

SUBSTITUTE AGENDA ITEM
MEETING OF THE BOARD
AUGUST 25, 2011

8. **U. T. System: Approval of the nonpersonnel aspects of the operating budgets for Fiscal Year 2012, including the Permanent University Fund Bond Proceeds allocation for Library, Equipment, Repair and Rehabilitation Projects, allocation for the Science and Technology Acquisition and Retention Program, and allocation of Available University Fund, Permanent University Fund Bond Proceeds, and proceeds from the interest rate swap portfolio and potential excess returns generated by the Intermediate Term Fund for targeted strategic priorities within the U. T. System**

RECOMMENDATIONS

The Chancellor, with the concurrence of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and the presidents of the U. T. System institutions, recommends that the nonpersonnel aspects of the U. T. System Operating Budgets for Fiscal Year 2012, including Educational and General Funds, Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical, Dental, Nursing, and Allied Health Faculty Services, Research and Development Plans, be approved.

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

Chancellor Cigarroa will present the following recommended items utilizing the presentation on the following pages:

- Fiscal Year 2012 Operating Budget
- Fiscal Year 2012 Library, Equipment, Repair and Rehabilitation (LERR) Budget
- Fiscal Year 2012 allocation of the Science and Technology Acquisition and Retention (STARs) program
- Special allocation funding from the Available University Fund (AUF), Permanent University Fund (PUF) Bond Proceeds, and proceeds from the interest rate swap portfolio and potential excess returns generated by the Intermediate Term Fund for eight strategic priorities.

It is requested that PUF Bond Proceeds in the amount of \$30 million be appropriated directly to the institutions to fund LERR Projects for Fiscal Year 2012.

It is also requested that \$20 million of PUF Bond Proceeds be appropriated to provide additional funding to build and enhance research infrastructure to attract and retain the best qualified faculty known as the Faculty STARs program. Through a competitive proposal process determined by U. T. System Administration, funds will be distributed for the purpose of recruiting top researchers.

In addition, it is requested that \$243.6 million of funding be authorized to fund eight strategic priorities with the U. T. System. Of this amount, \$105.6 million is proposed to be funded from AUF balances, \$104 million from PUF Bond Proceeds and \$34 million generated through the System's interest rate swap portfolio and potential excess returns generated by the Intermediate Term Fund (ITF/Swap Proceeds).

The eight strategic priorities and related recommendations are:

1. Lower Rio Grande Valley Plan

- \$24 million of ITF/Swap Proceeds, as the funds become available, to improve STEM education in the Lower Rio Grande Valley
- \$6 million of PUF Bond Proceeds to fund the SMART Hospital Infrastructure

2. Regents' Outstanding Teaching Awards

- \$4 million of AUF in Fiscal Year 2011 to fund awards for U. T. Austin for Fiscal Years 2014-2017
- \$4 million of ITF/Swap Proceeds, as the funds become available, to fund awards for academic institutions other than U. T. Austin for Fiscal Years 2014-2017
- \$6 million of ITF/Swap Proceeds, as the funds become available, to fund awards for health institutions for Fiscal Years 2012-2017

3. U. T. Horizon Fund

- \$10 million of AUF in Fiscal Year 2011 to create the U. T. Horizon Fund

4. Strength in Numbers

- \$9 million of AUF in Fiscal Year 2011 for Strength in Numbers

5. Institute for Transformational Learning

- \$50 million of AUF in Fiscal Year 2012 for the Institute for Transformational Learning

6. Productivity Excellence Framework

- \$10 million of PUF Bond Proceeds for the Productivity Excellence Framework

7. Campus Support

- \$15 million of AUF funded in Fiscal Year 2011 for additional support of a single instance PeopleSoft HR/Finance system at eight academic institutions
- \$17.6 million of AUF funded in Fiscal Year 2011 to fund Information Technology assessments that are currently collected from U. T. System institutions
- \$13 million of PUF to reimburse U. T. Health Science Center – San Antonio for the acquisition of the Cancer Therapy Research Center.

8. U. T. Austin Engineering Education and Research Center

- \$75 million of additional PUF to fund the U. T. Austin Engineering Education and Research Center subject to a 1-1 gift matching requirement where \$1 of gifts will be matched by \$1 of PUF as described below:
 - On August 12, 2010, the Board approved \$30 million of PUF subject to a 2-1 gift matching requirement. Request approval to modify the original gift matching requirement to a 1-1 match; and
 - \$75 million of additional PUF subject to a 1-1 gift matching requirement.

In the event that necessary expenditures for the Productivity Excellence Framework and Strength in Numbers do not meet the requirements of Article VII, Section 18 of the *Texas Constitution*, the Associate Vice Chancellor – Controller and Chief Budget Officer is authorized to:

1. substitute AUF for the Productivity Excellence Framework, to the extent necessary, for the approved PUF Bond Proceeds, and
2. reimburse PUF eligible projects at individual institutions with PUF Bond Proceeds, to the extent necessary, to free up institutional funds that can be dedicated to the Strength in Numbers initiative.

BACKGROUND INFORMATION

A supplemental volume of the budget materials titled "Operating Budget Summaries and Reserve Allocations for Library, Equipment, Repair and Rehabilitation and Faculty STARs" is enclosed in the front pocket of the Regents' Agenda Book and will be available at the meeting upon request.

See the Executive Session item related to the personnel aspects of the U. T. System Operating Budgets (Item 3c on Table of Contents Page ii for Meeting of the Board).

The appropriation of PUF Bond Proceeds will be presented in the Fiscal Year 2012 LERR Budget and, along with Faculty STARs, is subject to the budget rules adopted therein and the requirements of *UTS 168, Capital Expenditure Policy*. The allocation of these LERR funds to the U. T. System institutions was developed from prioritized lists of projects submitted by the institutions and reviewed by U. T. System Administration staff. Additionally, PUF Bond Proceeds appropriated above to LERR, Faculty STARs, and other strategic priorities must be spent in accordance with Article VII, Section 18 of the *Texas Constitution*. PUF Bond Proceeds may only be used for the purpose of acquiring land either with or without permanent improvements, constructing and equipping buildings or other permanent improvements, major repair and rehabilitation of buildings and other permanent improvements, acquiring capital equipment, and acquiring library books and library materials.

As required by U. T. System Board of Regents' *Rules and Regulations*, Rule 80303 "Use of the Available University Fund," a forecast of revenues and expenses of the AUF for seven years, including the above allocation has been prepared and is provided on the next page. The additional appropriation of PUF Bond Proceeds for this allocation is within the policy as shown in the forecast.

