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

October 10, 2002
12:30 p.m.
Board Room, 9th Floor, Ashbel Smith Hall

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|---|---|---|---|
| *12:30* | 1. | **Welcome and Opening Remarks** | *Chairman Hunt* |
| | 2. | **Agenda Topics for November Board of Regents' Meeting** | |
| *12:35* | | a. Proposed Amendments to the Regents' Rules Regarding: | |
| | | i. Meals and Lodging for Employees [Action Item] (Tab 2a-i) | *Mr. Mike Godfrey* |
| | | ii. The Pay Plan [Action Item] (Tab 2a-ii) | *Ms. Florence Mayne* |
| | | iii. Delegation of Authority to Execute and Deliver Contracts, Agreements, and Documents [Action Item] (Tab 2a-iii) | *Ms. Florence Mayne* |
| | | iv. Purchase or License of Library Books and Library Materials [Action Item] (Tab 2a-iv) | *Ms. Florence Mayne* |
| | | v. Deferred Compensation [Action Item] (Tab 2a-v) | *Mr. Kerry Kennedy* |
| | | vi. Retirement and Modified Service [Action Item] (Tab 2a-vi) | *Ms. Francie Frederick* |
| | | vii. Nonresident Enrollment Limitations [Action Item] (Tab 2a-vii) | *Dr. Mike Kerker* |
| | | viii. Outside Employment and Nonelective Positions of Honor, Profit, or Trust [Action Item] (Tab 2a-viii) | *Mr. Mike Godfrey* |
| *12:50* | | b. Proposed Revenue Financing System Bond Transaction [Action Item] (Tab 2b) | *Mr. Philip Aldridge* |
| *1:00* | | c. Increase in Permanent University Fund Note Program Authorization [Action Item] (Tab 2c) | *Mr. Philip Aldridge* |
| *1:05* | | d. UTIMCO Quarterly Report [Action Item] | *Mr. Bob Boldt* |
| *1:10* | | e. Annual Permanent University Fund Report [Action Item] | *Mr. Bob Boldt* |
| *1:15* | | f. Approval of Investment Policies [Action Item] | *Mr. Bob Boldt* |
| *1:20* | | g. U. T. Arlington: Acquisition of Real Estate [Action Item] (Tab 2g) | *Mr. Jim Wilson* |
| *1:25* | | h. U. T. Permian Basin: Acquisition of Leasehold Interest [Action Item] (Tab 2h) | *Mr. Jim Wilson* |

| | | | |
|---|---|---|---|
| *1:30* | | i. Approval of 2003 Audit Plan [Action Item] (Tab 2i) | *Mr. Charles Chaffin* |
| *1:40* | 3. | Quarterly Permanent University Fund & Available University Fund Report (Tab 3) | *Mr. Philip Aldridge* |
| *1:55* | 4. | Report on Implementation of Long Range Plan (Tab 4) | *Mr. Vance McMahan* |
| *2:10* | 5. | UT TeleCampus Funding | *Dr. Ed Sharpe*<br>*Dr. Darcy Hardy* |
| *2:25* | 6. | Cash and Non-Cash Compensation (Tab 6) | *Mr. Kerry Kennedy*<br>*Mr. Randy Wallace* |
| *2:40* | 7. | Depreciation and Replacement Costs (Tab 7) | *Mr. Randy Wallace*<br>*Mr. Sid Sanders* |
| *2:50* | 8. | Energy Utility Task Force Update (Tab 8) | *Mr. Philip Aldridge* |
| *3:05* | 9. | Background Report of Key Performance Measures Adopted by the Legislative Budget Board and Governor's Office of Budget and Planning (Tab 9) | *Mr. Randy Wallace*<br>*Dr. Mike Kerker* |
| *3:15* | 10. | Property Insurance Program Update | *Mr. Paul Pousson* |
| *3:25* | 11. | Annual Historically Underutilized Business Report | *Mr. Lewis Wright* |
| *3:26* | 14. | **Adjourn** | |

**Proposed Amendments to the Regents' Rules Regarding Meals and Lodging for Employees**

## BACKGROUND INFORMATION

The proposed deletion of outdated and unneeded language in Section 6, Chapter X, Part Two of the Regents' Rules and Regulations is the result of ongoing review of the Rules. The language was included in the Regents' Rules and Regulations prior to 1960 and approval of the value of meals, lodging, and other services "in lieu of additional wages or salary" by the Board of Regents is no longer practical or desirable. These valuation matters are handled pursuant to advice of tax counsel, following established federal laws and regulations.

## RECOMMENDATION

[~~Sec. 6.~~ ~~Value of Services in Lieu of Compensation~~

~~The money values of meals, lodging, and other services that employees are authorized to receive in lieu of additional wages or salary are recommended to the president of the component institution by the chief business officer and approve by the appropriate Executive Vice Chancellor, the Chancellor, and the Board.~~]

**Proposed Amendment to Regents' Rules and Regulations Regarding The Pay Plan**

## BACKGROUND INFORMATION

Proposed amendment of the Regents' Rules and Regulations, Part Two, Chapter V, Section 1, Subsection 1.2, Subdivision 1.22, Subparagraph 1.224 delegates to the Chancellor the authority to approve the annual System-wide pay plan. The previous process was to submit a summary of the pay plan for approval by the Board via the Docket each August.

The annual System-wide pay plan is a compilation of component institution pay plans and any additions, deletions, and changes that have been approved during the course of a fiscal year by the System Office of Human Resources or the Chancellor, in accordance with the Regents' Rules and Regulations. The process of approving changes to the System-wide pay plan is routine in nature and occurs throughout the fiscal year as needs occur at the component institutions. Pay plan changes are planned and reviewed carefully at the component level, reviewed by System Administration officials throughout the year, and implemented by the components after approval by the System Office of Human Resources or the Chancellor.

## RECOMMENDATION

1.224 The System-wide Personnel Pay Plan shall be approved annually by the Chancellor [~~Board~~]. Subsequent changes to a component institution pay plan in a given fiscal year shall be processed as follows:

(a) The System Office of Human Resources shall process requested amendments to a component institution pay plan based on the impact of the change upon the System-wide Personnel Pay Plan.

(b) The System Office of Human Resources is authorized to approve the following proposed changes to a component institution pay plan:

(1) The adjustment of a salary range within the established System-wide salary range, if the change will not change the System-wide Personnel Pay Plan.

(2) Deletion of a title.

(3) Change of a title.

(4) Change of a code number.

(5) Addition of a title that is in the System-wide Personnel Pay Plan if the salary range requested is within the established System-wide salary range.

(c) The following proposed changes to a component institution pay plan require the approval of the System Office of Human Resources and the Chancellor or his or her delegate:

(1) The addition of a new title that is not included in the System-wide Personnel Pay Plan.

(2) The addition of a title that is included in the System-wide Personnel Pay Plan at a salary range not within the established System-wide Personnel Pay Plan range for the title.

(3) The adjustment of a salary range that would change the established System-wide range by setting a new System-wide minimum or maximum salary.

(d) The System Office of Human Resources shall notify a component institution of the approval or disapproval of a requested pay plan change as soon as practicable. No requested change may be implemented until authorized in writing.

**Proposed Amendments to the Regents' Rules Regarding Delegation of Authority to Execute and Deliver Contracts, Agreements, and Documents**

## BACKGROUND INFORMATION

The proposed amended of the Regents' Rules and Regulations, Part One, Chapter 1, Section 9, Subsection 9.2, Subdivision 9.25 will allow a delegate identified in an approved Regental policy and other Board action to make further limited delegation of authority as authorized by the Subdivision.

## RECOMMENDATION

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

. . .

9.25 The primary delegate identified in these Rules and Regulations or in an official Board action may further delegate his or her delegated authority unless otherwise specified. Any such further delegation of authority must be made in writing and the primary delegate shall permanently maintain, or cause to be maintained, evidence of all such delegations. A delegate of the primary delegate may not further delegate such authority.

**Proposed Amendment to the Regents' Rules Regarding Purchase or License of Library Books and Library Materials**

## BACKGROUND INFORMATION

Part One, Chapter I, Section 9, Subsection 9.2, Subdivision 9.22 of the Regents' Rules and Regulations limits an authorized delegate's authority to sign contracts on behalf of the U. T. Board of Regents to contracts with a value of $1 million or less, except in the case of certain enumerated types of contracts.

Although a contract for the acquisition of library books and library materials does not clearly fall within one of the exceptions allowing delegated approval, such purchases are critical to the mission of the U. T. institutions, and often a particular journal, book, or other library material is available from only one source.

The libraries of the U. T. System institutions have collaborated in acquiring materials for the U. T. Digital Library since 1994. Because of the System-wide nature of many of the contracts for library books and materials for the U. T. Digital Library, some of the contracts exceed the $1 million threshold. In addition, at some component institutions, purchasing agreements for routinely acquiring printed books and journals are approaching the limitation on delegated authority.

The proposed exception to the $1 million limitation on contract delegation is recommended because the library materials provided by these contracts are essential to the academic and research missions of U. T. System institutions and because of the routine nature of the contracts.

## RECOMMENDATION

9.22 All contracts or agreements, including purchase orders and vouchers, with a cost or monetary value to the U. T. System Administration or the component institution of more than $1 million must be approved by the Executive Committee of the Board or approved by the Board via the Docket or the Agenda except the following, which do not require prior approval by the Executive Committee of the Board or the Board regardless of the contract amount:

. . .

9.22(10) Contracts or agreements for the purchase or license of library books and library materials.

**Proposed Amendments to the Regents' Rule and Regulations**
**Regarding Deferred Compensation**

## BACKGROUND INFORMATION

In 1996, a Deferred Compensation Plan was established as allowed by Internal Revenue Code Section 457(f) to benefit certain senior administrators selected by the Board to participate in the Plan. The initial Plan was drafted by tax counsel in the Office of General Counsel and approved by the Executive Vice Chancellor for Business Affairs to effect the Board's actions. Recent review of the Plan indicates the need for minor amendments which will require the signature of an official "recordkeeper". The proposed addition to the Regents' Rules will incorporate this benefit into the section describing similar benefits and delegate, for the record, the recordkeeping responsibility for the Plan to the Executive Vice Chancellor for Business Affairs. The Counsel and Secretary to the Board will continue to work closely with the Executive Vice Chancellor for Business Affairs to assure that the Board's actions with respect to individual compensation are implemented in a timely fashion.

## RECOMMENDATION

Sec. 9. Deferred Compensation Plan

As authorized by Texas Government Code Chapter 609, any employee may participate in the Deferred Compensation Plan administered by the Employees Retirement System and established pursuant to Section 457(b) of the Internal Revenue Code of 1986, as amended.

Further, as authorized by Texas Revised Civil Statutes Annotated Article 6228a-5, Section 3(a), the Board has established a plan pursuant to Section 457(f) of the Internal Revenue Code of 1986, as amended, for the benefit of a select group of employees. Only employees designated by the Board as eligible employees may participate in the plan.

The Board delegates to the Executive Vice Chancellor for Business Affairs the power and authority to take all action and to make all decisions and interpretations that may be necessary or appropriate to administer and operate The University of Texas System Deferred Compensation Plan (the "Plan"), as further provided in the Plan. The Executive Vice Chancellor for Business Affairs will perform, or cause to be performed, such recordkeeping functions as necessary to administer and maintain the Plan in accordance with Section 457(f) of the Internal Revenue Code, consistent with Texas Revised Civil Statutes Annotated Article 6228a-5.

**Proposed Amendments to the Regents' Rules and Regulations**
**Regarding Retirement and Modified Service**

## BACKGROUND INFORMATION

The proposed amendments to the Regents' Rules and Regulations, Part One, Chapter III, Section 33, Subsection 33.2, delegate authority for U. T. System and institutional appointments to modified service to the Chancellor or institutional presidents, as appropriate, and remove the requirement for additional approvals by U. T. System officials and the U. T. Board of Regents.

The proposed amendment to Subsection 33.3 tracks State law which requires a finding of "best interest" regarding contracts with all higher education administrators.

Amendments to Subsection 33.4 are proposed to conform to State laws which speak only to the conditions for rehiring or appointment of Teacher Retirement System participants.

The deletion of current Subsections 33.5 and 33.6 is proposed as these provisions simply restate the need to comply with policy and the ability of the Board to make exceptions to policy.

## RECOMMENDATION

Sec. 33. Retirement and Modified Service

. . .

33.2 Appointment of Retired Person
The [~~Board of Regents, upon the recommendation of the appropriate Executive Vice~~] Chancellor or [~~, Chancellor and, when appropriate,~~] the president, as appropriate, [~~of the affected component institution,~~] may appoint a person who has retired to modified service. Retirement is defined as withdrawal from employment with the U. T. [~~The University of Texas~~] System or a component institution with a retirement benefit.

33.3 Finding of Best Interest Required [~~Benefit to the System Recommendation for, and appointment to,~~] Appointment to modified service shall be made only if the Chancellor or president finds the service of the individual is in the best interest of [~~will result in a significant benefit to~~] the System or a particular component institution.

33.4 Terms of Appointment to Modified Service
Appointment to modified service shall be without tenure, and for not more than one academic year [~~and shall not exceed one-half time~~]. Appointments for Teacher Retirement System participants will be made in compliance with applicable law. The notice provisions of Subsection 6.7 of this Chapter shall not apply to nonrenewal of such appointments. If the System or a component institution determines that it is to the benefit of the System or the institution, it may offer reappointment to modified service.

[~~33.5 Duties, Workload, and Compensation~~
~~The duties, workload, salary rate, or compensation of an individual on modified service shall be in accordance with policies and procedures of The University of Texas System or the component institution.~~

~~33.6 Exceptions~~
~~Upon recommendation of the appropriate Executive Vice Chancellor, the Chancellor and, when appropriate, the president of the affected component institution, the Board of Regents may, by unanimous vote of the members present, make exceptions to this Section in special cases when the Board finds that the services of a particular individual will be of unique benefit to the System or a component institution.~~]

**Proposed Repeal of Regents' Rules Regarding Admission of Nonresident Students**

## BACKGROUND INFORMATION

The current Regents' Rules limitation on nonresident enrollment is not a complete statement of applicable State law and, as worded, has greater application than State law. State law applies only to medical and dental schools (10% cap) and law schools (20% limitation for the School of Law at U. T. Austin) and also makes specific exceptions for degree programs not exempted in the Regents' Rules: an M.D./Ph.D. program at U. T. Southwestern Medical Center – Dallas and 6-year programs in oral and maxillofacial surgery.

The suggested change will conform the Regents' Rules to State law. The Offices of Academic Affairs and Health Affairs indicate the proposed repeal will have a very minimal impact on current enrollment practices.

## RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Acting Executive Vice Chancellor for Health Affairs, and the Vice Chancellor and General Counsel that the Regents' Rules and Regulations, Part One, Chapter VI, Section 9 as set forth below be repealed and that remaining sections be renumbered:

Sec. 9. Admission of Nonresident Students

No nonresident of the State of Texas shall be enrolled as a new or transfer student in any school, college, or degree-granting program at any component institution of the System when all of the three following conditions occur: (1) when there is a limitation on the number of students who will be enrolled in the class of which such nonresident would be a member if he or she were enrolled; (2) when the result of enrolling such nonresident would be to increase to greater than 10% the percentage of nonresidents enrolled in the class of which such nonresident would be a member if he or she were enrolled; and (3) when at the time of the proposed enrollment of such nonresident, admission to the school, college, or degree-granting program is being denied to one or more Texas residents who have applied for admission and who reasonably demonstrate that they are probably capable of doing the quality of work that is necessary to obtain the usual degree awarded by the school, college, or degree-granting program. It is provided, however, that the nonresident enrollment at the School of Law, The University of Texas at Austin, may be equal to 20% of each class of which nonresidents are a part provided that the admission of such nonresidents is on the basis of academic merit alone.

**Proposed Amendments to the Regents' Rules**
**Regarding Outside Employment and Nonelective Positions**
**of Honor, Profit, or Trust**

## BACKGROUND INFORMATION

The proposed amendment of the Regents' Rules and Regulations, Part One, Chapter III, Section 13 to add new Subsection 13.(10), regarding service on outside boards, outlines the requirement of approval for service pursuant to a policy to be promulgated by the Chancellor and provided to the U. T. Board of Regents.

## RECOMMENDATION

Sec. 13. Outside Employment, Service on Outside Boards, and Nonelective Positions of Honor, Profit, or Trust

. . .

13.(10) Service on Outside Boards

It is recognized that the Chancellor and other Executive Officers of the System and the Presidents of component institutions may be asked to serve on the boards, councils or other governing or advisory bodies ("outside boards") of various business, civic, professional, and social organizations, both for profit and not-for-profit, and in compensated and non-compensated positions. Such service is generally deemed to be in the best interest of the System and the component institutions because it broadens the experience of the individuals involved and exposes the System and its component institutions to a larger audience of business, civic, professional, and social leaders.

To avoid conflicts of interest and to ensure that outside service does not distract from employment duties and obligations, the Chancellor shall promulgate a policy concerning approval of service on outside boards. The Chancellor shall provide a copy of the policy to the Board and shall notify the Board of any significant changes to the policy. Requests for approval of service on outside boards by the Chancellor or the Counsel and Secretary to the Board shall be made to the Chairman.

# The University of Texas System
# Office of Finance

## Revenue Financing System Series 2003 A&B

## Finance and Planning Committee

**October 10, 2002**

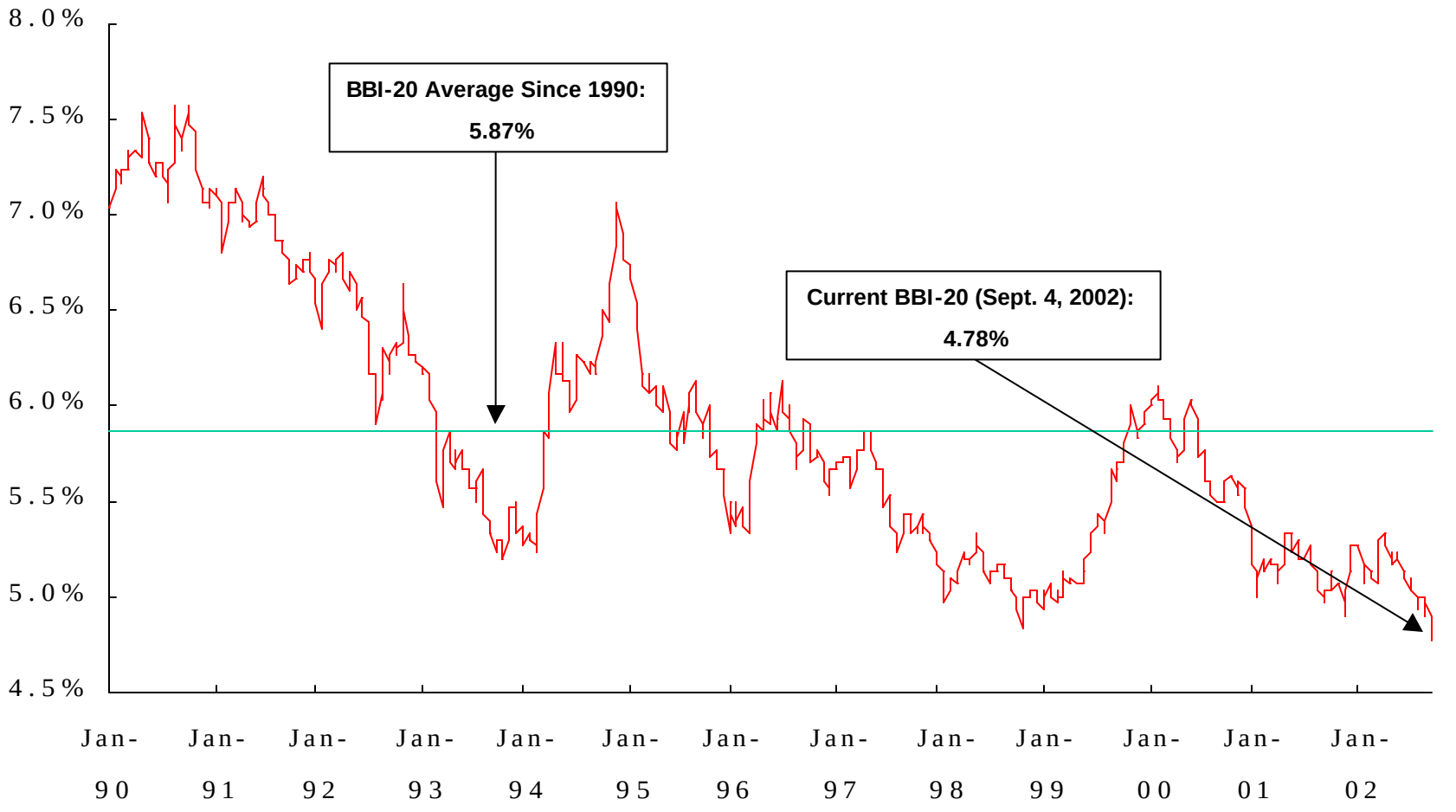
# Transaction Summary

- The Office of Finance will be requesting Board of Regents approval in November to issue up to $575 million of Revenue Financing System (RFS) debt.
  - To be issued in fiscal year 2003
  - Fixed-rate transaction with a maximum 30-year term
  - Interest rates are near all-time lows

- The purpose is to permanently finance approximately $250 million of existing commercial paper, to permanently finance up to $275 million of new projects, and to advance refund up to $50 million of existing RFS Series, 1995A bonds (assuming 3% minimum present value savings).

- All projects to be financed must first receive requisite approvals from the Board of Regents and the Texas Higher Education Coordinating Board. The bonds must receive approval from the Attorney General's office and the Texas Bond Review Board.

# Tax-Exempt Rates Since 1990



# The University of Texas System
# Office of Finance

## Request to Increase the Size of the PUF Flexible Rate Note Program

## Finance and Planning Committee

**October 10, 2002**

# Request and Background

- The Office of Finance is requesting approval to increase the authorized size of the PUF Flexible Rate Note (FRN) program to $400 million.

- Similar to the RFS commercial paper program, the FRN program is used to provide low-cost financing for certain equipment purchases and interim financing for debt-funded capital projects.

- The FRN program was initiated in 1985 with a program authorization of $100 million. The program was expanded to $250 million in 1989.

# Rationale

- Greater use of the FRN program should reduce the PUF's cost of capital and provide greater flexibility to respond to changes in PUF assumptions.

- The authorized size of the FRN program has not been increased since 1989, while the CIP has grown dramatically.

# Liquidity Status

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

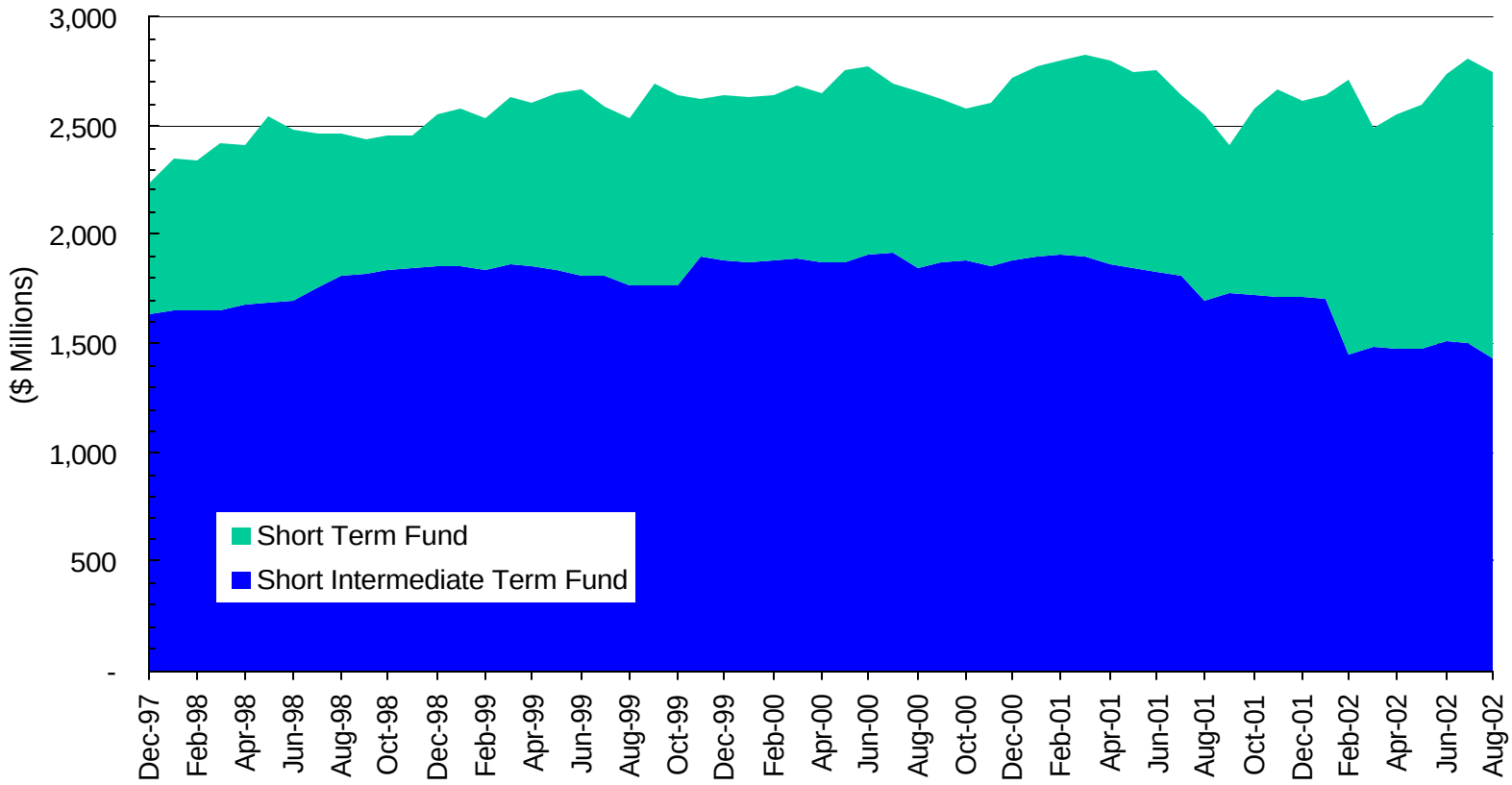
- The U.T. System currently has a liquidity agreement with Bank One for the FRN program that requires an annual fee of $195,000. This agreement expires in May 2003.

