1. **U. T. System: Recommendation to Approve Docket No. 112**

RECOMMENDATION

It is recommended that Docket No. 112 be approved.

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

2. **U. T. Board of Regents: Request to Amend the Regents' Rules and Regulations, Part Two, Chapter VI, Section 3 (University of Texas Governmental Retirement Arrangement)**

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 U. T. Board of Regents authorize amendment of the Regents' Rules and Regulations, Part Two, Chapter VI, Section 3 regarding The University of Texas Governmental Retirement Arrangement (UTGRA) as follows in congressional style:

Sec. 3. University of Texas Governmental Retirement Arrangement

3.1 Governmental Excess Benefits Plan
The Board of Regents of The University of Texas System has authorized the establishment of [~~established~~] a "governmental excess benefits plan" for the Optional Retirement Program, authorized under Internal Revenue Code Section 415(m) and Texas Government Code Section 830.004 and designated as The University of Texas Governmental Retirement Arrangement (UTGRA).

3.2 Eligibility for Participation
Eligibility for participation shall be based on an employee's date of initial participation in the Optional Retirement Program and the employee's level of earnings. Participation in the program and all subsequent distributions shall be in accordance with the plan documents.

3.3 Operation and Administration
The Board delegates to the Executive Vice Chancellor for Business Affairs the power and authority to amend the plan document consistent with applicable law and to take all actions and make all decisions and interpretations necessary or appropriate to administer and operate UTGRA consistent with the plan documents

[~~Plan Documents~~
~~Participation in the program and all subsequent distributions shall be in accordance with the plan documents~~].

3.4 Funds Are Property of the Board of Regents Until Authorized Distribution
All funds participating in UTGRA including the monthly State contribution, amounts reduced from each participant's salary, and any subsequent investment earnings are the property of the Board of Regents until such time as an authorized distribution is executed in accordance with the plan document.

3.5 External Organization as Trustee
The University of Texas M. D. Anderson Cancer Center Physicians Referral Service Retirement Board (PRS Retirement Board) shall serve as trustee and record keeper for UTGRA.

BACKGROUND INFORMATION

On August 14, 1997, the U. T. Board of Regents established UTGRA, effective October 1, 1997. UTGRA was created under Section 415(m) of the Internal Revenue Code of 1986, as amended, for governmental employees and allows eligible employees participating in the Optional Retirement Program to place retirement contributions in excess of $40,000 into a tax-deferred account. On June 19, 2001, the Internal Revenue Service issued a favorable Private Letter Ruling approving the structure of the UTGRA plan as a qualified governmental excess benefit arrangement.

The U. T. M. D. Anderson Cancer Center Physicians Referral Service Retirement Board (PRS Retirement Board) has served as the UTGRA trustee since September 1, 2001. The PRS Retirement Board also provides necessary UTGRA administrative services.

The recommended revisions make minor editorial changes and authorize the Executive Vice Chancellor for Business Affairs to amend the plan document and take actions as necessary to administer the plan.

This item was reviewed by the Finance and Planning Committee in January 2003.

3. **U. T. System: Request for Approval of Amendments to the Regental Policy Entitled U. T. System Environmental Review Policy for Acquisitions of Real Property Assets**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Vice Chancellor and General Counsel, and the Executive Director of Real Estate that the Regental Policy entitled U. T. System Environmental Review Policy for Acquisitions of Real Property Assets be amended to include examination of improvements for the presence of mold as part of the inspection process for assets to be leased or acquired as set forth below in congressional style:

U. T. SYSTEM ENVIRONMENTAL REVIEW POLICY FOR ACQUISITIONS OF REAL PROPERTY ASSETS

Statement of Policy

It is the policy of The University of Texas System to minimize its potential for exposure to claims made under the applicable laws governing the environment and hazardous substances by making all appropriate inquiry with regard to the environmental condition of real property assets, including leaseholds, prior to acquisition.

Scope of the Policy

To reduce the risk of liability, the U. T. System will complete an environmental site assessment (ESA) prior to acquisition of any real property asset, except as specifically provided in this policy. For purposes of this policy, the term "real property asset" means any interest in real property except a mineral interest severed from the surface estate, a leasehold in improvements only, or a leasehold less than five years in duration that does not contemplate any improvements to be constructed by U. T. System or other activities that would result in disturbance of the soil. The term specifically includes without limitation any acquisition in fee simple of real property, any leasehold on which U. T. System will construct improvements, and any leasehold where an underground storage tank, water wells, or monitoring wells exist. Federal and State statutes impose certain liabilities on owners of real property, including public institutions of higher education, when hazardous or other regulated substances have been deposited, stored, or released on the property. Hazardous and other regulated substances include not only the most dangerous or toxic substances, but also a wide array of chemicals and compounds, many of which are components of household trash or are found in raw materials and wastes. <u>Environmental hazards may also include the presence of molds in or on improvements.</u> Liabilities related to hazardous and other regulated substances may include costs associated with removal of these substances from the property, including overhead and enforcement expenses. If environmental hazards are identified, the U. T. System should then weigh the risks that may arise with respect to such hazards in determining whether the acquisition is beneficial and appropriate. If no risks are identified, the U. T. System may, under certain circumstances, be able to assert a defense to liability if contamination that was unknown at the time of acquisition is later discovered.

<u>The Environmental Review Process</u>

1. At a minimum, prior to acquisition of any real estate asset, the benefited component, with respect to purchases of land or leaseholds to be used for campus purposes, or the Real Estate Office with respect to all other real property assets, will conduct an initial ESA using the American Society for Testing and Materials (ASTM) transaction screen process E1528. For purposes of the policy, "benefited component" means the component that will use and have control over land acquired by purchase, gift or bequest, or lease. The benefited component will determine the scope of further assessment based on the property's location and history, and findings of the transaction screen.

2. The chief business officer of the benefited component or the chief business officer's delegate, will coordinate the review process for purchase of real property assets to be used for campus purposes.

    a. No component of the U. T. System will add property to the inventory of campus real property assets until a qualified university employee or a qualified outside professional retained by the component, performs an ESA in accordance with this policy.

b. The benefited component will pay all costs of the ESA that are not paid by a donor or an external entity whether the acquisition is by purchase, gift, bequest, or other means.

c. Any office or component of the U. T. System will notify the Real Estate Office immediately upon identification of a real property asset, which may be donated or bequeathed to the U. T. System or any component institution.

d. No component will make a commitment to accept a donation or bequest of a real property asset until the appropriate office has complied with this policy with respect to such asset.

3. All ESAs will comply with the appropriate standards established by ASTM, unless otherwise specifically provided for in this policy.