**The University of Texas System
PUF Debt Capacity**

Additional PUF Debt Capacity	\$116.0	\$145.0	\$145.0	\$145.0	\$145.0
Cumulative PUF Debt Capacity	\$116.0	\$261.0	\$406.0	\$551.0	\$696.0

Available University Fund Operating Statement Forecast Data (\$ Millions)	Actual FY 09	Actual FY 10	Projected					
			FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
PUF Distribution Amount	\$530.9	\$516.4	\$506.4	\$575.5	\$629.7	\$638.1	\$657.8	\$691.9
Surface & Other Income	16.1	13.8	16.1	15.2	15.2	15.2	15.2	15.2
Divisible Income	547.0	530.2	522.5	590.7	644.9	653.3	673.0	707.1
UT System Share (2/3)	364.7	353.5	348.3	393.8	429.9	435.5	448.7	471.4
AUF Interest Income	7.6	4.7	3.5	2.9	3.3	4.0	7.1	10.5
Income Available to U.T.	372.3	358.1	351.8	396.7	433.2	439.5	455.7	481.9
TRANSFERS:								
UT Austin Excellence Funds (45%)	(165.3)	(160.7)	(157.7)	(178.5)	(194.9)	(197.8)	(205.1)	(216.9)
PUF Debt Service *	(101.5)	(114.1)	(86.2)	(127.8)	(154.9)	(175.9)	(194.4)	(212.6)
System Administration	(35.4)	(33.0)	(31.4)	(32.6)	(33.6)	(34.6)	(35.7)	(36.7)
Other **	(6.3)	(122.2)	(85.7)	(51.1)	(1.1)	(1.1)	(1.1)	(1.1)
Net Surplus/(Deficit)	63.8	(71.9)	(9.0)	6.7	48.6	30.1	19.5	14.6
Ending AUF Balance - System	171.7	99.9	90.8	97.5	146.2	176.3	195.8	210.4
PUF Debt Service Coverage	3.67:1	3.14:1	4.08:1	3.10:1	2.80:1	2.50:1	2.34:1	2.27:1
Unused Constitutional Limit	378.3	245.9	467.0	318.1	118.2	89.9	69.5	58.5

* Includes debt service on outstanding PUF debt, projected debt service on PUF debt authorized, but unissued plus \$50 million of annual LERR/STARs funding and projected debt service on additional PUF debt capacity amounts listed above.

** Other for FY 2011 includes \$1.06 million for IT Network Bandwidth/Office of Telecommunications, \$23 million for the Research CyberInfrastructure Initiative, \$6 million for the Shared Services initiative, \$55.6 million to be considered by the Board in August 2011 for various strategic initiatives. Other for FY 2012 includes \$1.06 million for IT Network Bandwidth/Office of Telecommunications and \$50 million to be considered by the Board in August 2011 for the Institute for Transformational Learning.

Presented to the U. T. System Board of Regents
August 2011

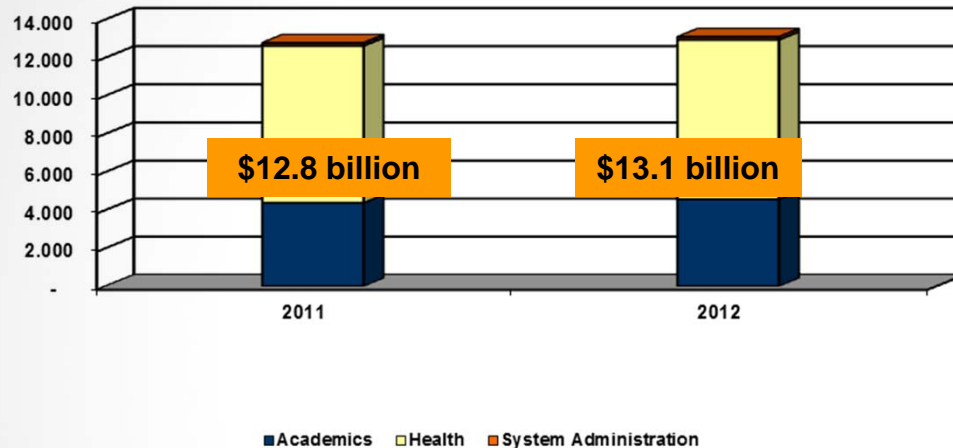
The University of Texas System Fiscal Year 2012 Operating Budget



THE UNIVERSITY of TEXAS SYSTEM
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Total Budgeted Expenses

Total Budgeted Expenses FY 2011 and FY 2012



Major Budget Drivers

(in millions)