- Today's bank liquidity market would require a fee of approximately 10 b.p., or $400,000 per annum, assuming a $400 million program authorization.

- In lieu of external liquidity, the Office of Finance has arranged for the Short Term Fund and the PUF to provide liquidity for the FRN program.

- Additional liquidity support is available through the Short Intermediate Term Fund.

# Monthly Fund Balances



# Risk Mitigation

- The maximum amount of PUF notes that can mature on any given day will be limited to $40 million.

- The daily maximum coverage is 32.65 times ($1.306 billion in the Short Term Fund divided by $40 million daily limit).

- In reality, the coverage is much higher with the assets of the PUF and the Short Intermediate Term Fund standing behind the Short Term Fund. This provides almost $10 billion of potential liquidity.

- Since the origination of the program in 1985, PUF notes have never failed to be remarketed.

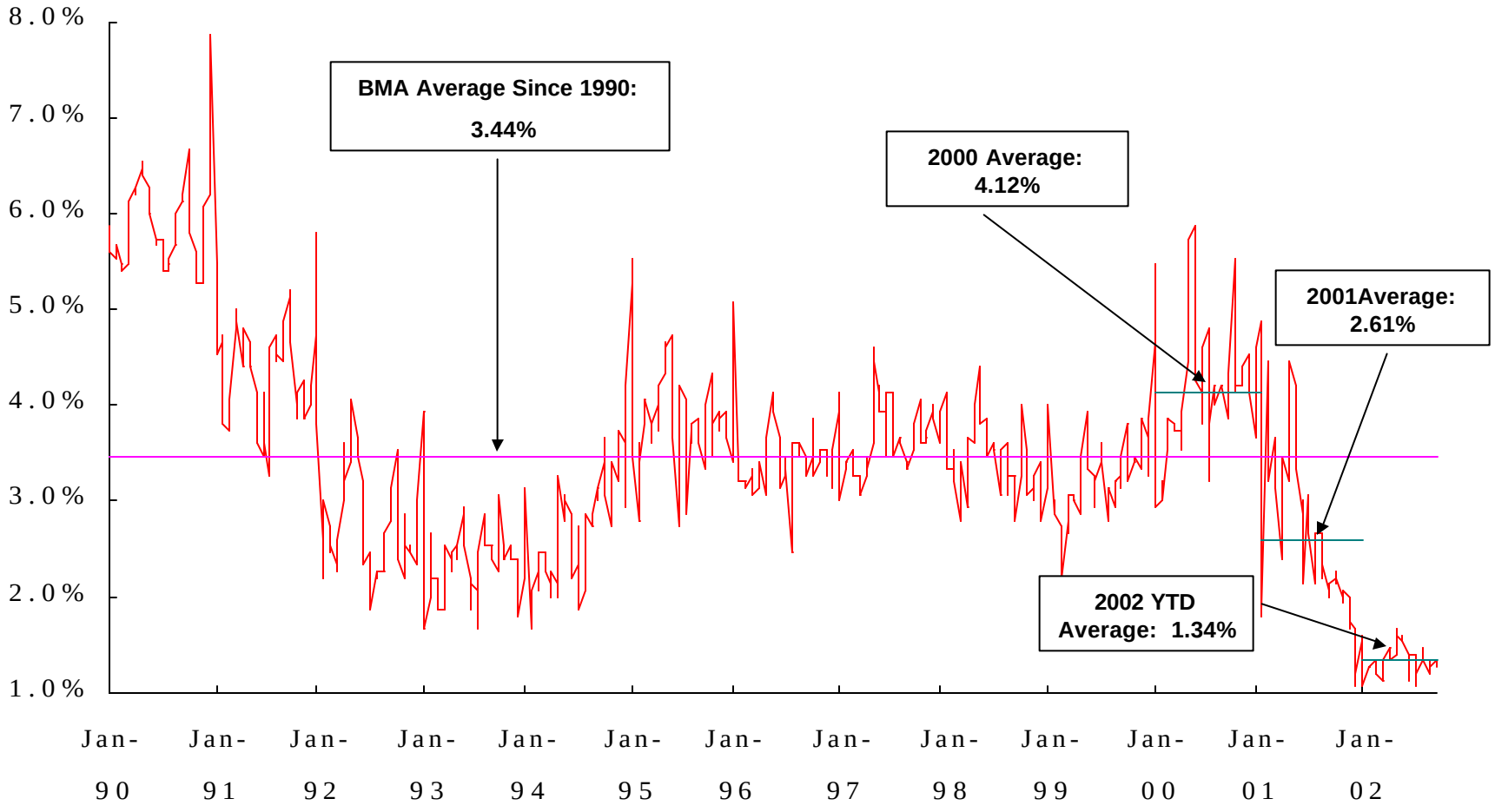
# Benefits of the FRN Program

- The PUF FRN program provides efficient access to the short-term tax-exempt debt market resulting in low-cost financing.

- By providing internal liquidity, the System saves approximately $400,000 per annum versus obtaining external liquidity. The System also avoids other costs of renewing liquidity lines, principally legal fees, rating agency fees and internal costs.

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

# Short Term Tax-Exempt Rates Since 1990



## U. T. Arlington: Acquisition of Real Estate

### BACKGROUND INFORMATION

U. T. Arlington wishes to acquire the College Oaks Apartments property, which consists of an approximately 1.03-acre site and a 47-unit apartment complex. The subject apartment complex was built in phases between 1961 and 1967. The property exists in a strategic location within the approved master plan acquisition zone for the U. T. Arlington campus, and is needed to complete an assemblage of property for expansion of existing on-campus student housing. After acquisition, the improvements will be demolished in order to construct a parking lot for a new residence hall.

### RECOMMENDATION

a. Determine that it is necessary for U. T. Arlington to acquire, through condemnation proceedings, if necessary, the real property located at 851, 901, and 905 Oak Street in Arlington, Tarrant County, Texas, at a price not exceeding its fair market value as determined by an MAI appraisal or by the determination of the court

b. Authorize the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to take all steps necessary to acquire the subject leasehold interest; to execute all documents, instruments, and other agreements; to initiate a condemnation action of the subject leasehold interest, if necessary, through the Office of General Counsel and the Office of the Attorney General; and to take all such actions deemed necessary or desirable to carry out the purpose and intent of the foregoing recommendations.

## U.T. Permian Basin: Acquisition of Leasehold Interest

### BACKGROUND INFORMATION

The Falcon's Nest Apartments were constructed by the Odessa Housing Authority under a long-term ground lease to provide student housing on the U. T. Permian Basin campus. U. T. Permian Basin currently leases the apartments from the Odessa Housing Authority. The lease requires that U. T. Permian Basin cannot acquire additional student housing on campus unless it purchases the Housing Authority's leasehold interest. U.T. Permian Basin is requesting authority to purchase the apartments to expand and gain complete control to all student housing on campus.

The debt will be repaid with net revenues from U. T. Permian Basin's housing operation revenues. The annual debt service is projected to be $467,877. The debt service coverage for the Falcon's Nest Apartments is expected to be at least 1.3 times. The overall debt service coverage for U. T. Permian Basin is expected to be at least 1.04 times.

### RECOMMENDATION

a. Acquire the Falcon's Nest Apartments located at 4901 E. University, Odessa, Texas, from the Odessa Housing Authority

b. Submit a request to the Texas Higher Education Coordinating Board for approval of this transaction

c. Appropriate funds and authorize expenditure of up to $1,000,000 from Revenue Financing System Bond Proceeds

d. Authorize the Executive Vice Chancellor for Business Affairs, the Executive Director of Real Estate, or the Assistance Vice Chancellor for Finance to execute all documents, instruments, and other agreements and to take all further actions deemed necessary or desirable to carry out the purpose and intent of the foregoing recommendations.

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

a. Parity Debt shall be issued to pay the project's cost including any project costs prior to the issuance of such Parity Debt

b. Sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. Board of Regents relating to the Financing System

c. U.T. Permian Basin, which is a "Member" of such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U.T. Board of Regents of tax-exempt Parity Debt in the aggregate amount of up to $1,000,000

d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

# Approval of 2003 Audit Plan

## *Executive Summary*

*The University of Texas System-wide fiscal year 2003 Audit Plan* (*"2003 Audit Plan"*) is a blueprint of the internal audit activities that will be performed by the internal audit function throughout The University of Texas System in FY 2003. Individual audit plans were prepared at each component and approved by the component Internal Audit Committee.

The Director of Audits provided direction to the internal audit directors prior to the preparation of the audit plans and provided formal feedback through conducting "audit hearings" with each component. The process of preparing the audit plans included identifying those areas considered to be specific to each component that are considered to be the most important and ensuring that activities with the greatest risk are audited.

The efforts of the internal audit function continue to expand into areas other than the performance of traditional audits. Examples of added services include consulting services and management audits in the institutions' core business processes.

The *2003 Audit Plan* illustrates an economic and efficient use of internal audit resources, and addresses the risks of The University of Texas System by planning activities as follows:

| Area | Audit Hours | % Of Total Hours |
|---|---|---|
| Key Financial and Operating Information | 24,252 | 18% |
| Institutional Compliance Audits | 18,044 | 13% |
| Information Technology Audits | 20,640 | 15% |
| Core Business Processes | 35,992 | 28% |
| Change in Management | 6,985 | 5% |
| Follow-up | 5,788 | 4% |
| Projects | 23,494 | 17% |
| **Total** | 135,195 | 100% |

| | Key Financial & Operating Information | Institutional Compliance | Information Technology | Core Business Processes | Change in Management | Follow-up | Projects | Total |
|---|---|---|---|---|---|---|---|---|
| U. T. System Administration | 2,010 | 1,080 | 2,430 | 4,805 | 390 | 440 | 2,715 | 13,870 |
| **Large Components:** | | | | | | | | |
| U. T. Austin | 2,650 | 1,550 | 2,250 | 5,070 | 1,705 | 400 | 2,310 | 15,935 |
| U. T. Southwestern | 1,630 | 1,750 | 1,600 | 3,590 | 1,000 | 400 | 2,500 | 12,470 |
| U. T. Medical Branch at Galveston | 2,990 | 975 | 2,600 | 3,350 | 825 | 800 | 3,219 | 14,759 |
| U. T. HSC - Houston | 1,345 | 1,590 | 2,365 | 2,445 | 285 | 65 | 2,930 | 11,025 |
| U. T. HSC - San Antonio | 1,500 | 580 | 1,130 | 1,980 | 560 | 300 | 1,060 | 7,110 |
| U. T. MDA Cancer Center | 3,160 | 1,750 | 2,270 | 5,080 | 120 | 600 | 2,694 | 15,674 |
| Subtotal | 13,275 | 8,195 | 12,215 | 21,515 | 4,495 | 2,565 | 14,713 | 76,973 |
| **Mid-size Components:** | | | | | | | | |
| U. T. Arlington | 855 | 1,580 | 600 | 1,730 | 120 | 550 | 645 | 6,080 |
| U. T. Brownsville | 700 | 820 | 900 | 710 | 150 | 460 | 842 | 4,582 |
| U. T. Dallas | 980 | 1,210 | 1,130 | 1,130 | 360 | 190 | 540 | 5,540 |
| U. T. El Paso | 3,050 | 1,190 | 1,550 | 2,700 | 1,175 | 755 | 1,452 | 11,872 |
| U. T. Pan American | 870 | 1,430 | 825 | 980 | 75 | 400 | 860 | 5,440 |
| U. T. San Antonio | 695 | 1,754 | 1,330 | 1,987 | 0 | 200 | 690 | 6,656 |
| Subtotal | 7,150 | 7,984 | 6,335 | 9,237 | 1,880 | 2,555 | 5,029 | 40,170 |
| **Small Components:** | | | | | | | | |
| U. T. Permian Basin | 325 | 165 | 100 | 100 | 50 | 0 | 65 | 805 |
| U. T. Tyler | 240 | 220 | 300 | 200 | 140 | 128 | 292 | 1,520 |
| U. T. HC at Tyler | 1,252 | 400 | 990 | 840 | 30 | 100 | 680 | 4,292 |
| Subtotal | 1,817 | 785 | 1,390 | 1,140 | 220 | 228 | 1,037 | 6,617 |
| Consolidation of IT and Core Bus. Hours * | | | (1,730) | (705) | | | | (2,435) |
| **TOTAL** | **24,252** | **18,044** | **20,640** | **35,992** | **6,985** | **5,788** | **23,494** | **135,195** |
| **Percentage of Total** | **18%** | **13%** | **15%** | **28%** | **5%** | **4%** | **17%** | **100%** |

*1,730 hours represents the amount of hours that System Administration budgeted to assist the components in specific information technology audits or consulting projects. The components also included this number of hours in their 2003 audit plan; therefore, the amount is taken out in the consolidation. 705 hours represents the amount of hours that System Administration budgeted in the core business processes area to provide the internal audit function to U. T. Permian Basin. U. T. Permian Basin also budgeted this number of hours in their 2003 audit plan.

# The University of Texas System
# Office of Finance

# Quarterly Permanent University Fund Update

## Finance and Planning Committee

**October 10, 2002**

# Executive Summary

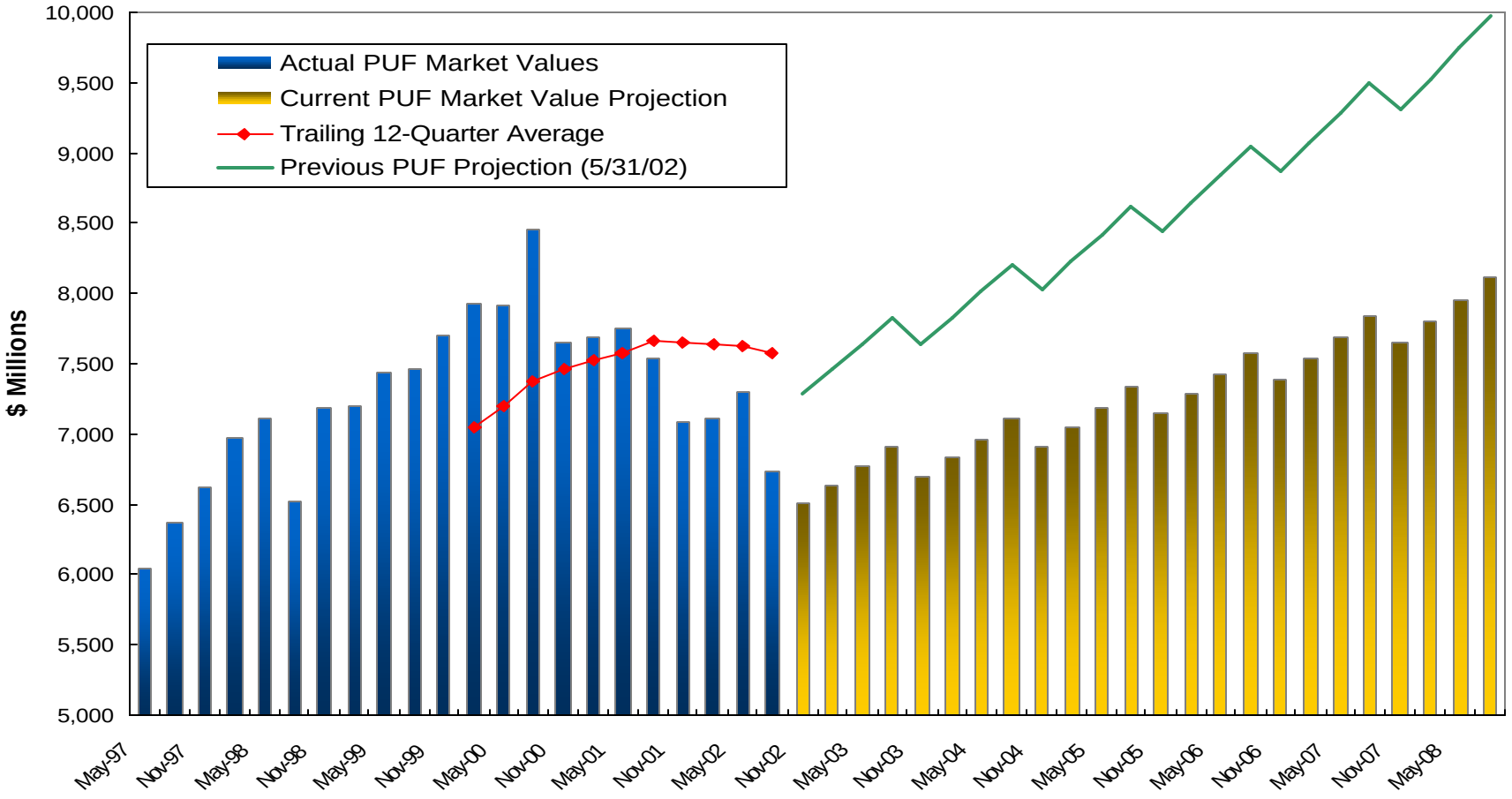
- As of August 31, 2002, the market value of the PUF was $6.7 billion, down from $7.3 billion on May 31, 2002.

- On September 3, 2002, $363.0 million was distributed to the AUF, representing 5.4% of the August 31st PUF market value.

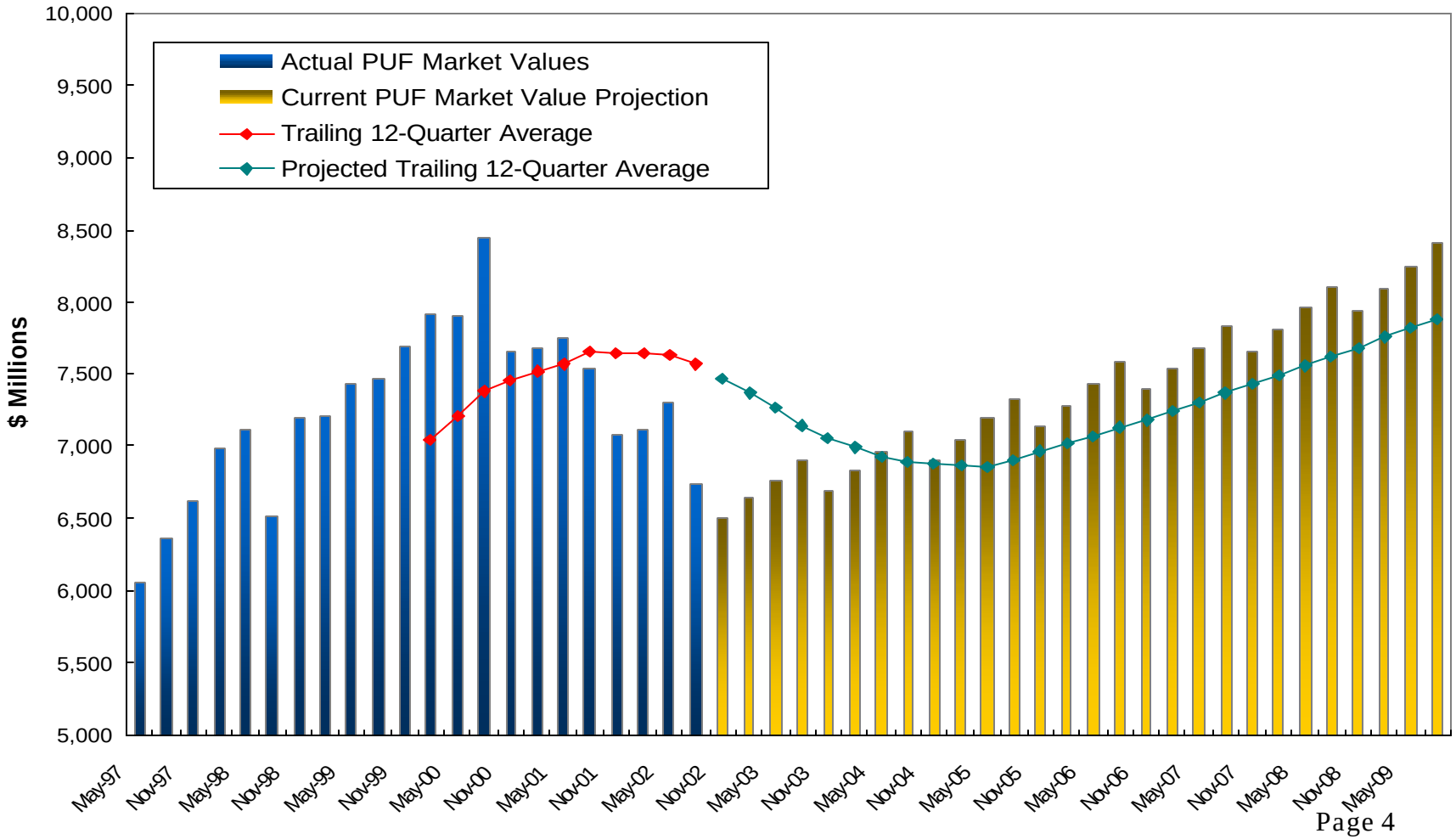
- Based on a revised asset allocation approved by the UTIMCO Board on September 18, 2002, the expected average annual rate of return of the PUF is 7.40% through August 31, 2009. This compares to 9.35% previously projected.

- There is no PUF debt capacity based on the current assumptions. PUF distributions are projected to decline through FY 2006 and to be capped until FY 2014 because the purchasing power of the PUF will not have been maintained, as required by the Texas Constitution.

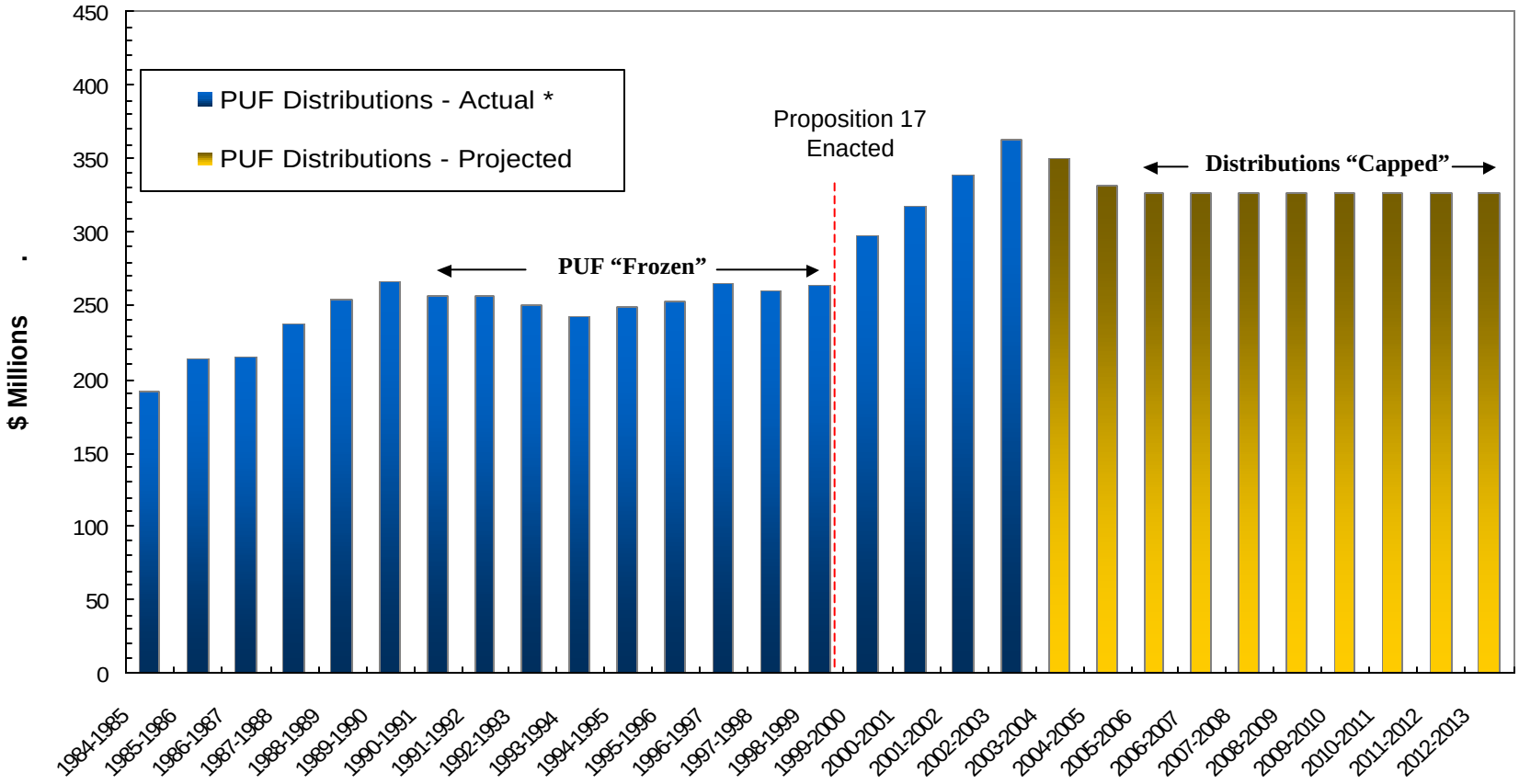
# PUF Market Value Through August 31, 2002



# PUF Market Value Through August 31, 2002



# Permanent University Fund Distributions




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

# PUF Debt Capacity Base Case Assumptions

- PUF Distribution equals 4.75% of the average PUF net asset value for the trailing 12 quarters, unless restricted by Constitutional purchasing power requirements.
- U.T. Austin Excellence Funds equal 45% of the income available to U.T. System.
- Includes all PUF projects approved through August 2002.
- Forecasted PUF distribution amounts provided by UTIMCO based on long-term expected average annual rate of return of 7.40% through August 31, 2009, starting from the PUF market value as of August 31, 2002. After August 31, 2009, the average annual rate of return is projected at 9.36%.
- Annual LERR appropriations of $30 million are projected to continue from FY 2004 through FY 2009.
- New PUF debt service structured as 20-year, tax-exempt debt with level debt service.