4. The Real Estate Office may require, when appropriate, an investigation of other environmental issues or conditions beyond the scope of the ASTM guidelines, such as mold, lead, biological, radiation contamination, endangered species, or wetlands.

5. If the initial transaction screen indicates areas of concern, the "Responsible Officer" (Real Estate Office or Chief Business Officer of the benefited component with respect to real property assets to be used for campus purposes, as appropriate) may (i) reject the real property asset, (ii) accept the real property asset with the identified risks, or (iii) require further investigation in the form of a Phase I, II, or III ESA.

6. If the Responsible Officer requests a Phase I ESA, a qualified outside professional will perform the ESA unless the component or the U. T. System has a qualified employee to complete the review.

    a. All contracts for Phase I ESAs must be in a form acceptable to the Office of General Counsel.

    b. The Office of General Counsel and the Responsible Officer shall review the ESA report.

    c. If the Phase I ESA indicates areas of concern, the Responsible Officer may (i) reject the property asset, (ii) accept the real property asset with the identified risks, or (iii) require additional investigation in the form of a Phase II or III ESA.

7. A qualified outside professional must conduct any Phase II ESA, unless the component receives express written permission from the Executive Director, Real Estate Office to conduct all or part of the Phase II ESA in-house based on the institution's expertise. The Phase II ESA should include an extensive review of prior uses of the land and records pertaining to those uses, an examination and sampling of the property, and testing of all samples collected.

   a. All contracts for Phase II ESAs must be in a form acceptable to the Office of General Counsel.

   b. The Office of General Counsel and the Responsible Officer will review the Phase II ESA report. If the Phase II ESA indicates areas of concern, the Responsible Officer may (i) reject the real property asset, (ii) accept the real property asset with identified risks, or (iii) require additional investigation in the form of a supplemental Phase II or a Phase III ESA.

8. A qualified outside professional must conduct any Phase III ESA. The ESA should include extensive physical sampling of the site, testing of all samples, estimates of the extent of contamination, and estimates of the total cost to clean up the site.

   a. All contracts for Phase III ESAs must be in a form acceptable to the Office of General Counsel.

   b. The Office of General Counsel and the Responsible Officer will review the Phase III ESA report. If the Phase III ESA identifies unacceptable contamination or cleanup estimates, the real property asset will be rejected and will not be acquired.

9. The Real Estate Office will maintain complete ASTM guidelines for the ESA transaction screen process, as revised from time to time. The Real Estate Office will distribute the guidelines at cost to any component business and development offices upon request.

10. When the U. T. System or a benefited component conducts an ESA either in-house or using a qualified outside professional and elects, based on the results of the ESA, not to acquire the real property asset under review, it is the System's policy to provide a copy of the ESA, with an appropriate disclaimer to the seller/current landowner or landlord, if requested.

Recommended Environmental Review by Property Type

The level of screening will vary according to type of real property asset, history and location.

1. Residential:

   a. Have a qualified in-house individual or outside professional conduct an inspection.

   b. Conduct a site visit and a review of aerial photos for the past 50 years if such photos are readily available from libraries or archives. If there is concern about past land uses (i.e., the property was vacant and in a remote or formerly industrial/commercial area, the site visit indicates distressed vegetation, or there is other evidence of contamination), then a 50-year title search may be warranted.

2. Vacant/Unoccupied Lands: Step 1.b above. The site visit should include (a) asking neighbors about prior uses such as dumping, and (b) inspecting along on-site roadways or fence lines where historical dumping would be more likely to have occurred. Aerial photos may be particularly useful in evaluating historical dumping on vacant lands.

   In geographical areas where endangered species might be present, a review of U. S. Fish and Wildlife Service maps might be appropriate in determining if further investigation on this issue is warranted.

   Visual inspection of the site for topographical, hydrological, and vegetative indicators of wetlands may also be appropriate, depending on the geographical location of the property.

3. Commercial Sites: Steps 1.a and 1.b above. A 50-year title search will be useful in evaluating former uses of commercial property. Every attempt should be made to obtain from the current or past owners, operators and/or tenants the nature of business conducted at the site including a review of copies of any permits, licenses, notices of violation or consent agreements issued to owners, operators or tenants of the site.

4. Industrial Sites: Engage a qualified outside professional to conduct a Phase I ESA in accordance with ASTM Phase I Standard E1527, including a review of copies of any permits, licenses, notices of violation or consent agreements issued to current or past owners, operators or tenants of the site.

BACKGROUND INFORMATION

The U. T. System Environmental Review Policy for Acquisitions of Real Property Assets was first approved in 1991 and last amended on November 11, 1999. Since that date much attention has been devoted to the risks associated with presence of mold in improvements and the impact of mold on the insurability of contaminated properties. The U. T. System Administration Compliance Committee considered these risks significant. These amendments to the Regental Policy are intended to make inspection for mold on or in improvements a required step in the evaluation of the risks associated with leasing or acquiring real property assets.

This item was reviewed by the Finance and Planning Committee in January 2003.

4. **U. T. System: Request for Approval of a New Regental Policy Entitled U. T. System Interest Rate Swap Policy**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs and the Vice Chancellor and General Counsel that the U. T. Board of Regents adopt a Regental Policy entitled U. T. System Interest Rate Swap Policy, substantially in the form on Pages 52 - 55.

BACKGROUND INFORMATION

This recommended policy will govern the use by U. T. System of interest rate swap transactions for the purpose of either reducing the cost of existing or planned Revenue Financing System debt, or to hedge the interest rate of existing or planned Revenue Financing System debt. By using swaps in a prudent manner, the U. T. System can take advantage of market opportunities to reduce costs and interest rate risk. As outlined in the policy, the use of swaps must be tied directly to U. T. System debt instruments and the U. T. System shall not enter into swap transactions for speculative purposes.

To enter into a Master Swap Agreement (which governs each swap transaction), the U. T. System must receive: (1) approval from the U. T. Board of Regents; (2) approval by the Texas Attorney General; (3) approval from the Texas Bond Review Board; and (4) an opinion acceptable to the Authorized Representative from bond counsel that the agreement relating to the swap transaction is a legal, valid, and binding obligation of the U. T. System and that entering into the transaction complies with applicable State and federal laws.

The policy has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

This item, including the U. T. System Interest Rate Swap Policy, was reviewed by the Finance and Planning Committee in January 2003.

U.T. System Interest Rate Swap Policy

I. Authority

State law authorizes the U.T. System ("System") to enter into interest rate swap transactions and related agreements (Chapter 55 of the Texas Education Code and Chapter 1371 of the Texas Government Code). Pursuant to this authority, the U.T. System Board of Regents ("Board") approved the Eighth Supplemental Resolution to the Master Resolution, authorizing the System to enter into Master Swap Agreements with certain counterparties, in 1999.