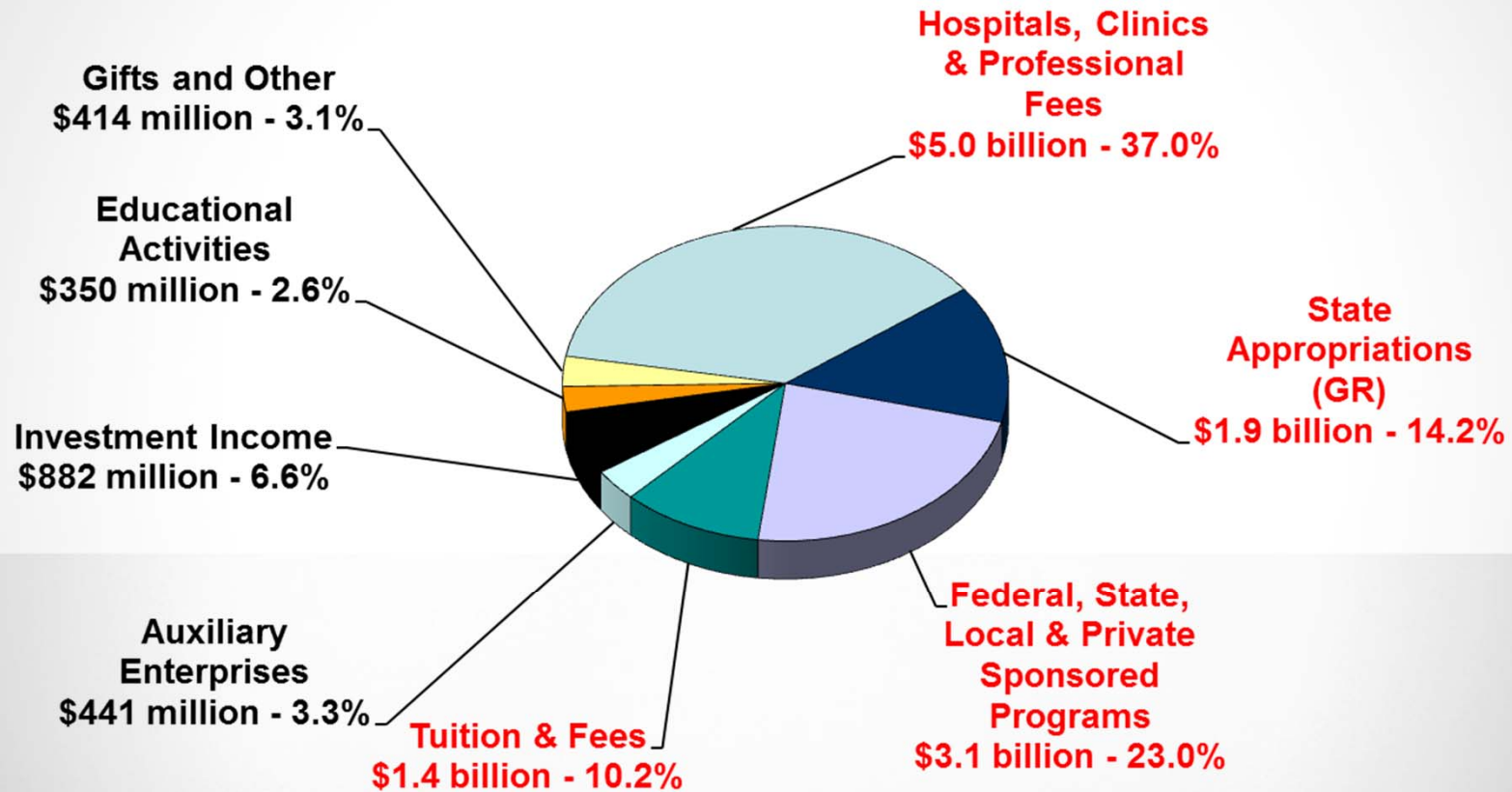
- Academic Support (\$85)
- Hospitals and Clinics (\$68)
- Depreciation and Amortization (\$85)

Budgeted Expenses

FY 2012 - \$13.1 billion
\$319 million more than FY 2011
2.5% more than FY 2011



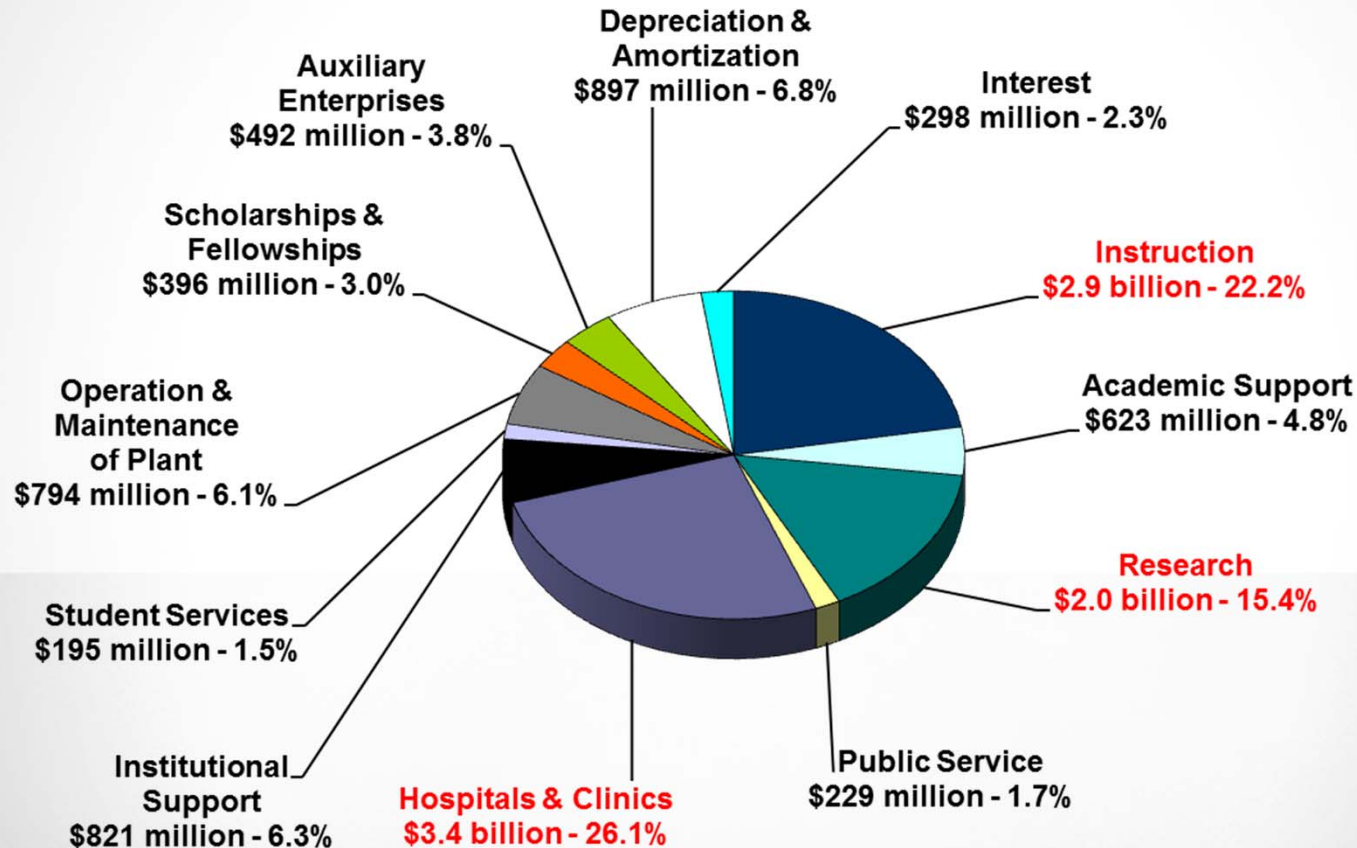
Where the Money Comes From Fiscal Year 2012



\$13.4 Billion



Where the Money Goes Fiscal Year 2012 (By Function)