# PUF Debt Capacity-Base Case

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Additional PUF Debt Capacity ($0 Million) | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| Cumulative Additional PUF Debt Capacity | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| | | | | | | | | |
| **Available University Fund Operating** | Estimated | **Projected** | | | | | | |
| **Statement Forecast Data ($ Millions)** | FY 02 | FY 03 | FY 04 | FY 05 | FY 06 | FY 07 | FY 08 | FY 09 |
| PUF Distribution Amount | $338.43 | $363.02 | $349.80 | $332.00 | $326.24 | $326.24 | $326.24 | $326.24 |
| Surface & Other Income | 8.1 | 7.4 | 7.4 | 7.5 | 7.5 | 7.6 | 7.6 | 7.6 |
| Divisible Income | 346.5 | 370.4 | 357.2 | 339.5 | 333.7 | 333.8 | 333.8 | 333.9 |
| | | | | | | | | |
| UT System Share (2/3) | 231.0 | 246.9 | 238.1 | 226.3 | 222.5 | 222.5 | 222.6 | 222.6 |
| AUF Interest Income | 8.1 | 6.1 | 6.3 | 7.9 | 8.7 | 9.1 | 8.9 | 8.0 |
| Income Available to U.T. | 239.1 | 253.1 | 244.4 | 234.3 | 231.2 | 231.6 | 231.4 | 230.6 |
| TRANSFERS: | | | | | | | | |
| UT Austin Excellence Funds (45%) | (107.2) | (114.8) | (110.0) | (105.4) | (104.1) | (104.2) | (104.1) | (103.8) |
| PUF Debt Service on Approved Projects | (67.2) | (75.5) | (99.2) | (102.0) | (105.1) | (108.3) | (111.4) | (114.3) |
| PUF Cash Defeasance/CPPP Insurance Funding | (59.0) | - | - | - | - | - | - | - |
| PUF Debt Service on Add. Debt Capacity | - | - | - | - | - | - | - | - |
| System Administration | (26.2) | (29.6) | (31.1) | (32.8) | (34.5) | (36.2) | (38.1) | (40.0) |
| Other | (2.5) | (4.5) | (1.1) | (1.1) | (1.1) | (1.1) | (1.1) | (1.1) |
| Debt Service (Bldg Rev) | (3.4) | (3.4) | (3.4) | - | - | - | - | - |
| Net Surplus/(Deficit) | (26.4) | 25.3 | (0.4) | (7.0) | (13.4) | (18.2) | (23.2) | (28.6) |
| | | | | | | | | |
| Ending AUF Balance - System | 49.8 | 75.0 | 74.7 | 67.7 | 54.2 | 36.1 | 12.8 | (15.8) |
| | | | | | | | | |
| PUF Debt Service Coverage | 3.14:1 | 3.35:1 | 2.46:1 | 2.30:1 | 2.20:1 | 2.14:1 | 2.08:1 | 2.02:1 |

# PUF Debt Capacity Sensitivities

| Board-Determined | Board-Determined | Board-Determined | Market-Dependent | Market-Dependent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Annual LERR | U.T. Austin Excellence | PUF Distribution Rate | PUF Investment Return | Change in Tax-Exempt Rates | Projected Available University Fund Balance ($ Millions) FY2004 | FY2005 | FY2006 | FY2007 | FY2008 | FY2009 | FY2010 | Add. Debt Capacity | Projected PUF Market Value in FY 2030 |
| $30 Million | 45.0% | 4.75% | 9.35% | NA | 74.7 | 67.7 | 54.2 | 36.0 | 12.8 | -15.8 | -50.3 | None | 22,821,958,850 |
| **$30 Million** | 45.0% | 4.75% | 9.35% | NA | 74.7 | 67.7 | 54.2 | 36.0 | 12.8 | -15.8 | -50.3 | None | 22,821,958,850 |
| **$20 Million** | 45.0% | 4.75% | 9.35% | NA | 75.6 | 70.3 | 59.5 | 44.9 | 26.3 | 3.3 | -24.6 | None | 22,821,958,850 |
| **$10 Million** | 45.0% | 4.75% | 9.35% | NA | 76.5 | 73.0 | 64.8 | 53.8 | 39.7 | 22.3 | 1.0 | None | 22,821,958,850 |
| **None** | 45.0% | 4.75% | 9.35% | NA | 77.4 | 75.6 | 70.1 | 62.7 | 53.2 | 41.4 | 26.6 | None | 22,821,958,850 |
| $30 Million | **40.0%** | 4.75% | 9.35% | NA | 86.9 | 92.0 | 90.9 | 85.4 | 75.5 | 60.7 | 40.4 | None | 22,821,958,850 |
| $30 Million | **45.0%** | 4.75% | 9.35% | NA | 74.7 | 67.7 | 54.2 | 36.0 | 12.8 | -15.8 | -50.3 | None | 22,821,958,850 |
| $30 Million | **50.0%** | 4.75% | 9.35% | NA | 62.4 | 43.4 | 17.8 | -12.9 | -49.2 | -91.2 | -139.3 | None | 22,821,958,850 |
| $30 Million | 45.0% | **4.50%** | 9.35% | NA | 67.7 | 54.1 | 34.0 | 9.0 | -21.4 | -57.4 | -99.5 | None | 24,361,694,786 |
| $30 Million | 45.0% | **4.75%** | 9.35% | NA | 74.7 | 67.7 | 54.2 | 36.0 | 12.8 | -15.8 | -50.3 | None | 22,821,958,850 |
| $30 Million | 45.0% | **5.00%** | 9.35% | NA | 81.6 | 81.3 | 74.4 | 63.1 | 46.9 | 25.7 | -1.2 | None | 21,361,460,126 |
| $30 Million | 45.0% | 4.75% | **6.40%** | NA | 74.6 | 67.1 | 52.3 | 32.7 | 8.0 | -22.1 | -58.2 | None | 17,129,643,847 |
| $30 Million | 45.0% | 4.75% | **7.40%** | NA | 74.7 | 67.7 | 54.2 | 36.0 | 12.8 | -15.8 | -50.3 | None | 22,821,958,850 |
| $30 Million | 45.0% | 4.75% | **8.40%** | NA | 74.7 | 68.2 | 56.2 | 43.3 | 25.6 | 2.7 | -25.9 | None | 29,343,771,026 |
| $30 Million | 45.0% | 4.75% | 9.35% | **+50 bps** | 72.7 | 64.2 | 49.1 | 29.1 | 3.8 | -27.1 | -64.2 | None | 22,821,958,850 |
| $30 Million | 45.0% | 4.75% | 9.35% | **NA** | 74.7 | 67.7 | 54.2 | 36.0 | 12.8 | -15.8 | -50.3 | None | 22,821,958,850 |
| $30 Million | 45.0% | 4.75% | 9.35% | **-50 bps** | 76.6 | 71.0 | 59.2 | 42.8 | 21.5 | -4.8 | -36.8 | None | 22,821,958,850 |

# RECOMMENDATIONS RELATED TO IMPLEMENTATION OF THE UNIVERSITY OF TEXAS SYSTEM'S LONG-RANGE PLAN, "SERVICE TO TEXAS IN THE NEW CENTURY"

PREPARED FOR:

THE UNIVERSITY OF TEXAS BOARD OF REGENTS
COMMITTEE ON FINANCE AND PLANNING

*TVM Consulting*
*Austin, Texas*

## SCOPE OF PROJECT

Under the contract between The University of Texas System (the "U.T. System" or "System") and TVM Consulting ("Consultant") dated May 30, 2001, and amended effective March 14, 2002, Consultant agreed to identify and make recommendations concerning issues related to the implementation of the U.T. System's strategic plan, *Service to Texas in the New Century* (the "Long-Range Plan"), adopted by the Board of Regents (the "Board") in November, 2000. This report is intended to help institutionalize strategic planning at the governing board level and to assist the process of setting and implementing strategic priorities.

The Long-Range Plan examined the demographic, economic and political factors affecting higher education in Texas and the U.T. System in particular. It set a strategic direction by setting clear goals in the areas of participation, success and academic and research excellence. The next step, and the one this report is intended to address, is to help identify the major policy priorities for the Finance and Planning Committee (the "Committee") to pursue on behalf of the Board to reach the Long-Range Plan's goals.[1] Given the breadth of the System's goals and time constraints on members of the Committee, this report prioritizes areas that are most in need of action and oversight. The issues identified herein are, in general, ones that affect the System as a whole.

Strategic planning, done properly, should give an organization a clear idea of where it is going and how it intends to get there over a specified period of time. Planning at the System level should be dynamic, part of a continuous process of assessing and reassessing the external environment, the System's capabilities, and the achievement of key benchmarks and the needs of the State of Texas. The Long-Range Plan should be periodically reviewed to ensure the goals, and means to accomplish them, are aligned with the highest priorities and the core values of the U.T. System. As with any plan, objectives must be coupled with responsibilities and timelines to ensure that all parties understand what needs to be done, who needs to do it and by when it should be accomplished. The Committee should actively assess progress made.

The Board should establish the strategic vision and priorities, but the Chancellor should drive the strategic planning process. He must work closely with the presidents of component institutions and the System's many constituents to develop a strategic process and plan that respects and addresses the diversity of challenges facing the System.

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[1] The recommendations in this report were derived through interviews with Board members, System officials, presidents and staff at U.T. academic and medical components, discussions with national higher education experts and various books and periodicals on the challenges facing higher education. I appreciate the kind cooperation of all those who participated in this effort.

The University of Texas System, with its heterogeneous mix of institutions, student bodies, and missions, presents a major strategic planning challenge. System leadership must tackle a broader set of issues and be receptive to a wider range of solutions. Almost all the most difficult issues in American higher education —increasing competition, declining state support, providing greater access, the debate over accountability, the changing nature of health care — are ones the System must deal with on daily basis. The U.T. System should not shrink from striving to be the "gold standard" for education in the State of Texas. Creatively using the diversity among its components to respond to these issues is the System's toughest challenge and greatest opportunity.

## BACKGROUND

The University of Texas System, like the rest of American higher education, must deal with a series of profound technological, social and economic forces that affect the very nature of the higher education enterprise.

New technologies are changing the delivery of knowledge and pedagogy. The concept of "seat time" as a measurement of learning is fading. New providers are entering the higher education market and, in some cases, challenging traditional institutions.[2] [Table One] State financial support is declining and price competition among institutions is increasing as students pay more of the bill. Demographic changes, particularly in fast-growing border states like Texas, are causing more students (many from non-traditional backgrounds) to need higher education to compete in the workplace, not just once, but throughout their working careers.

These changes are causing a re-evaluation of some fundamental concepts of higher education: who should pay for it, what should be taught, how and to whom-- and whether universities really know how much students are learning.

American education is moving from a publicly supported, regulated and protected environment to one increasingly dependent on private support and subject to market forces. Moving from a regulated to a market environment will require universities to adopt a more entrepreneurial approach to succeed. Education leaders must craft a new model of the university: one that is more accountable, autonomous and entrepreneurial, but still preserves the important values of the academy—access, freedom of inquiry and speech, and community service.

[2] The for-profit University of Phoenix now enrolls over 100,000 students in 58 campuses; foreign universities such as France's INSEAD offer courses to US students; and publicly traded companies--such as Amazon.com, Sylvan, and Simon & Schuster--are successfully providing products and services typically associated with traditional higher education.

Many experts believe a wave of change is likely to transform higher education just at it has other key American institutions such as health care and communications. According to the American Council on Education, "[t]echnology, globalization, accelerating competition, the explosion of knowledge and the increasingly diverse nature of society are changing the way higher education thinks about itself and its work."[3] If higher education does not change its own decision-making and responsiveness, "there is a risk that the tidal wave of societal forces could sweep over the academy, both transforming higher education in unforeseen and unacceptable ways while creating new institutional forms to challenge both our experience and our concept of the university."[4]

For the U.T. System to meet its goals of improving participation and success and enhancing academic and research excellence, it will have to pursue reforms that respond to these far-reaching changes. The Board's long-term planning efforts should focus on policies designed to create a vibrant and diverse System that is more market-responsive, mission-centered and quality-conscious.

## POLICY RECOMMENDATIONS

### I. IMPLEMENT REFORMS TO MAKE THE U.T. SYSTEM MORE COST-EFFICIENT AND ENTREPRENEURIAL WHILE ENHANCING STUDENT ACCESS AND DIVERSITY

· ***Use Collaborations, Alliances and Enhanced Inter-Connectivity to Improve the Efficiency and Academic Strength of the U.T. System. Use the Combined Resources of the System to Build a "Learning Network."***

While there are a number of ongoing collaborative efforts within the System, the potential for optimizing resources and enhancing each institution's comparative advantage through collaboration and alliances presents one of the most exciting opportunities for the U.T. System. A number of Board members cited the need to make better use of System resources as their top long-range priority.

Technology, public policy concerns and new market demands will likely drive universities toward new partnerships and collaborations. As technological advances make it easier to import content, universities can focus more on their core areas of expertise. Public demand for more efficient and focused institutions will cause universities to seek alliances based on common interests and complementary strengths. Competitive pressures will force universities to leverage their resources or risk being

[3] American Council on Education, "Riding the Waves of Change," *On Change IV*, 2000, p. 1.
[4] James J. Duderstadt, *Higher Education for the 21st Century*, Address to the Colorado Commission on Higher Education, p. 13.

undercut by lower priced public colleges or for-profit schools that target the high-demand, high-profit programs.[5]

Former University of Michigan President James Duderstadt notes that businesses are moving away from the hierarchy of the organizational pyramid to "networked organizations of relatively autonomous components."[6]

> It is important for the academy to realize how profound this new network architecture is for learning organizations. Today's learners can learn anywhere, anytime, acquiring knowledge and learning from sources at any location. Today, learners are in control of what, how and where they learn, and they will be increasingly in command of what they pay for the learning opportunity as well. The implications for this new networked learning architecture are manifold. First, it makes less and less sense for institutions to be comprehensive, to go it alone. Rather the key will be forming alliances, sharing resources, specializing in what they can really be good at and relying on other focused institutions to provide the rest.[7]

The movement toward networked organizations is also being driven by the pursuit of knowledge itself. Many of the most pressing social issues require a multidisciplinary approach. Geneticists and information technology experts collaborate on the mapping of the human genome. Neuroscientists are working with educators to improve literacy. Biologists, ecologists, economists, anthropologists and urban planners team to solve difficult biodiversity issues. Some prominent scholars, most notably Edward O. Wilson, argue that the humanities, the social sciences and natural sciences are on a convergent path as scholars discover the small number of fundamental natural laws that comprise the principles underlying every branch of learning.[8]

Federal agencies are encouraging collaboration across disciplines and are providing more money for such research.[9] The National Science Foundation and the National Institutes of Health have both raised spending on research centers, which focus their efforts on interdisciplinary issues. The NIH increased its funding for research centers by 80% in the last four years.[10]

Making the development of collaborations and alliances a System-wide priority should help:

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[5] See, e.g., "Commercial Sites Outbid Medical Schools for Instructors in Continuing Education," *Chronicle of Higher Education*, June 16, 2000.
[6] James J. Duderstadt, *A University for the 21st Century*, (University of Michigan Press, 2000), p.308.
[7] Ibid.
[8] Edward O. Wilson, *Consilience: The Unity of Knowledge*, (Knopf, 1998).
[9] "U.S. Agencies Look to Interdisciplinary Science," *Chronicle of Higher Education*, June 14, 2002, p. A20.
[10] Ibid.

improve academic quality and differentiation by allowing component universities to specialize and access the academic strengths of other institutions;

enhance the ability to compete for major research grants;

build a better and more aligned K-16 system by linking universities with community colleges and high schools; and

provide a vehicle for new revenue opportunities through private sector partnerships.

➢ ***Intrasystem and intersystem collaboration***

The U.T. System should transform itself into a network of learning where the collective resources of the System create new efficiencies for all institutions and new learning opportunities for all students. In effect, component institutions should be the portal through which students access the array of learning opportunities available within the broader U.T. network. Components would offer mission-centered "programming" and rely on the network to supplement and enhance their resources. The added value of bringing in a star professor or developing new course software at, for example, U.T. Austin, should be shared with other campuses whenever possible, generating a quality effect throughout the System.

The UT TeleCampus provides an existing vehicle for improving interconnectivity. The Board should work closely with this effort to develop a long-term agenda to bring more programs on line, enhance access through dual enrollment and encourage broader participation of component universities.

Each component should be encouraged to contribute resources and expertise to support the "centers of excellence" at other U.T. campuses. The development and support of the centers of excellence is the single most important System initiative to create a more focused, market-responsive institutions. Mission differentiation and academic collaboration will create a System that is greater than the sum of its components.

Some new intersystem collaborations are emerging. For example, the University of Texas at Austin, Rice University in Houston, The University of Texas at Dallas and The University of Texas at Arlington —founded the Strategic Partnership for Research in Nanotechnology (SPRING) to work together on research projects, programs and conferences and the development of joint facilities and infrastructure. Such partnerships should be encouraged.

The U.T. System Digital Library Project, supported in part by a grant from the Board of Regents, has combined the System's purchasing power and resources to improve access to scholarly information (such as journals, full-text data bases, and rare archives) for the entire UT System community, including distance learners. This

project is an excellent example of the power of collaboration within the U.T. System and its success will be crucial in enhancing online learning opportunities and scholarship.

Creating a collaborative, networked system may also help reframe some of the state debate on higher education. Lawmakers often feel constrained by the zero-sum nature of higher education funding where dollars given to a flagship university are dollars not spent improving quality at a local, emerging institution. State leaders concerned about the return on investment in higher education may welcome a broader approach that optimizes each tax dollar invested by spreading the benefits throughout the System.

*System Action: Develop a plan to encourage, facilitate and reward those institutions that increase efficiency, enhance opportunity, or improve academic and research quality through academic collaborations. To move toward a more networked system, components will need incentives to engage in collaborative efforts beyond what they are already doing. A commitment to building the technological infrastructure, a rigorous assessment of resource allocation, and leadership from the highest levels will be necessary to realize this vision.*

### ➢ *Community college/K-16 partnerships*

If recent trends continue, the majority of new students pursuing higher education will enroll first in a community college. The Texas Higher Education Coordinating Board ('THECB") estimates that 60 percent of new students needed to reach the state's participation goals will start in local two-year colleges. In Texas, 75 percent of minority freshmen and sophomores are enrolled in community colleges.[11] The growth in community college enrollment has not, however, led to more students transferring to, and graduating from, four-year schools. Approximately 11% of entering community college students graduate with a baccalaureate degree six years later.[12] [Table Two] To reach its participation goals, the System will have to work closely with community colleges on academic content and transfer issues.

Some components have moved forward with such partnerships. U.T. Dallas entered into an Articulation Agreement with Collin County Community College to encourage and facilitate the progress of students from the community college curricula to the more demanding UT-Dallas upper-division curriculum. U.T. Brownsville has taken such collaborations a step further. Through its co-location and partnership with Texas Southmost College, UTB provides students with a seamless pathway to reach the level of education they need. In 2000, 51% of students receiving an associate's degree transferred to a higher level at the TSC/UTB partnership.

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[11] Texas Association of Community Colleges, *Facts About Texas Community Colleges*, August 2000. http://www.tacc.org/pdf/facts.pdf

[12] Texas Higher Education Coordinating Board, *Baccalaureate Graduation Rates, Texas Public Colleges and Universities*, June 1999.

To make real progress in enhancing access, the System must target its efforts at the preK-12 level. The new U.T. System plan, "Every Child, Every Opportunity," will help improve primary and secondary education in the State. U.T. El Paso's work through the El Paso Collaborative and U.T. Pan American's Advanced Placement program are models for institutions seeking to serve their community and working to improve the readiness of future applicants.

*System Action: In line with its commitment to improving participation and success, the System should oversee the development of a new partnership with community colleges aimed at improving quality and simplifying articulation and transfer standards between community colleges and System institutions. Continue emphasis on K-12 partnerships.*

### ➢ *Alliances with medical schools*

Many of the strongest public research institutions (UCLA, UC-San Diego, Michigan, Washington) have a university and a medical center on the same campus. Such an arrangement presents many advantages in competing for research funding. The academic and medical components of these institutions were "born together;" the U.T. System, however, developed along a different model. While there has been considerable community and legislative interest in merging academic and medical schools in cities like San Antonio, history suggests a true merger will be difficult to accomplish. According to a recent study on mergers in higher education, few mergers have actually occurred despite predictions that universities would be forced to merge to increase their resources and efficiency. The study argues that management and cultural challenges posed by merging have given way to the desire for something more fluid and temporary –strategic alliances that allow two or more institutions to combine their strengths to take advantage of market opportunities.[13]

A consultant hired by the U.T System to study a potential merger between the System's academic and medical schools in San Antonio concluded that forming an alliance to achieve specific objectives (linkage between undergraduate and professional degree programs, recruiting of students and faculty, research grants) was preferable to a merger. The study noted that the two institutions had different missions, priorities and cultures and that a merger would distract them from critical priorities.

*System Action: Develop a model of collaboration that leverages the complementary strengths of the System's academic institutions and medical schools. Define priority areas for such alliances such as increasing competitiveness for federal research grants, enhancing access and diversity, improving the ability to attract private support, and/or enhancing academic quality in the "centers of excellence."*

[13] James Martin and James E. Samuels, "We Were Wrong: Try Partnerships, Not Mergers," *Chronicle of Higher Education*, May 17, 2002.

### ➢ *Private sector partnerships*

Public funding and subsidy accounted for much of higher education's boom in the 50's and 60's. The next wave of growth in higher education funding will be from private sources.[14] The new programs will be "market-centered, targeting the most pressing educational demands, as determined by individual consumers that promise the greatest return on investment. Initiative in the next wave will often be commercial, combining the energies and skills of for profit vendors with the skills, prestige and education savvy of traditional colleges and universities."[15]

The American Council of Education notes that universities have moved beyond just leveraging their research capacities to generate new revenue through licenses, partnerships with industry and technology parks. Now institutions are using their own academic content (courses, curricula and teaching methods) to enter new markets and bring in more revenue. In many cases, technology is the primary vehicle to enable institutions to move in these directions and deliver instruction to new populations of students."[16]

As universities seek more private funding, they will lose the relative budget certainty of government appropriations. Higher education institutions will need to look at ways to stabilize cash flows through the establishment of centers, institutes and consultancy agreements.[17] To make private sector alliances work, universities will also have to address difficult intellectual property, conflicts of interest, confidentiality, and indirect cost issues.

How to build such partnerships and retain institutional values will be one of the toughest issues facing universities and governing boards. "To compete in the market, [the modern research university] will have to operate more efficiently and radically improve student services. But to remain a great learning institution, it will have to continue to nurture learning for its own sake, transmit cultural values, encourage civic understanding, and foster other less quantifiable and profitable -- but still valuable -- features of the university."[18]

*System Action: Encourage and facilitate, where appropriate, new private partnerships, with information technology firms, global learning organizations, other*

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[14] Knight Higher Education Collaborative, "A Very Public Agenda," *Policy Perspectives*, vol. 8, no. 2, p. 4.
[15] Ibid.
[16] American Council on Education, "Capitalizing on the Curriculum," *Changing Enterprise Project*, Working Paper, p . 4.
[17] Sheila Slaughter and Larry L. Leslie, *Academic Capitalism*, (Johns Hopkins Press, 1997), p. 220-221.
[18] Mark Yudof, "Is the Public Research University Dead?" *Chronicle of Higher Education*, January 11, 2002, p. B24.

*businesses and foundations. Study how best to promote such alliances and respect traditional institutional values.*[19]

· ***Develop New Tools to Improve Allocation of Resources***

As state funding continues to make up a smaller portion of many universities' budgets (including the U.T. System's), universities will have to increase efficiency and look to other sources to generate revenue. Obtaining the authority to price their services to the market will help as will pursuing private partnerships and implementing new cost control strategies. As more of education's cost shifts to students, universities will have to become more price competitive and focused on student services and outcomes.

Universities will also need to make their accounting more transparent. A national association of university business officers is working to develop a uniform methodology that would allow all colleges to show how much they spend to educate their students.[20] Higher education reformers are calling for replacing the cost-plus method of planning and financing in favor of a system that more selectively allocates resources.

