Total Project Cost:</b>	<u>Source</u>	<u>Current</u>
	Grants	\$15,000,000
	Unexpended Plant Funds	<u>\$15,000,000</u>
		\$30,000,000

**BACKGROUND INFORMATION**

**Previous Board Actions**

On May 13, 2004, the project was included in the Capital Improvement Program (CIP) with a preliminary project cost of \$30,000,000 with funding of \$15,000,000 from Grants and \$15,000,000 from Unexpended Plant Funds and the project was designated architecturally significant. On August 11, 2005, the funding for this repair and rehabilitation project was appropriated with funding of \$15,000,000 from Grants and \$15,000,000 from Unexpended Plant Funds.

**Project Description**

This project consists of the rehabilitation and modification of the elevated plaza and drainage system surrounding the LBJ Library, which has leaked for many years. Finishes in the lecture hall and auditorium of the building, which have been damaged by water infiltration, will be repaired. The 1,000-seat LBJ Auditorium will be modified to allow for a better setting for smaller events. Additionally, a portion of the elevated plaza will be replaced with a garden and amphitheater honoring Lady Bird Johnson.

This project is required to repair the cause of serious water damage that is degrading exterior structural components and interior finishes. Several pieces of the exterior

travertine cladding have fallen from the building because of water infiltration and a corroded support system. The drainage system is undersized and improperly designed, contributing to the water infiltration. The new Lady Bird Johnson Center and Amphitheater would eliminate part of the plaza that leaks and provide a more functional space between the LBJ Library and the LBJ School of Public Affairs. Federal funding will be provided in association with the LBJ Library, a federal facility.

**3. U. T. Austin: Applied Research Lab Expansion - Phase II - Amendment of the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to increase total project cost; approval of design development; approval of evaluation of alternative energy economic feasibility; and appropriation of funds and authorization of expenditure**

**RECOMMENDATION**

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Faulkner that the U. T. System Board of Regents approve the recommendations for the Applied Research Lab Expansion - Phase II project at The University of Texas at Austin as follows:

**Project Number:** 102-080

**Architecturally or Historically Significant:** Yes  No

**Project Delivery Method:** Design/Build

**Substantial Completion Date:** April 2007

<b>Total Project Cost:</b>	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Grants	\$2,500,000	\$3,000,000

- a. amend the FY 2006-2011 Capital Improvement Program (CIP) and the FY 2006-2007 Capital Budget to increase the total project cost from \$2,500,000 to \$3,000,000;
- b. approve design development plans;
- c. approve the evaluation of alternative energy economic feasibility; and
- d. appropriate funds and authorize expenditure of funds.

## BACKGROUND INFORMATION

### Previous Board Action

On August 8, 2001, the project was included in the CIP with a preliminary project cost of \$2,500,000 with funding from Grants.

### Project Description

This project will provide increased research space for the Applied Research Lab by adding approximately 17,000 gross square feet to the existing McKinney Wing at the J. J. Pickle Research Center with additional administrative offices and technical work spaces. The increase in total project cost will allow for the project scope and increases in costs and fees.

*Texas Government Code* Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

The economic impact of the project will be reported to the U. T. System Board of Regents as part of the design development presentation.

4. **U. T. Austin: Darrell K Royal - Texas Memorial Stadium Expansion - Amendment to the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to increase total project cost; approval of design development; appropriation of funds and authorization of expenditure; and resolution regarding parity debt**

## RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Faulkner that the U. T. System Board of Regents approve the recommendations for the Darrell K Royal - Texas Memorial Stadium Expansion project at The University of Texas at Austin as follows:

**Project Number:** 102-081

**Architecturally or Historically Significant:** Yes  No

**Project Delivery Method:** Construction Manager at Risk

**Substantial Completion Date:** August 2008

<b>Total Project Cost:</b>	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Revenue Financing System Bond Proceeds	\$15,000,000	\$106,620,000
	Gifts		35,000,000
	Unexpended Plant Funds		<u>8,280,000</u>
			\$149,900,000

- a. increase total project cost;
- b. approve design development plans;
- c. appropriate funds and authorize expenditure of funds; and
- d. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
  - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;
  - 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. System Board of Regents relating to the Financing System; and
  - 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. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$91,620,000.