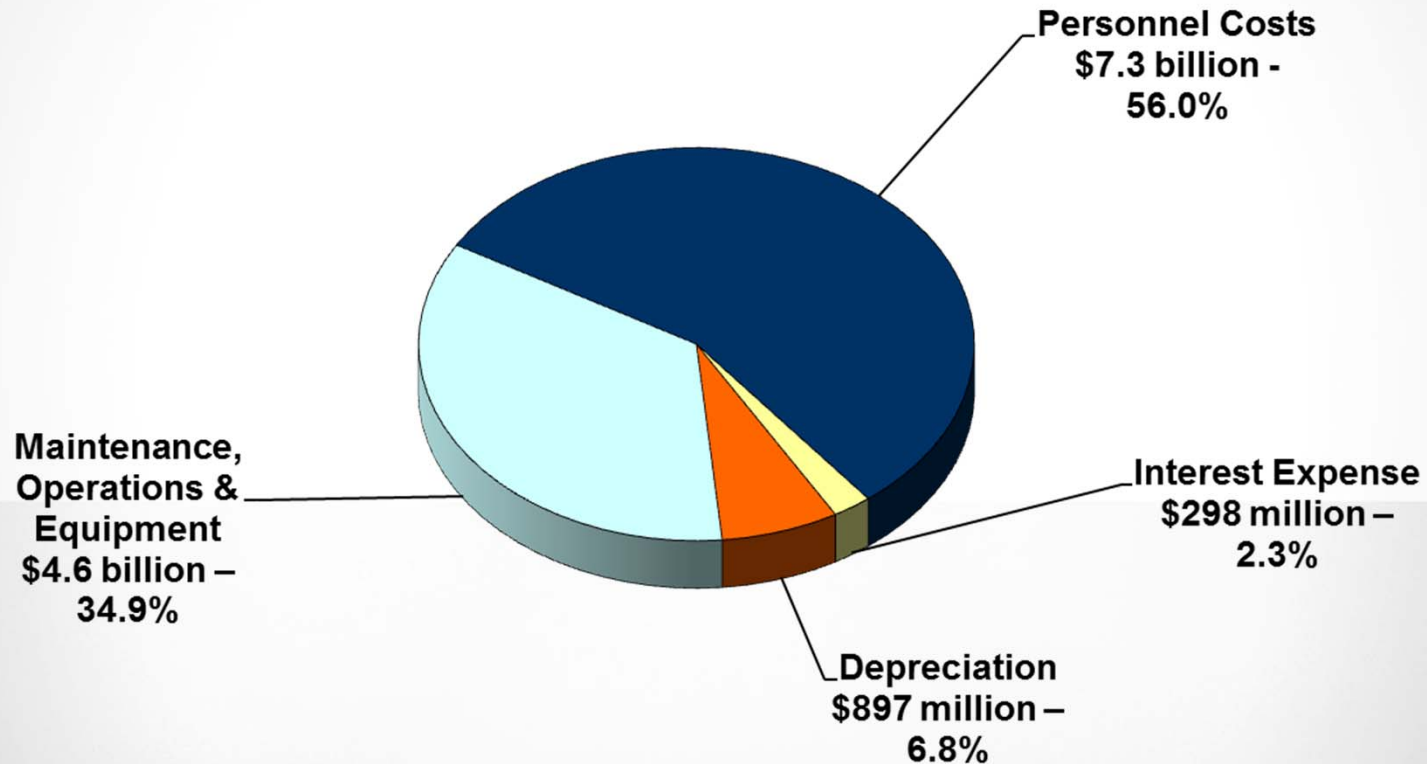


Note: General Revenue covers 14.5% of total Expenditures

\$13.1 Billion



Where the Money Goes Fiscal Year 2012 (By Expense Type)



\$13.1 Billion



Budgeted Expenses - Academic Institutions (in millions)

	Fiscal Year 2011	Fiscal Year 2012	Dollar & Percent Change	
U. T. Arlington	\$ 449.7	\$ 471.8	\$ 22.1	4.9%
U. T. Austin	2,134.2	2,229.3	95.1	4.5%
U. T. Brownsville	167.6	171.3	3.7	2.2%
U. T. Dallas	390.4	433.7	43.3	11.1%
U. T. El Paso	364.8	383.9	19.1	5.3%
U. T. Pan American	263.8	254.0	<9.8>	<3.7%>
U. T. Permian Basin	52.8	60.9	8.1	15.4%
U. T. San Antonio	468.4	482.3	13.9	3.0%
U. T. Tyler	90.6	82.4	<8.2>	<9.0%>
Total Academic	\$4,382.3	\$4,569.6	\$187.3	4.3%