II. Purpose

This policy will govern the use by the System of interest rate swap transactions for the purpose of either reducing the cost of existing or planned Revenue Financing System debt, or to hedge the interest rate of existing or planned Revenue Financing System debt. By using swaps in a prudent manner, the System can take advantage of market opportunities to reduce costs and reduce interest rate risk. The use of swaps must be tied directly to System debt instruments. The System shall not enter into swap transactions for speculative purposes.

III. Legality/Approval

To enter into a Master Swap Agreement (which governs each swap transaction), the System must receive: 1) approval from the Board; 2) approval by the Texas Attorney General, 3) approval from the Texas Bond Review Board, and 4) an opinion acceptable to the Authorized Representative from bond counsel that the agreement relating to the swap transaction is a legal, valid and binding obligation of the System and that entering into the transaction complies with applicable Texas and Federal laws.

IV. Form of Swap Agreements

Each new Master Swap Agreement shall contain terms and conditions as set forth in the International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement, as amended, and such other terms and conditions including schedules and confirmations as deemed necessary by an Authorized Representative.

V. Methods of Soliciting and Procuring Swaps

Swaps can be procured via competitive bids or on a negotiated basis. The competitive bid should include a minimum of three firms with counterparty credit ratings of 'A' or 'A2' or better from Standard & Poor's or Moody's, respectively. An Authorized Representative may allow a firm or firms not submitting the bid that produces the lowest cost to match the lowest bid and be awarded up to 40% of the notional amount of the swap transaction.

An Authorized Representative may procure swaps by negotiated methods in the following situations:

1. A determination is made by an Authorized Representative that due to the complexity of a particular transaction, a negotiated bid would result in the most favorable pricing.

2. An Authorized Representative makes a determination that, in light of the facts and circumstances, doing so will promote the System's interests by encouraging and rewarding innovation.

VI. Management of Swap Transaction Risk

Certain risks are created when the System enters into any swap transaction. In order to manage the associated risks, guidelines and parameters for each risk category are as follows:

Counterparty Credit Risk

To limit and diversify the System's counterparty risk and to monitor credit exposure to each counterparty, the System may not enter into a swap transaction with an otherwise qualified counterparty unless the cumulative mark-to-market value owed by the counterparty (and its unconditional guarantor, if applicable) to the System shall be less than or equal to $30 million.

The $30 million limitation shall be the sum of all mark-to-market values between the subject counterparty and the System regardless of the type of swap transaction, net of collateral posted by the counterparty. Collateral will consist of cash, U.S. Treasury securities and Federal Agency securities guaranteed unconditionally by the full faith and credit of the U.S. Government. Collateral shall be deposited with a third party trustee acceptable to System, or as mutually agreed upon between System and each counterparty.

Specific limits by counterparty are based on the cumulative mark-to-market value of the swap(s) and the credit rating of the counterparty. The limits are as follows:

Counterparty Long-Term Debt Rating (lowest prevailing rating from Standard & Poor's / Moody's)	**Maximum Cumulative Mark-to-Market Value of Swaps Owed to System by Counterparty (net of collateral posted)**
AAA / Aaa	$30 million
AA+ / Aa1	$25 million
AA / Aa2	$20 million
AA- / Aa3	$15 million
A+/A1	$10 million
A / A2	$5 million

If a counterparty's credit rating is downgraded such that the cumulative mark-to-market value of all swaps between a counterparty and the System exceeds the maximum permitted by this policy, the counterparty must either terminate a portion of the swap, post collateral or provide other credit enhancement that is satisfactory to the System and ensures compliance with this policy.

Termination Risk

The System shall consider the merits of including a provision that permits it to optionally terminate a swap agreement at anytime over the term of the agreement (elective termination right). In general, exercising the right to optionally terminate an agreement should produce a benefit to the System, either through receipt of a payment from a termination, or if a termination payment is made by the System, a conversion to a more beneficial debt instrument or credit relationship. If no other remedies are available, it's possible that a termination payment by the

System may be required in the event of termination of a swap agreement due to a counterparty default or following a decrease in credit rating.

Amortization Risk

The amortization schedules of the debt and associated swap transaction should be closely matched for the duration of the swap. Mismatched amortization schedules can result in a less than satisfactory hedge and create unnecessary risk. In no circumstance may the term of a swap transaction extend beyond the final maturity date of the affected debt instrument, or in the case of a refunding transaction, beyond the final maturity date of the refunding bonds.

Basis (Index) Risk

Basis risk arises as a result of movement in the underlying variable rate indices that may not be in tandem, creating a cost differential that could result in a net cash outflow from the System. Basis risk can also result from the use of floating, but different, indices. To mitigate basis risk, any index used as part of an interest rate swap agreement shall be a recognized market index, including but not limited to, the Bond Market Association Municipal Swap Index (BMA) or the London Interbank Offered Rate (LIBOR).

Tax Risk

Tax risk is the risk that tax laws will change, resulting in a change in the marginal tax rates on swaps and their underlying assets. Tax risk is also present in all tax-exempt debt issuances. The Office of Finance will need to understand and document tax risk for a contemplated swap transaction as part of the approval process.

VII. Reporting Requirements

The Annual Financial Report prepared by the System and presented to the Board will discuss the status of all interest rate swaps. The report shall include a list of all swaps with notional value and interest rates, a list of counterparties and their respective credit ratings, and other key terms.

VIII. Definitions

Authorized Representative: For purposes of this policy, an Authorized Representative includes the Executive Vice Chancellor for Business Affairs, the Vice Chancellor and General Counsel, the Assistant Vice Chancellor for Finance, and the Director of Finance.

BMA Index: The Bond Market Association Municipal Swap Index, the principal benchmark for the floating rate payments for tax-exempt issuers. The index is a national rate based on a market basket of high-grade, seven-day, tax-exempt variable rate bond issues.

Counterparty: A participant in a swap or other derivatives agreement who exchanges payments based on interest rates or other criteria with another counterparty.

Hedge: A transaction entered into to reduce exposure to market fluctuations.

Interest Rate Swap (or "Swap"): A transaction in which two parties agree to exchange future net cash flows based on predetermined interest rate indices calculated on an agreed notional amount. The swap is not a debt instrument and there is no exchange of principal.

ISDA Master Agreement: The International Swaps and Derivatives Association is the global trade association for the derivatives industry. The ISDA Master Agreement is the basic governing document that serves as a framework for all interest rate swap, swap enhancement and derivative transactions between two counterparties. It is a standard form used throughout the industry. It is typically negotiated once, prior to the first transaction and remains in force for all subsequent transactions.