### BACKGROUND INFORMATION

#### Debt Service

The \$91,620,000 in total Revenue Financing System debt will be repaid from net revenues generated from Centennial Room/West Stadium seating. Average annual debt service on the project is estimated at \$5,906,511 over FY 2006 - FY 2013. Annual debt service will level at \$7,862,112 in FY 2009. Debt service coverage on the project is expected to be at least 1.06 times and average 1.15 times over FY 2009 - FY 2013.



### Previous Board Actions

On December 10, 2004, the project was included in the CIP with a preliminary project cost of \$5,000,000 with funding from Auxiliary Enterprise Balances. On August 11, 2005, the Board approved the design development plans and increased the total project cost to \$10,000,000 with funding from Revenue Financing System Bond Proceeds. On September 22, 2005, the Chancellor approved increasing the total project cost to \$11,000,000. On November 10, 2005, the Board approved the increase in total project cost from \$11,000,000 to \$15,000,000 with funding appropriated from Revenue Financing System Bond Proceeds. On January 17, 2006, the Associate Vice Chancellor for Facilities Planning and Construction approved the nonhonorific name change for the project.

### Project Description

This project began as a comprehensive feasibility and planning study of the Darrell K Royal - Texas Memorial Stadium. The full scope of options and associated costs for improving the fire and life safety of the stadium have been recommended to define current code and infrastructure needs.

The Stage I - Bellmont Hall Renovation project will address several life safety concerns within the existing Bellmont Hall, and provide waterproofing and structural repairs and building system upgrades. The project will also include renovation and expansion of the ninth floor Centennial Room, the addition of fixed seating at that level, and renovations to the eighth floor Press Box area to accommodate additional working press.

The Stage 2 - North End Zone Expansion project will address fire and life safety issues present in the existing North End Zone. The existing North End Zone structure will be demolished and replaced by a new structure housing cheering facilities, production TV crew members, ticketing, patron services, the Foundation, Athletics, and Academic facilities. The new upper levels will encompass services for the uncovered club seats, suites, and the upper concourse leading to the upper grandstands with patron services. Stadium seating capacity will be expanded to over 90,000 spectators upon completion.

5. **U. T. Austin: The University of Texas Executive Education and Conference Center - Amendment to the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to increase total project cost; approval of design development; approval of evaluation of alternative energy economic feasibility; revise the funding sources; appropriation of funds and authorization of expenditure; and resolution regarding parity debt**

**RECOMMENDATION**

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Faulkner that the U. T. System Board of Regents approve the recommendations for The University of Texas Executive Education and Conference Center project at The University of Texas at Austin as follows:

**Project Number:** 102-084

**Architecturally or Historically Significant:** Yes  No

**Project Delivery Method:** Construction Manager at Risk

**Substantial Completion Date:** May 2008

<b>Total Project Cost:</b>	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Revenue Financing System Bond Proceeds	\$84,000,000	\$ 85,900,000
	Gifts		30,000,000
	Unexpended Plant Funds		<u>5,000,000</u>
			\$120,900,000

- a. increase total project cost;
- b. approve design development plans;
- c. approve the evaluation of alternative energy economic feasibility;
- d. revise funding sources;
- e. appropriate funds and authorize expenditure of funds; and
- f. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
  - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;

- 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. System Board of Regents relating to the Financing System; and
- 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. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$85,900,000.

### BACKGROUND INFORMATION

#### Debt Service

The \$85,900,000 in total Revenue Financing System debt will be repaid from net revenues generated from room service and parking fees. Annual debt service on the project is estimated at \$6,241,000 for each of the first five years (FY 2009 - FY 2013). Debt service coverage on the project is expected to be at least 1.06 times and average 1.64 times during the project's first five years (FY 2009 - FY 2013).

