Finance & Planning Committee

THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS

April 1, 2003

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

April 1, 2003
8:30 – 10:30 a.m.
Board Room, 9th Floor, Ashbel Smith Hall
Austin, Texas

8:30 a.m.	1.	**Welcome and Opening Remarks**	*Chairman Hunt*
	2.	**Agenda Topics for May Board of Regents' Meeting**	
8:35 a.m.		a. Directors and Officers Liability Self-Insurance Program Recommendations [*PowerPoint Presentation*] [Action Item] (Tab 2a)	*Paul Pousson*
8:45 a.m.		b. Fire and Life Safety Regental Policy [Action Item] (Tab 2b)	*Paul Pousson*
8:47 a.m.		c. UTIMCO Investment Summary [Action Item] (Tab 2c)	*Bob Boldt*
8:52 a.m.		d. Permanent University Fund Annual Distribution and New Payout Rate for Long Term Fund / Permanent Health Fund [Action Item] (Tab 2d)	*Bob Boldt*
9:02 a.m.		e. 2004 Budget Preparation Policy [Action Item] (Tab 2e)	*Randy Wallace*
9:04 a.m.		f. U. T. System Debt Policy [Action Item] (Tab 2f)	*Philip Aldridge*
9:15 a.m.		g. Amendments to the Available University Fund Spending Policy [Action Item] (Tab 2g)	*Philip Aldridge*
9:25 a.m.		h. Proposed Amendment to the Regents' Rules regarding Use of University Facilities [Action Item] (Tab 2h)	*W.O. Shultz*
9:27 a.m.	3.	**Historical Review of Optimum Asset Allocations** [Discussion Item] [*PowerPoint Presentation*] (Tab 3)	*Bob Boldt*
9:42 a.m.	4.	**Quarterly Permanent University Fund Update** [Discussion Item] (Tab 4)	*Philip Aldridge*
9:47 a.m.	5.	**UT TeleCampus Cost Study** [Discussion Item] [*PowerPoint Presentation*] (Tab 5)	*Darcy Hardy* *Ed Sharpe*
10:07 a.m.	6.	**Analysis of Financial Condition – Peer Review Report for 2002** [Discussion Item] (Tab 6)	*Randy Wallace*
10:17 a.m.	7.	**January Monthly Financial Report** [Discussion Item] (Tab 7)	*Randy Wallace*
10:22 a.m.	8.	**Employee Group Insurance Vendors and Rates Approval Process** [Discussion Item] (Tab 8)	*James Sarver*
	9.	**System-wide Impact of Potential Budget Reductions** [Discussion Item]	*Chairman Hunt*

Adjourn

U. T. Board of Regents: Authorization of a Permanent Self-Insurance Plan for Directors and Officers Liability and Employment Practices Liability

RECOMMENDATION

The Chancellor concurs in the recommendation of the Acting Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and the Executive Vice Chancellor for Academic Affairs that the U. T. Board of Regents authorize a Permanent Self-Insurance Plan for Directors and Officers Liability and Employment Practices Liability (D&O/EPL).

a. Authorize a permanent self-insurance plan as the risk financing mechanism for U. T. System's D&O/EPL risks

b. Approve the plan design, including coverage terms and conditions; plan administration; claims management; premium allocation; deductibles; and other financial requirements

c. Allocate $2.7 million in AUF Reserves to capitalize the self-insurance fund and fund a portion of the premiums for the first year.

BACKGROUND INFORMATION

In September 2002, the Board adopted a resolution creating a Directors and Officers/Employment Practices Liability self-insurance program and authorized the performance of a risk assessment of U. T. System's D&O/EPL exposure. The Board also authorized an interim self-insurance plan under terms consistent with the National Union insurance policy that expired in September 2002. The risk assessment has been performed, and the design of the permanent, self-insurance plan is complete. A summary of the recommended plan is provided below.

- The limits of the permanent self-insurance plan will be $10 million per loss event and annual aggregate for Coverages A and B with a sublimit of $5 million per loss event for Coverage C.
- There will be no deductible for Coverage A; a $100,000 per person/$300,000 per loss event deductible for Coverage B; and a $300,000 per loss event deductible for Coverage C. Deductibles are paid by the institution.

- Claims will continue to be administered by the Office of General Counsel (OGC) and defended to the greatest extent possible by the Attorney General, or a panel of outside counsel selected on behalf of the plan.
- In the event of a coverage dispute with an insured person or insured entity, OGC may appoint independent coverage counsel to review the claim, determine applicability of coverage, and avoid potential conflicts of interest.
- In the first year, the plan will be funded through premiums for current year losses, as well as losses incurred during previous years, but not yet reported.
- The self-insurance fund will be capitalized at a 3 to 1 ratio to premiums for the first year.
- Total funding for the plan in the first year is $5 million, less the $1 million in the interim fund. In the first year, $1.3 million will be paid by System Administration and the component institutions. In addition, $2.7 million in AUF Reserves will be used to fund the remaining portion of the plan.
- The plan will be evaluated annually by an actuary to determine future premiums and capitalization requirements.
- If claim costs exceed the available fund balance, a special assessment will be required.
- Component institutions will pay premiums based on total headcount figures reported in the previous fiscal year. Because losses to date from medical/healthcare components exceed those from academic components, premiums will be more heavily weighted to the medical/healthcare components.