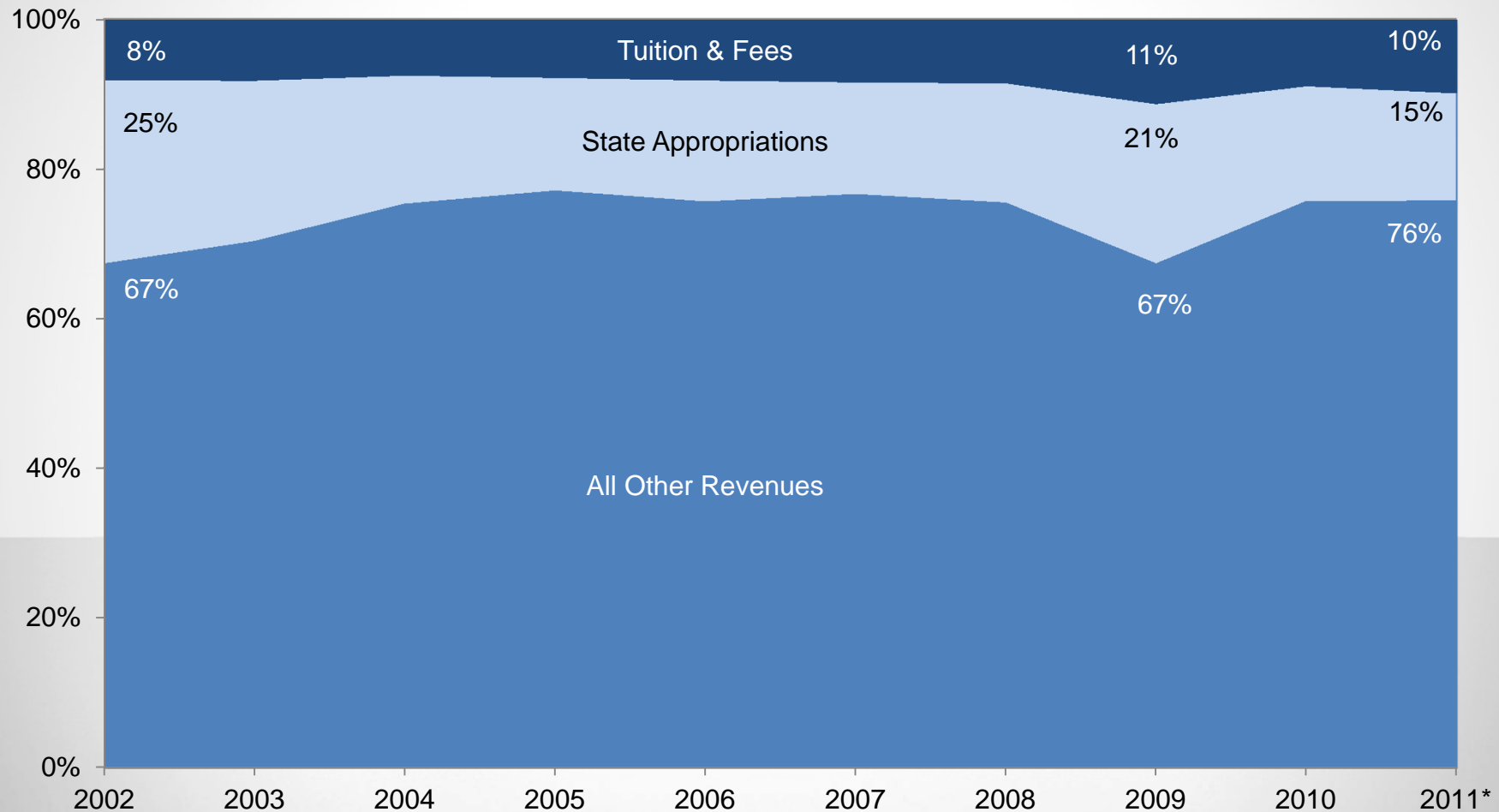


Budgeted Expenses - Health Institutions (in millions)

	Fiscal Year 2011	Fiscal Year 2012	Dollar & Percent Change	
U. T. Southwestern Medical Center	\$ 1,689.1	\$ 1,788.5	\$ 99.4	5.9%
U. T. Medical Branch – Galveston	1,620.8	1,515.8	<105.0>	<6.5%>
U. T. Health Science Center - Houston	903.2	964.7	61.5	6.8%
U. T. Health Science Center - San Antonio	743.6	739.6	<4.0>	<0.5%>
U. T. M. D. Anderson Cancer Center	3,164.7	3,235.0	70.3	2.2%
U. T. Health Science Center - Tyler	121.6	126.5	4.9	4.0%
Total Health	\$8,243.0	\$8,370.1	\$127.1	1.5%



U. T. System: Key Revenues as a Percentage of Total Revenues



Source: Exhibit B of Annual Financial Report

Note: "Other Revenues" for FY 2009 includes investment losses. FY 2011 is based on budgeted, not actual \$.



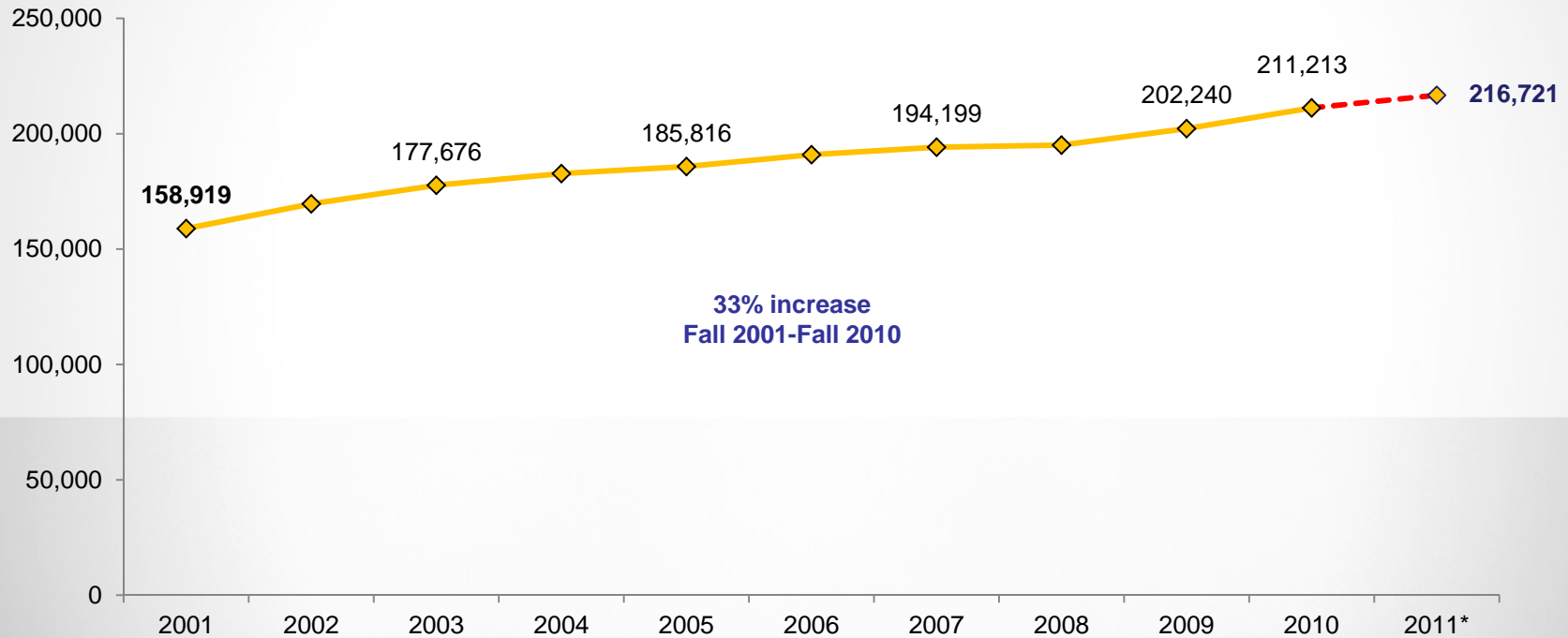
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U. T. System Office of the Controller
 August 2011
 Slide 8

Total Enrollment

Actual FY 2001 to FY 2010 and Projected FY 2011, FY 2012

Headcount, Fall 2001 - Fall 2010
w/ Estimated Fall 2011



Source: Texas Higher Education Coordinating Board

* Fall 2011 enrollment estimates based on campus projections and past growth trends.