#### Previous Board Actions

On May 13, 1999, the Hotel and Conference Center project was included in the CIP with a preliminary project cost of \$55,000,000 with funding of \$45,000,000 from Revenue Financing System Bond Proceeds and \$10,000,000 from Gifts. On February 3, 2004, the Board declared the project architecturally significant. On August 11, 2005, the total project cost was increased to \$84,000,000 with funding from Revenue Financing System Bond Proceeds and redesignated as The University of Texas Professional Education and Conference Center. On November 4, 2005, the project was redesignated as The University of Texas Executive Education and Conference Center.

#### Project Description

The project will provide a residential learning center, conference center, and parking garage on the U. T. Austin campus consistent with the Commission of 125 Quality Vision. The project will consist of 335,000 gross square feet including three levels of below grade parking, 300 hotel rooms, food service, support space, and conference space to meet the hotel and executive education needs.

The increase in total project cost is to provide for the below grade parking, the increase from 250 to 300 beds, and to adequately provide increasing executive education requirements.

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

The economic impact of the project will be reported to the U. T. System Board of Regents as part of the design development presentation.

**6. U. T. M. D. Anderson Cancer Center: U. T. Research Park Utilities and Central Maintenance Facilities - Request for approval of design development for Stage I of the project; approval of evaluation of alternative energy economic feasibility; and appropriation of funds and authorization of expenditure**

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Mendelsohn that the U. T. System Board of Regents approve the recommendations for the first stage of the U. T. Research Park (UTRP) Utilities and Central Maintenance Facilities project at The University of Texas M. D. Anderson Cancer Center as follows:

**Institutionally Managed:** Yes  No

**Architecturally or Historically Significant:** Yes  No

**Project Delivery Method:** Construction Manager at Risk

**Substantial Completion Date:** December 2006

<b>Total Project Cost:</b>	<u>Source</u> Hospital Revenues (Phase I)	<u>Current</u> \$20,000,000
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- a. approve design development plans;
- b. approve the evaluation of alternative energy economic feasibility; and
- c. appropriate funds and authorize expenditure of funds.

## BACKGROUND INFORMATION

### Previous Board Action

On August 11, 2005, the project was included in the Capital Improvement Program (CIP) with a preliminary project cost of \$30,000,000 with funding from Hospital Revenues.

### Project Description

Pursuant to a Memorandum of Understanding effective August 26, 2004, U. T. M. D. Anderson Cancer Center has delegated authority for institutional management of construction projects under the continued oversight of the Office of Facilities Planning and Construction. These institutionally managed projects are subject to review by the Board of Regents for design development.

The first stage of the project consists of a network of chilled water plants and interconnecting utility systems to serve the U. T. Research Park campus. The chilled water plant construction will provide cooling for the South Campus Vivarium Facility, Center for Advanced Biomedical Imaging Research, and U. T. Research Park Building Four. The chilled water plant will be interconnected to the existing R. E. "Bob" Smith Research Building, the South Campus Research Building I, and South Campus Research Building II to provide emergency chilled water, firm capacity, and network operating efficiency. This stage includes emergency generators to power the chillers and pumps for critical cooling loads on the network and a separate generator for emergency power to the South Campus Vivarium Facility. The chilled water plant will blend visually with the adjacent parking garage. The central location of the chilled water plant and ability to serve several buildings will eliminate the need for individual chilled water plants and cooling towers outside of the new buildings now under construction.

U. T. M. D. Anderson Cancer Center is seeking approval to proceed with the first stage of this project with a total project cost of \$20,000,000 with funding from Hospital Revenues. Design development approval for Stage II of the project will be requested at a later date.

*Texas Government Code* Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building. Therefore, the Project Architect prepared an evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

The economic impact of the project will be reported to the U. T. System Board of Regents as part of the design development presentation.