The University of Texas System

Board of Regents Report

Directors & Officers Liability
Employment Practices Liability
Risk Assessment & Financing

Current Status

- September 2002, Board of Regents approved an interim D&O/Employment Practices Liability Self-Insurance Plan
- Interim plan follows terms and conditions of expired AIG policy
- Plan applies to U. T. System Administration and the component institutions ("U. T. System"), as well as individual regents, directors, officers, employees or other insured persons
- Board of Regents allocated $1 million to establish an interim self-insurance fund
- Engaged PricewaterhouseCoopers to perform a comprehensive risk assessment of D&O/EPL exposure and recommend a permanent self-insurance plan design.

Overview of PwC's Risk Assessment Process

- Evaluation of applicable codes and statutes.
- Interviews and conference calls with key staff at U. T. System Administration as well as the Texas Department of Insurance.
- Actuarial evaluation of U. T. System's existing loss history to develop a recommended self-insurance premium and a capitalization level.
- Review of component institution and System human resource policies and procedures, as well as conference calls with the human resource departments of M.D. Anderson, U. T. Austin, and UTMB.
- Recommendations for plan design and financing U. T. System's D&O/EPL risks.

D&O/EPL Risk Exposure Assessment

- Potential Severity and Frequency of the related claims varies widely.
- Most exposures relate to employment practices and employee relationships with key constituencies (i.e. students, patients, communities, etc.).
- Employment/Human Resource procedures vary among the component institutions, possibly affecting claim defense.
- Legislative actions and court rulings could affect the potential severity and frequency of claims.
- Monitoring and reporting of outside Not-For-Profit directorship positions held by U. T. System personnel will be improved through implementation of the Chancellor’s Policy on Service on Outside Boards.
- Potential sources of claims falling outside protections provided under relevant codes/statutes were identified.

Coverage Terminology in the Proposed Non-Profit D&O/EPL Plan

- **Coverage A** - Loss incurred by an individual regent, director, officer or other designated insured persons for the settlement of claims arising out of their activities on behalf of U. T. System, and for which U. T. System is not permitted to indemnify the individual due to common or statutory law, contractual agreement, or the Charter or By-laws of the insured entity. *Legal defense to the fullest extent possible by Attorney General or a panel of outside counsel selected on behalf of the Plan.*
- **Coverage B -** Loss incurred by U. T. System in relation to the indemnification of an individual regent, director, officer or other insured person for settlement of claims arising out of his/her activities on behalf of the U. T. System. *Legal defense to the fullest extent possible by Attorney General or a panel of outside counsel selected on behalf of the Plan.*
- **Coverage C** - Loss incurred by U. T. System due to any alleged or actual wrongful act or omission of U. T. System.

PwC's Recommendations and Conclusions

- Utilize a self-insurance fund as the risk financing mechanism for the D&O/EPL risks.
- Charge a premium to U. T. System in an amount sufficient to contain losses, calculated at a 90% confidence level.
- Premium should include a charge to cover incurred but not yet known or reported (IBNR) claims.
- Premium should be matched by U. T. System Administration on a "dollar-for-dollar" basis for capitalization in the first year.
- Premiums and capitalization levels should be evaluated by an actuary every year.
- Claims should continue to be administered by OGC and defended to the fullest extent possible by the Attorney General, or a panel of outside counsel selected on behalf of the Plan.
- OGC will make coverage determinations on all claims.
- In the event of a coverage dispute with an insured person or insured entity, OGC may appoint independent coverage counsel to review the claim, determine applicability of coverage, and avoid potential conflicts of interest.

PwC's Recommendations and Conclusions (cont.)

- Issue an insuring agreement comparable to the expired AIG policy.
  - Limits -- Per loss event/aggregate limit of $10 million for Coverages A & B with a per loss event sublimit of $5 million for Coverage C
  - Institutional Deductibles -- No deductible for Coverage A, $100,000 per person, $300,000 per loss event for Coverage B, $300,000 per loss event for Coverage C
- The U. T. System D&O plan should only apply to outside directorships for Not-For-Profit entities when performed as an extension of the insured person's normal duties and in compliance with the Chancellor's Policy on Service on Outside Boards.
- The Not-For-Profit entity should have its own D&O insurance that will apply as the primary coverage with a limit of not less than $1 million.
- The U. T. System D&O plan coverage is specifically excess of any indemnification or insurance provided by the Not-For-Profit entity.
- The U. T. System D&O plan should not provide protection for an insured person serving on a For-Profit board.

Sample Causes of Action Typically Covered Under D&O/EPL Insurance

- **Federal Statutory and Constitutional Claims**
  - Title VII of the Civil Rights Act (Race, Color, Religion, Gender, Sexual Harassment, National Origin, Retaliation)
  - 42 U.S.C §1983 (Due Process; Equal Protection)
  - 1st Amendment (Free Speech, Freedom of Religion)
  - Equal Pay Act
  - Title IX of the Education Amendments
- **State Law Claims**
  - Texas Commission on Human Rights Act (Race, Gender, Sexual Harassment, Age, Retaliation, etc.)
  - Whistleblower Act

Recommended Risk Financing Structure – Self-Insurance Fund

- Advantages
  - No new legal entity required
  - Low administrative costs
  - Eliminates vulnerability to insurance market cycles

- Other Options Considered
  - Captive Insurance Company/Risk Retention Group
  - Fronted Insurance Policy secured via letters of credit or reinsurance trust