Measuring the resource effectiveness of university courses and programs will be a major challenge for universities and governing boards. Accreditation agencies perform an extensive quality review of university courses and programs, but they do not examine an institution's allocation of resources. That process is properly left up to individual universities. Within the U.T. System, methods for evaluating resource allocation and programs effectiveness vary significantly from campus to campus. As universities become more entrepreneurial they will likely have to do what other successful organizations have done: aggressively redirect resources from lower priority areas to areas of higher priority.

One barrier that prevents universities from making swifter and more effective decisions about program and funding priorities is their outmoded governance structures, according to a report by RAND's Council for Aid to Education. Most universities are a "maze of hierarchical structures operating independently of one another." Since decision-makers have not had to choose among competing functions and programs, comprehensive information systems have not evolved to support such decisions. The report states that higher education officials "simply do not have the information they need to compare

[19] Examples of some innovative partnerships include the Cambridge-MIT Institute (CMI), a strategic alliance between The University of Cambridge and The Massachusetts Institute of Technology (MIT), which will undertake education and research designed to improve the UK's competitiveness, productivity and entrepreneurship. Both UK government and industry fund the CMI alliance. Universitas 21 is an international network of 17 research-intensive universities in Europe, North America and East Asia, attempting to develop international curricula for graduates educated and trained to operate in a global professional workforce, with credentials that are internationally portable and accredited across a range of professional jurisdictions. The collaborative also seeks to provide partnership opportunities for new providers, including corporate universities, wishing to access a fast-growing international market for higher education and advanced training.

[20] "Business-Officers Group Develops Methodology to Help Colleges Explain Their Costs," *Chronicle of Higher Education*, February 12, 2002.

missions and functions and understand the trade-offs among the potential allocations being considered."[21]

*System Action: Assess whether the System and U.T. components have the analytical tools necessary to assess the cost of particular degree programs, the financial impact of programs over time, and whether such allocation of resources reflects the institution's mission-driven priorities.*

· ***Create an Environment that Rewards Innovation and Experimentation***

While the forgoing reforms may help components respond to some of the changes in higher education, the U.T. System will need to create an environment where university leaders feel comfortable taking risks and exploring new visions of their institution's future. The impact of new technology, greater competition and the need for lifelong learning means universities must develop new delivery systems and teaching methodologies. The blurring of distinction between education and training will encourage universities to become more responsive to social needs. And, the entry of more students from non-traditional backgrounds will challenge the ability of institutions to accommodate and educate a more diverse population.[22] According to the American Council on Education, "if colleges and universities want to take charge of their futures, they must develop the capacities to change and change again in ways consistent with their mission and purpose."[23]

A study of the role of university governing boards in promoting change initiatives found that successful boards approached change as an ongoing, organic process, not as an event; were consistently reflective about their strategies and assumptions; understood that change requires holistic thinking about their institutions; and respected higher education's collaborative approach to obtaining buy-in for the change agenda.[24]

*System Action: Examine ways to highlight and reward components that are willing to experiment with new approaches to emerging issues.*

## II. *ENCOURAGE REGIONAL INTEGRATION AND GREATER PRIVATE SECTOR SUPPORT*

The System should encourage component universities to integrate their missions, research focus and community service activities in line with regional economic strengths

[21] Joseph L. Dionne and Thomas Kean, *Breaking the Social Contract: The Fiscal Crisis in Higher Education*, Report of the Commission on National Investment in Higher Education, Council for Aid to Education, 1997).

[22] The so-called "traditional student" --those who have a high school diploma, enroll in college full time and depend on their parents for financial support – are now a decided minority according to the U.S. Department of Education. Only 27 percent of students are traditional, while the majority of students either work to support themselves, enroll part time or delay enrollment after high school.

[23] American Council on Education, "Riding the Waves of Change: Insights from Transforming Institutions," *On Change V*, 2000.

[24] American Council on Education, "Riding the Waves of Change," *On Change IV*, 2000.

and social needs. The implementation of the "centers of excellence" will be a key part of this effort. With the exception of Houston, the System has universities in or near Texas' seven major population centers. As communities compete in the knowledge-based economy, they are increasingly looking to universities not just to address basic education, health and social needs, but also to serve as an engine for economic growth.[25] (The education and knowledge cluster was the second fastest growing cluster in the country during the last 10 years.)[26] System components should play a lead role in urban development and local business leaders should strengthen their commitment to universities through direct financial support and workforce development, research commercialization and other economic partnerships.

With the shift in state policy toward a user-fee model of financing higher education, businesses as well as students will have to pay more of education's cost. As businesses become more dependent on regional universities to supply knowledge workers and drive economic growth, they will have to assume more of the financial responsibility for regional universities. With the exception of U.T. Austin, direct private support of academic components located in major urban growth areas is less than 5% of total revenues, and most of these funds are restricted in use.

Some research universities have pursued a new form of private giving called "venture philanthropy."[27] Popular with high-tech entrepreneurs, this approach emphasizes management, measurement, and results. It views philanthropy as social venture capital, and emphasizes hands-on management, measurable objectives, clear results, and sustainable organizational development. This form of "engaged philanthropy" turns the donor and recipient into partners working toward specified outcomes. While this new approach poses a number of challenges to universities, it may be a vehicle for U.T. components to enhance their private support.

*System Action: Encourage components to align missions with the comparative economic strengths and social needs of their region, intensify economic development efforts and enhance levels of private support.*

***III. PURSUE A NEW MODEL OF GOVERNANCE WITH THE STATE THAT REFLECTS THE CHANGING ROLE OF THE UNIVERSITY. THIS NEW MODEL SHOULD BE BUILT UPON THE PRINCIPLES OF AUTONOMY, ACCOUNTABILITY AND OPPORTUNITY.***

Higher education has never been more important to the country's prosperity, and, as a consequence, it is being subjected to new standards of public accountability and market

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[25] Joint Study by the Initiative for Competitive Inner City and CEOs for Cities Revitalization Agenda *Leveraging Colleges and Universities: for Urban Economic Revitalization*, Spring 2002. This bipartisan group of mayors, corporate executives and university leaders argue that unleashing the local economic development capacity of urban universities should be a "national priority."

[26] Ibid.

[27] See. e.g., Christine Letts, William Dyer, Allen Grossman, "Virtuous Capital: What Foundations Can Learn From Venture Capitalists," *Harvard Business Review*, March-April 1997.

relevance. Yet, at the same time, the state's ability to fund higher education is declining, suggesting that the low tuition, high state support model is becoming obsolete.

A prominent United States Senator has called for an enhanced federal role in holding colleges accountable for the graduation rates of their students.[28] The nation's governors, including Texas Governor Rick Perry, have placed higher education reform at the top of their agendas. The co-chairman of the Texas Legislature's select committee studying higher education has publicly urged universities to talk less about funding and focus more on eliminating poorly performing programs and showing concrete results.[29] One higher education expert put it bluntly: "Now that the health care industry has moved to managed care, outsiders often see higher education as the last refuge of a provider-driven enterprise designed more to satisfy the aspirations of administrators and faculty than students and society."[30]

The states' ability to support higher education is under increasing strain. Nationally, state support of public colleges and universities increased by 13% from 1990 to 1998, but the proportion of state budgets devoted to higher education declined and the increases did not keep up with the rising costs of providing higher education.[31]

In Texas, real spending on public safety and corrections increased by 256 percent and health and human service expenditures increased by 149 percent from 1984-85 to 1998-99, while real higher education expenditures increased by only 31 percent.[32] The percentage of the U.T. System's budget financed by state tax dollars has declined from 38% in 1988 to 23.7% today. Real state appropriations per student have remained relatively constant since the 1980's.

As entitlement programs (e.g., Medicaid, elder care, and K-12) consume the bulk of state resources and state budgets tighten, higher education is unlikely to sustain its state support, according to a recent national study.[33] An aging population means increasing resources will flow to health care and social security programs.

State spending for higher education will have to increase faster than state spending in other areas just to maintain current services. Since the percentage of the state budget dedicated to higher education has actually declined over the past decade, continuing to

[28] "Lieberman Calls for More Accountability from Colleges," *USA Today*, April 26, 2002.
[29] Sen. Steve Ogden, "Why Can't Colleges Make Ends Meet?" *Austin American Statesman*, January 29, 2001.
[30] Joseph C. Burke, "Accountability for Results: Ready or Not," *Trusteeship*, vol. 10, no.1, January/February 2002. p. 11.
[31] National Association of State Budget Officers, *State Expenditure Report 1990* (Washington, D.C.: 1991), p. 15, tables 1-4; and National Association of State Budget Officers, 2000 *State Expenditure Report, Summer 2001* (Washington, D.C.: 2001), p. 11, table 5.
[32] Office of the Comptroller, State of Texas, "The Impact of the State Higher Education System on the Texas Economy," December 2000, http://www.window.state.tx.us/specialrpt/highered/index.html
[33] National Center for Public Policy and Higher Education, *Losing Ground*, May 2002.

fund current service levels for higher education would represent a significant shift in state budget trends.[34]

Even in the past few years of healthy state budgets, public research universities made relatively little headway against the legacy of previous lean years. Thus, regardless of the economy, in the foreseeable future, students at public research universities will have to pay more of their own educational costs, and the role of such institutions will fundamentally change.[35]

These trends suggest that the current governance model of higher education is coming to an end. Universities need more flexibility to respond to market demands and new ways to raise revenue. The State wants more accountability. And the public needs access to high education at a rate unprecedented in the State's history. The University of Texas System should take the lead in pursuing legislative reforms that will enable it to meet these challenges.

### ➢ *Institutional autonomy and accountability*

As economic and social pressures create a greater demand for efficiency, innovation, and responsiveness to student needs, universities will need to act swifter, with fewer constraints and greater autonomy. Transforming ideas tend to flourish where barriers and bureaucracy are limited. Universities will have to be given more freedom (and, in turn, grant more internally) if they are to generate the knowledge and ideas that civic and political leaders are counting upon. "[T]he movement toward greater operational and resource autonomy, coupled with higher accountability for results, is here…And, in my judgment, it will only build in the future," states Benno Schmidt, vice chairman of CUNY Board of Trustees and chairman of Edison Schools. [36]

In 2001, the Texas Legislature took an important step in enhancing autonomy with the passage of HB 1545 which freed higher education institutions from some state requirements in the areas of purchasing and personnel. Other areas that should be considered for deregulation include tuition pricing (as long as appropriate financial aid is assured to preserve access), indirect cost recovery (discussed below), financial management, and other academic reporting requirements. The desire for deregulation should be coupled with a recognition that the Board will have to do more to assure quality, prevent inappropriate duplication, and maintain the System's commitment to public service. It will need to avoid creating a new regulatory regime in place of the old one.

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[34] Harold A. Hovey, *State Spending for Higher Education in the Next Decade*, The National Center for Public Policy and Higher Education, July 1999.

[35] Mark Yudof, "Is the Public Research University Dead?" *Chronicle of Higher Education*, January 11, 2002.

[36] American Council on Education, "The Futures Project; Policy for Higher Education in a Changing World," A. Alfred Taubman Center for Public Policy and American Institutions, Brown University, February, 2001, p. 4.

As the need for highly qualified workers becomes more acute, many state leaders are calling for greater scrutiny of higher education's performance. They want universities to make their financial practices more transparent and their student outcomes more definitive. Students want more sophisticated information to guide their education choices. These trends could make universities subject to more state regulation unless they adopt a version of the model that has worked well in the K-12 educational system- more accountability in exchange for more flexibility. As discussed later in this paper, the U.T. System should continue to develop its own assessment system or run the risk of having one imposed upon it.

Some of these new models of governance are taking shape across the country. Virginia has proposed that each education institution enter into "institutional performance agreements" negotiated with the Governor's Office and the Legislature. The agreements are designed to encourage long term planning and greater efficiency by offering predictable funding, deregulation, and decentralization in exchange for institutional commitments to performance expectations, goals and measures. Charter colleges are another form of autonomy that gives public colleges a guaranteed, fixed amount of state spending and almost compete freedom to manage their own affairs in exchange for agreeing to certain performance goals.[37]

*System Action: Push for greater institutional autonomy and deregulation in exchange for implementing agreed standards for performance*

### ➢ *Stable and flexible funding*

Opinions on the proper level of state higher education funding differ sharply. From the higher education perspective, state support, while maintaining rough parity with enrollment growth, has failed to fully keep up with costs, and represents a declining percentage of the overall operating budget. The state's commitment has decreased even more for large research universities, like U.T. Austin, which has seen its general revenue funding per full time student equivalent ("FTSE") decrease by 15% during the last 10 years. The Available University Fund, far from being the inexhaustible source of money for the U.T. and A&M Systems that some believe it to be, distributes less today in real dollars than it did in 1990.[38] [Table Three] The seven institutions that became eligible to receive Permanent University Funds ("PUF") in 1986 will soon receive almost half of all PUF bond allocations. Thus, the new demands on the PUF make it a far less lucrative

[37] For example, under a 10-year charter college agreement, the Colorado School of Mines receives administrative flexibility in exchange for meeting performance goals tied to its objectives. The college no longer operates under the state commission's system for evaluating colleges' performance, nor will it have to report on measures, like class size. Instead, it agreed to meet alternative goals, like having at least 90 percent of graduates employed in a field related to their studies within a year of graduation. The institution also has agreed to admit every qualified Colorado applicant, to annually increase the amount of financial aid it offers, and to survey alumni and employers about their satisfaction with the institution. *Chronicle of Higher Education*, June 7, 2002.

[38] The University of Texas System, Office of Business Affairs. The Legislature did approve, and the voters ratified, an amendment to allow the PUF to distribute funds based on the total return of all investments, effective January 2000.

source of funds for any one institution. Although tuition increases financed a significant amount of recent revenue growth, it is a limited resource for many institutions, particularly those who will enroll more first generation students from low-income families.

Many state lawmakers see a different picture. State spending per FTSE at public universities has been constant during the 90's, and the State put significant new funds into excellence programs, health insurance and financial aid. According to a THECB analysis commissioned by the Legislature, overall university spending during the 90's increased by 31% per FTSE. (The U.T. System estimates that real spending at U.T. components increased by 25% through tuition, fees, indirect cost reimbursements, etc.) A special legislative committee is examining how universities are spending their new revenue and whether the State is actually benefiting from the expenditure.

In light of the tumultuous debate over higher education excellence funding last session and the State's tight budget situation for 2003 (an estimated $5 billion shortfall in financing current services), the System needs to present a unified legislative plan that states clearly the priorities of the System, the specific programs or initiatives that reflect the priorities, and the benefits accruing statewide from requested funding. Individual lobbying by component institutions will hurt the System's ability to pursue broader reforms.

In designing a new governing model with the State, higher education leaders should initiate a frank discussion on the proper level of state support for higher education. Topics discussed should include: (i) why costs continue to increase faster than inflation; (ii) what benefits the State realizes from its investment in higher education; (iii) what financial and programmatic accountability measures will protect the taxpayer's investment; and (iv) how to balance the desire to increase access to higher education with the need to elevate the State's emerging and existing flagship universities.

In Texas, constitutional provisions, state law, and federal court decisions restrict the use of almost 70% of general revenue.[39] [Table Four] Since higher education is not an entitlement, it is far more subject to the ups and downs of state revenue, though the State has consistently funded enrollment growth in recent years. Part of the new model for higher education could be an agreement on a base level of funding in exchange for certain performance measures that would allow institutions to operate with a greater degree of budget certainty. Universities would agree to price tuition at some rate (e.g., a certain percent of family income) to ensure that the doors of higher education remain open for all who want to pursue it.

State law restricts the Board's authority over general education funding. General revenue funds are appropriated directly to the universities primarily through state funding formulas. This funding scheme makes it difficult for the Board to fund System-wide priorities, address emergency needs or create incentives for excellence.[40] When U.T. El

[39] Texas Legislative Budget Board, *Fiscal Size-Up: 2002-2003 Biennium*, p. 8.
[40] Within the System, only U.T. Austin receives excellence funding thorough the Board-controlled AUF.

Paso needed a small match to obtain a major NSF grant, the Board had no ability to fund the match. The recently released U.T. System plan to improve K-12 education is an ambitious and innovative initiative, but the Board does not have any resources of its own to put behind the effort. If the State wants to make universities and governing boards more accountable for results, it should give them new authority to allocate resources to reward performance.

*System Action: Work with State leaders on a long-term plan to address financial issues facing higher education. As part of the new compact with the State, seek to acquire more discretionary authority over funding to the System.*

### ➢ *Student access/opportunity*

The most important factor in determining a person's income level is his level of education. Accordingly, higher education is increasingly seen as the gateway to economic and social mobility. A recent poll found 77% percent of the public believes that getting a college education is more important than it was 10 years ago and 87% agree that a college education has become as important as a high school diploma used to be.[41] As part of any new state governance model, the U.T. System should strengthen its public commitment to creating opportunity and seeking diversity at all its institutions. The System should do its part to help Texas build a larger and more diverse education "pipeline" to reach its participation and graduation goals.[42] [Table Five]

One of the major challenges facing the State as it seeks to encourage more students to pursue higher education is improving the preparation of high school students and fostering the alignment of curriculum, academic requirements, admissions procedures and student expectations throughout the K-16 system. The U.T. System has committed to pursue three major initiatives to enhance K-12 preparedness and post-secondary success: strengthening teacher preparation, creating high quality professional development programs and improving educational research. The details of this commitment are outlined in the U.T. System's "Every Child, Every Opportunity" plan.

*System Action: As part of its public mission, the System should continue its commitment to improve participation and success through the creation of a more effective and aligned K-16 educational system.*

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[41] John Immerwahr and Tony Foleno, "Great Expectations: How the Public and Parents-White, African-American, Hispanic-View Higher Education," *Public Agenda*, May, 2000.

[42] The THECB's plan, "Closing the Gaps" sets the following state goals for the year 2015: increase by 500,000 the number of students attending colleges and universities; increase by 50% the number of students earning degrees, increase certificates and other identifiable measures of success; enhance the number of nationally ranked programs or services at Texas institutions; and increase the level of federal science and engineering research funding to Texas institutions by 50% to $1.3 billion annually.

## IV. DEVELOP A SET OF POLICIES AND INCENTIVES TO ASSESS AND REWARD THE ACHIEVEMENT OF ACADEMIC QUALITY

As universities are thrust into a more globally competitive environment, they are being asked to measure and certify student learning and institutional performance in new ways.[43] Greater student choice and the need to acquire marketable, verifiable skills creates a new emphasis on quality- how it is defined, measured and improved. Universities will no longer be judged solely on input and prestige measures (e.g., funding per student, average faculty salaries, teacher/student ratios, SAT scores of entering freshmen), but on output and outcomes. Some states are already requiring public universities to prove how well their students have mastered key skills.[44] As the former Chancellor of the University of North Carolina System, Michael Hooker, stated: "we cannot defend the university as providing something important for society if we cannot articulate what it is, explain why it is important, and demonstrate that we have, in fact, provided it to our students."[45]

The use of prestige as a proxy for quality is fading. A recent RAND study argues that universities shunning the pursuit of prestige in favor of reputation-building are the institutions transforming higher education at the beginning of the 21st century. Unlike the more diffuse and relative concept of prestige, reputation is achieved by meeting goals that are specific, measurable and "subject to considerably more control by the institution itself." The RAND study notes that "because reputation-building institutions compete with one another for student enrollments on the basis of the services they provide rather than the prestige they confer, they are more concerned to continuously improve the quality and variety of those services."[46]

- ***Help Transform the System into a Learning Organization by Developing a More Robust Measurement of Student and Institutional Performance.***

The System has started building the foundation for a strong assessment system to improve academic quality. At the urging of the Board, students are, for the first time, being assessed System-wide on their writing and math skills. At the institutional level, universities are, for the first time, being asked to set goals and focus their missions around the development of "centers of excellence"— programs designed to fit each institution's comparative strengths.

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[43] See, e.g., Robert M. Solow, "Let's Quantify the Humanities," *Chronicle of Higher Education*, April 19, 2002. p. B20.

[44] The State of Virginia required its public colleges and universities to measure student proficiency in writing and computer technology by 2002 with additional assessments in the fields of mathematical and quantitative reasoning, scientific reasoning, oral communications and critical thinking to be conducted in the future.

[45] Michael Hooker, "The Transformation of Higher Education," in Oblinger, D. & Rush, S. (Eds.), *The Learning Revolution*, (Anker Publishing Company, Inc, 1997).

[46] Dominic J. Brewer, Susan M. Gates, and Charles A. Goldman, RAND, *In Pursuit of Prestige: Strategy and Competition in U.S. Higher Education*, (Transaction Publishers, 2001).

The System should build upon these efforts by developing a robust student and institutional accountability model. Students could be assessed on a common core of undergraduate courses, with more tailored assessments for the student's major or graduate field of study. Institutions could be measured against their own performance targets, a set of quality measures that take into account each institution's mission, character and goals. The U.T. System has already started building a foundation for such an assessment through its institutional accountability profiles.

Developing new accountability standards will be a complex task. But governing boards cannot ask presidents to manage what they don't measure and the kind of measures that customers of higher education want are changing. As one higher education expert noted: "the difficulty of measuring institutional performance is exceeded only by the necessity of doing so. The question is whether campus officials--and boards--will lead or leave the action to others."[47]

The U.T. System will have to address a number of difficult issues. How should academic quality be defined and measured at its diverse set of institutions? What are the benchmarks for important projects such as the centers of excellence? Should the System assess the "value added" of the education experience at each of its components and, if so, how can this be done? Can it use measures such as the National Survey of Student Engagement to more effectively measure student learning or should it work to develop its own set of standards?

System accountability data should not be used to pit one institution against another, but to determine best practices in teaching and learning and to help turn the System into a true "learning organization."

*System Action: Develop a student and institutional accountability model that builds upon measures already in place. Engage students, faculty and university officials in a broad discussion of what the appropriate institutional goals and student outcomes are for each campus.*

- ***Implement Specific Incentives that Reward the Achievement of Academic and Research Excellence***

One of the major competitive limitations facing the System is the restriction on using State and PUF funds to reward excellence. General education funding is appropriated directly to the universities and is based largely on enrollment. Capital projects, financed through PUF bonds, are allocated through a process that encourages universities to seek funding for their most expensive project, but not necessarily their most important. To reach the System's goal of improving academic and research excellence and creating more "universities of the first choice," the Board needs new tools to encourage and reward quality in teaching, scholarship, and research. State and System resources should follow results, not just enrollment patterns. Giving the System additional power over

[47] Joseph C. Burke, *Accountability for Results: Ready or Not*, Trusteeship, vol. 10, no.1, January/February 2002.

some portion of state funding to reward excellence (as suggested above) and reviewing the current PUF allocation model to ensure capital decisions follow strategic priorities would place a greater premium on results.

*System Action: Assess what powers the System has, under existing state law and regulation, to create incentives for excellence. If necessary, seek additional authority from the State to direct funds to reward excellence.*

## *V. SEEK CHANGES IN STATE LAW TO BOOST THE SYSTEM'S RESEARCH CAPABILITIES. ENHANCE THE SYSTEM'S ROLE IN PURSUING LARGE-SCALE FEDERAL RESEARCH PROJECTS*

The Long-Range Plan calls for U.T. System institutions to increase their federally funded research base by $800 million by 2030. The Long-Range Plan notes that most of the future growth in research activity is likely to occur in major population centers where the U.T. System already has a strong presence.

The State of Texas does not receive its proportional amount of federal research dollars and current trends suggest that, without a new approach, the State is unlikely to increase its share of the federal research funding.[48] Though it ranks second in population, the State is sixth in the federal research funds ($500 million less than California proportional to population).[49] [Table Six] The State ranks eighth in the amount of directed Congressional funding to higher education (earmarks).[50]

The bulk of federal funds flowing to Texas are not for R&D purposes. Only 10 percent of the federal monies coming into the State are for research and development compared to 19 percent for California and 34 percent for Maryland.[51] The disparity in research funding impacts the bottom line of universities. The University of California System takes in three times as much income from licensing of technology as the U.T. System. [52]

Scholarly investigation, the development and transfer of knowledge for the social good, is at the heart of the university's mission and essential to the nation's success. Research excellence is closely tied to academic excellence. Texas awards 8,500 fewer advanced degrees than the national average and the State has 11 Ph.D. programs

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[48] According to the Texas Higher Education Coordinating Board, while the total amount of federal R&D funding to Texas has increased, Texas' relative share of such funding has remained fairly constant, growing from 5.22% in 1985 to 5.36% in 1999.

[49] Texas Higher Education Coordinating Board, "*Research Expenditures, September 1, 2000-August 31, 2001"* and *Service to Texas in the New Century*, The University of Texas System Board of Regents, November, 2000.

[50]" A Record Year at the Federal Trough: Colleges Feast on $1.67 Billion in Earmarks" *Chronicle of Higher Education*, p. A20.

[51] RAND, *Discovery and Innovation: Federal Research and Development Activities in the Fifty States, District of Columbia, and Puerto Rico*, 2000.

[52] *Report of the Technology Transfer Commission*, The University Of Texas System, February 11, 2002, p. E-2.

ranked in the top 10 nationally compared to California's 124.[53] The University of Texas at Austin has not had any faculty members elected to the prestigious National Academy of Sciences for six years.