**7. U. T. Austin: Painter Hall - Mechanical System Upgrade - Amendment of the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to increase total project cost; revise the funding source; appropriation of funds and authorization of expenditure; and resolution regarding parity debt**

**RECOMMENDATION**

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Faulkner that the U. T. System Board of Regents approve the recommendations for the Painter Hall - Mechanical System Upgrade project at The University of Texas at Austin as follows:

**Project Number:** 102-240  
**Institutionally Managed:** Yes  No   
**Architecturally or Historically Significant:** Yes  No

**Project Delivery Method:** Design/Build

**Substantial Completion Date:** September 2006

<b>Total Project Cost:</b>	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Designated Funds	\$4,000,000	
	Revenue Financing System Bond Proceeds		\$6,300,000

- a. amend the FY 2006-2011 Capital Improvement Program (CIP) and the FY 2006-2007 Capital Budget to increase the total project cost from \$4,000,000 to \$6,300,000;
- b. revise the funding source;
- c. appropriate funds and authorize expenditure; and
- d. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that
  - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;
  - 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. System Board of Regents relating to the Financing System; and

- 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. System Board of Regents of tax-exempt parity debt in the aggregate amount of \$6,300,000.

## BACKGROUND INFORMATION

### Debt Service

The \$6,300,000 in Revenue Financing System debt will be repaid from designated tuition. The institution's debt coverage is expected to be at least 3.44 times and average 3.75 times over FY 2007 - FY 2011.

### Previous Board Action

On August 11, 2005, the project was included in the CIP as an institutionally managed Repair and Rehabilitation project with a preliminary project cost of \$4,000,000 with funding appropriated from Designated Funds.

### Project Description

This institutionally managed project will address three critical issues: replacement of HVAC equipment installed prior to 1961; replacement of wastewater plumbing systems in the basement; and replacement of existing natural gas piping to ensure that the building meets requirements established by the State Fire Marshal.

T. S. Painter Hall was originally constructed in 1933 and is used extensively for both teaching and research functions and contains critical teaching lab space for undergraduates. The increase in total project cost will provide for the cost increase in the original scope of work. This project will be implemented during the summers of 2006 and 2007. As the project proceeds and as other requirements are identified, an increase in total project cost may be requested to reflect the need to include classroom and laboratory upgrades as well as additional fire and life safety work.

**8. U. T. San Antonio: Downtown Campus Cladding Repairs - Amendment of the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to increase total project cost and appropriation of funds and authorization of expenditure**

**RECOMMENDATION**

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Romo that the U. T. System Board of Regents approve the recommendations for the Downtown Campus Cladding Repairs project at The University of Texas at San Antonio as follows:

**Project Number:** 401-223

**Architecturally or Historically Significant:** Yes  No

**Project Delivery Method:** Construction Manager at Risk

**Substantial Completion Date:** August 2006

<b>Total Project Cost:</b>	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Revenue Financing System Bond Proceeds	\$850,000	\$ 850,000
	Unexpended Plant Funds		<u>\$ 440,000</u>
			\$1,290,000

- a. amend the FY 2006-2011 Capital Improvement Program (CIP) and the FY 2006-2007 Capital Budget to increase the total project cost from \$850,000 to \$1,290,000; and
- b. appropriate additional funding of \$440,000 from Unexpended Plant Funds and authorize expenditure.

**BACKGROUND INFORMATION**

**Previous Board Action**

On August 11, 2005, the project was included in the CIP as a Repair and Rehabilitation project with a preliminary project cost of \$850,000 with funding appropriated from Revenue Financing System Bond Proceeds.

**Project Description**

This project will provide repairs to existing stone veneer on the Frio Street and Buena Vista Street buildings at the Downtown Campus. The increase in the total project cost allows for the additional repairs required for the project.