Actuarial/Funding Study – FY 2003 Financing

	1 to 1 Capitalization	3 to 1 Capitalization
Annual Expenses		
2003 Premium (90% CL)	$ 1,700,000	$ 1,700,000
Legal Expenses	$ 100,000	$ 100,000
Admin. Expenses	$ 125,000	$ 125,000
Actuary Fee	$ 20,000	$ 20,000
Total Annual Premium and Expense	$ 1,945,000	$ 1,945,000
One Time Expenses		
IBNR Premium (90% CL)	$ 1,750,000	$ 1,750,000
AIG Extension	$ 7,000	$ 7,000
Consulting Fee	$ 165,000	$ 165,000
Total One Time Premium & Expense	$ 1,922,000	$ 1,922,000
Total Premium & Expense Cost	**$ 3,867,000**	**$ 3,867,000**
Capitalization (1st Year)	**$ 3,450,000**	**$ 1,150,000**
Grand Total	**$ 7,317,000**	**$ 5,017,000**

Premium and Capitalization Distribution Options

	1 to 1 Capitalization	3 to 1 Capitalization
Total FY 2003 Plan Costs	$ 7,317,000	$ 5,017,000
Component Payments	$ (3,870,000)	$ (1,320,000)
Previous BOR Allocation	$ (1,000,000)	$ (1,000,000)
BOR Allocation/AUF Reserves	$ 2,447,000	$ 2,697,000

Special assessment will be required if claims exceed available funds.

U. T. Board of Regents: Adoption of a Fire and Life Safety Review Policy for Acquiring or Leasing Real Property with Structures

RECOMMENDATION

The Chancellor concurs in the recommendation of the Acting Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and the Executive Vice Chancellor for Academic Affairs that a Fire and Life Safety Review Policy for Acquiring or Leasing Real Property with Structures be adopted as a Regental Policy as set forth in Exhibit A.

The policy requires U. T. System Administration and U. T. System component institutions to make appropriate advance inquiry as to existing fire and life safety features of any building that is proposed to be acquired, leased or converted for campus purposes. Additionally, this policy requires an evaluation of the fire and life safety deficiencies of the building and of the corrective actions or renovations required to remedy the deficiencies to ensure compliance with the applicable fire and life safety code.

BACKGROUND INFORMATION

In 1999, the State Fire Marshal's Office was given statutory authority to inspect public buildings for compliance with the National Fire Protection Association (NFPA) *Life Safety Code* and to make recommendations and/or order correction of identified deficiencies. The State Fire Marshal's Office is required to report its findings from these inspections to the State Senate Finance Committee and House Appropriations Committee.

Adoption of a Fire and Life Safety Review Policy for Acquiring or Leasing Real Property with Structures as a Regental Policy would implement prudent business practices, which would enhance U. T. System's compliance with applicable codes and further demonstrate U. T. System's commitment to fire and life safety protection.

The Office of Business and Administrative Services, the Real Estate Office and the Office of Facilities Planning and Construction worked with the U. T. System Environmental Advisory Committee to draft the policy. Additionally, each component institution's Chief Business Officer was given the opportunity to provide comments and recommended changes to the Policy. Adoption of the Policy as a Regental Policy would be consistent with the current Regental Environmental Review Policy for Acquisitions of Real Property Assets.

This policy has been reviewed by the U. T. System Office of General Counsel.

EXHIBIT A

THE UNIVERSITY OF TEXAS SYSTEM
FIRE AND LIFE SAFETY REVIEW POLICY
FOR ACQUISITIONS AND CONVERSIONS OF BUILDINGS TO BE USED FOR CAMPUS PURPOSES

Effective Date: Upon Board of Regents' Approval

It is the policy of The University of Texas System to ensure that, before the System uses any building for campus purposes, it is in compliance with the applicable fire and life safety code. Consequently, this policy requires advance inquiry about the fire and life safety features of any building that the System proposes to acquire or to convert for campus purposes. Additionally, this policy requires an evaluation of the fire and life safety deficiencies of the building and of the corrective actions or renovations required to remedy the deficiencies.

Scope

Buildings owned or leased by U. T. System and used for campus purposes shall comply with the edition of the National Fire Protection Association Life Safety Code 101 (NFPA 101), or when applicable, National Fire Protection Association Code 101A (NFPA 101A) adopted and enforced by the Texas State Fire Marshal's Office of the Texas Department of Insurance, as such codes may be amended or supplanted from time to time. This policy governs acquisitions of real property with buildings to be used for campus purposes, whether the acquisition of the real property interest is by gift, purchase or lease, and conversions of buildings that are to be used for campus purposes. This policy applies to acquisitions and conversions that are initiated after the effective date of this policy. Acquisitions and conversions in process before the policy effective date are exempt from the requirements of this policy.

Definitions

Assembly Occupancy: As defined by the NFPA, a building (1) used for a gathering of 50 or more persons for deliberation, worship, entertainment, eating, drinking, amusement, awaiting transportation, or similar uses; or (2) used as a special amusement building, regardless of occupant load.

Building Used for Campus Purposes: A building or space within a building that is used by U. T. System for education, research, patient care, auxiliary enterprises, business functions or such other related purposes and uses for the furtherance and fulfillment of the missions of the U. T. System and that is intended for human occupancy.

Component Institution: Component institutions include U. T. Arlington, U. T. Austin, U. T. Brownsville, U. T. Dallas, U. T. El Paso, U. T. Pan American; U. T. Permian Basin, U. T. San Antonio, U. T. Tyler, U. T. Southwestern Medical Center Dallas, U. T. Medical Branch Galveston,

U. T. Health Science Center Houston, U. T. Health Science Center San Antonio, U. T. M. D. Anderson Cancer Center, U. T. Health Center Tyler, and U. T. System Administration.