LIBOR: The London Interbank Offered Rate. The rate of interest at which banks borrow funds from other banks in the London interbank market. It is a commonly used benchmark for interest rate transactions ranging from one month to one year.

Mark-to-Market: Calculation of the value of a financial instrument (like an interest rate swap) based on the current market rates or prices of the underlying indices.

Master Resolution: The First Amended and Restated Master Resolution establishing the University of Texas System Revenue Financing System adopted on February 14, 1991, as amended on October 8, 1993 and August 14, 1997 and each supplemental resolution thereto authorizing parity debt.

Notional Amount: The size of the interest rate swap and the dollar amount used to calculate interest payments.

5. **U. T. System: Request to Approve an Amendment to the Aggregate Amount of Equipment Financing for Fiscal Year 2003 and Approve the Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. Board of Regents approve an amendment to the aggregate amount of equipment to be purchased in Fiscal Year 2003 under the Revenue Financing System Equipment Financing Program from $49,368,000 to $50,066,000, an increase of $698,000 to be allocated as follows:

U. T. El Paso	$198,000
U. T. Health Center - Tyler	$500,000
TOTAL	$698,000

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

a. Parity Debt shall be issued to pay the cost of equipment including costs incurred prior to the issuance of such Parity Debt

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

c. The component institutions and U. T. System Administration, which are “Members” as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the aggregate amount of $698,000 for the purchase of equipment

d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the Code of Federal Relations.

BACKGROUND INFORMATION

At the August 2002 meeting, the U. T. Board of Regents approved the use of debt under the Revenue Financing System Equipment Financing Program in the aggregate amount of $49,368,000 for equipment purchases in Fiscal Year 2003 at U. T. Arlington, U. T. Austin, U. T. El Paso, U. T. Southwestern Medical Center - Dallas, U. T. Medical Branch - Galveston, U. T. Health Science Center - San Antonio, U. T. M. D. Anderson Cancer Center, U. T. Health Center - Tyler, and U. T. System Administration.

Approval of this item would increase the aggregate amount approved for equipment financing by $698,000 to $50,066,000. Of the increase, $198,000 is for U. T. El Paso for equipment purchases for grant proposals that require a matching contribution and $500,000 is for U. T. Health Center - Tyler to finance medical research equipment. With the issuance of all approved equipment financing debt, the debt service coverage for the U. T. System is projected to range from 2.01 times to 2.98 times for the next six years. Further details on the equipment, source of funds for financing, and debt coverage ratios for each component can be found in the table on Page 58.

This item was reviewed by the Finance and Planning Committee in January 2003.

APPROVAL OF FINANCING FOR EQUIPMENT PROJECTS
FY 2003

Component	$ Amount of Request	Description of Equipment Purchases	Source of Funds	DSC Min	DSC Max
U. T. El Paso	198,000	Equipment for research for grant proposals that require a matching contribution.	Designated Tuition	1.21	2.17
U. T. Health Center - Tyler	500,000	Medical research equipment for ultimate use in the new BSL-3 facility.	Patient income	1.39	2.55
U. T. System Total	$698,000			2.01	2.98

Office of Finance 12/16/02

6. **<u>U. T. System: Recommended Approval of Appointment of Carrier for Long Term Disability and Short Term Disability Plans and Approval of Monthly Rates to be Effective September 1, 2003</u>**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. Board of Regents approve the appointment of CNA Group Benefits, a division of CNA Financial Corporation, Chicago, Illinois, as the long term disability (LTD) and short term disability (STD) provider for the employees of the U. T. System to be effective September 1, 2003.

It is further recommended that the U. T. Board of Regents approve the rate of $.41 per $100 of covered monthly earnings for the proposed LTD insurance plan. This rate remains unchanged since 1997. Benefits for the proposed LTD plan are as follows:

Summary of LTD Insurance Benefits		
Monthly Benefit	60% of monthly earnings up to a maximum benefit of $12,025 per month.	
Elimination Period	Ninety (90) days	
Maximum Period Payable	Age at Disability	Maximum Period Payable
	Less than age 60	To age 65, but not less than 5 years
	Age 60 through 64	5 years
	Age 65 through 69	To age 70, but not less than 1 year
	Age 70 and over	1 year
Sick Leave	Employee must exhaust sick leave before benefits are payable.	
Guaranteed Issue	All new benefits-eligible employees have the option to enroll on a guaranteed-issue basis without evidence of insurability as long as they enroll within the first 31 days of employment.	
Evidence of Insurability	1) An employee who was previously eligible for long term disability coverage but did not enroll as a new employee will be required to provide evidence of insurability to obtain long term disability coverage. 2) A benefits-eligible employee who experiences a qualified change in status may add or drop long term disability coverage during the plan year only if the enrollment change is consistent with the status change. Long term disability coverage added due to a change in status will require evidence of insurability.	
Preexisting Condition Exclusion	A condition for which medical treatment or advice was rendered, prescribed or recommended within three (3) months prior to the employee's effective date of LTD insurance. A condition will no longer be considered preexisting if it causes disability which begins after the employee has been insured under the long term disability policy for a period of twelve (12) months.	

Additionally, it is recommended that the U. T. Board of Regents approve the rate of $.51 per $100 of covered monthly earnings for the STD insurance plan. Benefits for the proposed STD plan are as follows:

Summary of STD Insurance Benefits	
Monthly Benefit	60% of monthly earnings up to a maximum benefit of $3,000 per month.
Elimination Period	Accident: Thirty (30) days Sickness: Thirty (30) days
Maximum Period Payable	Five (5) months
Sick Leave	Employee must exhaust sick leave before benefits are payable.
Guaranteed Issue	1) All new benefits-eligible employees have the option to enroll on a guaranteed-issue basis without evidence of insurability as long as they enroll within the first 31 days of employment. 2) During annual enrollment in July 2003, all benefits-eligible employees will have the option to enroll in short term disability on a guaranteed-issue basis without evidence of insurability for the 2003-2004 plan year.
Evidence of Insurability	1) For each plan year after 2003-2004, evidence of insurability will be required from any benefits-eligible employee enrolling in short term disability if the employee is not a new employee. All new benefits-eligible employees will have the option to enroll on a guaranteed-issue basis during the first 31 days of employment. 2) A benefits-eligible employee who experiences a qualified change in status may add or drop short term disability coverage during the plan year only if the enrollment change is consistent with the status change. Short term disability coverage added due to a change in status will require evidence of insurability.
Preexisting Condition Exclusion	A condition for which medical treatment or advice was rendered, prescribed or recommended within three (3) months prior to the employee's effective date of STD insurance. A condition will no longer be considered preexisting if it causes disability which begins after the employee has been insured under the short term disability policy for a period of twelve (12) months.