**9. U. T. Health Science Center - Houston: Data Center Relocation - Amendment of the FY 2006-2011 Capital Improvement Program and the FY 2006-2007 Capital Budget to decrease total project cost and revise funding sources**

**RECOMMENDATION**

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Willerson that the U. T. System Board of Regents approve the recommendations for the Data Center Relocation project at The University of Texas Health Science Center at Houston as follows:

**Architecturally or Historically Significant:** Yes  No

**Institutionally Managed:** Yes  No

**Project Delivery Method:** Competitive Sealed Proposals

**Substantial Completion Date:** May 2006

<b>Total Project Cost:</b>	<u>Source</u>	<u>Current</u>	<u>Proposed</u>
	Unexpended Plant Funds	\$5,000,000	\$1,700,000
	Insurance Claims		954,000
	Library, Equipment, Repair, and Rehabilitation (LERR)		<u>577,250</u>
			<u>\$3,231,250</u>

- a. amend the FY 2006-2011 Capital Improvement Program (CIP) and the FY 2006-2007 Capital Budget to decrease the total project cost from \$5,000,000 to \$3,231,250; and
- b. revise funding sources.

**BACKGROUND INFORMATION**

**Previous Board Action**

On August 7, 2003, the project was included in the CIP as an institutionally managed project with a preliminary project cost of \$5,000,000 with funding from Unexpended Plant Funds.

**Project Description**

The data center houses personnel and equipment needed to operate the telephone system and administrative computing requirements. The Houston Main Building is being replaced and the data center relocated. The decrease in the total project cost and the revision to the funding sources allows for the revised scope of the project.

10. **U. T. Austin: Jack S. Blanton Museum of Art Phase I and II - Request for acceptance of gifts of outdoor works of art**

RECOMMENDATION

The Executive Vice Chancellor for Academic Affairs, the Vice Chancellor for External Relations, and President Faulkner recommend that the U. T. System Board of Regents accept the gifts of outdoor works of art for the Jack S. Blanton Museum of Art Phase I and II at The University of Texas at Austin in accordance with Regents' *Rules and Regulations*, Series 60101, Section 2.2 regarding outdoor works of art.

BACKGROUND INFORMATION

U. T. Austin has received a work by sculptor Mr. Richard Long to be placed at the Jack S. Blanton Museum of Art Phase I and II. The gift is from Mr. Blanton's children to honor their father. Mr. Richard Long is a world-renowned British artist whose sculpture, often circles of rocks, commemorate long walks that he has taken in the British countryside. Based on a long artistic tradition of inspirational landscape artwork, Mr. Long's works are meant to provide occasions for contemplation and appreciation of nature. The sculpture, entitled "Summer Circle," is formed by pieces of slate placed in a solid circle on the ground. The work is sited by the landscape architect for the project, Mr. Peter Walker, amidst a grove of flowering trees in the southeast corner of the Blanton landscaping. U. T. Austin will cover the minimal cost of installing and maintaining the work. (See picture on Page 125.)

U. T. Austin has also received a donation of important outdoor landscape art work by Ms. Meg Webster from Blanton Museum patrons, Mr. and Mrs. Michael Klein. Ms. Webster made the work especially for the Klein home in Houston, which has been sold. The work is proposed to be reconfigured on the grounds of the Blanton Museum, adjacent to the Richard Long sculpture. All costs of installation will be paid by the Kleins. Maintenance costs, which are minimal, will be borne by the Museum. Ms. Meg Webster is a nationally known landscape artist whose works inspire contemplation and appreciation of nature. The work is a gentle circular depression in the ground lined with native plants, and placed amidst a grove of flowering trees, as directed by Blanton Museum landscape architect Peter Walker. (See picture on Page 126.)

In addition to expressions of strong support from President Faulkner and the Blanton Museum landscape architect, Peter Walker, both Dean Frederick Steiner, School of Architecture, and Mr. Kenneth Hale, Chair of the U. T. Austin Subcommittee for the Review of Artwork, have given the two installations an enthusiastic endorsement citing the works as enhancing the Museum's sculpture collection, advancing outdoor art on

campus, and improving the urbanity and quality of the southern edge of the campus.  
(See letters of support on Pages 261 - 265 of the Supplemental Materials [Volume 2] of  
the Agenda Book.)

The Agenda Item was deferred from the Facilities Planning and Construction Committee  
meeting in November 2005.