Component Institution Staff Member Responsible for Campus Structures: The staff member at a component institution who is responsible for campus structures and who may have the job title of Director of Campus Planning or Physical Plant Director. The term also includes that staff member's designee.

Component Institution Staff Member Responsible for Campus Safety: The staff member at a component institution who is responsible for campus safety and who may have the job title of Director of Environmental Health and Safety or Institution Safety Officer. The term also includes that staff member's designee.

Life Safety Evaluation: An evaluation to determine a building's compliance with the edition of the NFPA 101, or when applicable, NFPA 101A, adopted and enforced by the Texas State Fire Marshal's Office of the Texas Department of Insurance at the time of building acquisition or conversion.

Qualified Campus Safety Staff Member: A campus safety staff member with the following qualifications: Board of Certified Safety Professionals - Certified Safety Professional; Texas Workers Compensation - State Approved Professional Safety Source; National Fire Protection Association (NFPA –1031) Fire Inspector Certification; or a certification currently recognized by the Texas State Fire Marshal's Office of the Texas Department of Insurance.

Special Structure: As defined by the NFPA, special structures are open structures, towers, water-surrounded structures, piers, vehicles and vessels, underground and windowless structures.

The Life Safety Evaluation Process

Requirement for a Life Safety Evaluation

A Life Safety Evaluation shall be performed under the following circumstances:

- Before a decision is made by a component institution to acquire real property that has any building(s) to be used for campus purposes; and,
- Before a building owned or leased by U. T. System that is not used for campus purposes is converted to a building used for campus purposes.

A Life Safety Evaluation may need to be performed when a component institution proposes to convert a building that is currently used for campus purposes to a different use that is also for campus purposes. The component institution's chief business officer shall consult with the component institution staff member responsible for campus safety to determine if a Life Safety Evaluation should be performed.

Performance of the Life Safety Evaluation

Before deciding whether to acquire or convert a building covered by this policy, the component institution's chief business officer shall direct the component institution staff member responsible for campus structures or the component institution staff member responsible for campus safety, to gather the following preliminary data regarding the building:

- Last or current occupancy type,
- Historic changes in occupancy,
- Approximate age and general use,
- Special hazards or processes,
- Previous fire history,
- Results of previous fire safety inspections,
- Fire safety equipment (original or additional), and,
- Functionality and general condition of all fire and life safety features that may be considered inherent to the structure.

The component institution's staff member may elect to complete the Preliminary Building Risk Assessment Checklist, included as Attachment I to this policy, in order to collect some of the preliminary data.

Such preliminary data will be forwarded to the component institution's chief business officer and the component institution staff members responsible for campus structures and safety. If, based upon review of the preliminary data, and after consultation with the component institution staff members responsible for campus structures and safety, the chief business officer decides to proceed with acquisition or conversion of the building, a Life Safety Evaluation shall be performed.

A Life Safety Evaluation must be conducted by a fire protection-engineering firm, by a qualified campus safety staff member, or by the U. T. System property insurance carrier engineer (if available as an additional service under the U. T. System's Comprehensive Property Protection Program). A fire protection-engineering firm must be retained to conduct a Life Safety Evaluation whenever the building is over 7 stories high or classified by the NFPA as a high rise structure or whenever the building is intended to be used as a medical treatment facility, a research laboratory, a dormitory, an assembly occupancy, or a special structure. Refer to the Definitions section of this policy for the definitions of assembly occupancy and special structure.

The person who conducts the Life Safety Evaluation shall prepare and deliver to the chief business officer a written report that notes all deficiencies, if any, that may prevent the building from meeting applicable NFPA 101 or NFPA 101A standards. Unless a donor, lessor or other outside party agrees to pay for the Life Safety Evaluation, the component institution shall pay all costs to perform a Life Safety Evaluation.

Evaluation of the Life Safety Evaluation Report

Upon review of the Life Safety Evaluation report, and after consultation with the component institution staff members responsible for campus structures and safety, the component institution's chief business officer may decide to abandon the acquisition or conversion, to change to a more compatible use, to demolish the structure, or to continue the evaluation of the possible corrective actions and renovations. The continued evaluation should take into consideration the actual costs of the corrective actions/renovations, the indirect costs resulting from the delay in use of the building, and the advantages to be gained by the use of the building. The component institution staff members responsible for campus structures and safety will be consulted regarding corrective action/renovation matters. In addition, U. T. System's Office of Facilities Planning and Construction (OFPC) will be consulted regarding corrective action/renovation matters if the magnitude of the corrective action/renovation would normally require management by OFPC.

Plan and Budget for Corrective Actions/Renovations

If the chief business officer elects to acquire or convert a building for which the Life Safety Evaluation of the building notes NFPA 101 or NFPA 101A deficiencies, the chief business officer shall prepare a plan that outlines when and how all identified NFPA 101 or NFPA 101A deficiencies will be corrected; or a plan to implement alternative fire and life safety measures that are satisfactory to the State Fire Marshal. U. T. System, Business and Administrative Services, Risk Management shall be available to assist with negotiations with the State Fire Marshal. The chief business officer shall also establish a budget for the corrective action plan or alternative fire and life safety measures plan. The chief business officer shall send a copy of the plan and budget to U. T. System, Business and Administrative Services, Risk Management for informational purposes.