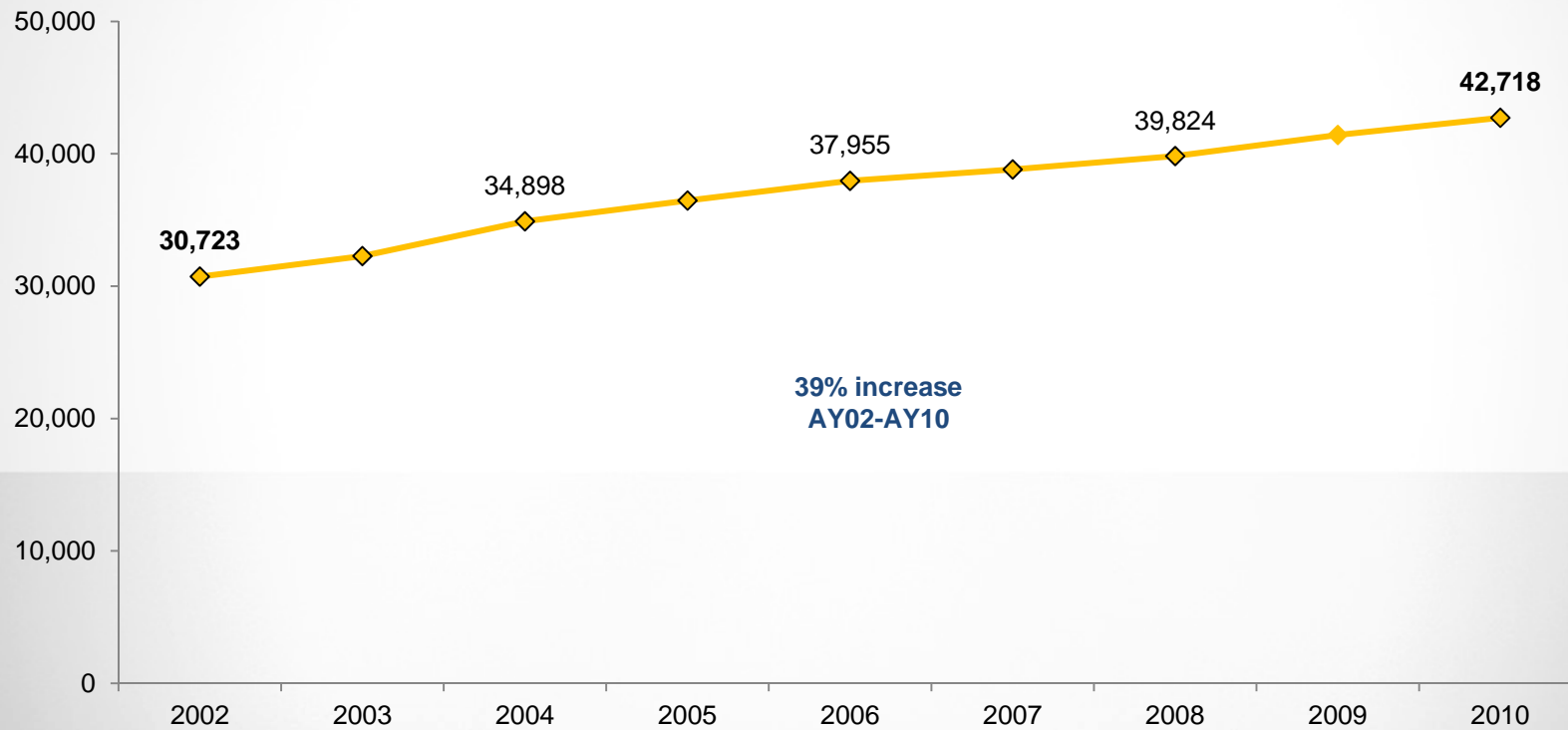


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Total Degrees Conferred Awarded FY 2003 – 2010

All Levels, AY 2002 - AY 2010



Source: Texas Higher Education Coordinating Board

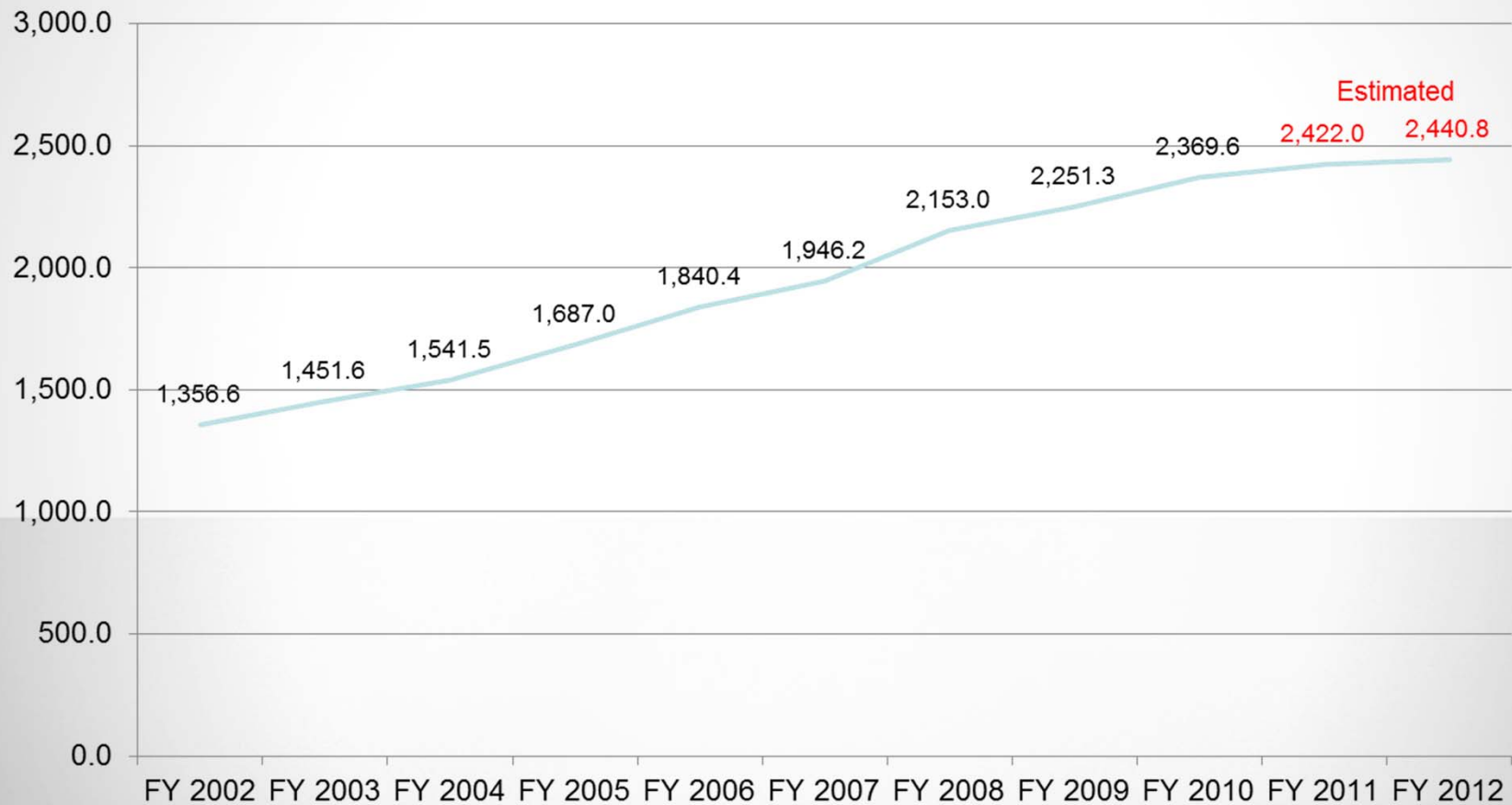
Note: Includes baccalaureate, masters, doctoral, and professional degrees. Does not include certificates.