BACKGROUND INFORMATION

The Employee Group Insurance (EGI) Office created a Request for Proposals (RFP) for a long term disability plan based on the Texas Insurance Code Article 3.50-3 requirement which states that U. T. System submit the plan(s) to competitive bidding at least once every six years. Additionally, EGI has received numerous requests for offering a short term disability policy for employees of the U. T. System; therefore, the System-wide Insurance Advisory Committee recommended and approved that EGI seek short term disability proposals in conjunction with the long term disability proposal. CNA Group Benefits (formerly Continental Casualty Company), a division of CNA Financial Corporation, Chicago, Illinois, has provided the LTD benefits since September 1, 1997.

EGI issued an RFP for long term and short term disability plans on November 5, 2002, to 48 organizations. Proposals were received on December 6, 2002, from the following six organizations:

AFLAC, a principal subsidiary of AFLAC Incorporated, Columbus, Georgia
CIGNA Group Insurance, a subsidiary of CIGNA Corporation, Philadelphia, Pennsylvania
CNA Group Benefits, a division of CNA Financial Corporation, Chicago, Illinois
MetLife, Inc., Orange, California
Standard Insurance Company, a subsidiary of StanCorp Financial Group, Portland, Oregon
Unum Life Insurance Company of America, a subsidiary of UnumProvident Corporation, Chattanooga, Tennessee

After extensive review of the responses, the RFP review committee recommended to the Executive Director of Employment and Benefits Administration and the Executive Vice Chancellor for Business Affairs that the U. T. System LTD and STD contracts be awarded to CNA Group Benefits on the basis of accepting all requirements as set forth in the RFP, offering the lowest premium rates, and providing excellent customer service during the six-year history of serving the needs of the U. T. System.

This item was reviewed by the Finance and Planning Committee in January 2003.

7. **U. T. System: Recommended Approval of Appointment of Carrier and Rates for Vision Plan to be Effective September 1, 2003**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. Board of Regents approve the appointment of Superior Vision Services, Inc., Rancho Cordova, California, as the vision plan carrier for the employees and retirees of the U. T. System to be effective September 1, 2003.

It is further recommended that the U. T. Board of Regents approve the monthly premium rates as shown in the following table:

Superior Vision Services, Inc., Monthly Premium Rates		
Coverage Level	FY 2002-2003 Current Rates	FY 2003-2004 Proposed Rates
Subscriber Only	$7.22	$7.22
Subscriber and Spouse	$11.20	$11.20
Subscriber and Children	$11.46	$11.46
Subscriber and Family	$18.48	$18.48
Spouse Only*	$7.22	$7.22
Child Only*	$7.22	$7.22
Family Only*	$11.46	$11.46
*These categories represent monthly premiums for families of employees who have either been called to active military duty or who are survivors of an employee who at the time of death had five or more years of service.		

The current plan design is outlined in the following table and it is recommended the current plan design continue to be offered in FY 2003-2004, with the one rate change noted.

Summary of Vision Benefits		
Benefit	**In-Network Provider**	**Out-of-Network Provider**
Exam MD	100% after $35 copayment	Up to $42 after $35 copayment
Exam OD	100% after $35 copayment	Up to $37 after $35 copayment
Lenses		
Single Vision	100%	Up to $32
Bifocal	100%	Up to $46
Trifocal	100%	Up to $61
Lenticular	100%	Up to $84
Contacts		
Medically Necessary	100%	Up to $210
Elective	Up to $95*	Up to $95
Frames	Up to $140	Up to $53
Materials Discounts		
Lens Upgrades	10% off Retail	Not Available
Contact Cost (over Allowance)	10% off Retail	Not Available
Additional Contact Purchase or Pair of Lens/Frames	20% off Retail	Not Available
Non-Rx Sunglasses	20% off Retail	Not Available
Miscellaneous Items	20% off Retail	Not Available
Refractive Surgery	10% off Usual and Customary	Not Available
Blepharoplasty	10% off Usual and Customary	Not Available
*Superior Vision Services, Inc., has increased this benefit to a $130 maximum for FY 2003-2004.		

BACKGROUND INFORMATION

On September 27, 2002, the U. T. System Employee Group Insurance (EGI) Office issued a Request for Proposals (RFP) for a fully-insured vision plan to serve employees and retirees. Since September 1, 1997, Superior Vision Services, Inc. (formerly Superior Vision Plan), has served as the carrier of the vision plan. Proposals were sought based on the requirement of Texas Insurance Code Article 3.50-3, which requires the U. T. System to submit the plan to competitive bidding at least once every six years. Superior Vision Services, Inc., is currently in its sixth year of service to the U. T. System. The RFP was distributed to 39 organizations and specified that carriers prepare proposals and monthly premiums based on the current plan design offered to employees and retirees. Proposals were received from the following seven organizations:

- Cole Managed Vision, a subsidiary of Cole Vision Corporation, Twinsburg, Ohio
- CompBenefits Corporation, Roswell, Georgia
- EyeMed Vision Care, LLC, a subsidiary of Luxottica Group, S.P.A., Mason, Ohio
- National Vision Administrators, Inc., Clifton, New Jersey
- SafeGuard Health Enterprises, Dallas, Texas
- Spectera, Inc., a division of Specialized Care Services, Inc., a wholly-owned subsidiary of UnitedHealth Group, Baltimore, Maryland
- Superior Vision Services, Inc., Rancho Cordova, California

After extensive review of the responses, the RFP review committee recommended to the Executive Director of Employment and Benefits Administration and the Executive Vice Chancellor for Business Affairs that the U. T. System vision plan contract be awarded to Superior Vision Services, Inc., on the basis of its proven customer service and the excellent six-year history of serving the needs of the U. T. System. Further, Superior Vision Services, Inc., is recommended based on their extensive provider network, which meets and/or exceeds the needs for members residing both in and outside of Texas. In addition, the network for Superior Vision Services, Inc., includes participation of the U. T. System component institution Departments of Ophthalmology which provide employees and retirees access to U. T. System ophthalmologists.

This item was presented to the Finance and Planning Committee in January 2003.

8. **U. T. System: Report on Investments for the Two Months Ended October 31, 2002**

REPORT

Pages 66 - 74 contain the Summary Reports on Investments for the two months ended October 31, 2002.