ATTACHMENT I

PRELIMINARY BUILDING RISK ASSESSMENT CHECKLIST

Building:_______________________________ Address:____

Inspector:_______________________________ Date:____

Construction Type		Description
A. Type I, Fire Resistive		
B. Type II, Non-combustible		
C. Type III, Masonry Walls, Wood Joist Roof		
D. Type IV, Heavy Timber		
E. Type V, Wood Frame		
Occupancy Classification	**Yes/No**	**Description**
A. Specific use		
B. Number of stories		
C. Number of sub-levels		
D. Area in sq. ft. per floor proposed for use		
E. Mixed Occupancy? If Yes, specify		
F. Area separation		
G. Construction separation		
H. Occupancy separation		
I. Structural frame protection		
J. Roof covering		
K. Exterior wall construction		
L. Interior wall construction		
M. Vertical shafts		
N. Interior finish		
O. Fire Protection Maintenance Provider		
Fire Extinguishers	**Yes/No**	**Description**
A. Fire Extinguishers present		
B. Inspected/tested monthly		
C. Inspected/tested annually		
D. Fire Protection Maintenance Provider		
Sprinklers	**Yes/No**	**Description**
A. Sprinklers Present?		
1. Testing Periodicity		
2. Date of last inspection/test		
3. Fire Protection Maintenance Provider		
4. Hydraulic Design Information Sign/Plate Present		
Standpipes and Hose	**Yes/No**	**Description**
A. Standpipes and Hoses present?		
1. Inspection Periodicity		
2. Date of last inspection/test		
3. Fire Protection Maintenance Provider		

Fire Alarm System	Yes/No	Description
A. Fire Alarm System present?		
1. Manual		
2. Automatic		
3. Voice		
4. Annunciated		
5. Testing Periodicity		
B. Details of System		
1. Units		
2. System		
3. Heat detectors		
4. Smoke detectors		
5. Adequately spaced		
6. Type		
7. Locations		
8. Inspected/tested at what intervals		
9. Date of last service		
10. Fire Protection Maintenance Provider		

Life Safety Components	Yes/No	Description
A. Emergency Power Available		
1. Type		
2. Locations		
3. Test Frequency		
4. Test log up to date		
5. Date of last service		
6. Service/maintenance provider		
B. Exit Illumination present?		
1. Means of egress; LSC		
2. Signs		
3. Emergency power		
C. Fire Doors present?		
1. Unlocked		
2. Time Delay		
3. Rating		
4. Hardware		
5. Frame		
6. Closing Device		
7. Latching		
8. Gasketing/Bumpers		
9. Fire door/panic hardware maintained in good working order		
10. Facility maintains a Hazard Surveillance program to include stairwells and MoE		
11. Exit discharge area maintained free & clear		

Life Safety Components (continued)	Yes/No	Description
D. Corridor Width		
1. Height		
2. Fire Rating		
3. Dead-ends		
4. In Compliance		
E. Stairs and Ramps in Compliance?		
1. Width		
2. Height		
3. Enclosure		
4. Gradient		
5. Landing		
6. Venting		
7. Vestibule		
8. Roof access		
9. Handrails		
10. Barrier at Exit discharge		

Elevator Testing	Yes/No	Description
A. Elevator Fire Recall System		
B. Elevators are tested monthly		
C. Elevator Maintenance Provider		

Other Fire Protection Services	Yes/No	Description
A. Other Fire Protection Services Available		
1. Type		
2. Inspection Periodicity		
3. Date of last inspection/test		
4. Fire Protection Maintenance Provider		

Comments:____

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U. T. System: Report on Investments for the Five Months Ended January 31, 2003

REPORT

Pages 2-10 contain the Summary Reports on Investments for the five months ended January 31, 2003.

Item I on Pages 2-4 reports summary activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the five months was negative 1.61%. The PUF's net investment return for marketable securities for the five months was negative 1.08% versus its composite benchmark return of negative 2.16%. The PUF's net asset value decreased by $433.5 million since the beginning of the year to $6,304.8 million. This decrease reflects the annual distribution to the AUF made in September 2002 for $363.0 million.

Item II on Pages 5-8 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 five months was negative 1.52%. The GEF's net investment return for marketable securities for the five months was negative 1.09% versus its composite benchmark return of negative 2.16%. The GEF's net asset value decreased $32.6 million since the beginning of the year to $3,260.6 million.

Item III on Page 9 reports summary activity for the Short Intermediate Term Fund (SITF). Total net investment return on the SITF was 0.86% for the five months versus the SITF's performance benchmark of 1.71%. The SITF's net asset value increased by $83.7 million since the beginning of the year to $1,519.6 million.

Item IV on Page 10 presents book and market value of cash, fixed income, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of component operating funds held in the Dreyfus money market fund, increased by $519,781 thousand to $1,797,911 thousand during the three months. Market values for the remaining asset types were fixed income securities: $315,453 thousand versus $283,452 thousand at the beginning of the period; equities: $186,523 thousand versus $131,845 thousand at the beginning of the period; and other investments: $43 thousand versus $21 thousand at the beginning of the period.