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U. T. System: Trend of Research Expenditures FY 2002 – 2012 (in millions)



The University of Texas System Administration



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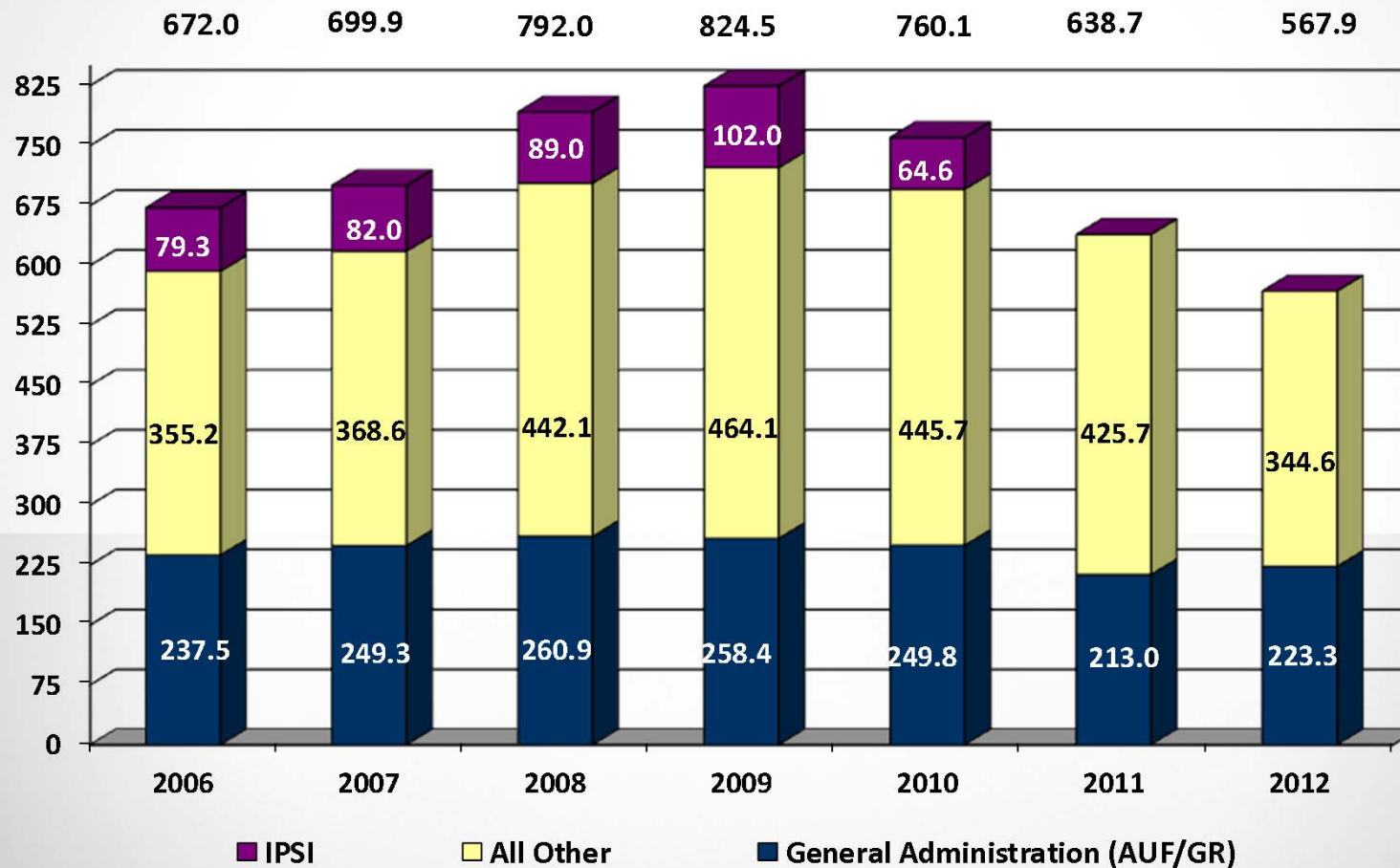
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August 2011
Slide 12

U. T. System Administration

	BUDGET		
	FY11	FY12	% Change
FTEs	638.73	567.88	-11.1%
Expenditures			
Salaries/Fringes	\$ 67,309,547	\$ 62,422,917	-7.3%
M&O, Equipment	9,734,670	9,605,034	-1.3%
Travel	1,940,986	1,823,252	-6.1%
Other	23,630,409	23,794,152	0.7%
Depreciation	12,002,496	11,970,269	-0.3%
Subtotal	114,618,108	109,615,624	-4.4%
Systemwide Software Licenses/Maintenance	15,746,346	16,319,518	3.6%
Interest Expense	85,050,988	87,235,922	2.6%
Total	\$ 215,415,442	\$ 213,171,064	-1.0%
Funding Source			
General Revenue	1,950,000	1,575,000	-19.2%
AUF			
General Administration	31,400,629	32,625,748	3.9%
Incremental PeopleSoft Project Reserves	-	257,020	n/a
Interest on Debt Service	85,036,550	87,223,584	2.6%
Service Departments Assessments (excl insurance)	66,891,484	60,368,675	-9.8%
Designated	11,892,723	9,588,964	-19.4%
Restricted Gifts and Contracts	7,945,022	9,847,366	23.9%
Other	10,299,034	11,684,707	13.5%
Total	\$ 215,415,442	\$ 213,171,064	-1.0%