The rate of return on capital investment in the U.S. is about 10 to 14 percent. The private rate of return on R&D investment is estimated to be between 25 and 30 percent with the return to society in general at 50 to 60 percent.[54] In major commercial sectors, including biomedical and information technologies, 19-31 percent of the new products and 11-20 percent of new processes introduced from 1986-1994 could not have been developed as quickly without the aid of recent academic research.[55]As Harvard President Lawrence Summers notes, products most valued in today's economy such as software and pharmaceuticals are those based on ideas that require an enormous investment to develop, but very little to keep making. They are often subject to network effects that reward those who achieve critical mass.[56]

Although federal funding for R&D declined in the 90's, the recent trend is to increase federal outlays for the NIH and the NSF. The State of Texas and the U.T. System should take a new, aggressive approach to enhance the quality and extent of its federal research partnership.

· ***Recapture Indirect Costs***

The State Comptroller estimates that the economic value of university research to the Texas economy, financed by federal and private sources, is $4 billion annually. This sponsored research generates $3.32 in economic activity for every research dollar spent.[57] Yet, Texas universities are only allowed to retain 50 percent of the indirect cost reimbursement payments associated with costs incurred in conducting federal and other research. (Indirect costs are administrative and facilities-related expenses –on items such as staff salaries, electricity, maintenance, and libraries-- incurred as a result of conducting a research project.)

Most other states and Texas medical schools retain 100 percent of indirect cost reimbursements. (Note: Indirect costs rates are negotiated with the federal government; universities typically recover less than their actual costs) This surcharge on research impairs Texas' competitiveness by taking away money that could be used to pursue larger research projects, fund seed money for new researchers, or finance the purchase of capital equipment. Eliminating state recapture of research reimbursement could generate as much as a $118 million to the Texas economy.[58]

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[53] *Service to Texas in the New Century*, The University of Texas System Board of Regents, November, 2000.
[54]Duderstadt, A University for the 21st Century, p. 114.
[55] The University of California System, http://www.ucop.edu/california-institutes/economic/benefits.htm
[56]"The Father of Creative Destruction," *Wired*, March, 2002. http://www.wired.com/wired/archive/10.03/schumpeter_pr.html
[57] Office of the State Comptroller, *Impact of the State Higher Education System on the Texas Economy*, December, 2000. http://www.window.state.tx.us/specialrpt/highered/
[58] Testimony of Chancellor Dan Burck before the Joint Interim Committee on Higher Education Excellence Funding, March 27, 2002.

*System Action: Seek repeal of state recapture of indirect cost reimbursements.*

· ***Work with State Leaders on a Strategy to Improve Higher Education's Research and Technology Transfer Capabilities and Put Texas on the Forefront of the Next Generation of Technologies***

Component presidents consistently cite the lack of seed money as one of the biggest barriers to improving research competitiveness. Seed money serves as bridge funding for promising, early stage research, and later, as much-needed capital for early stage companies. The lack of a readily available pool of such funds can hurt universities' efforts to pursue major federal projects. For example, U.T. Austin wants to pursue a federal grant to build one the nation's largest high-performance computing centers. It has private support, but without access to the state seed monies other universities have, it has little chance of winning the project.

➢ ***State research funding***

State research funding comes primarily from the Advanced Research Program (ARP) and the Advanced Technology Program (ATP). The Texas Legislature created the Advanced Research Program (ARP) and the Advanced Technology Program (ATP) in 1987 as competitive, peer-reviewed grants programs to fund scientific and engineering research projects of faculty members at Texas higher education institutions. In 2001, the ARP/ATP granted 371 proposals with awards averaging $152,480.[59]

The ARP/ATF spreads its funds across a number of programs and institutions. Some university presidents believe that a more focused funding strategy that provides matching funds and targets fewer, but more potentially lucrative research opportunities would be beneficial to the State.

Other states have been aggressive in funding and pursuing research efforts. California, for example, recently funded a new initiative, the California Institutes of Science and Innovation designed to spark the next generation of technological advances, train new high-tech leaders and mirror the collaboration between academia and industry that created Silicon Valley.[60] Each of the four institutes (scheduled to receive $100 million a year for four years in state funds) will focus on basic and applied cross-disciplinary research in a field expected to play a major role in the future of California science and industry- biotechnology, nanosystems, and telecommunications.

Biotechnology, in particular, needs more public attention and support if it is to flourish in Texas. Despite being home to some of the nation's top medical institutions, Texas trails other states in biotech development. Biotechnology has not produced the return on investment necessary to induce the private sector to finance up-front costs; so many states have stepped in. Twenty-eight states report having one or more publicly supported seed

[59] Texas Higher Education Coordinating Board, *Advanced Research Program, Advanced Technology Program, Report of Awards*, May, 2002. http://www.arpatp.com/archive/pdf/0069.pdf

[60] The institutes will be designed to foster discovery in areas where the complexity of the research agenda requires the advantages of scope, scale, duration, equipment, and facilities that a comprehensive center can provide. California universities were encouraged to collaborate with each other in their proposals.

or venture funds that can invest in bioscience-related companies; five states offer publicly supported funds that invest exclusively in bioscience-related companies.[61] If Texas wants to build a more robust research infrastructure, it will need more top-flight scientists and more state seed funding.

The most promising effort to jumpstart Texas' biotechnology industry is the Governor's Council on Science and Biotechnology Development. The Council's goal is to create a "seamless system of innovation from the laboratory to the marketplace in the rapidly developing areas of biotechnology-such as biopharmaceutical development, bioinformatics, geonomics and nanotechnology."[62] The Council is charged with developing a strategy to increase both public and private research and development expenditures in the State.

### ➢ *Local venture capital*

Successful commercialization of university research in areas like biotechnology requires three factors: universities with a strong science curriculums that teach students and researchers to turn discoveries into products; the presence of venture capitalists committed to finding and commercializing local breakthroughs; and a network that brings together businesspeople, academics and venture capitalists.[63] The Board took an important step in improving the System's research commercialization by creating the Technology Transfer Commission ("TTC") in 2001. The TTC reviewed and recommended a number of policy changes to make System universities more internally focused on technology transfer. The next priority should be to attract more private capital to commercialize university research.[64] The TTC noted that the venture capital market in Texas is not as conducive to university start-ups as in other parts of the country, particularly in biotech. The lack of a local venture capital infrastructure to invest in start-up companies is a major barrier in attracting outside capital. U.T. Arlington President Bob Witt points out that while many universities are doing research that may have commercial applications, they don't have the necessary capital contacts or the technology transfer expertise.[65]

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[61] Office of the Governor, State of Texas, *Background Paper, Governor's Council on Science and Biotechnology Development Committee Charges,* http://www.governor.state.tx.us/Biotech/committeecharges.htm

[62] Ibid.

[63] "So, You Want to Be a Biotech Hotbed?" *Business Week*, June 13, 2002.

[64] The U.T. System compares relatively well with The University of California System in the license income it derives from research investments --a 2.0% rate of return compared to 2.2% for the U.C. System. But the total amount of research expenditures is one-third of the U.C. System. Data on other universities' technology transfer efforts indicates the U.T. System has much room for growth. According to the Association of University Technology Managers and analysis by the Chronicle of Higher Education for the years 1996-2000, U.T. Austin, earned $.01of licensing income per dollar of research. Stanford University earned $.08 cents and the University of Wisconsin earned $.04. "Tech Transfer Scorecard," *Chronicle of Higher Education*, July 19, 2002.

[65] Venture capital amounts to a small share of the overall capital markets, but is crucial in the early stages of a company's development.[65] In 1999, Texas companies received $160 million in venture capital investment, representing 3.1% of total U.S. venture capital invested in life science (down from 5.2% in 1996).

*System Action: Work with the State on a plan to examine the effectiveness of state-funded research efforts, provide more seed money for university research efforts and create incentives to attract more venture capital to early-stage companies.*

· ***Develop a Coordinated, Strategic Research Effort in Washington.***

The Office of Federal Relations in Washington has raised the U.T. System's profile and enhanced its pursuit of federal dollars. The Office has strengthened relationships between System components and legislative and executive officials, helped secure more direct Congressional funding (earmarks) for the System, and tracked federal legislation and regulatory issues affecting higher education. With a non-administrative staff of only three people, the Office is still in its developing stage and lacks the staff and funding resources of competitor states like California.

An important next step for the Office is to take on a more proactive role with the development of strategic plan to link the System's strengths with emerging federal research priorities in areas such as nanotechnology, cybersecurity, bioterrorism and education. These areas align well with the expertise of System components. The Centers of Excellence concept, while still in its early stage of development, should also help give direction to the Office of Federal Relations' efforts to prioritize its research agenda.

*System Action: Review the resources allocated its federal funding efforts and oversee the development of a federal research strategy.*

· ***Give the System a Greater Role in Multi-Institutional Research Projects***

The majority of federally-sponsored research has traditionally followed the single investigator model: merit reviewed research grants to individual faculty (or a small team) who developed specialized knowledge in an area of interest to a particular federal agency. Today, many federal agencies have begun to shift away from a highly specialized to a more multidisciplinary approach to research, particularly in the natural and social sciences. This trend should continue since a number of the current federal research priorities--information technology, nanotechnology, the science of learning, and biocomplexity -- are heavily interdisciplinary.[66] The new national effort to combat terrorism will also require the aggregation of expertise across discipline and institutions. Four of the state's major university systems -- Texas, Texas A&M, Texas Tech and Houston – are working on an effort to craft a joint proposal to become one of the federally-funded homeland security centers.

Although some efforts at research coordination have taken place at the System level (e.g., the National Research Center for Plutonium, a university consortium that advises the U.S. Energy Department and the Pantex weapons plant in Amarillo and the

[66] "U.S. Agencies Look to Interdisciplinary Science," *Chronicle of Higher Education*, June 14, 2002, p. A20.

proposed bid to manage the Sandia National Laboratory in New Mexico), the System has had a traditionally modest role. While individual researchers and the vice presidents for research at component institutions should continue to drive research funding efforts, the System could play a more vigorous role in the development and coordination of large collaborative projects, the setting of federal strategy and the pursuit of policy changes that improve the System's research competitiveness. The System could also take a larger role in identifying emergent research opportunities.

No one person has such responsibility today. The Office of Federal Relations is in charge of monitoring and analyzing federal legislative and regulatory actions and acting as a liaison between university researchers and government agencies. The Office does not have the capacity to organize and oversee the multi-institutional research collaborations necessary to compete for major federal projects such as the homeland security centers. Since research issues cut across the duties of the Executive Vice Chancellors for Academic and Health Affairs, neither has the authority to drive policy in this area.

*System Action: Create a position at the System Office to direct research policy and help coordinate efforts to obtain major research projects.*

## VI. FORMALIZE THE BOARD'S ROLE IN LONG-RANGE PLANNING

The Board of Regents has not engaged in consistent long-range planning and had no formalized process to examine long term issues facing the System until recently. The current Board has taken two important steps in that direction. It gave explicit planning authority to the Finance Committee, renaming it the Committee on Finance and Planning and it adopted, in November 2000, a new guiding plan for the System, *Service to Texas in the New Century*.

Building upon this progress, the Board should take additional steps to formalize its role in setting the strategic direction for the System.

· ***Regularly Assess the System's Operating Environment***.

Sound strategic thinking involves determining the optimal way to respond to an organization's dynamic, changing environment. Any exercise in strategic planning at the Board level should regularly assess the internal and external forces influencing the U.T. System in particular and higher education in general. An environmental scan should be conducted to identify System strengths and weaknesses; track emerging social, economic and public policy trends; highlight the changing role of university; examine new models of learning and the implications of information technology; and look at changes in management, governance, and university organization. The Board should view strategic planning as an ongoing process, not as an end in itself.

- ***Assign Responsibilities and Establish Clear Benchmarks***

Having assessed the U.T. System's environment, examined its strengths and weaknesses, and identified its strategic issues and goals, the Board should work with the Chancellor to develop a plan of action that assigns responsibilities, set timelines and establishes benchmarks for System to reach its strategic goals. In that regard, the Board should review the current Regents' Rules (Part One, Chapter II, Section 3.22) that address the Chancellor's role in strategic planning. The Board may want to expand the scope of the issues addressed in the System's strategic plan and clarify the Chancellor's authority to implement the plan after acceptance by the Board.

The Board should be guided by a set of benchmarks to assess the accomplishment of its major objectives. While the broad goals of the System are set forth in the Long-Range Plan, the Board would benefit from having a set of intermediate benchmarks to know if the System is making proper progress. What is each institution's target for improving graduation rates? How well are the component doing in improving teacher preparation, professional development and enhancing access? How should the System measure the success of each university's center of excellence in improving academic and research excellence? How should the System evaluate each schools progress under the new assessment system?

- ***Take a Greater Role in Ensuring Harmonization of Strategic Planning at the System and Component Level***

With the removal of the legislatively-mandated and budget-driven strategic planning process, universities now have the opportunity to conduct a more comprehensive process that defines institutional priorities, objectives and strategies. Some components have already begun to do so, others are still operating under their old Agency Strategic Plan. The Board should take a limited, but active, role in ensuring that each university's plan reflects the System goals and clearly states that institution's priorities and its strategies for building its centers of excellence. Giving the Board a regular opportunity to review each university's strategic plan will enhance the Board's understanding of its unique challenges and help develop a stronger consensus on each university's mission and future.

For the Long-Range Plan to be effective, it needs to guide all major strategic decisions concerning the U.T. System. The Board should adopt a process that requires any major policy change to show conformity with the Long-Range Plan before it is approved.

- ***Convene Regular Meetings with University Presidents***

According to both Board members and University presidents, some of the most helpful interactions in recent months have been the informal but frank conversations during the academic and health policy meetings. Major progress was made in defining the centers of excellence model through honest exchange among component presidents and Board members. As the Board pursues greater autonomy for its components, more responsibility will fall on the leaders of those institutions. The U.T. System is

fortunate to have a strong leadership team in place, but a number of those leaders seek a better understanding of the Board's intent and direction on major issues. Similarly, Board members need to understand the presidents' perspective and work with them as partners in progress instead of line managers. The recent academic and health component meetings were extremely valuable in establishing such a dialogue. The Board should include more opportunities for informal exchanges of ideas during its board and committee meetings.

Table One

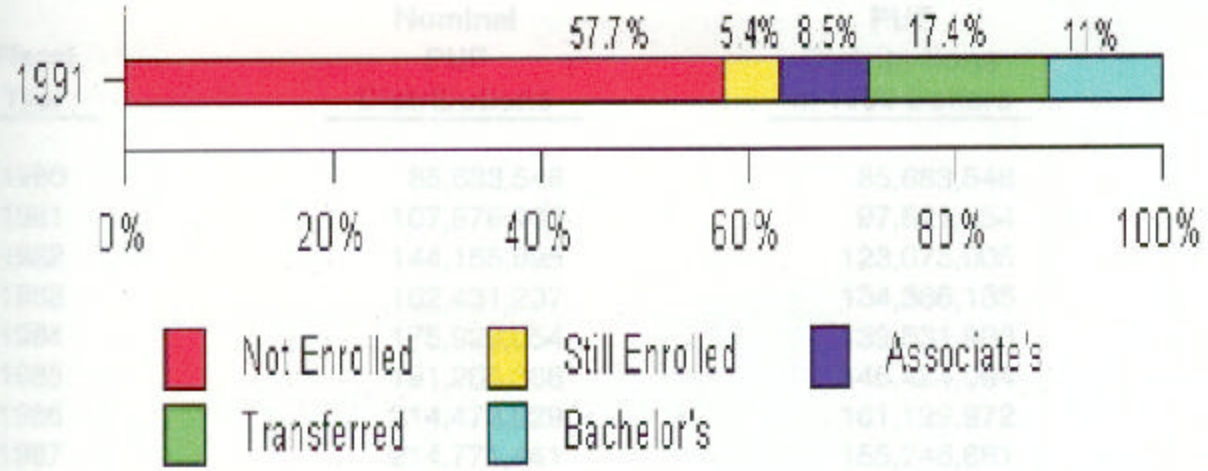
**E-Business and Vendor Applications in the Higher Education Market**

| Process Area | Sample of E-Business Vendors |
|---|---|
| On-line admission applications | Embark, CollegeNet, XAP |
| On-line student services | Campus Pipeline, MyBytes.com, Jenzabar |
| On-line textbooks | varsitybooks.com, textbooks.com, ecampus.com, efollet.com |
| On-line procurement | CommerceOne, Ariba |
| On-line alumni communities, contributions, and merchandising | Alumniconnections.com (from Harris Publications) |
| Tools and systems for on-line delivery and management | Blackboard, Centra, Convene, eCollege.com, WebCT, Eduprise.com |
| On-line content distributors | Caliber, UNEXT.com, Pensare |
| Learning portals | Asymetrix's click2learn.com, HungryMinds.com, Ziff-Davis's SmartPlanet.com, Blackboard.com |

Source: Katz, R., Oblinger, D., eds., *The "E" is for Everything*, Educause, Jossey-Bass, 2000 p. 92.

Table Two

**Six-Year Baccalaureate/Transfer Rates**
**Texas Community & Technical Colleges**
**(Academic and Technical)**




Note: Transfers include recipients of associates' degrees who have transferred to another institution but have not obtained a bachelor's degree within the six-year period.

Source: Texas Higher Education Coordinating Board, *Baccalaureate Graduation Rates, Texas Public Colleges and Universities*, June 1999.

Table Three

# PUF Distributions to the Available University Funds
## Nominal and Inflation-Adjusted to 1980

| Fiscal Year | Nominal PUF Distributions | PUF Distributions in 1980 Dollars | |
|---|---|---|---|
| 1980 | 85,683,548 | 85,683,548 | |
| 1981 | 107,676,905 | 97,621,854 | |
| 1982 | 144,165,995 | 123,073,005 | |
| 1983 | 162,431,237 | 134,366,135 | |
| 1984 | 175,929,054 | 139,531,908 | |
| 1985 | 191,265,366 | 146,424,094 | |
| 1986 | 214,473,829 | 161,129,972 | |
| 1987 | 214,771,441 | 155,746,681 | |
| 1988 | 236,873,982 | 165,009,482 | |
| 1989 | 254,333,926 | 169,057,543 | |
| 1990 | 266,119,332 | 167,828,639 | |
| 1991 | 257,659,365 | 155,943,709 | |
| 1992 | 256,553,548 | 150,751,877 | |
| 1993 | 250,251,366 | 142,765,719 | |
| 1994 | 242,304,280 | 134,729,036 | |
| 1995 | 249,534,119 | 134,969,904 | |
| 1996 | 253,626,121 | 133,187,589 | |
| 1997 | 265,186,299 | 136,127,299 | |
| 1998 | 259,978,077 | 131,352,143 | |
| 1999 | 263,914,794 | 130,470,785 | |
| 2000 | 297,562,712 | 142,268,093 | |
| 2001 | 317,081,112 | 147,404,917 | |
| 2002 | 338,433,636 | 155,318,714 | * based on CPI thru 4/02 |

* Effective September 1, 1997, a statutory amendment changed the distribution of income from cash to an accrual basis of accounting. This change resulted in a one-time distribution adjustment to the AUF of $47,285,687, which is not reflected.

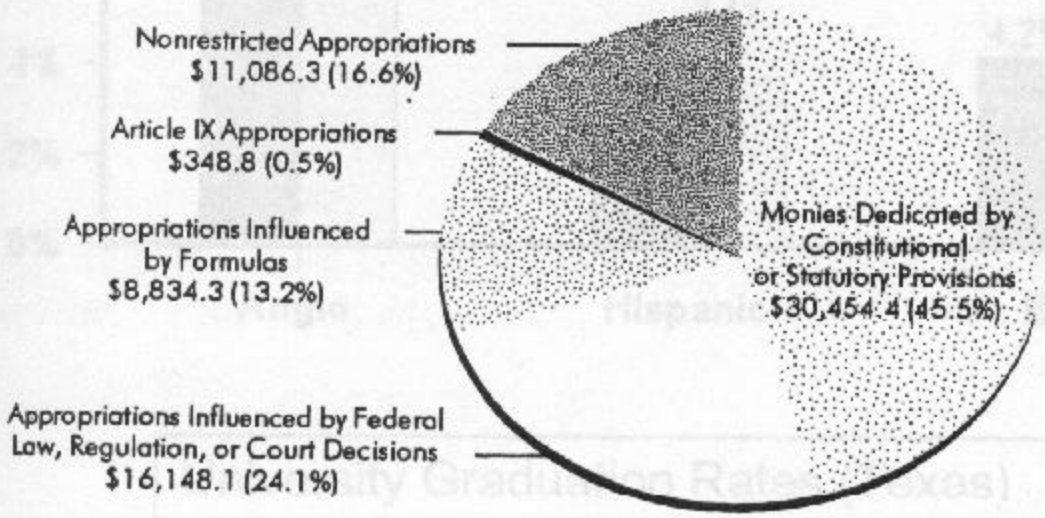
** Beginning in FY 2000, distributions were determined as a percentage of the trailing 12-quarter average of the PUF's net asset value.

Table Four

## RESTRICTED APPROPRIATIONS FROM TEXAS GENERAL REVENUE AND GENERAL REVENUE-DEDICATED FUNDS 2002-2003 BIENNIUM

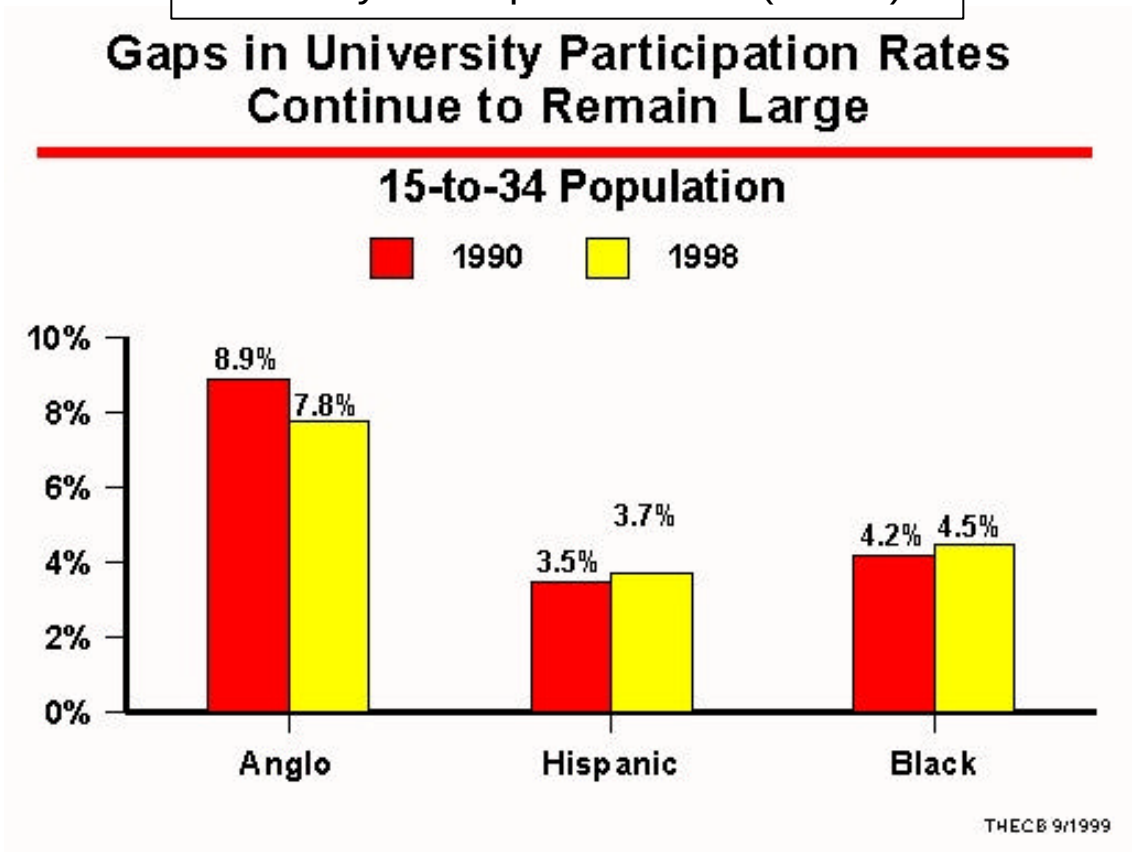
(IN MILLIONS)

TOTAL = $66,871.9 MILLION

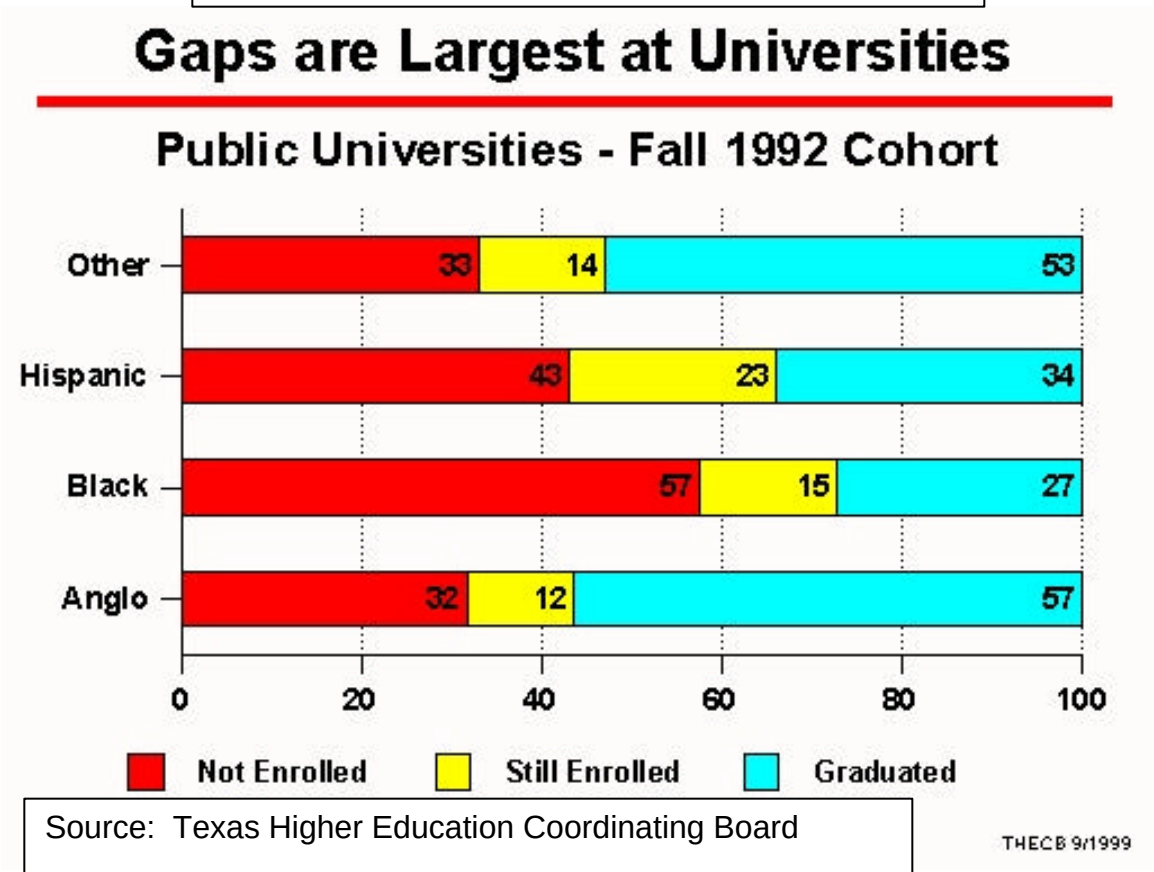



Source: Legislative Budget Board, *Fiscal Size-Up 2002-03.*

University Participation Rates (Texas)




University Graduation Rates (Texas)




Source: Texas Higher Education Coordinating Board

Table Six

| State Rank in Federal Obligations and Federally Financed R&D (Dollars in Thousands) | | | | | | |
|---|---|---|---|---|---|---|
| | Federal Obligations for Science and Engineering to Colleges and Universities | | Federal Obligations for R&D in Science and Engineering to Colleges and Universities | | Federally Financed R&D Expenditures at Colleges and Universities | |
| State | FY 1999 | Rank | FY 1999 | Rank | FY 1999 | Rank |
| California | $2,500,871 | 1 | $2,247,783 | 1 | $2,179,077 | 1 |
| New York | $1,450,921 | 2 | $1,269,773 | 2 | $1,334,210 | 2 |
| Maryland | $1,120,503 | 3 | $1,004,165 | 3 | $1,058,128 | 3 |
| Pennsylvania | $1,098,534 | 4 | $990,736 | 4 | $905,775 | 6 |
| Massachusetts | $1,047,036 | 5 | $937,608 | 5 | $1,018,574 | 4 |
| Texas | $972,851 | 6 | $834,557 | 6 | $975,753 | 5 |

Source: Texas Higher Education Coordinating Board, *Research Expenditures*, *September 1, 2000 – August 31, 2001*.