Item I on Pages 66 - 68 reports summary activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the two months was negative 1.79%. The PUF's net investment return for marketable securities for the two months was negative 2.45% versus its composite benchmark return of negative 2.14%. The PUF's net asset value decreased by $465.7 million since the beginning of the year to $6,272.6 million. This decrease reflects the annual distribution to the Available University Fund made in September 2002 for $363.0 million.

Item II on Pages 69 - 72 reports summary activity for the General Endowment Fund (GEF), the Permanent Health Fund (PHF), and Long Term Fund (LTF). The GEF's net investment return for the two months was negative 1.97%. The GEF's net investment return for marketable securities for the two months was negative 2.48% versus its composite benchmark return of negative 2.14%. The GEF's net asset value decreased $33.7 million since the beginning of the year to $3,259.5 million.

Item III on Page 73 reports summary activity for the Short Intermediate Term Fund (SITF). Total net investment return on the SITF was 0.36% for the two months versus the SITF's performance benchmark of 1.06%. The SITF's net asset value increased by $40.4 million since the beginning of the year to $1,476.3 million.

Item IV on Page 74 presents book and market value of cash, fixed income, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of component operating funds held in the Dreyfus money market fund, decreased by $79,585 thousand to $1,278,130 thousand during the two months. Market values for the remaining asset types were fixed income securities: $283,452 thousand versus $317,209 thousand at the beginning of the year; equities: $131,845 thousand versus $136,650 thousand at the beginning of the year; and other investments: $21 thousand versus $13,020 thousand at the beginning of the year.

This report was reviewed by the Finance and Planning Committee in January 2003.

I. PERMANENT UNIVERSITY FUND (1)

a.) Summary Investment Report at October 31, 2002 (2)

($ millions)

	FY01-02 Full Year	FY02-03 Two Months Ending October 31, 2002
Beginning Net Assets	7,540.1	6,738.3
PUF Lands Receipts (3)	80.5	14.2
Investment Return	(522.9)	(113.8)
Expenses	(21.0)	(3.1)
Distributions to AUF	(338.4)	(363.0)
Ending Net Assets	6,738.3	6,272.6
AUF Distribution:		
From PUF Investments	338.4	363.0
From Surface Income	8.1	0.6
Total	346.5	363.6
Total Net Investment Return	-7.35%	-1.79%

(1) Report prepared in accordance with Texas Education Code Sec. 51.0032.

(2) General - The Investment Summary Report excludes PUF Lands mineral and surface interests with estimated August 31, 2002 values of $639.8 million and $161.1 million, respectively.

(3) PUF Land Receipts - As of October 31, 2002: 1,170,817 acres under lease; 521,217 producing acres; 3,150 active leases; and 2,067 producing leases.

b.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio and Net Investment Return for the two months ended October 31, 2002
(Asset Allocation Approved by the UTIMCO Board, pending Board of Regents Approval)

	Asset Allocation	Endowment Neutral Policy Portfolio	Actual Net Investment Return	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash and Cash Equivalents	0.7%	0.0%	0.30%	0.31%	90 Day T-Bills Average Yield
Domestic Public Equities					Wilshire 5000 U.S. Equities Index
Passive Long	15.8%	11.0%	-3.84%	-3.15%	
Active Long	10.9%	10.0%	-2.81%	-3.15%	
Hedge and Alpha Transport	4.7%	10.0%	1.25%	-3.15%	
Total Domestic Public Equities	31.4%	31.0%	-2.77%	-3.15%	
International Public Equities					Morgan Stanley Capital International - All Country World Free ex U.S.
Passive Long	6.6%	6.5%	-5.72%	-5.80%	
Active Long	8.5%	7.5%	-5.51%	-5.80%	
Hedge and Alpha Transport	0.6%	5.0%	0.05%	-5.80%	
Total International Public Equities	15.7%	19.0%	-5.41%	-5.80%	
Absolute Return	7.6%	10.0%	0.89%	0.98%	90 Day T-Bills Average Yield plus 4%
Inflation Hedging	8.9%	10.0%	-5.25%	-2.22%	(25% Goldman Sachs Commodity Index minus 100 basis points) plus (25% Treasury Inflation Protected Securities) plus (25% National Commercial Real Estate Index Fund) plus (25% Wilshire Associates Real Estate Securities Index)
Fixed Income	20.5%	15.0%	0.49%	1.34%	(33% Lehman Brothers Aggregate Bond Index ex U.S. Governments) plus (67% Lehman Brothers Government Bond Index)
Total Marketable Securities	**84.8%**	**85.0%**	-2.45%	**-2.14%**	
Private Capital	**15.2%**	**15.0%**	2.14%	**-2.49%**	Wilshire 5000 U.S. Equities Index plus 4% (2)
Total	**100.0%**	**100.0%**	-1.79%	**-2.17%**	

(1) The benchmark return for the endowment neutral policy portfolio is calculated by summing the neutrally weighted index return (% weight for the asset class multiplied by the benchmark return for the asset class) for the various asset classes in the endowment portfolio for the period reported.
(2) Due to valuation and liquidity characteristics associated with Private Capital, short-term benchmark comparisons are not appropriate.

c.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio and Net Investment Return for the two months ended October 31, 2002
(Prior Asset Allocation)

	Asset Allocation	Endowment Neutral Policy Portfolio	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash	0.7%	0.0%	0.31%	90 Day T-Bills Average Yield
Domestic Common Stocks:				
Large/Medium Capitalization Equities	19.1%	25.0%	-3.02%	Standard and Poor's 500 Index
Small Capitalization Equities	7.6%	7.5%	-4.21%	Russell 2000 Index
Total Domestic Common Stocks	26.7%	32.5%		
International Common Stocks:				
Established Markets	10.9%	12.0%	-5.94%	Morgan Stanley Capital International Europe, Asia, Far East Index (net)
Emerging Markets	4.2%	3.0%	-5.26%	Morgan Stanley Capital International Emerging Markets Free
Total International Common Stocks	15.1%	15.0%		
Inflation Hedging	8.9%	7.5%	0.63%	33% (Goldman Sachs Commodity Index minus 100 basis points) plus 67% (National Commercial Real Estate Index Fund)
Fixed Income:				
Domestic	16.5%	15.0%	1.16%	Lehman Brothers Aggregate Bond Index
International	4.0%	5.0%	0.43%	Salomon Non-U.S. World Government Bond Index, Unhedged
Total Fixed Income	20.5%	20.0%		
Marketable Alternative Equities	12.9%	10.0%	1.48%	90 Day T-Bills Average Yield plus 7%
Total Marketable Securities	**84.8%**	**85.0%**	**-1.32%**	
Non-Marketable Alternative Equities	**15.2%**	**15.0%**	**-2.49%**	Wilshire 5000 U.S. Equities Index plus 4%
Total	**100.0%**	**100.0%**	**-1.72%**	

(1) The benchmark return for the endowment neutral policy portfolio is calculated by summing the neutrally weighted index return (% weight for the asset class multiplied by the benchmark return for the asset class) for the various asset classes in the endowment portfolio for the period reported.