## *The University of Texas System*

Nine Universities. Six Health Institutions. Unlimited Possibilities.

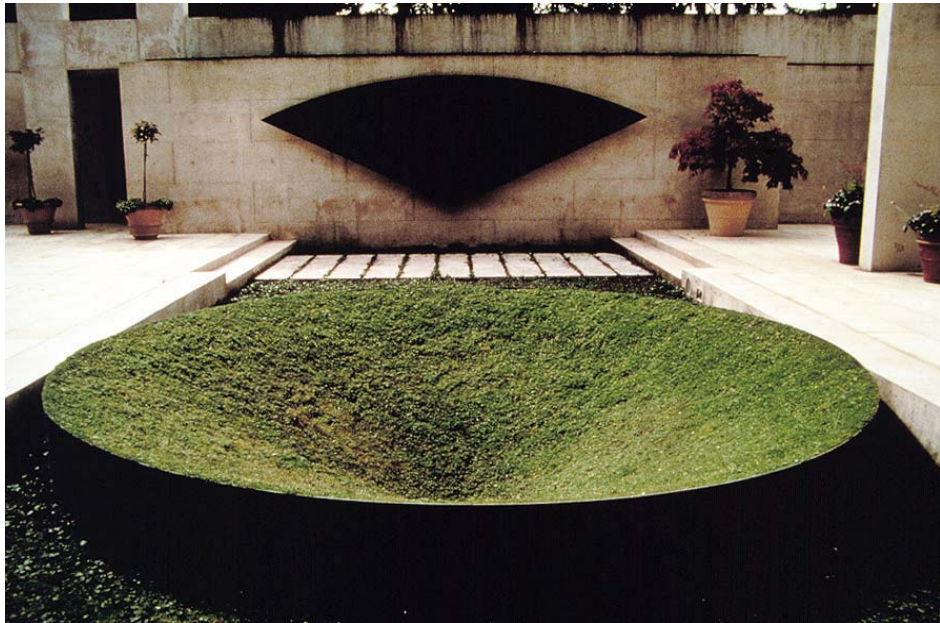


Richard Long's "Summer Circle"



# *The University of Texas System*

Nine Universities. Six Health Institutions. Unlimited Possibilities.



Samples of Other Work By Meg Webster

11. **U. T. Southwestern Medical Center - Dallas: North Campus Phase 4 - Request for acceptance of gift of outdoor work of art**

**RECOMMENDATION**

The Executive Vice Chancellor for Academic Affairs, the Vice Chancellor for External Relations, and President Wildenthal recommend that the U. T. System Board of Regents accept the gift of outdoor work of art for the North Campus Phase 4 at The University of Texas Southwestern Medical Center at Dallas in accordance with Regents' *Rules and Regulations*, Series 60101, Section 2.2 regarding outdoor works of art.

**BACKGROUND INFORMATION**

The North Campus Phase 4 has received an outdoor work of art by sculptor Mr. Ali Baudoin as a gift from Mr. and Mrs. Dan Cook. The sculpture, pictured on Page 128, is titled *Undulating X*. The sculpture is formed by pieces of high finish stainless steel in the form of an X with the dimensions of 18.5' x 14' x 5'. It was privately commissioned and is currently located at a private residence in Dallas, Texas. The sculpture would be placed on the grounds of the North Campus near the Harry Hines entrance. Mr. Ali Baudoin has sustained a national reputation in sculpture that spans more than 25 years. U. T. Southwestern Medical Center - Dallas will cover the minimal cost of installing and maintaining the work.



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## ALI BAUDOIN

"Undulating X" High finish stainless steel 18.5' x 14' x 5' Installed October 1984. Private commission. Dallas, Texas.

12. **U. T. Austin: Request to name the grand foyer and lobby area in the Edgar A. Smith Building of the Jack S. Blanton Museum of Art as the Joe R. and Teresa Lozano Long Grand Foyer**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for External Relations, and President Faulkner that the U. T. System Board of Regents approve the naming of the grand foyer and lobby area in the Edgar A. Smith Building of the Jack S. Blanton Museum of Art as the Joe R. and Teresa Lozano Long Grand Foyer.