**The University of Texas System**
**Review of Cash & Non-cash Elements of Presidents' Compensation**
**September 2002**

## Background

Following the August 7, 2002 Executive Session consideration of Presidents' compensation, Vice Chairman Hunt requested that the System Administration staff review each of the cash and non-cash elements comprising the institutional presidents' compensation for opportunities to simplify the compensation structure and provide appropriate and consistent System-wide policies. The current compensation structure has developed over the years and has been administered in the absence of a formal U. T. System policy resulting in inconsistent applications and some confusion as to the varying elements of compensation.

The review team was comprised of representatives from the Office of Business Affairs, Office of the Board of Regents, Controller's Office, Real Estate Office, Office of General Counsel, Health Affairs and Academic Affairs.

## U. T. System Policy on Presidents' Compensation

To ensure institutional memory and provide for consistency with future presidents' appointments and compensation plans, the review team recommends that a U. T. System Policy on Presidents' Compensation be developed that includes the Board of Regents' approved recommendations and policies resulting from their adoption and modification of those recommendations set forth below. The proposed recommendations are prospective in nature and application and not intended to be applied retroactively. It is further recommended that the policy and recommendations be implemented during the 2003-2004 budget cycle.

## Elements of Cash Compensation & Recommendations

### Base Salary Rate

The base salary rate is set after comparing against published state and national compensation survey data for peer institutions. Comparable salaries are reported in the College & University Personnel Association (CUPA) and other nationally recognized surveys. These surveys typically exclude allowances such as car, housing, housekeeping, retirement plans, and other fringe benefits.

### Practice Plan

The bylaws of the physician practice plans provide that the health institutions presidents' compensation can be supplemented by up to 30% of the presidents' salary from practice plan funds. While the supplement has always been paid, U. T. System policy specifies that the supplement is contingent on availability of funds in the practice plan. Practice plan supplements are included in national surveys of chief executive compensation.

*Recommendation*:
The practice plan salary supplement should continue to be reported as a separate element of the health presidents' compensation because of the special nature of the source of funding. Payments should not be retirement eligible.

**Salary Supplement**
This compensation element was originally a Housing Allowance, but was modified in fiscal year 2000 to a Salary Supplement, making it eligible for retirement benefits. The Salary Supplement has historically been paid to those presidents who are not provided a U. T. System-owned residence and it is paid in lieu of a housing allowance. There has been no consistent basis for calculating or determining the amount of the Supplement.

Three presidents are provided U. T. System-owned housing, and, as such, they do not currently receive a Salary Supplement. The non-cash value of providing this housing has historically been established at $66,000, which has no correlation or comparability to the market value of the benefit. A market value analysis earlier this year established market values ranging from approximately $9,000 to $30,000 based on an allocation of business and personal use.

*Recommendations*:

(A) The Salary Supplement should continue to be reported as a separate element of compensation.

A recent survey of peer research universities around the country revealed that over 90% provided their presidents with either a residence or a housing allowance. In addition, rolling the value of the Salary Supplement into the presidents' base salary rate would create comparability issues with state and national compensation surveys and comparisons with peer institutions. Including the Supplements in the base salary rate would substantially increase in the health institutions' overall compensation expense because the base salary rate is the basis for computing the 30% Practice Plan element of compensation. This increase would compound over the years as the presidents are given merit and legislatively mandated across-the-board increases in base salary rate.

(B) The basis for the value of the Supplement should be market driven and established at the fair market rental value of a standardized model residence. The proposed model residence would contain 4,100 square feet of improvements and be valued as if located where each president owns, or leases, his or her personal residence. In the case of university-owned housing, the model residence would be valued as if situated where the institutionally owned residence is located. When a new president takes office, it is proposed that he or she should initially receive the most recent rental value determined for the location of the preceding residence until such time as he or she obtains permanent housing, with the expectation that such will be obtained within one year of hire date. If after one year permanent housing has not been obtained, the value of the Supplement will be adjusted to the fair market rental value of their current residence.

(C) The value of the Salary Supplement shall not exceed the fair market rental value of the model residence priced at the location of the Bauer House.

(D) To maintain the current presidents at their same level of cash compensation, any excess of their current Salary Supplement over the appraised fair market rental value of the model residence should be added to the president's base salary rate.

(E) The three presidents currently provided U. T. System-owned residences should be provided a Salary Supplement and the option of leasing the System-owned residence from the U. T. System or purchasing a separate residence and moving from the System-owned house. Any lease with the U. T. System should be based on the current fair market value of the residence, or that portion of the residence that is being used for private purposes. The implementation of this recommendation will relieve the U. T. System of any potential Federal income tax issues associated with the presidents' personal use of the residence.

It is the intention of this recommendation that these three presidents will receive a net cash compensation benefit after the payment of federal income taxes associated with the Salary Supplement and the payment of the U. T. System lease payments.

(F) The U. T. System policy on presidents' compensation should state that the System will provide each president with a Salary Supplement to cover the fair market cost of leasing a model residence.

**Car Allowance**
Every president receives a monthly car allowance of $700.

*Recommendations*:

(A) The $8,400 annual car allowance should be rolled up and included in the presidents' base salary rate.

(B) The U. T. System policy on presidents' compensation should include a statement that business use of the presidents' vehicles may be reimbursed by the institution in accordance with the latest published IRS guidelines and the State Travel Regulations Act (Tx. Government Code Sec. 660) and further state that no separate car allowance will be provided.

**Tax Equity Adjustment**
Currently four presidents' cash compensation includes a tax equity adjustment element that compensates the presidents for the Federal Income tax impact of their personal use of either U. T. System-provided housing, club memberships, or institutionally-provided housekeeping.

*Recommendation*:
The tax equity adjustments should be rolled up and included in the appropriate presidents' base salary rate and the U. T. System policy on presidents' compensation should specifically state that tax equity adjustments will not be provided and that personal use of institutional property, memberships, etc., should be appropriately reimbursed to the institution.

**Maintenance & Utility Allowance**
Only two presidents are provided a separate Maintenance & Utility Allowance.

*Recommendation*:
The Maintenance & Utility Allowance element of compensation should be rolled up and included in the respective presidents' base salary rate, and the U. T. System policy on presidents' compensation should note that all expenses associated with the presidents' residences are included in the Salary Supplement element of their compensation.

**Housekeeping Allowance**
Only one president receives a Housekeeping Allowance included in cash compensation. Provision for a full or part-time housekeeper (or the equivalent) is included in most, but not all, of the presidents' employment/appointment letters. (There is no agreement to provide for housekeeping services for the presidents of the Health Science Center at Houston, M. D. Anderson Cancer Center and the Health Center at Tyler.) While the housekeeping "is to be provided in accordance with U. T. System policy," no policy exists that addresses this component of the presidents' cash or non-cash compensation.

*Recommendation*:
Each president will receive in his or her base salary rate the market value of one half-time housekeeper (50% of the average mid-point of the housekeeper positions included in the U. T. System Classified Pay Plan plus benefits equal to 30% of the midpoint salary). The president will be responsible for the employment of the housekeeper and for the tax-related implications and expenses there associated or may reimburse the institution for the salary and appropriate benefits associated with the use of the institution's housekeeping staff. Each institution will continue to have the responsibility to provide appropriate support services for business-related functions held at the president's residence.

## Elements of Non-cash Compensation & Recommendations

**Club Membership Dues**
The total amount of club membership dues paid by the institution on behalf of the presidents' is reflected as an element of the presidents' non-cash compensation. The amount of club dues reported ranges dramatically from zero for five of the presidents to over $7,000.

*Recommendations*:

(A) The non-cash value of club memberships should not be reflected as an element of the presidents' compensation.

(B) A U. T. System-wide model policy or Business Procedure Memorandum for club memberships should be developed and used by each institution as the foundation for their institutional club membership policy that provides for the appropriate authorization and approval of club memberships, monitoring of personal expenditures and appropriate procedures for reimbursing the institution for any personal expenses incurred at clubs whose dues are paid by the institution.

# The University of Texas System

## Depreciation Recorded on Financial Statements vs. Capital Renewal
## Prepared by the Office of the Controller – September 2002

### Purpose

At the August 2002 Board meeting, there was a discussion on depreciation expense recorded on the financial statements, which is anticipated to be in excess of $300 million for 2002. Now that depreciation is recorded as an expense, and therefore has an effect on margin, questions are being raised regarding how depreciation recorded on the financial statements relates to on-going capital renewal. In addition, questions have arisen relating to how these items are reflected in the institutional budgets. In response to those discussions, this paper is meant to define the differences between the two bases of the costs of capital assets and the budgeting of those items.

### Depreciation

Prior to the implementation of Governmental Accounting Standards Board (GASB) 35 in 2002, depreciation expense was not recorded on public higher education institutions' financial statements. GASB 35 requires that assets be depreciated over the useful life of the assets. Conceptually, the cost of property, plant and equipment is a long-term prepaid expense; the expense is prepaid in advance of utilization of the asset and therefore is recorded as a capitalized asset. As the economic life of the asset is utilized in operations, the cost of the asset is allocated as an expense in the form of depreciation. The recording of depreciation is an accounting process of allocating the cost of tangible capital assets, less salvage value (if any), over the estimated useful life of the asset in a systematic and rational matter. The Comptroller's Office of the State of Texas has mandated using the straight-line method of allocating depreciation for all State agencies and institutions of higher education. The straight-line method recognizes an equal amount of depreciation in each period of the service life of the asset.

GASB 35 also requires that the cumulative effect of recording depreciation expense of prior years be recognized on the financial statements; therefore, capital assets that had a book value of $8 billion at the end of 2001 are anticipated to decrease approximately $3.9 billion (49%) due to recording accumulated depreciation. While the book value of land, buildings, infrastructure, equipment, library books, museums and art collections, and construction in progress is estimated to be $4 billion at the end of 2002, this is no way reflects the replacement value of these assets in current year dollars.

### Capital Renewal

Capital renewal is defined as the reinvestment dollars in current year terms necessary to maintain a facility in (restore to) like-new condition. Capital renewal includes the costs that extend or restore the life of a building's subsystems and components. Capital renewal does not include preventative maintenance or minor recurring maintenance work for facilities and does not include the cost of the equipment located in the facilities.

Capital renewal requirements are always defined in current dollars and may be best estimated by dissecting a building into subsystems (such as roof, plumbing, electrical, etc.). Each subsystem has a predictable life, and although the actual life may vary, the overall capital renewal requirements may be estimated with reasonable accuracy.

Capital renewal may be best compared to depreciation when looking at the average annual capital renewal over an extended time period (perhaps 50 years). The recent Facility Renewal Model report generated an overall System-wide average requirement of 1.7% of current replacement value. In other words, in order to maintain the current condition and value (status quo) of all facilities over the next 50 years, The University of Texas System as a whole would need to place 1.7% of total current replacement value annually in a theoretical savings account to address capital renewal requirements as they occur. However, unlike depreciation, the capital renewal required for a building is a cyclical value depending upon time and the age of the subsystems. For example a new building requires no capital renewal in the first year but may need new paint in year 7, new carpet in year 10, new roof in year 20, new air conditioning equipment in year 25, etc.

As part of the Facility Renewal Model, a current replacement value (CRV) is calculated to develop meaningful indices. The CRV is calculated by restating the current building inventory in current construction dollars, or as though we rebuilt the entire building inventory in the current year. The CRV for U. T. System's buildings is currently estimated at $13 billion.

## Depreciation and Capital Renewal Impact on Institutional Budgets

Depreciation is not currently reflected in our institutional budgets for three reasons:

1. The primary purpose of budgeting for governmental entities is to establish limitations on expenditures. Purchases of capital assets, while not an expense, require commitments of resources that are subject to being limited by budget parameters whereas depreciation expense is not.

2. Budgets have historically been viewed as "sources" and "uses" of cash. Since depreciation is a non-cash item, depreciation expense is not currently reflected in the budgets.

3. Depreciation is recorded in the Investment in Plant fund group. Our current budgets, which are in a format consistent with the expectations of the Legislative Budget Board and Governor's Office of Budget, Planning, and Policy, include current funds only (Educational & General, Designated, Auxiliary, and Restricted).

In addition, while some portion of capital renewal might be budgeted in current funds in the E&G Capital Projects line, the vast majority would be recorded in the Investment in Plant Fund group, and therefore not all capital renewal is currently reflected on institutional budgets.

Beginning in 2003, the Office of the Controller will form a work group of budget personnel from select institutions to rethink the current budget methodology and format. This process would be similar to the GASB 35 Implementation Group that met numerous times over the last two years to change the presentation of the financial statements as a result of GASB 35.

## Conclusion

Depreciation is an accounting term used to express the 'used-up' value of an asset on the financial statements based on a straight-line computation of the original book value; while capital renewal is a computation of necessary funds in current year dollars to maintain the building inventory in a like-new condition. Depreciation expense will occur evenly over the original life of the asset, while capital renewal is cyclical depending on the age and condition of the subsystem.

Therefore, the estimated remaining book value of $4 billion reported on the balance sheet at the end of 2002 in no way reflects the CRV calculated in the Facility Renewal Model of $13 billion. In addition, the depreciation expense reported on the financial statements does not correspond to the capital renewal required in the current year. However, the Office of the Controller is committed to investigate possible solutions to the between the newly revised financial statements and the current format of the budget.

# The University of Texas System


## Energy Utility Task Force
## FY 2002 Update

# Task Force Scope

The Energy Utility Task Force of the U.T. System was created in February 2001 to evaluate and recommend strategies to:

1. Reduce energy consumption
2. Lower maintenance and operating costs
3. Manage commodity price risk
4. Leverage the System's purchasing power as utility deregulation moves forward in Texas

# Task Force Update
# Status of Goals for FY 2002

| Recommendation | Status |
|---|---|
| 1. Establish Energy Management Plan templates with the State Energy Conservation Office (SECO) | ➢ **Completed** – U.T. template will be used by SECO as a model for compliance with annual reporting requirements. |
| 2. Complete Energy Management Plans at each campus by 5/31/02 | ➢ **Completed** |
| 3. Establish energy utilization benchmarks | ➢ **Completed** – (Energy Utilization Index and Energy Cost Index) |
| 4. Refine energy data collection process | ➢ **Ongoing** – We now have data from 1990-2003E and continue to refine the process. |
| 5. Encourage sponsorship of new energy efficient capital projects by incorporating energy savings into economics | ➢ **Substantial progress** |

# Task Force Update
# Status of Energy Contracting Since 1/1/02

- Six component institutions have signed new electricity contracts since 1/1/02.
  - Most institutions continue to be served by the local utility.
  - Contract terms range from eight months to 36 months.
  - The provider of choice has turned out to be the General Land Office (through its agent, Reliant Energy Solutions).

- Several natural gas contracts have been signed as well.
  - U.T. Austin has locked-in a fixed price for 81% of its natural gas in FY 2003 at $3.65 per MMBtu, well below the FY 2001 average price of $5.52 per MMBtu.
  - Most other natural gas contracts are at a floating price.

# Task Force Update
# Selected Energy Efficient Projects for FY 2003

- Many of the components are planning or implementing significant energy-related capital projects. A few examples:
  - U.T. SWMC - Thermal Energy Plant, Phase II
    - Installation of new energy efficient lighting; new substation and electric distribution; addition of 12.7 MW of new natural gas-fired electric generation; addition of new high-efficiency electric chillers.
    - $25.1 million of the capital cost will be financed with RFS debt and repaid entirely from energy savings guaranteed by TXU/ONCOR.
    - Other benefits include increased reliability, maintenance savings and a $5 million reduction in future capital costs.
  - U.T. Austin – Utility Infrastructure Expansion/Upgrade
    - A series of projects designed to replace aging and undersized equipment including an upgrade to the capacity of the Harris Substation, an upgrade of the power plant switchgear, replacement of cooling tower #1 and possibly installing a 25 MW steam turbine.
    - Primary benefits include greater capacity (56 MVA to 100 MVA), greater reliability and higher efficiency (e.g., the new turbine is expected to be 7% more efficient than the existing one).

# Task Force Update
# FY 2003 Outlook

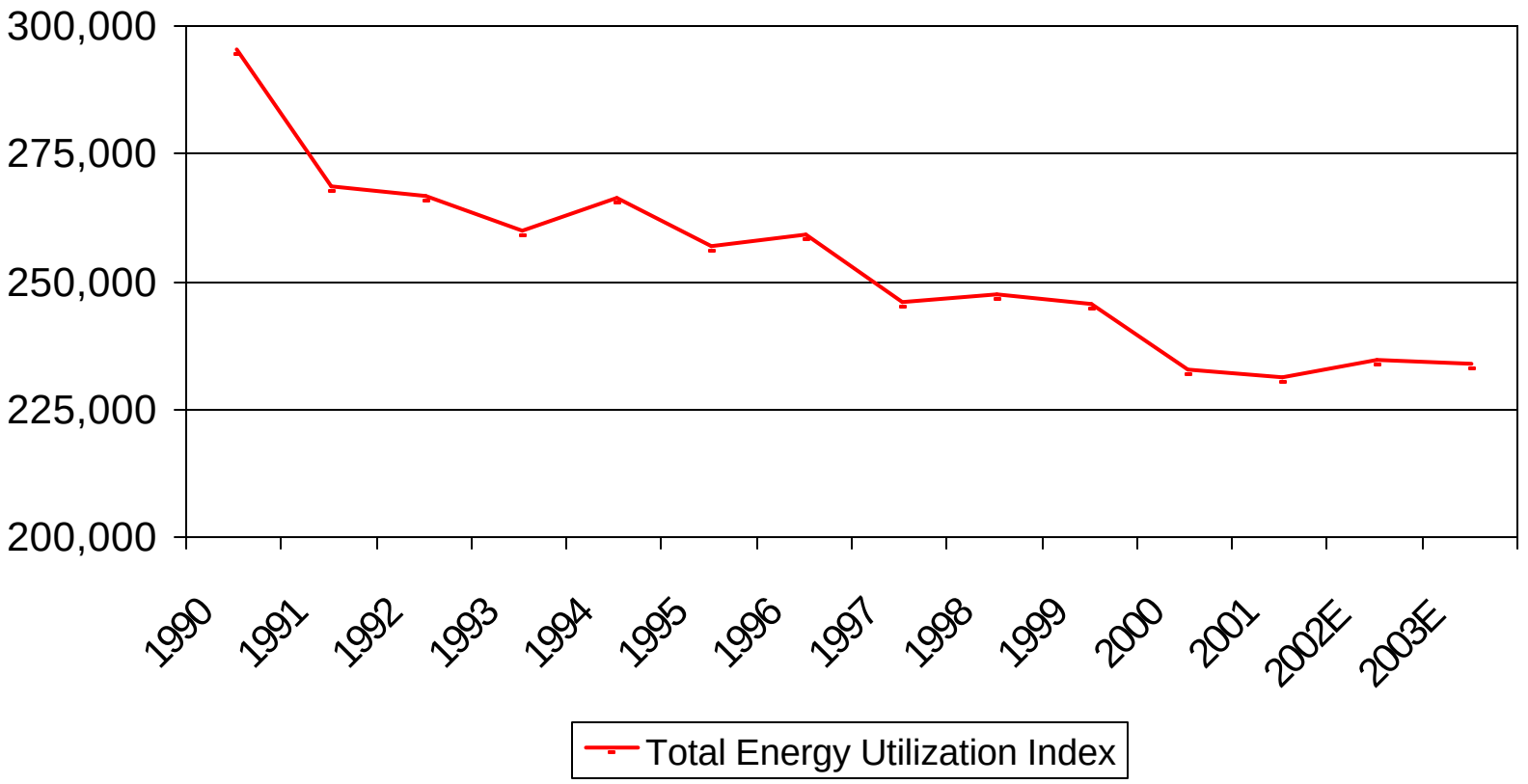
- System-wide energy data will be reported to the State Energy Conservation Office by October 31, 2002.
- The System is targeting a 2-4% decrease in projected energy utilization per square foot for FY 2003.
- Electricity and natural gas costs are lower than peak 2001-2002 levels, but still higher than historic norms.
- Enrollment growth continues to outpace growth in square footage.
- A higher mix of research space could limit further reductions in energy utilization per square foot.