II. GENERAL ENDOWMENT FUND (1)

a.) Summary Investment Report at October 31, 2002

($ millions)

	FY01-02 Full Year		FY02-03 Two Months Ending October 31, 2002	
Beginning Net Assets	3,723.9		3,293.2	
Net Contributions	(230.7)		(7.9)	
Investment Return	(245.3)		(65.4)	
Expenses	(7.2)		(0.7)	
Allocations (2)	52.5		40.3	
Ending Net Assets	3,293.2		3,259.5	
Net Asset Value per Unit	90.932		89.124	
Units and Percentage Ownership (End of Period):				
PHF	7,676,762	21.2%	7,676,762	21.0%
LTF	28,539,389	78.8%	28,895,452	79.0%
Total	36,216,151	100.0%	36,572,214	100.0%
Total Net Investment Return	-6.96%		-1.97%	

(1) Report prepared in accordance with Texas Education Code Sec. 51.0032.

(2) The GEF allocates its net investment income and realized gain or loss to its unitholders at month end. The allocated investment income and realized gain amounts are considered reinvested as GEF contributions. Any allocated realized losses reduce the cost basis of the units in the GEF. Since the allocation is proportional to the percentage of ownership by the unitholders, no additional units are purchased.

II. GENERAL ENDOWMENT FUND (continued)

b.) Unitholders' Summary Investment Report at October 31, 2002 (1)

($ millions)

	FY01-02 Full Year	FY02-03 Two Months Ending October 31, 2002
PERMANENT HEALTH FUND		
Beginning Net Assets	881.4	698.2
Withdrawals	(88.2)	-
Investment Return	(52.6)	(13.9)
Expenses	(0.6)	(0.1)
Distributions (Payout) (2)	(41.8)	(6.4)
Ending Net Assets	698.2	677.8
Net Asset Value per Unit (3)	0.851524	0.826627
No. of Units (End of Period)	820,000,000	820,000,000
Distribution Rate per Unit	0.04700	0.00783
Total Net Investment Return	-7.05%	-2.01%
LONG TERM FUND		
Beginning Net Assets	2,843.3	2,595.1
Net Contributions	89.3	34.9
Investment Return	(199.7)	(52.2)
Expenses	(3.0)	(2.6)
Distributions (Payout) (2)	(134.8)	(23.6)
Ending Net Assets	2,595.1	2,551.6
Net Asset Value per Unit (3)	4.788	4.645
No. of Units (End of Period)	542,049,359	549,346,011
Distribution Rate per Unit	0.25100	0.04300
Total Net Investment Return	-6.97%	-1.96%

(1) The Permanent Health Fund (PHF) and Long Term Fund (LTF) are internal mutual funds for the pooled investment of endowment funds. The PHF is comprised of endowments for health-related institutions of higher education and the LTF is comprised of privately raised endowments and other long term funds of UT System components.

(2) The PHF and LTF accrue for their respective quarterly distributions on a monthly basis. In order to generate the cash for the distributions, the PHF and LTF sell units at quarter end. Therefore, the total PHF and LTF net assets will be less than the GEF net assets on month ends other than fiscal quarter ends.

(3) The asset allocation of the PHF and LTF is representative of the asset allocation for the GEF. A nominal amount of cash is held in PHF and LTF to pay expenses incurred separately by these funds.

c.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio
and Net Investment Return for the two months ended October 31, 2002
(Asset Allocation Approved by the UTIMCO Board, pending Board of Regents Approval)

	Asset Allocation	Endowment Neutral Policy Portfolio	Actual Net Investment Return	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash and Cash Equivalents	0.6%	0.0%	0.30%	0.31%	90 Day T-Bills Average Yield
Domestic Public Equities					Wilshire 5000 U.S. Equities Index
Passive Long	16.8%	11.0%	-3.65%	-3.15%	
Active Long	11.6%	10.0%	-3.49%	-3.15%	
Hedge and Alpha Transport	5.1%	10.0%	1.25%	-3.15%	
Total Domestic Public Equities	33.5%	31.0%	-2.86%	-3.15%	
International Public Equities					Morgan Stanley Capital International - All Country World Free ex U.S.
Passive Long	7.2%	6.5%	-5.70%	-5.80%	
Active Long	8.4%	7.5%	-5.59%	-5.80%	
Hedge and Alpha Transport	0.6%	5.0%	0.05%	-5.80%	
Total International Public Equities	16.2%	19.0%	-5.45%	-5.80%	
Absolute Return	8.2%	10.0%	0.88%	0.98%	90 Day T-Bills Average Yield plus 4%
Inflation Hedging	9.0%	10.0%	-5.20%	-2.22%	(25% Goldman Sachs Commodity Index minus 100 basis points) plus (25% Treasury Inflation Protected Securities) plus (25% National Commercial Real Estate Index Fund) plus (25% Wilshire Associates Real Estate Securities Index)
Fixed Income	20.6%	15.0%	0.46%	1.34%	(33% Lehman Brothers Aggregate Bond Index ex U.S. Governments) plus (67% Lehman Brothers Government Bond Index)
Total Marketable Securities	**88.1%**	**85.0%**	-2.48%	-2.14%	
Private Capital	**11.9%**	**15.0%**	2.08%	-2.49%	Wilshire 5000 U.S. Equities Index plus 4% (2)
Total	**100.0%**	**100.0%**	-1.97%	-2.17%	

(1) The benchmark return for the endowment neutral policy portfolio is calculated by summing the neutrally weighted index return (% weight for the asset class multiplied by the benchmark return for the asset class) for the various asset classes in the endowment portfolio for the period reported.
(2) Due to valuation and liquidity characteristics associated with Private Capital, short-term benchmark comparisons are not appropriate.