I. PERMANENT UNIVERSITY FUND (1)

a.) Summary Investment Report at January 31, 2003 (2)

($ millions)

	FY01-02	FY02-03		
	Full Year	Two Months Ending October 31, 2002	Three Months Ending January 31, 2003	Year-to-Date
Beginning Net Assets	7,540.1	6,738.3	6,272.6	6,738.3
PUF Lands Receipts (3)	80.5	14.2	23.1	37.3
Investment Return	(522.9)	(113.8)	13.8	(100.0)
Expenses	(21.0)	(3.1)	(4.7)	(7.8)
Distributions to AUF	(338.4)	(363.0)	-	(363.0)
Ending Net Assets	6,738.3	6,272.6	6,304.8	6,304.8
AUF Distribution:				
From PUF Investments	338.4	363.0	-	363.0
From Surface Income	8.1	0.6	2.0	2.6
Total	346.5	363.6	2.0	365.6
Total Net Investment Return	-7.35%	-1.79%	0.18%	-1.61%

(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 Lands Receipts - As of January 31, 2003: 1,158,086 acres under lease; 522,319 producing acres; 3,134 active leases; and 2,076 producing leases.

I. PERMANENT UNIVERSITY FUND (continued)

b.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio and Net Investment Return for the five months ended January 31, 2003
(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%	0.65%	0.69%	90 Day T-Bills Average Yield
Domestic Public Equities					Wilshire 5000 U.S. Equities Index
Passive Management	13.9%		-5.66%	-5.44%	
Active Management	10.7%		-4.17%	-5.44%	
Hedge and Structured Active Management	6.0%		-1.97%	-5.44%	
Total Domestic Public Equities	30.6%	31.0%	-4.66%	-5.44%	
International Public Equities					Morgan Stanley Capital International - All Country World Free ex U.S.
Passive Management	6.4%		-7.81%	-7.81%	
Active Management	8.4%		-5.91%	-7.81%	
Hedge and Structured Active Management	0.6%		4.00%	-7.81%	
Total International Public Equities	15.4%	19.0%	-6.39%	-7.81%	
Absolute Return	8.1%	10.0%	6.78%	2.37%	90 Day T-Bills Average Yield plus 4%
Inflation Hedging	9.5%	10.0%	2.36%	4.32%	(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	21.2%	15.0%	4.19%	3.08%	(33% Lehman Brothers Aggregate Bond Index ex U.S. Index)
Total Marketable Securities	**85.5%**	**85.0%**	**-1.08%**	**-2.16%**	
Private Capital	**14.5%**	**15.0%**	**-4.61%**	**-3.84%**	Wilshire 5000 U.S. Equities Index plus 4% **(2)**
Total	**100.0%**	**100.0%**	**-1.61%**	**-2.38%**	

(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.

I. PERMANENT UNIVERSITY FUND (continued)

c.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio and Net Investment Return for the five months ended January 31, 2003
(Prior Asset Allocation)

	Asset Allocation	Endowment Neutral Policy Portfolio	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash	0.7%	0.0%	0.69%	90 Day T-Bills Average Yield
Domestic Common Stocks:				
Large/Medium Capitalization Equities	17.0%	25.0%	-5.88%	Standard and Poor's 500 Index
Small Capitalization Equities	7.5%	7.5%	-4.19%	Russell 2000 Index
Total Domestic Common Stocks	24.5%	32.5%		
International Common Stocks:				
Established Markets	10.6%	12.0%	-8.95%	Morgan Stanley Capital International Europe, Asia, Far East Index (net)
Emerging Markets	4.3%	3.0%	-2.83%	Morgan Stanley Capital International Emerging Markets Free
Total International Common Stocks	14.9%	15.0%		
Inflation Hedging	9.5%	7.5%	7.53%	33% (Goldman Sachs Commodity Index minus 100 basis points) plus 67% (National Commercial Real Estate Index Fund)
Fixed Income:				
Domestic	16.7%	15.0%	3.31%	Lehman Brothers Aggregate Bond Index
International	4.5%	5.0%	8.70%	Salomon Non-U.S. World Government Bond Index, Unhedged
Total Fixed Income	21.2%	20.0%		
Marketable Alternative Equities	14.7%	10.0%	3.65%	90 Day T-Bills Average Yield plus 7%
Total Marketable Securities	**85.5%**	**85.0%**	**-1.04%**	
Non-Marketable Alternative Equities	**14.5%**	**15.0%**	**-3.84%**	Wilshire 5000 U.S. Equities Index plus 4%
Total	**100.0%**	**100.0%**	**-1.42%**	

(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 January 31, 2003

($ millions)

	FY01-02		FY02-03					
	Full Year		Two Months Ending October 31, 2002		Three Months Ending January 31, 2003		Year-to-Date	
Beginning Net Assets	3,723.9		3,293.2		3,259.5		3,293.2	
Net Contributions	(230.7)		(7.9)		(23.0)		(30.9)	
Investment Return	(245.3)		(65.4)		16.0		(49.4)	
Expenses	(7.2)		(0.7)		(1.3)		(2.0)	
Allocations (2)	52.5		40.3		9.4		49.7	
Ending Net Assets	3,293.2		3,259.5		3,260.6		3,260.6	
Net Asset Value per Unit	90.932		89.124		89.519		89.519	
Units and Percentage Ownership (End of Period):								
PHF	7,676,762	21.2%	7,676,762	21.0%	7,569,273	20.8%	7,569,273	20.8%
LTF	28,539,389	78.8%	28,895,452	79.0%	28,853,799	79.2%	28,853,799	79.2%
Total	36,216,151	100.0%	36,572,214	100.0%	36,423,072	100.0%	36,423,072	100.0%
Total Net Investment Return	-6.96%		-1.97%		0.46%		-1.52%	

(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 January 31, 2003 (1)

($ millions)