U. T. System Administration Budgeted FTEs - Fiscal Years 2006-2012





Library, Equipment, Repair and Rehabilitation



Library, Equipment, Repair and Rehabilitation Fiscal Year 2012 – Total \$30,000,000

Academic		Health	
U. T. Arlington	\$1,748,000	U. T. Southwestern Medical Center	\$1,649,400
U. T. Austin	\$3,655,500	U. T. Medical Branch - Galveston	\$1,710,600
U. T. Dallas	\$1,700,000	U. T. Health Science Center - Houston	\$1,700,000
U. T. El Paso	\$1,925,000	U. T. Health Science Center - San Antonio	\$1,675,000
U. T. Permian Basin	\$ 685,000	U. T. M. D. Anderson Cancer Center	\$1,650,000
U. T. San Antonio	\$1,766,540	U. T. Health Science Center - Tyler	\$1,650,000
U. T. Tyler	\$ 784,960		
Total	\$12,265,000	Total	\$10,035,000
Library Collection Enhancement Program			\$2,700,000

Collaborative Projects:

U. T. Dallas and U. T. Southwestern Medical Center	\$1,500,000
U. T. El Paso and U. T. Health Science Center – Houston	\$ 599,000
U. T. Tyler and U. T. Health Science Center – Tyler	\$1,500,000
U. T. San Antonio and U. T. Health Science Center – San Antonio	\$1,401,000



Faculty Science and Technology Acquisition and Retention (STARs) Program



Faculty STARs - Fiscal Year 2012

Faculty STARs Program – Academic Institutions	\$10,000,000
Faculty STARs Program – Health Institutions	\$10,000,000

Benefits of Faculty STARs

- Recruit and retain best faculty in the nation
- Develop and strengthen research capacity
- Pending and issued patents
- Encourage future research and excellence
- Collaboration with outside entities



PUF Debt Capacity – Base Case

Available University Fund Operating Statement Forecast Data (\$ Millions)	Actual FY 09	Actual FY 10	Projected					
			FY 11	FY 12	FY 13	FY 14	FY 15	FY 16
PUF Distribution Amount	\$530.9	\$516.4	\$506.4	\$575.5	\$629.7	\$638.1	\$657.8	\$691.9
Surface & Other Income	16.1	13.8	16.1	15.2	15.2	15.2	15.2	15.2
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AUF Interest Income	7.6	4.7	3.5	2.9	5.2	5.8	10.0	14.6
Income Available to U. T.	372.3	358.1	351.8	396.7	435.1	441.4	458.7	486.0
TRANSFERS:								
UT Austin Excellence Funds (45%)	(165.3)	(160.7)	(157.7)	(178.5)	(195.8)	(198.6)	(206.4)	(218.7)
PUF Debt Service *	(101.5)	(114.1)	(86.2)	(127.8)	(154.9)	(175.9)	(194.4)	(212.6)
System Administration	(35.4)	(33.0)	(31.4)	(32.6)	(33.6)	(34.6)	(35.7)	(36.7)
Other **	(6.3)	(122.2)	(30.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Net Surplus/(Deficit)	63.8	(71.9)	46.6	56.7	49.7	31.1	21.1	16.9
Ending AUF Balance - System	171.7	99.9	146.4	203.1	252.8	283.9	305.1	321.9
PUF Debt Service Coverage	3.67:1	3.14:1	4.08:1	3.10:1	2.81:1	2.51:1	2.36:1	2.29:1
Unused Constitutional Limit	378.3	245.9	467.0	318.1	118.2	89.9	69.5	58.5

* Includes debt service on outstanding PUF debt, projected debt service on PUF debt authorized, but unissued plus \$50 million of annual LERR/STARs funding and projected debt service on additional PUF debt capacity amounts listed above.



Estimated Multi-year Funding Sources

	2012	2013	2014	2015	2016
Additional PUF Debt Capacity ¹	\$160 million	\$160 million	\$160 million	\$160 million	\$160 million
Additional AUF Capacity ²	\$45 million	\$45 million	\$45 million	\$30 million	\$30 million

¹ Reflects additional PUF debt capacity beyond projects already approved and beyond an assumed \$50 million annual allocation to fund Library, Equipment, Repair and Rehabilitation (LERR) and Faculty STARS. Pursuant to the Texas Constitution, PUF debt can only be used to fund capital costs of projects at U. T. institutions other than U. T. Brownsville and U. T. Pan American, both of which receive HEAF funding.

² Reflects additional AUF funding capacity beyond funding projected PUF debt service, excellence funding to U. T. Austin, funding a portion of the System Administration budget and funding certain other initiatives previously approved by the Board of Regents. Pursuant to the Texas Constitution, AUF funding can only be used to provide support and maintenance of U. T. Austin and U. T. System Administration.

Biggest Risk – PUF investment returns

- Forecasted PUF distribution amounts are based on long-term expected average annual rate of return of 8.82% starting from a June 30, 2011 PUF market value of \$12.8 billion. Lower returns would substantially reduce PUF and AUF capacity.
- Reduced growth of the PUF book value would also limit the amount of PUF debt that may be issued due to the 20% of PUF Book Value Constitutional PUF debt limit.



Transformational Strategic Investments

Initiative	PUF Allocation	AUF Allocation	ITF/Swap Proceeds
1. Lower Rio Grande Valley Plan	\$ 6,000,000		\$ 24,000,000
2. Regents' Outstanding Teaching Awards (\$3 million/year for five years)		\$ 4,000,000	\$ 10,000,000
3. U. T. Horizon Fund		\$ 10,000,000	
4. Strength in Numbers		\$ 9,000,000	
5. Institute for Transformational Learning		\$ 50,000,000	
6. Productivity Excellence Framework	\$ 10,000,000		
7. Campus Support			
System Contracts Currently Charged Back to Institutions		\$ 17,600,000	
PeopleSoft HR/Finance Implementation (7 Academic Institutions & System Admin.)		\$ 15,000,000	
CTRC Debt for U. T. Health Science Center – San Antonio	\$ 13,000,000		
8. U. T. Austin's Engineering Education and Research Center	\$ 75,000,000		
Total Allocations	\$ 104,000,000	\$ 105,600,000	\$ 34,000,000