II. GENERAL ENDOWMENT FUND (continued)

d.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio and Net Investment Return for the two months ended October 31, 2002.
(Prior Asset Allocation)

	Asset Allocation	Endowment Neutral Policy Portfolio	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash	0.6%	0.0%	0.31%	90 Day T-Bills Average Yield
Domestic Common Stocks:				
Large/Medium Capitalization Equities	20.3%	25.0%	-3.02%	Standard and Poor's 500 Index
Small Capitalization Equities	8.2%	7.5%	-4.21%	Russell 2000 Index
Total Domestic Common Stocks	28.5%	32.5%		
International Common Stocks:				
Established Markets	11.1%	12.0%	-5.94%	Morgan Stanley Capital International Europe, Asia, Far East Index (net)
Emerging Markets	4.5%	3.0%	-5.26%	Morgan Stanley Capital International Emerging Markets Free
Total International Common Stocks	15.6%	15.0%		
Inflation Hedging	9.0%	7.5%	0.63%	33% (Goldman Sachs Commodity Index minus 100 basis points) plus 67% (National Commercial Real Estate Index Fund)
Fixed Income:				
Domestic	16.2%	15.0%	1.16%	Lehman Brothers Aggregate Bond Index
International	4.4%	5.0%	0.43%	Salomon Non-U.S. World Government Bond Index, Unhedged
Total Fixed Income	20.6%	20.0%		
Marketable Alternative Equities	13.8%	10.0%	1.48%	90 Day T-Bills Average Yield + 7%
Total Marketable Securities	**88.1%**	**85.0%**	**-1.32%**	
Non-Marketable Alternative Equities	**11.9%**	**15.0%**	**-2.49%**	Wilshire 5000 U.S. Equities Index + 4%
Total	**100.0%**	**100.0%**	**-1.72%**	

(1) The benchmark return for the endowment neutral policy portfolio is calculated by summing the neutrally weighted index return (% weight for the asset class multiplied by the benchmark return for the asset class) for the various asset classes in the endowment portfolio for the period reported.

III. SHORT INTERMEDIATE TERM FUND (1)

Summary Investment Report at October 31, 2002

($ millions)

	FY01-02 Full Year	FY02-03 Two Months Ended October 31, 2002
Beginning Net Assets	1,704.6	1,435.9
Net Contributions	(261.0)	45.1
Investment Return	60.3	5.4
Expenses	(0.7)	(0.1)
Distributions of Income	(67.3)	(10.0)
Ending Net Assets	1,435.9	1,476.3
Net Asset Value per Unit	10.099	10.066
No. of Units (End of Period)	142,184,975	146,653,309
Total Net Investment Return	3.75%	0.36%

(1) Report prepared in accordance with Texas Education Code Sec. 51.0032.

IV. SEPARATELY INVESTED ASSETS

Summary Investment Report at October 31, 2002

($ thousands)

	FUND TYPE													
	CURRENT PURPOSE													
	DESIGNATED		RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		OPERATING FUNDS		TOTAL	
ASSET TYPES														
Cash & Equivalents:	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
Beginning value 9/1/02	4,064	4,064	2,353	2,353	35,612	35,612	525	525	79	79	1,315,082	1,315,082	1,357,715	1,357,715
Increase/(Decrease)	(2,299)	(2,299)	(1,047)	(1,047)	(20,068)	(20,068)	(453)	(453)	3	3	(55,721)	(55,721)	(79,585)	(79,585)
Ending value 10/31/02	1,765	1,765	1,306	1,306	15,544	15,544	72	72	82	82	1,259,361	1,259,361	1,278,130	1,278,130
Debt Securities:														
Beginning value 9/1/02	-	-	263	184	48,713	47,578	14,575	15,248	-	-	236,696	254,199	300,247	317,209
Increase/(Decrease)	-	-	-	5	(8,399)	(4,764)	(93)	(21)	-	-	14,765	(28,977)	6,273	(33,757)
Ending value 10/31/02	-	-	263	189	40,314	42,814	14,482	15,227	-	-	251,461	225,222	306,520	283,452
Equity Securities:														
Beginning value 9/1/02	40	3,750	1,970	1,632	32,701	32,844	23,277	17,131	-	-	136,062	81,293	194,050	136,650
Increase/(Decrease)	-	(172)	1	-	(534)	(1,540)	99	(635)	-	-	557	(2,458)	123	(4,805)
Ending value 10/31/02	40	3,578	1,971	1,632	32,167	31,304	23,376	16,496	-	-	136,619	78,835	194,173	131,845
Other:														
Beginning value 9/1/02	11,000	11,000	1,215	1,215	784	784	125	21	-	-	-	-	13,124	13,020
Increase/(Decrease)	(11,000)	(11,000)	(1,215)	(1,215)	(784)	(784)	-	-	-	-	-	-	(12,999)	(12,999)
Ending value 10/31/02	-	-	-	-	-	-	125	21	-	-	-	-	125	21

Report prepared in accordance with Texas Education Code Sec. 51.0032.
Details of individual assets by account furnished upon request.

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

<u>RECOMMENDATION</u>

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

BE IT RESOLVED:

a. That those persons occupying the following positions among the officers of The University of Texas System shall be known as Key Management Personnel as described in the Department of Defense National Industrial Security Program Operating Manual for safeguarding classified information:

   Mark G. Yudof, Chancellor, Chief Executive Officer, U. T. System
   Larry R. Faulkner, President, U. T. Austin
   Juan M. Sanchez, Vice President for Research, U. T. Austin
   Kevin P. Hegarty, Senior Vice President and Chief Financial Officer, U. T. Austin
   Wayne K. Kuenstler, Director, Office of Sponsored Projects, U. T. Austin; U. T. System a.k.a. U. T. Austin Security Supervisor
   Bobby C. McQuiston, Associate Director, Office of Sponsored Projects, U. T. Austin

b. That the said Key Management Personnel have been processed or will be processed for a personnel clearance for access to classified information, to the level of the facility clearance granted to the institution, as provided for in the aforementioned National Industrial Security Program Operating Manual, and all replacements for such positions will be similarly processed for security clearance

c. That the said Key Management Personnel are hereby delegated all of the Board's duties and responsibilities pertaining to the projection of classified contracts of the Department of Defense, or User Agencies of its Industrial Security Program, awarded to the institutions of The University of Texas System Administration or U. T. Austin

d. That the following named members of the U. T. Board of Regents shall not require, shall not have, and can be effectively excluded from access to all classified information in the possession of The University of Texas System and do not occupy positions that would enable them to affect adversely the policies and practices of the institutions of The University of Texas System in the performance of classified contracts for the Department of Defense, or User Agencies of its Industrial Security Program, and need not be processed for a personnel clearance:

Members of the U. T. Board of Regents:

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

BACKGROUND INFORMATION

The proposed resolution is needed to comply with the Department of Defense National Industrial Security Program Operating Manual requirements. Other than a change to list Mark G. Yudof as the Chancellor, U. T. System, the proposed resolution is identical to the one adopted by the U. T. Board of Regents in May 2002.

The resolution is routine and, therefore, was not presented to a committee of the Board for review during January 2003 committee meetings.