	FY01-02	FY02-03		
	Full Year	Two Months Ending October 31, 2002	Three Months Ending January 31, 2003	Year-to-Date
PERMANENT HEALTH FUND				
Beginning Net Assets	881.4	698.2	677.8	698.2
Withdrawals	(88.2)	-	-	-
Investment Return	(52.6)	(13.9)	3.3	(10.6)
Expenses	(0.6)	(0.1)	(0.2)	(0.3)
Distributions (Payout) (2)	(41.8)	(6.4)	(9.6)	(16.0)
Ending Net Assets	698.2	677.8	671.3	671.3
Net Asset Value per Unit (3)	0.851524	0.826627	0.818610	0.818610
No. of Units (End of Period)	820,000,000	820,000,000	820,000,000	820,000,000
Distribution Rate per Unit	0.04700	0.00783	0.01175	0.01958
Total Net Investment Return	-7.05%	-2.01%	0.42%	-1.60%
LONG TERM FUND				
Beginning Net Assets	2,843.3	2,595.1	2,551.6	2,595.1
Net Contributions	89.3	34.9	31.8	66.7
Investment Return	(199.7)	(52.2)	11.5	(40.7)
Expenses	(3.0)	(2.6)	(0.1)	(2.7)
Distributions (Payout) (2)	(134.8)	(23.6)	(35.8)	(59.4)
Ending Net Assets	2,595.1	2,551.6	2,559.0	2,559.0
Net Asset Value per Unit (3)	4.788	4.645	4.602	4.602
No. of Units (End of Period)	542,049,359	549,346,011	556,060,529	556,060,529
Distribution Rate per Unit	0.25100	0.04300	0.06450	0.10750
Total Net Investment Return	-6.97%	-1.96%	0.45%	-1.52%

(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.

II. GENERAL ENDOWMENT FUND (continued)

c.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio and Net Investment Return for the five months ended January 31, 2003
(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	0.4%	0.0%	0.65%	0.69%	90 Day T-Bills Average Yield
Domestic Public Equities					Wilshire 5000 U.S. Equities Index
Passive Management	14.6%		-5.50%	-5.44%	
Active Management	11.4%		-5.04%	-5.44%	
Hedge and Structured Active Management	6.4%		-1.92%	-5.44%	
Total Domestic Public Equities	32.4%	31.0%	-4.82%	-5.44%	
International Public Equities					U.S.
Passive Management	7.0%		-7.71%	-7.81%	
Active Management	8.4%		-5.96%	-7.81%	
Hedge and Structured Active Management	0.6%		4.00%	-7.81%	
Total International Public Equities	16.0%	19.0%	-6.43%	-7.81%	
Absolute Return	8.7%	10.0%	6.75%	2.37%	90 Day T-Bills Average Yield plus 4%
Inflation Hedging	9.6%	10.0%	2.47%	4.32%	(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	21.2%	15.0%	4.46%	3.08%	(33% Lehman Brothers Aggregate Bond Index ex U.S. Governments) plus (67% Lehman Brothers Government Bond Index)
Total Marketable Securities	**88.3%**	**85.0%**	**-1.09%**	**-2.16%**	
Private Capital	**11.7%**	**15.0%**	**-4.68%**	**-3.84%**	Wilshire 5000 U.S. Equities Index plus 4% (2)
Total	**100.0%**	**100.0%**	**-1.52%**	**-2.38%**	

(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 five months ended January 31, 2003.
(Prior Asset Allocation)

	Asset Allocation	Endowment Neutral Policy Portfolio	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash	0.4%	0.0%	0.69%	90 Day T-Bills Average Yield
Domestic Common Stocks:				
Large/Medium Capitalization Equities	17.8%	25.0%	-5.88%	Standard and Poor's 500 Index
Small Capitalization Equities	8.2%	7.5%	-4.19%	Russell 2000 Index
Total Domestic Common Stocks	26.0%	32.5%		
International Common Stocks:				
Established Markets	10.9%	12.0%	-8.95%	Morgan Stanley Capital International Europe, Asia, Far East Index (net)
Emerging Markets	4.6%	3.0%	-2.83%	Morgan Stanley Capital International Emerging Markets Free
Total International Common Stocks	15.5%	15.0%		
Inflation Hedging	9.6%	7.5%	7.53%	33% (Goldman Sachs Commodity Index minus 100 basis points) plus 67% (National Commercial Real Estate Index Fund)
Fixed Income:				
Domestic	16.2%	15.0%	3.31%	Lehman Brothers Aggregate Bond Index
International	4.9%	5.0%	8.70%	Salomon Non-U.S. World Government Bond Index, Unhedged
Total Fixed Income	21.1%	20.0%		
Marketable Alternative Equities	15.7%	10.0%	3.65%	90 Day T-Bills Average Yield + 7%
Total Marketable Securities	**88.3%**	**85.0%**	**-1.04%**	
Non-Marketable Alternative Equities	**11.7%**	**15.0%**	**-3.84%**	Wilshire 5000 U.S. Equities Index + 4%
Total	**100.0%**	**100.0%**	**-1.42%**	

(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 January 31, 2003

($ millions)