# Updated Energy Consumption and Costs

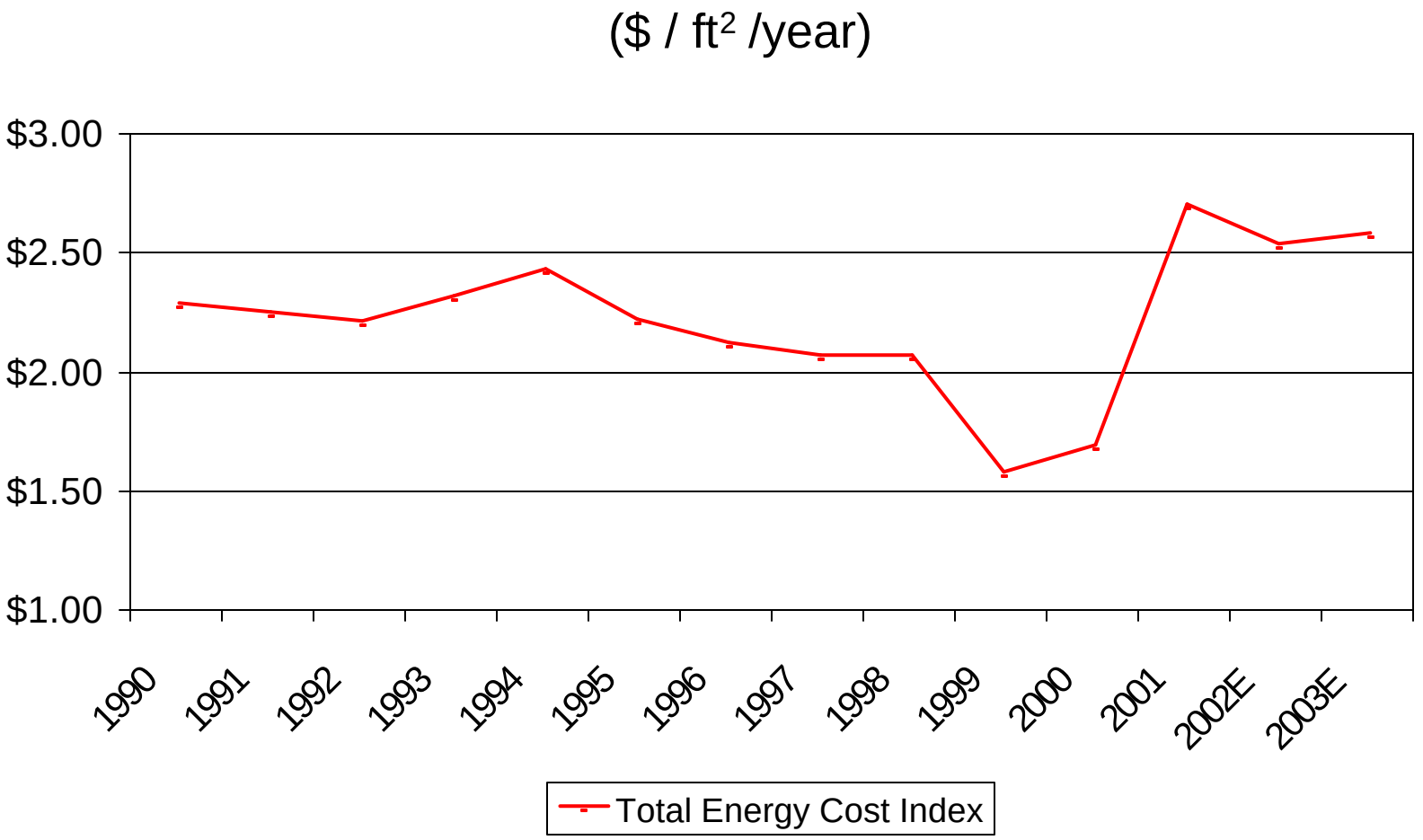
| Fiscal Year | Electricity Usage (Gwh) | Natural Gas Usage (Bcf) | Electricity Cost ($/Kwh) | Natural Gas Cost ($/Mcf) | Total Electricity Cost ($ millions) | Total Natural Gas Cost ($ millions) | Other Energy Cost ($ millions) | Steam and Hot Water Cost ($ millions) | Chilled Water Cost ($ millions) | Total Energy Cost ($ millions) | Gross Square Footage | Total Energy Utilization Index (Btu / $ft^2$ / yr.) | Total Energy Cost Index ($ / $ft^2$ / yr.) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1990 | 677 | 6.07 | $0.047 | $2.00 | 32.0 | 12.1 | 21.8 | 6.44 | 19.79 | 92.10 | 40.60 | 294,490 | $ 2.27 |
| 1991 | 698 | 5.34 | $0.049 | $1.93 | 34.5 | 10.3 | 22.1 | 5.79 | 19.89 | 92.65 | 41.59 | 267,467 | $ 2.23 |
| 1992 | 723 | 6.10 | $0.050 | $2.04 | 36.2 | 12.4 | 21.9 | 5.80 | 18.16 | 94.46 | 43.10 | 265,538 | $ 2.19 |
| 1993 | 759 | 5.85 | $0.051 | $2.51 | 38.9 | 14.7 | 20.4 | 6.56 | 19.14 | 99.75 | 43.39 | 258,814 | $ 2.30 |
| 1994 | 769 | 6.21 | $0.053 | $2.49 | 40.9 | 15.5 | 22.4 | 6.15 | 19.88 | 104.79 | 43.56 | 265,275 | $ 2.41 |
| 1995 | 809 | 6.04 | $0.049 | $1.93 | 39.4 | 11.7 | 24.1 | 4.44 | 18.01 | 97.62 | 44.31 | 255,897 | $ 2.20 |
| 1996 | 828 | 6.34 | $0.043 | $2.38 | 35.7 | 15.1 | 22.3 | 4.75 | 17.63 | 95.41 | 45.38 | 257,950 | $ 2.10 |
| 1997 | 917 | 6.67 | $0.044 | $2.72 | 40.7 | 18.2 | 24.6 | 3.29 | 12.38 | 99.13 | 48.40 | 245,050 | $ 2.05 |
| 1998 | 990 | 7.05 | $0.045 | $2.71 | 44.1 | 19.1 | 26.1 | 2.79 | 10.31 | 102.48 | 49.92 | 246,245 | $ 2.05 |
| 1999 | 995 | 6.89 | $0.044 | $2.46 | 43.6 | 17.3 | 25.3 | 3.08 | 11.65 | 81.57 | 51.13 | 244,387 | $ 1.56 |
| 2000 | 1,002 | 6.95 | $0.045 | $3.43 | 44.8 | 24.2 | 27.9 | 3.31 | 12.71 | 91.65 | 54.29 | 231,608 | $ 1.67 |
| 2001 | 1,034 | 7.06 | $0.057 | $5.88 | 58.6 | 41.5 | 29.4 | 5.96 | 13.69 | 149.21 | 55.65 | 230,224 | $ 2.68 |
| 2002E | 1,066 | 7.28 | $0.058 | $3.93 | 62.2 | 28.7 | 31.6 | 5.59 | 14.44 | 142.47 | 56.49 | 233,769 | $ 2.52 |
| 2003E | 1,104 | 7.35 | $0.057 | $4.17 | 62.9 | 30.6 | 33.7 | 5.94 | 15.19 | 148.35 | 57.84 | 232,908 | $ 2.56 |

# Updated Energy Utilization Indexes (EUI)

(Btu / ft$^2$ /year)



# Updated Energy Cost Indexes (ECI)



# THE UNIVERSITY OF TEXAS SYSTEM

# PERFORMANCE MEASURES
# BACKGROUND INFORMATION


## FINANCE AND PLANNING COMMITTEE

## SEPTEMBER 2002

# Table of Contents

# Background

## Strategic Planning and Budgeting System (SPB)

In 1992, the Governor and the Legislative Budget Board (LBB) adopted a Strategic Planning and Budgeting system (SPB) to allocate state government resources. SPB recognizes relationships between funding and performance, between accountability and resource allocation and most importantly, between spending and results. To measure state agencies progress toward meeting state-identified goals and establish the relationship between state appropriations and results, a system of performance measurement was deemed a critical component of the SPB. As a practical matter, due to the nature of the funding mechanisms for institutions of higher education, the performance-based budgeting system has had minimal impact on higher education funding.

Strategic planning and budgeting structures serve as the starting point for developing an agency's biennial budget request. Agencies work with the LBB and GOBP to develop a budget structure that reflects the agencies strategic plans, goals and objectives, and spending priorities. Even though higher education is exempted from the state's strategic planning requirements, institutions still develop and follow approved budget structures.

## Performance Measures

The Strategic Planning and Budgeting performance measurement system includes four types of performance measures: outcome, output, efficiency, and explanatory/input. The following are definitions of the measures:

| | |
|---|---|
| Outcome Measure | A quantifiable indicator of the public and customer benefits from an agency's actions |
| Output Measure | A quantifiable indicator of the number of goods or services an agency produces |
| Efficiency Measure | A quantifiable indicator of productivity expressed in unit costs, units of time, or other ratio-based units |
| Explanatory/Input Measure | An indicator of factors, agency resources, or requests received that affect a state entity's performance. |

## Key Performance Measures

Institutions of higher education work with the LBB and GOBPP to determine which measures are deemed to be the most important. These "key" measures are included in the General Appropriations Act each biennium.

# Performance Measures
# Academic Institutions

✓ Indicates key performance measure for one or more U.T. component

## Outcome Measures

- ✓ Percent of First-time, Full-time, Degree-seeking Freshmen Who Earn a Baccalaureate Degree Within Six Academic Years
- Percent of First-time, Full-time, Degree-seeking White Freshmen Who Earn a Baccalaureate Degree Within Six Academic Years (also for Hispanic, Black and Other Freshmen)
- ✓ Retention Rate of First-time, Full-time, Degree-seeking Freshmen Students After One Academic Year
- Retention Rate of First-time, Full-time, Degree-seeking White Freshmen Students After One Academic Year (also for Hispanic, Black and Other Freshmen)
- ✓ Amount Expended for Administrative Costs as a Percent of Operating Budget
- Percent of Semester Credit Hour Courses Completed
- ✓ Certification Rate of Teacher Education Graduates (formerly Pass Rate of ExCET Exam)
- Retention Rate of TASP Students Requiring Developmental Education After One Academic Year
- ✓ Percent of Baccalaureate Graduates Who Are First Generation College Graduates
- Percent of Incoming Full-time Undergraduate Transfer Students Who Graduate Within Four Years (Four year institutions only)
- ✓ Percent of Lower Division Courses Taught by Tenured or Tenure-Track Faculty
- ✓ State Licensure Exam Pass Rate of Law Graduates
- ✓ State Licensure Exam Pass Rate of Engineering Graduates
- ✓ State Licensure Exam Pass Rate of Nursing Graduates
- ✓ State Licensure Exam Pass Rate of Pharmacy Graduates
- State Licensure Exam Pass Rate of Veterinary Medicine Graduates
- ✓ Dollar Amount of External or Sponsored Research Funds (in millions)
- External or Sponsored Research Funds as a Percent of State Appropriations
- Amount of External Research Funds Expended as a Percentage of Funds Appropriated for Research
- ✓ Percent of Full-time, Degree-seeking Transfer Students Who Earn a Baccalaureate Degree Within Four Years (Upper-level Institutions Only)
- Percent of Full-time, Degree-seeking White Transfer Students Who Earn a Baccalaureate Degree Within Four Academic Years (also for Hispanic, Black and Other Transfer Students) (Upper level institutions only)
- ✓ Retention Rate of Full-time, Degree-seeking Transfer Students After One Academic Year (Upper level institutions only)
- Retention Rate of Full-time, Degree-seeking White Transfer Students After One Academic Year (also for Hispanic, Black and Other Transfer Students) (Upper level institutions only)
- Total Net Book Value of Inventoried Property Lost or Stolen
- Percent of Total Inventoried Property Reported as Lost or Stolen
- Percent of Endowed Chairs Unfilled for All or Part of the Fiscal Year
- Average Number of Months Endowed Chairs Remain Vacant

## Output Measures

- Number of Undergraduate Degrees Awarded
- Number of Minority Graduates
- Number of Students Who Successfully Complete Developmental Education (formerly Number of Successfully Remediated Students)
- Number of Community College Transfer Graduates

# Performance Measures
# Academic Institutions

✓ Indicates key performance measure for one or more U.T. component

## Efficiency Measures

- Space Utilization Rate of Classrooms
- Space Utilization Rate of Labs

## Explanatory/Input Measures

- Faculty/Student Ratio
- Number of Minority Students Enrolled
- Number of Community College Transfer Students Enrolled
- Number of Semester Credit Hours Completed
- Number of Semester Credit Hours
- Number of Students Enrolled as of the Twelfth Class Day

# Performance Measures
# Health-Related Institutions

✓ **Indicates key performance measure for one or more U. T. component**

## Outcome Measures

- ✓ Percent of Medical School Students Passing Part 1 or Part 2 of the National Licensing Exam on the First Attempt
- ✓ Percent of Medical School Graduates Entering a Primary Care Residency
- ✓ Percent of Medical School Graduates Practicing Primary Care in Texas
- Percent of Medical School Graduates Practicing in Primary Care in a Texas Under-served Area
- ✓ Percent of Medical Residency Completers Practicing in Texas
- Total Gross Charges for Un-sponsored Charity Care Provided by Faculty
- Total Gross Charges for Patient Care (Excluding Un-sponsored Charity Care) Provided by Faculty
- Outpatient-related Charges as a Percent of All Charges by Faculty
- Percent of Patient Charges to Managed Care Contracts by Faculty
- ✓ Percent of Dental School Graduates Admitted to an Advanced Education Program in General Dentistry
- Percent of Charges to Medicare by Faculty
- ✓ Percent of Dental Students Passing Part 1 or Part 2 of the National Licensing Exam on the First Attempt
- Percent of Graduates in Family Practice in Texas
- ✓ Percent of Dental School Graduates Licensed in Texas
- Percent of Graduates Entering a Family Practice Residency
- Percent of Graduates Practicing in a Texas Dental Under-served Area
- ✓ Percent of Allied Health Graduates Passing the Certification/Licensure Examination on the First Attempt
- ✓ Percent of Allied Health Graduates Who are Licensed or Certified in Texas
- ✓ Percent of BSN Graduates Passing the National Licensing Exam on the First Attempt in Texas
- ✓ Percent of BSN Graduates Who are Licensed in Texas
- ✓ Percent of MSN Graduates Granted Advanced Practice Status in Texas
- ✓ Percent of Public Health School Graduates Who are Employed in Texas
- Percent of Pharmacy School Graduates Passing the National Licensing Exam on the First Attempt
- Percent of Pharmacy School Graduates Who are Licensed in Texas
- ✓ Administrative Cost as a Percent of Total Expenditures
- Total Value of Lost or Stolen Property
- Lost or Stolen Property as a Percent of Total Inventory
- ✓ Total External Research Expenditures
- External Research Expenditures as a Percent of State Appropriated Expenditures
- External Research Expenditures as a Percent of State Appropriations for Research
- Research Expenditures Supported by the Hughes Institute and VA Center
- Federal/State Ratio of Expenditures for Research and Development
- ✓ Total Gross Charges for Un-sponsored Charity Care Provided in State-owned Facilities
- ✓ Total Gross Charges (Excluding Un-sponsored Charity Care) Provided in State-owned Facilities
- State Support for Patient Care as a Percent of Charity Care

# Performance Measures
# Health-Related Institutions

✓ **Indicates key performance measure for one or more U. T. component**

## Output Measures

- Total Number of Degrees or Certificates Awarded (All Schools)
- Minority Graduates as a Percent of Total Graduates (All Schools)
- Minority Graduates as a Percent of Total M.D./D.O Graduates
- ✓ Total Number of Outpatient Visits
- ✓ Total Number of Inpatient Days
- Number of Indigent Pregnant Women Seen by Faculty or Residents in a Clinic Setting
- ✓ Number of Combined M.D. / Ph.D. Graduates
- Minority Graduates as a Percent of Total Dental School Graduates
- Annual Event Hours of Distance Education
- ✓ Number of High School and Middle School Teachers Completing a STARS Program
- Number of High Schools and Middle Schools Represented by Teachers Completing a STARS Program
- Number of Programs in South Texas Area
- Number of Locations Served by Programs in South Texas Area
- Number of K-12 Students Participating in Programs in South Texas Area
- ✓ Number of Certificate, Associate, & Baccalaureate Degree Students Participating in Programs in South Texas Area
- ✓ Number of MD/DDS Students Participating in Programs in South Texas Area
- ✓ Number of Resident Physicians/Dentists Participating in Programs in South Texas Area

## Efficiency Measures

- Net Revenue as a Percent of Gross Revenues
- Net Revenue per Equivalent Patient Day
- Operating Expenses per Equivalent Patient Day
- Personnel Expenses as a Percent of Operating Expenses

## Explanatory/Input Measures

- Total Number of Post-doctoral Research Trainees (All Schools)
- ✓ Minority Admissions as a Percent of Total First-year Admissions (All Schools)
- Medical School Enrollment
- ✓ Minority Admissions as a Percent of Total M.D. Admissions
- Minority Admissions as a Percent of Total D.O. Admissions
- Total Number of Residents
- ✓ Minority Residents as a Percent of Total Residents
- Family Practice Residents as a Percent of Total Residents
- Graduate School Enrollment (Biomedical Sciences)
- Dental School Enrollment
- ✓ Minority Admissions as a Percent of Total Dental School Admissions
- Total Number of Residents in Advanced Dental Education Programs
- Allied Health Enrollment
- (Rural) Public Health School Enrollment
- Nursing School Enrollment
- Pharmacy School Enrollment

# Description of Key Performance Measures – U. T. Institutions

| Measure | Short Definition | Purpose/ Importance |
|---|---|---|
| **ACADEMIC INSTITUTIONS** | | |
| Percent of First-time, Full-time, Degree-seeking Freshmen Who Earn a Baccalaureate Degree Within Six Academic Years | The percent of those students classified as first-time, full-time, degree-seeking freshmen, who earn a baccalaureate degree within six years of their entrance as freshmen. | This measure provides an indication of the persistence to graduation for a freshmen cohort. |
| Retention Rate of First-time, Full-time, Degree-seeking Freshmen Students After One Academic Year | Percent of first-time, full-time, degree-seeking freshmen who enter in the fall semester, who are still enrolled after one academic year. | This measure provides an indication of the rate at which students survive the freshmen year and continue as sophomores. Weaknesses in this area indicate a need for retention strategies. High retention rates generally translate into high graduation rates. |
| Amount Expended for Administrative Costs as a Percent of Operating Budget | The percentage of funds expended for administrative costs as a percent of operating budget. Administrative costs are Institutional Support expenditure items as designated in the institution's annual financial reports included in the following subcategories: executive management, fiscal operations, general administration and logistical services, administrative computing support, and public relations/development. | This measure provides an indicator of the proportion of the operating budget being spent on administrative costs. |
| Certification Rate of Teacher Education Graduates (formerly Pass Rate of ExCET Exam) | The percentage of the institution's undergraduate teacher education program graduates attempting the state licensing examination who become certified to teach by the State Board of Educator Certification (SBEC) either before graduation from the program, or within the twelve months immediately following graduation from the program. | This measure provides an indicator of the effectiveness of the institution's undergraduate teacher education program at producing certified teachers. |
| Percent of Baccalaureate Graduates Who Are First Generation College Graduates | Percentage of graduating baccalaureate students whose parents did not graduate from college. Parents are defined only as birth parents, adoptive parents, or legal guardians. | This measure provides an indicator of the proportion of graduates who are first generation in their family to graduate college. May be a factor of enhanced student services provided to students to increase their chances of success. When compared longitudinally, may indicate increased participation rates. |
| Percent of Lower Division Courses Taught by Tenured or Tenure-Track Faculty | The percent of lower division class sections taught by tenured or tenure-track faculty. | This measure provides an indication of the rate at which experienced teachers are used to teach lower division (freshmen and sophomore) classes at the institution. |
| State Licensure Exam Pass Rate of Law Graduates | The percentage of the institution's law program graduates attempting the state licensure examination that pass all parts either before graduation from the program or within the twelve months immediately following graduation. | This measure provides an indicator of the effectiveness of the institution's law program. |

# Description of Key Performance Measures – U. T. Institutions

| Measure | Short Definition | Purpose/ Importance |
|---|---|---|
| State Licensure Exam Pass Rate of Engineering Graduates | The percentage of the institution's undergraduate engineering program graduates attempting the state licensing examination who pass all parts either before graduation from the program, or within the twelve months immediately following graduation or any required internship. | This measure provides an indicator of the effectiveness of the institution's undergraduate engineering program. |
| State Licensure Exam Pass Rate of Nursing Graduates | The percentage of the institution's nursing program graduates attempting the state licensing examination who pass all parts either before graduation from the program, or within the twelve months immediately following graduation from the program. | This measure provides an indicator of the effectiveness of the institution's nursing program. |
| State Licensure Exam Pass Rate of Pharmacy Graduates | The percentage of the institution's pharmacy program graduates attempting the licensing examination who pass all parts either before graduation from the program, or within the twelve months immediately following graduation from the program. All parts are defined as both the NAPLEX and the Texas Jurisprudence exam if both are attempted. | This measure provides an indicator of the effectiveness of the institution's pharmacy program. |
| Dollar Amount of External or Sponsored Research Funds (in millions) | The dollar value of funds expended for the conduct of research and development from sources other than appropriated state and local funds. | This measure provides an indicator of the level of research dollars generated; an indication of the scope of the institution's research mission. |
| Percent of Full-time, Degree-seeking Transfer Students Who Earn a Baccalaureate Degree Within Four Years **(Upper-level Institutions Only)** | The percent of those students classified as full-time, degree-seeking transfer students who transfer into the institution with at least 60 accepted semester credit hours, and earn a baccalaureate degree within four years of their entrance. Full-time is defined as taking 12 semester credit hours. | This measure provides an indication of the persistence to graduation for a transfer student cohort. |
| Retention Rate of Full-time, Degree-seeking Transfer Students After One Academic Year **(Upper level institutions only)** | Percent of full-time, degree-seeking transfer students who enter in the fall semester with at least 60 accepted semester credit hours, which are still enrolled after one academic year. Full-time is defined as taking 12 semester credit hours. | This measure provides an indication of the rate at which students survive the first year after transferring. Weaknesses in this area indicate a need for retention strategies. High retention rates generally translate into high graduation rates. |

| HEALTH-RELATED INSTITUTIONS | | |
|---|---|---|
| Percent of Medical School Students Passing Part 1 or Part 2 of the National Licensing Exam on the First Attempt | Students who pass part 1 or part 2 of the United States Medical Licensing Examination (USMLE) or the National Board of Osteopathic Medical Examiners (NBOME) Comprehensive Osteopathic Medical Licensing Examination (COMLEX) on the first attempt during the reporting period. | This measure is an indicator of the effectiveness of the institution's instructional program in preparing graduates for licensure. |

# Description of Key Performance Measures – U. T. Institutions

| Measure | Short Definition | Purpose/ Importance |
|---|---|---|
| Percent of Medical School Graduates Entering a Primary Care Residency | Doctor of Medicine (M.D.) Or Doctor of Osteopathy (D.O.) students who report just prior to graduation that they are entering an accredited post-graduate training program in primary care. Primary care is defined as family practice, general internal medicine (categorical only; exclude IM-preliminary and transitional first year), general pediatrics (categorical only), combined med-peds, and general obstetrics and gynecology (categorical only). | This measure is an indicator of the percent of graduates who will pursue post-graduate studies in primary care. |
| Percent of Medical School Graduates Practicing Primary Care in Texas | M.D./D.O. graduates who are practicing primary care at a Texas address as of August 31 of the current calendar year. Primary care is defined as family practice (or general practice), general internal medicine, general pediatrics, combined med-peds, and general obstetrics and gynecology. The definition includes (in the numerator) only those graduates who report to the Board of Medical Examiners that their primary and not secondary specialty is primary care. | This measure provides an indicator of the number of medical school graduates who remain in Texas to practice primary care. |
| Percent of Medical Residency Completers Practicing in Texas | Physicians who are practicing medicine at a Texas address two years after completing an institutionally affiliated and accredited residency-training program in Texas as of August 31 of the current calendar year. | This measure is an indicator of the number of physicians trained in Texas who remain in the state to practice medicine. |
| Percent of Dental School Graduates Admitted to an Advanced Education Program in General Dentistry | DDS students who report just prior to graduation that they have been admitted to an accredited advanced dental education program in general dentistry during the reporting period. An advanced dental education program in general dentistry is defined as a CODA-accredited general practice residency or an advanced education in general dentistry program. | This measure is an indicator of the effectiveness of the institution's DDS program in preparing its students for advanced dental education. |
| Percent of Dental Students Passing Part 1 or Part 2 of the National Licensing Exam on the First Attempt | Students who pass part 1 or part 2 of the National Board Dental Examination on the first attempt during the reporting period. | This measure is an indicator of the effectiveness of the institution's instructional program in preparing graduates for licensure. |
| Percent of Dental School Graduates Licensed in Texas | DDS graduates who are practicing dentistry at a Texas address as of August 31 of the current calendar year. | This measure provides an indicator of the number of dental school graduates who remain in Texas to practice dentistry. |
| Percent of Allied Health Graduates Passing the Certification/Licensure Examination on the First Attempt | Allied health graduates or eligible students in a discipline that offers or requires an external certification or licensure who pass the examination on the first attempt during the reporting period. | This measure is an indicator of the effectiveness of the institution's instructional program in preparing graduates for licensure. |
| Percent of Allied Health Graduates Who are Licensed or Certified in Texas | Allied health graduates in a discipline that offers or requires an external certificate or licensure who are licensed or certified to practice in Texas two years after completing their certificate or degree programs as of August 31 of the current calendar year. | This measure is an indicator of the number of allied health school graduates who remain in Texas to practice. |

# Description of Key Performance Measures – U. T. Institutions

| Measure | Short Definition | Purpose/ Importance |
|---|---|---|
| Percent of BSN Graduates Passing the National Licensing Exam on the First Attempt in Texas | BSN graduates or eligible students who pass the National Council Licensure Exam on the first attempt in Texas during the reporting period | This measure is an indicator of the effectiveness of the institution's effectiveness in preparing students for licensure. |
| Percent of BSN Graduates Who are Licensed in Texas | BSN graduates who are licensed to practice nursing in Texas two years after completing their degree programs as of August 31 of the current calendar year. | This measure provides an indicator of the number of nursing school graduates who remain in Texas to practice. |
| Percent of MSN Graduates Granted Advanced Practice Status in Texas | MSN graduates who are certified for Advanced Practice Status in Texas two years after completing their degree programs as of August 31 of the current calendar year. | This measure is an indicator of the percent of graduates certified for advanced practice status. |
| Percent of Public Health School Graduates Who are Employed in Texas | Public Health graduates who are employed in Texas two years after completing their degree programs during the reporting period. The definition excludes master's degree graduates who are continuing in a Ph.D program. | This measure is an indicator of the effectiveness of the institution's |
| Administrative Cost as a Percent of Total Expenditures | The dollar amount of expenditures for Institutional Support as a percentage of Total Current Funds expenditures, excluding auxiliary enterprises and the results of service department operations during the reporting period. "Institutional Support" includes costs associated with executive management, fiscal operations, general administration and logistical services, administrative computing support, and public relations**/**development as defined by the National Association of College and University Business Officers. | This measure is an indicator of the proportion of the operating budget expended on administrative costs. |
| Total External Research Expenditures | The total expenditures for the conduct of research and development from external sources during the reporting period. The definition excludes expenditures of dollars appropriated directly to the institution or state funds transferred from other state agencies and institutions (e.g., Advanced Research or Advanced Technology Program Funds) or institutionally controlled funds. The exclusion of "expenditures of dollars appropriated directly to the institution" applies to both general revenue funds and local funds. The total may include indirect costs and fringe benefits. | This measure is an indicator of the level of research dollars generated and of the scope of the institution's research mission. |
| Total Gross Charges for Un-sponsored Charity Care Provided in State-owned Facilities | The total dollar amount of gross patient charges for un-sponsored charity care provided in hospitals and clinics owned, operated and funded by a health-related institution (including the Texas Department of Criminal Justice Hospital) during the reporting period. Use the definition of un-sponsored charity care included in Article III, Special Provisions of the General Appropriations Act that coincides with the reporting period. | This measure is an indicator of the amount of un-sponsored charity care provided in state-owned hospitals and clinics. |