BACKGROUND INFORMATION

The grand foyer and lobby in the Edgar A. Smith Building of the Jack S. Blanton Museum of Art at U. T. Austin consists of 2,300 gross square feet and provides a grand entry into the Museum's education and visitor facility. This space will provide a gathering place for visitors who are engaged in the Museum's programs, from lectures, films, and seminars to classes and demonstrations, and from concerts and community programs to family activities and public school outreach initiatives. The skylight space echoes the dramatic atrium in the gallery building. The grand foyer will be a gathering spot for visitors and will serve as a place to hold receptions before or after museum programs and events.

Mr. Joe R. Long and Dr. Teresa Lozano Long have many affiliations with U. T. Austin. Both are Distinguished Alumni, served on the Commission of 125, and are members of the Chancellor's Council and Littlefield Society, and past members of the President's Associates. Mr. Joe R. Long is serving on the U. T. Austin Development Board and Law School Board of Advocates. Dr. Teresa Lozano Long serves on the College of Education Foundation Advisory Council and U. T. Press Advisory Committee. The Teresa Lozano Long Institute of Latin American Studies was named in November 2000 to recognize a \$10,000,000 gift from the Longs. U. T. Austin has received a pledge of \$1,000,000 contributing toward construction of the facilities housing the Jack S. Blanton Museum of Art. The Edgar A. Smith Building was named in accordance with Board action on July 18, 2005.

The proposed naming of the grand foyer and lobby area in the Edgar A. Smith Building of the Jack S. Blanton Museum of Art at U. T. Austin to recognize the generous gift and distinguished contributions of Mr. Joe R. Long and Dr. Teresa Lozano Long is consistent with the Regents' *Rules and Regulations*, Series 80307, relating to naming of facilities.



13. **U. T. Tyler: Request to name the Baseball Field as the Bob and Mary Irwin Baseball Field**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for External Relations, and President Mabry that the U. T. System Board of Regents approve the naming of the baseball field at The University of Texas at Tyler as the Bob and Mary Irwin Baseball Field.

BACKGROUND INFORMATION

The U. T. Tyler Ballpark is located in a lush setting of East Texas pine trees and encompasses both a men's baseball field and women's softball field. Both fields meet NCAA standards and include significant amenities in terms of seating, scoreboards, and batting cages. Both fields are complete. However, the field house with concessions, rest rooms, and lockers, the grand entrance with ticket booths, and parking are currently under construction.

Mr. and Mrs. Robert B. Irwin have been longtime friends and supporters of U. T. Tyler since 1981. Mr. Irwin is serving on the U. T. Tyler Development Board, and is a contributor to the Patriot Golf Classic, the Cowan Center Circle of Friends, and the President's Associates.

Mr. Irwin is a former star baseball athlete at the University of Arkansas and also played in a semi professional league in Texas. Following his athletic days, Mr. Irwin became a very successful businessman in the insurance and financial industries. Mr. Irwin appreciates the important connections among athletics, university education, and success in business and life.

Mr. and Mrs. Irwin have contributed \$1,200,000 towards the U. T. Tyler Ballpark project. The baseball field proposed naming is the Bob and Mary Irwin Baseball Field and the shortened name "Irwin Field" will appear on the scoreboard and the field.

The proposed naming of the baseball field at U. T. Tyler to recognize the generous gift and distinguished contributions of Mr. and Mrs. Robert B. Irwin is consistent with the Regents' *Rules and Regulations*, Series 80307, relating to the naming of facilities.

14. **U. T. Southwestern Medical Center - Dallas: Request to name the Biomedical Research and Advanced Imaging Building as the Bill and Rita Clements Advanced Medical Imaging Building**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for External Relations, and President Wildenthal that the U. T. System Board of Regents approve the naming of the Biomedical Research and Advanced Imaging Building as the Bill and Rita Clements Advanced Medical Imaging Building to recognize the significant contributions and commitment to higher education and academic medicine of The Honorable William P. Clements, Jr., and Mrs. Rita Crocker Clements.

BACKGROUND INFORMATION

The Biomedical Research and Advanced Imaging Building at U. T. Southwestern Medical Center - Dallas houses biomedical research projects incorporating elements of magnetic resonance imaging and positron emission tomography and supports activities such as advanced imaging, structural biology, phenotyping, high-field human research, functional magnetic research imaging, radio chemistry, and cancer research.

Governor William P. Clements, Jr., has been a champion of higher education for decades, including his endorsement of significantly increased appropriations for higher education while serving as governor in 1979-83 and in 1987-91. He also has a strong record of volunteer and philanthropic support of many universities and medical centers in Dallas, both private and public. Governor Clements recently made a very generous donation of \$10,000,000 to Southwestern Medical Foundation for the future use and benefit of U. T. Southwestern Medical Center. In appreciation of the support and contributions of Governor and Mrs. Clements, it is appropriate to name the Biomedical Research and Advanced Imaging Building as the Bill and Rita Clements Advanced Medical Imaging Building.

Mrs. Rita Crocker Clements, a distinguished alumna of U. T. Austin, is one of Dallas' and Texas' leading civic volunteers. She also has served with extraordinary dedication and effectiveness over the past decade as a member of the U. T. System Board of Regents, including service as Chairman of the Board's Facilities Planning and Construction Committee and the Health Affairs Committee and as Vice Chairman of the Board.

The proposed naming is consistent with the Regents' *Rules and Regulations*, Series 80307, relating to the honorific naming of facilities because of the significant history of contributions and support evidenced by Governor and Mrs. Clements.

15. **U. T. System: Construction Cost Forecasting - Mitigating the Impacts of Hurricanes Katrina and Rita**

Mr. Stan Scott, Architect, Associate Director of Program Services, Office of Facilities Planning and Construction, will report on the potential impacts of Hurricanes Katrina and Rita on construction costs. (See PowerPoint presentation on Pages 266 - 273 of the Supplemental Materials [Volume 2] of the Agenda Book.)



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FOR  
STUDENT, FACULTY, AND STAFF CAMPUS LIFE  
COMMITTEE**

**Committee Meeting: 2/9/2006**  
Austin, Texas

*Judith L. Craven, M.D., Chairman*  
*John W. Barnhill, Jr.*  
*Rita C. Clements*  
*Robert A. Estrada*  
*Colleen McHugh*  
*Ann Tate, Chair, Employee Advisory Council*  
*Barry Norling, Ph.D., Chair, Faculty Advisory Council*  
*Brent Chaney, Chair, Student Advisory Council*

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
<b>Convene</b>	9:00 a.m. <i>Chairman Craven</i>		
<b>1. U. T. System: Report on Honors Colleges and Programs</b>	9:00 a.m. <b>Report</b> <i>Dr. Sullivan</i>	Not on Agenda	<b>133</b>
<b>2. U. T. System: Report on the National Survey of Student Engagement (NSSE)</b>	9:15 a.m. <b>Report</b> <i>Dr. Baldwin</i>	Not on Agenda	<b>133</b>
<b>Adjourn</b>	10:00 a.m.		

1. **U. T. System: Report on Honors Colleges and Programs**

REPORT

Executive Vice Chancellor Sullivan will lead a discussion about the academic institutions' honors colleges and programs within The University of Texas System. Dr. Sullivan's report is on Pages 274 - 277 and a PowerPoint presentation is on Pages 278 - 283 in the Supplemental Materials (Volume 2) of the Agenda Book.

2. **U. T. System: Report on the National Survey of Student Engagement (NSSE)**

REPORT

Dr. Edward Baldwin, Research and Policy Analyst in the Office of Academic Affairs, will report on the results of the 2005 National Survey of Student Engagement (NSSE) and uses of the survey on campuses. A copy of his presentation is provided on Pages 284 -293 in the Supplemental Materials (Volume 2) of the Agenda Book.