# Description of Key Performance Measures – U. T. Institutions

| Measure | Short Definition | Purpose/ Importance |
|---|---|---|
| Total Gross Charges (Excluding Un-sponsored Charity Care) Provided in State-owned Facilities | The total dollar amount of patient charges, excluding the total dollar amount of un-sponsored charity care, provided in hospitals or clinics owned, operated and funded by the health-related institutions (including the Texas Department of Criminal Justice Hospital) during the reporting period. Use the definition of un-sponsored charity care included in Article III, Special Provisions of the General Appropriations Act that coincides with the reporting period. | This measure is an indicator of the amount of patient charges provided by state-owned hospitals and clinics (not including un-sponsored charity care). |
| Total Number of Outpatient Visits | A "patient visit" occurs when an individual receives health care services from institutional faculty, post-graduate trainees, or pre-doctoral dental students at a hospital or clinic, affiliated with, contracted with, or owned, operated and funded by a health-related institution (including the Texas Department of Criminal Justice Hospital) during the reporting period. An "outpatient visit" occurs when the individual receives health care services, including emergency room services, but is not admitted to a hospital bed. One patient who initially visits an emergency room and is then referred to and receives health care services from another affiliated, or contracted, or owned outpatient facility would be counted as two outpatient visits. The definition includes visits to both on-site (on the premises of the hospital or institution) and off-site outpatient facilities. It includes outpatient visits previously reported as a separate measure under the Dental School. | This measure is an indicator of the number of outpatients who are treated and not admitted to a hospital bed. |
| Total Number of Inpatient Days | An "inpatient day" occurs when an individual, who is admitted by institutional faculty, or post-graduate trainee, occupies a hospital bed at the time that the official census is taken at each hospital affiliated with, contracted with, or owned, operated, and funded by a health-related institution (including the Texas Department of Criminal Justice Hospital) during the reporting period. One patient occupying one room for two nights would be counted as two inpatient days. | This measure is an indicator of the number of inpatient days provided by an affiliated hospital. |
| Number of Combined M.D. / Ph.D. Graduates | Number of combined M.D./Ph.D. medical scientist students graduated at UT Southwestern. | The purpose of this measure is to count, each year, the number of graduates from the institution's Medical Scientist Training Program. |
| Number of High School and Middle School Teachers Completing a STARS Program | Number of high school and middle-school teachers participating in a STARS activity. A STARS activity is any event listed in the STARS Brochure. Although the main geographic area served by STARS is North Texas (counties of Dallas, Tarrant, Collin, Denton and Rockwall) any teacher participating in a STARS activity will be included in the participation count. | This program gauges the impact of the STARS program for teachers and schools in Texas. |

# Description of Key Performance Measures – U. T. Institutions

| Measure | Short Definition | Purpose/ Importance |
|---|---|---|
| Number of Certificate, Associate, & Baccalaureate Degree Students Participating in Programs in South Texas Area | Medical and dental graduates participating in residency training programs implemented in the South Texas Area for which state appropriations and/or external funds have been provided. | This measure is an indicator of certificate, associate, and baccalaureate degree student participation in state supported health professions education efforts in South Texas. |
| Number of MD/DDS Students Participating in Programs in South Texas Area | Medical and dental students and post-baccalaureate allied health, nursing and graduate students, or other education institutions' students participating in programs implemented in the South Texas Area for which state appropriations and/or external funds have been provided. | This measure is an indicator of student participation in South Texas. |
| Number of Resident Physicians/Dentists Participating in Programs in South Texas Area | Medical and dental graduates participating in residency training programs implemented in the South Texas Area for which state appropriations and/or external funds have been provided. | This measure is an indicator of resident participation in South Texas. |
| Minority Admissions as a Percent of Total First-year Admissions (All Schools) | New students enrolled in Coordinating Board-approved programs for the first time during the reporting period those identify themselves as Hispanic (all categories), Black, American-Indian, or Alaskan Native. The definition includes permanent residents of the U.S. but excludes non-U.S. residents and Asian-Americans. | This measure is an indicator of the effectiveness of the institution's recruiting efforts of minorities. |
| Minority Admissions as a Percent of Total M.D.Admissions | New students enrolled in the Doctor of Medicine degree program for the first time during the reporting period that identifies themselves as Hispanic (all categories), Black, American-Indian, or Alaskan Native. The definition includes permanent residents of the U.S. but excludes non-U.S. residents and Asian-Americans. | This measure is an indicator of the effectiveness of the institution's efforts to recruit minorities. |
| Minority Residents as a Percent of Total Residents | M.D. or D.O. residents as of July 1 of the current calendar year who identify themselves as Hispanic (all categories), Black, American-Indian, or Alaskan Native. The definition includes permanent residents of the U.S. but excludes non-U.S. residents and Asian-Americans. | This measure is an indicator of the effectiveness of the institution's efforts to attract minorities to its post-graduate residency training programs. |
| Minority Admissions as a Percent of Total Dental School Admissions | New students enrolled in the Doctor of Dentistry degree program for the first time during the reporting period that identifies themselves as Hispanic (all categories), Black, American-Indian, or Alaskan Native. The definition includes permanent residents of the U.S. but excludes non-U.S. residents and Asian-Americans. | This measure is an indicator of the effectiveness of the institution's recruiting efforts of minorities to its DDS program. |

# The University of Texas System
# Key Performance Measures

Sources: FY 2001 Annual Strategy Measures Reports (due 11/1/2001), FY 2000-2003 General Appropriations Act

| Performance Measure | 2001 Actual | 2002 Estimated | 2003 Projected |
|---|---|---|---|
| **General Academic Institutions** | | | |
| **The Univ. of Texas at Arlington** | | | |
| • % 1st-time, Full-time, Degree-seeking Frsh Earn Degree in 6 Yrs | 30.80% | 30.60% | 30.60% |
| • Retention Rate of 1st-time, Full-time, Degree-seeking Frsh after 1 Yr | 68.80% | 69.00% | 70.30% |
| • Administrative Cost As a Percent of Total Expenditures | 9.76% | 10.60% | 10.40% |
| • Certification Rate of Teacher Education Graduates | 75.40% | 62.70% | 63.30% |
| • % of Baccalaureate Graduates Who Are 1st Generation College Graduates | 53.80% | 55.60% | 55.60% |
| • % Lower Division Courses Taught by Tenured Faculty | 32.20% | 36.20% | 36.40% |
| • State Licensure Pass Rate of Engineering Graduates | 78.00% | 79.00% | 79.00% |
| • State Licensure Pass Rate of Nursing Graduates | 92.20% | 90.00% | 90.00% |
| • Dollar Value of External or Sponsored Research Funds (in Millions) | 11.62 | 9.00 | 10.00 |
| **The Univ. of Texas at Austin** | | | |
| • % 1st-time, Full-time, Degree-seeking Frsh Earn Degree in 6 Yrs | 70.30% | 68.70% | 68.70% |
| • Retention Rate of 1st-time, Full-time, Degree-seeking Frsh after 1 Yr | 92.00% | 90.30% | 90.30% |
| • Administrative Cost As a Percent of Total Expenditures | 5.80% | 5.70% | 5.70% |
| • Certification Rate of Teacher Education Graduates | 78.00% | 75.50% | 75.50% |
| • % of Baccalaureate Graduates Who Are 1st Generation College Graduates | 21.50% | 29.00% | 29.00% |
| • % Lower Division Courses Taught by Tenured Faculty | 34.50% | 40.00% | 41.00% |
| • State Licensure Pass Rate of Law Graduates | 93.40% | 92.00% | 92.00% |
| • State Licensure Pass Rate of Engineering Graduates | 93.80% | 90.00% | 92.00% |
| • State Licensure Pass Rate of Nursing Graduates | 96.00% | 92.00% | 92.00% |
| • State Licensure Pass Rate of Pharmacy Graduates | 98.20% | 98.00% | 98.00% |
| • Dollar Value of External or Sponsored Research Funds (in Millions) | 214.20 | 183.00 | 185.00 |
| **The Univ. of Texas at Brownsville** | | | |
| • Administrative Cost As a Percent of Total Expenditures | 9.80% | 11.40% | 11.40% |
| • Certification Rate of Teacher Education Graduates | 42.00% | 41.60% | 42.00% |
| • % of Baccalaureate Graduates Who Are 1st Generation College Graduates | 74.90% | 75.80% | 75.80% |
| **The Univ. of Texas at Dallas** | | | |
| • % 1st-time, Full-time, Degree-seeking Frsh Earn Degree in 6 Yrs | 55.10% | 52.00% | 53.00% |
| • Retention Rate of 1st-time, Full-time, Degree-seeking Frsh after 1 Yr | 77.80% | 79.50% | 80.90% |
| • Administrative Cost As a Percent of Total Expenditures | 9.50% | 9.50% | 9.50% |
| • % of Baccalaureate Graduates Who Are 1st Generation College Graduates | 45.70% | 45.20% | 45.20% |
| • % Lower Division Courses Taught by Tenured Faculty | 28.60% | 34.00% | 35.00% |
| • Dollar Value of External or Sponsored Research Funds (in Millions) | 11.50 | 12.40 | 13.00 |

# The University of Texas System
# Key Performance Measures

Sources: FY 2001 Annual Strategy Measures Reports (due 11/1/2001), FY 2000-2003 General Appropriations Act

| Performance Measure | 2001 Actual | 2002 Estimated | 2003 Projected |
|---|---|---|---|
| **The Univ. of Texas at El Paso** | | | |
| • % 1st-time, Full-time, Degree-seeking Frsh Earn Degree in 6 Yrs | 25.70% | 25.50% | 26.00% |
| • Retention Rate of 1st-time, Full-time, Degree-seeking Frsh after 1 Yr | 68.10% | 70.20% | 71.40% |
| • Administrative Cost As a Percent of Total Expenditures | 10.20% | 9.60% | 9.60% |
| • Certification Rate of Teacher Education Graduates | 59.60% | 79.90% | 79.90% |
| • % of Baccalaureate Graduates Who Are 1st Generation College Graduates | 62.40% | 61.80% | 61.80% |
| • % Lower Division Courses Taught by Tenured Faculty | 40.10% | 50.90% | 51.00% |
| • State Licensure Pass Rate of Engineering Graduates | 69.80% | 82.40% | 82.40% |
| • State Licensure Pass Rate of Nursing Graduates | 94.70% | 91.50% | 92.00% |
| • Dollar Value of External or Sponsored Research Funds (in Millions) | 24.60 | 13.10 | 13.60 |
| **The Univ. of Texas - Pan American** | | | |
| • % 1st-time, Full-time, Degree-seeking Frsh Earn Degree in 6 Yrs | 23.32% | 27.00% | 29.00% |
| • Retention Rate of 1st-time, Full-time, Degree-seeking Frsh after 1 Yr | 60.73% | 66.00% | 67.00% |
| • Administrative Cost As a Percent of Total Expenditures | 10.26% | 10.50% | 10.00% |
| • Certification Rate of Teacher Education Graduates | 35.50% | 32.30% | 32.60% |
| • % of Baccalaureate Graduates Who Are 1st Generation College Graduates | 58.32% | 79.00% | 79.00% |
| • % Lower Division Courses Taught by Tenured Faculty | 40.70% | 48.00% | 49.00% |
| • State Licensure Pass Rate of Nursing Graduates | 84.10% | 91.80% | 91.80% |
| • Dollar Value of External or Sponsored Research Funds (in Millions) | 2.13 | 2.25 | 2.50 |
| **The Univ. of Texas of the Permian Basin** | | | |
| • % 1st-time, Full-time, Degree-seeking Frsh Earn Degree in 6 Yrs | 22.30% | 31.00% | 31.00% |
| • Retention Rate of 1st-time, Full-time, Degree-seeking Frsh after 1 Yr | 56.30% | 64.90% | 64.90% |
| • Administrative Cost As a Percent of Total Expenditures | 12.30% | 12.50% | 12.50% |
| • Certification Rate of Teacher Education Graduates | 56.70% | 68.30% | 69.00% |
| • % of Baccalaureate Graduates Who Are 1st Generation College Graduates | 35.00% | 43.50% | 43.50% |
| • % Lower Division Courses Taught by Tenured Faculty | 47.60% | 53.70% | 53.70% |
| **The Univ. of Texas at San Antonio** | | | |
| • % 1st-time, Full-time, Degree-seeking Frsh Earn Degree in 6 Yrs | 25.20% | 26.70% | 27.30% |
| • Retention Rate of 1st-time, Full-time, Degree-seeking Frsh after 1 Yr | 63.50% | 62.60% | 63.70% |
| • Administrative Cost As a Percent of Total Expenditures | 11.30% | 11.40% | 11.40% |
| • Certification Rate of Teacher Education Graduates | 90.50% | 90.00% | 90.00% |
| • % of Baccalaureate Graduates Who Are 1st Generation College Graduates | 58.50% | 56.00% | 56.00% |
| • % Lower Division Courses Taught by Tenured Faculty | 28.80% | 38.90% | 38.90% |
| • State Licensure Pass Rate of Engineering Graduates | 78.80% | 66.00% | 67.00% |
| • Dollar Value of External or Sponsored Research Funds (in Millions) | 8.20 | 7.00 | 7.50 |

# The University of Texas System
# Key Performance Measures

Sources: FY 2001 Annual Strategy Measures Reports (due 11/1/2001), FY 2000-2003 General Appropriations Act

| Performance Measure | 2001 Actual | 2002 Estimated | 2003 Projected |
|---|---|---|---|
| **The Univ. of Texas at Tyler** | | | |
| • Retention Rate of 1st-time, Full-time, Degree-seeking Frsh after 1 Yr | 60.00% | 74.00% | 75.00% |
| • Administrative Cost As a Percent of Total Expenditures | 12.55% | 14.90% | 14.00% |
| • Certification Rate of Teacher Education Graduates | 82.30% | 88.00% | 88.00% |
| • % of Baccalaureate Graduates Who Are 1st Generation College Graduates | 41.00% | 41.00% | 41.00% |
| • % Lower Division Courses Taught by Tenured Faculty | 65.00% | 61.60% | 61.60% |
| • State Licensure Pass Rate of Nursing Graduates | 89.80% | 98.00% | 98.00% |
| **Health Institutions** | | | |
| **UT Southwestern Medical Center at Dallas** | | | |
| • % Medical School Students Passing NLE Part 1 of Part 2 on First Try | 97.55% | 97.90% | 97.90% |
| • % Medical School Graduates Entering a Primary Care Residency | 49.30% | 58.00% | 58.00% |
| • % Medical School Graduates Practicing Primary Care in Texas | 24.78% | 26.00% | 26.00% |
| • Percent Allied Health Grads Passing Certif/Licensure Exam First Try | 85.61% | 95.00% | 95.00% |
| • Percent Allied Health Graduates Licensed or Certified in Texas | 91.51% | 90.00% | 90.00% |
| • Administrative (Instit Support) Cost As % of Total Expenditures | 7.35% | 5.75% | 5.75% |
| • Number of Combined MD/PhD Graduates | 12 | 8 | 8 |
| • Minority Admissions as a Percent of Total First-year Admissions (all schools) | 15.72% | 14.10% | 14.10% |
| • Minority Admissions as a Percent of Total MD Admissions | 18.23% | 15.00% | 15.00% |
| • Minority Residents as a Percent of Total Residents | 8.32% | 15.00% | 15.00% |
| • Total External Research Expenditures | 206,917,732 | 176,017,680 | 176,017,680 |
| • Number of HS and MS Teachers Completing a STARS Program | 862 | 772 | 790 |
| **UT Medical Branch at Galveston** | | | |
| • % Medical School Students Passing NLE Part 1 of Part 2 on First Try | 87.70% | 94.00% | 94.00% |
| • % Medical School Graduates Entering a Primary Care Residency | 52.10% | 58.00% | 58.00% |
| • % Medical School Graduates Practicing Primary Care in Texas | 28.00% | 52.00% | 52.00% |
| • Percent Allied Health Grads Passing Certif/Licensure Exam First Try | 93.00% | 95.00% | 95.00% |
| • Percent Allied Health Graduates Licensed or Certified in Texas | 88.00% | 89.00% | 89.00% |
| • Percent BSN Grads Passing National Licensing Exam First Try in Texas | 90.00% | 97.00% | 97.00% |
| • Percent of BSN Graduates Who Are Licensed in Texas | 94.00% | 95.00% | 95.00% |
| • Percent of MSN Graduates Granted Advanced Practice Status in Texas | 86.00% | 90.00% | 90.00% |
| • Administrative (Institutional Support) Cost As % of Total Expenditures | 3.83% | 3.42% | 3.42% |
| • Minority Admissions as a Percent of Total First-year Admissions (all schools) | 24.38% | 23.00% | 23.00% |
| • Minority Admissions as a Percent of Total MD Admissions | 25.87% | 25.00% | 25.00% |
| • Total External Research Expenditures | 76,782,961 | 79,450,628 | 79,450,628 |
| • Percent of Medical Residency Completers Practicing in Texas | 39.00% | 50.00% | 50.00% |
| • Total Gross Patient Chgs/Unsponsored Charity Care/State Facility | 185,443,000 | 189,861,000 | 189,861,000 |
| • Total Gross Patient Charges (Excl Unspon Charity) in State Facilities | 538,363,000 | 552,077,000 | 552,077,000 |
| • Total Number of Outpatient Visits | 760,765 | 770,271 | 770,271 |

# The University of Texas System
# Key Performance Measures

Sources: FY 2001 Annual Strategy Measures Reports (due 11/1/2001), FY 2000-2003 General Appropriations Act

| Performance Measure | 2001 Actual | 2002 Estimated | 2003 Projected |
|---|---|---|---|
| • Total Number of Inpatient Days | 175,956 | 175,077 | 175,077 |
| • Minority MD or DO Residents as a Percent of Total MD or DO Residents | 15.00% | 18.00% | 18.00% |
| **UT Health Science Center at Houston** | | | |
| • % Medical School Students Passing NLE Part 1 of Part 2 on First Try | 91.00% | 94.00% | 94.00% |
| • % Medical School Graduates Entering a Primary Care Residency | 44.00% | 58.00% | 58.00% |
| • % Medical School Graduates Practicing Primary Care in Texas | 28.00% | 28.00% | 28.00% |
| • % Dental School Grads Admitted to Advanced Educ'l Pgm/Gen Dentistry | 7.30% | 22.00% | 22.00% |
| • % Dental School Students Passing NLE Part 1 or Part 2 First Try | 96.50% | 99.00% | 99.00% |
| • Percent of Dental School Graduates Who Are Licensed in Texas | 88.70% | 90.00% | 90.00% |
| • Percent Allied Health Grads Passing Certif/Licensure Exam First Try | 97.40% | 100.00% | 100.00% |
| • Percent Allied Health Graduates Licensed or Certified in Texas | 96.70% | 98.00% | 98.00% |
| • Percent BSN Grads Passing National Licensing Exam First Try in Texas | 94.00% | 95.00% | 95.00% |
| • Percent of BSN Graduates Who Are Licensed in Texas | 92.20% | 97.00% | 97.00% |
| • Percent of MSN Graduates Granted Advanced Practice Status in Texas | 66.00% | 65.00% | 65.00% |
| • Percent of Public Health School Graduates Who Are Employed in Texas | 62.20% | 70.00% | 72.00% |
| • Administrative (Instit Support) Cost As % of Total Expenditures | 11.80% | 10.45% | 10.45% |
| • Minority Admissions as a Percent of Total First-year Admissions (all schools) | 18.00% | 16.00% | 16.00% |
| • Minority Admissions as a Percent of Total MD Admissions | 25.90% | 15.00% | 15.00% |
| • Minority MD or DO Residents as a Percent of Total MD or DO Residents | 23.10% | 24.00% | 24.00% |
| • Minority Admissions as a Percent of Total Dental School Admissions | 21.50% | 10.00% | 10.00% |
| • Total External Research Expenditures | 113,676,963 | 108,789,000 | 108,789,000 |
| • Total Gross Patient Chgs/Unsponsored Charity Care/State Facility | 26,122,355 | 22,932,222 | 22,932,222 |
| • Total Gross Patient Charges (Excl Unspon Charity) in State Facilities | 15,517,346 | 14,932,032 | 14,932,032 |
| **UT Health Science Center at San Antonio** | | | |
| • % Medical School Students Passing NLE Part 1 of Part 2 on First Try | 92.00% | 94.50% | 94.50% |
| • % Medical School Graduates Entering a Primary Care Residency | 54.00% | 58.00% | 58.00% |
| • % Medical School Graduates Practicing Primary Care in Texas | 45.00% | 30.00% | 30.00% |
| • % Dental School Grads Admitted to Advanced Educ'l Pgm/Gen Dentistry | 17.00% | 26.00% | 26.00% |
| • % Dental School Students Passing NLE Part 1 or Part 2 First Try | 97.00% | 94.00% | 94.00% |
| • Percent of Dental School Graduates Who Are Licensed in Texas | 87.00% | 90.00% | 90.00% |
| • Percent Allied Health Grads Passing Certif/Licensure Exam First Try | 93.40% | 95.70% | 95.70% |
| • Percent Allied Health Graduates Licensed or Certified in Texas | 95.30% | 90.00% | 90.00% |
| • Percent BSN Grads Passing National Licensing Exam First Try in Texas | 91.00% | 94.00% | 94.00% |
| • Percent of BSN Graduates Who Are Licensed in Texas | 87.00% | 98.00% | 98.00% |
| • Percent of MSN Graduates Granted Advanced Practice Status in Texas | 85.00% | 85.00% | 85.00% |
| • Administrative (Instit Support) Cost As % of Total Expenditures | 6.60% | 6.20% | 6.20% |
| • Minority Admissions as a % of Total First-year Admissions (all schools) | 34.40% | 28.00% | 28.00% |

# The University of Texas System
# Key Performance Measures

Sources: FY 2001 Annual Strategy Measures Reports (due 11/1/2001), FY 2000-2003 General Appropriations Act

| Performance Measure | 2001 Actual | 2002 Estimated | 2003 Projected |
|---|---|---|---|
| • Minority Admissions as a Percent of Total MD Admissions | 17.50% | 26.00% | 26.00% |
| • Minority MD or DO Residents as a Percent of Total MD or DO Residents | 17.60% | 26.00% | 26.00% |
| • Minority Admissions as a Percent of Total Dental School Admissions | 22.00% | 22.00% | 22.00% |
| • Total External Research Expenditures | 91,000,000 | 82,000,000 | 82,000,000 |
| • # Certif, Assoc, Bacc Degree Students Participating in Pgms in S TX Area | 700 | 738 | 738 |
| • # Med/Dent Students, Postbacc AH, N, Grad Stdnts Part. in Pgms in S TX | 857 | 1,828 | 1,828 |
| • # Resident Physicians and Dentists Participating in Pgms in S TX Area | 150 | 144 | 144 |
| **UT M.D. Anderson Cancer Center** | | | |
| • Total External Research Expenditures | 136,270,789 | 132,125,000 | 136,232,000 |
| • Percent of Medical Residency Completers Practicing in Texas | 43.00% | 39.00% | 39.00% |
| • Total Gross Patient Chgs/Unsponsored Charity Care/State Facility | 92,119,187 | 96,034,000 | 97,144,000 |
| • Total Gross Patient Charges (Excl Unspon Charity) in State Facilities | 1,065,122,273 | 1,041,170,000 | 1,170,283,000 |
| • Administrative (Instit Support) Cost As % of Total Expenditures | 7.50% | 8.50% | 8.50% |
| • Total Number of Outpatient Visits | 469,068 | 487,473 | 511,847 |
| • Total Number of Inpatient Days | 137,204 | 144,026 | 148,901 |
| • Minority Residents as a Percent of Total Residents | 9.10% | 15.00% | 15.00% |
| **UT Health Center at Tyler** | | | |
| • Total External Research Expenditures | 4,105,820 | 4,061,427 | 4,061,427 |
| • Percent of Medical Residency Completers Practicing in Texas | 100.00% | 90.00% | 90.00% |
| • Total Gross Patient Chgs/Unsponsored Charity Care/State Facility | 20,264,853 | 16,177,269 | 16,177,269 |
| • Total Gross Patient Charges (Excl Unspon Charity) in State Facilities | 81,891,032 | 76,890,761 | 76,890,761 |
| • Administrative (Instit Support) Cost As % of Total Expenditures | 5.72% | 6.50% | 6.50% |
| • Total Number of Outpatient Visits | 135,978 | 136,208 | 136,208 |
| • Total Number of Inpatient Days | 29,451 | 30,466 | 30,466 |
| • Minority MD or DO Residents as a Percent of Total MD or DO Residents | 13.00% | 16.70% | 16.70% |