	FY01-02	FY02-03		
	Full Year	Two Months Ending October 31, 2002	Three Months Ending January 31, 2003	Year-to-Date
Beginning Net Assets	1,704.6	1,435.9	1,476.3	1,435.9
Net Contributions	(261.0)	45.1	51.6	96.7
Investment Return	60.3	5.4	7.3	12.7
Expenses	(0.7)	(0.1)	(0.1)	(0.2)
Distributions of Income	(67.3)	(10.0)	(15.5)	(25.5)
Ending Net Assets	1,435.9	1,476.3	1,519.6	1,519.6
Net Asset Value per Unit	10.099	10.066	10.010	10.010
No. of Units (End of Period)	142,184,975	146,653,309	151,802,526	151,802,526
Total Net Investment Return	3.75%	0.36%	0.49%	0.86%

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

IV. SEPARATELY INVESTED ASSETS

Summary Investment Report at January 31, 2003

($ thousands)

	FUND TYPE													
	CURRENT PURPOSE DESIGNATED		CURRENT PURPOSE 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 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
Increase/(Decrease)	(83)	(83)	1,006	1,006	2,348	2,348	134	134	(3)	(3)	516,379	516,379	519,781	519,781
Ending value 1/31/03	1,682	1,682	2,312	2,312	17,892	17,892	206	206	79	79	1,775,740	1,775,740	1,797,911	1,797,911
Debt Securities:														
Beginning value 10/31/02	-	-	263	189	40,314	42,814	14,482	15,227	-	-	251,461	225,222	306,520	283,452
Increase/(Decrease)	-	-	-	3	(1,136)	(1,035)	235	147	-	-	5,823	32,886	4,922	32,001
Ending value 1/31/03	-	-	263	192	39,178	41,779	14,717	15,374	-	-	257,284	258,108	311,442	315,453
Equity Securities:														
Beginning 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
Increase/(Decrease)	-	933	25	21	5,963	5,434	418	41	-	-	49,164	48,249	55,570	54,678
Ending value 1/31/03	40	4,511	1,996	1,653	38,130	36,738	23,794	16,537	-	-	185,783	127,084	249,743	186,523
Other:														
Beginning value 10/31/02	-	-	-	-	-	-	125	21	-	-	-	-	125	21
Increase/(Decrease)	-	-	-	-	-	-	16	22	-	-	-	-	16	22
Ending value 1/31/03	-	-	-	-	-	-	141	43	-	-	-	-	141	43

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

U. T. System: Proposed Annual Distributions from the Permanent University Fund, Permanent Health Fund, and the Long Term Fund

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of The University of Texas Investment Management Company (UTIMCO) and the UTIMCO Board of Directors that:

a. The fiscal year distribution from the Permanent University Fund (PUF) to the Available University Fund (AUF) be decreased by 4.13% from $363,022,043 to $348,033,578 effective September 1, 2003.

b. The distribution rate for the Permanent Health Fund (PHF) remain at its current rate per unit of $0.047.

c. The distribution rate for the U. T. System Long Term Fund (LTF) be increased from $0.258 per unit to $0.2645 per unit effective November 30, 2003.

BACKGROUND INFORMATION

For comparative purposes, the recommended distributions from the PUF, PHF and LTF represent 5.52%, 5.78% and 5.78%, of the respective funds' market value as of February 28, 2003.

Background information on the PUF: The PUF Investment Policy states that the annual distribution from the PUF to the AUF shall be an amount equal to 4.75% of the trailing 12-quarter average of the net asset value of the Fund for the quarter ending February of each fiscal year. Per this formula, the amount to be distributed from the PUF for Fiscal Year 2003-2004 is $348,033,578 as calculated below:

Quarter Ended		Net Asset Value
5/31/00	$	7,910,907,663
8/31/00		8,452,335,867
11/30/00		7,652,556,843
2/28/01		7,686,874,230
5/31/01		7,749,573,154
8/31/01		7,540,148,091
11/30/01		7,079,157,437
2/28/02		7,114,025,229
5/31/02		7,303,322,636
8/31/02		6,738,274,515
11/30/02		6,397,124,818
02/28/03		6,299,971,921
	$	87,924,272,404
Number of quarters		12
Average Net Asset Value	$	7,327,022,700
Distribution Percentage		4.75%
FY 2003-04 Distribution	**$**	**348,033,578**

Article VII, Section 18 of the Texas Constitution requires that the amount of distributions to the AUF be determined by the U. T. Board of Regents in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of PUF investments and annual distributions to the AUF. The Constitution further limits the U. T. Board's discretion to set annual PUF distributions to the satisfaction of three tests:

1. The amount of PUF distributions to the AUF in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on PUF bonds and notes. The proposed distribution of $348,033,578 is substantially greater than PUF Bonds Debt Service of $117,145,000 projected for FY 2003-2004.

System		Debt Service
U. T.	$	93,892,000
TAMU		23,253,000
Total	$	117,145,000

Sources: U. T. System Office of Finance
Texas A&M University System
Office of Treasury Services

2. The U. T. Board may not increase annual PUF distributions to the AUF (except as necessary to pay PUF debt service) if the purchasing power of PUF investments for any rolling 10-year period has not been preserved. As the schedule below indicates, the average annual increase in the rate of growth of the value of PUF investments (net of expenses, inflation, and distributions) for the trailing 10-year period ended February 28, 2003 was 1.40%.

Average Annual	Percent
Rate of Total Return	7.70%
Mineral Interest Receipts	1.25%
Expense Rate	(0.08)% (1)
Inflation Rate	(2.46)%
Distribution Rate	(5.01)%
Net Real Return	**1.40%**

(1) Paid from AUF until 1/01/00

3. The annual distribution from the PUF to the AUF during any fiscal year made by the U. T. Board may not exceed an amount equal to 7% of the average net fair market value of PUF investment assets as determined by the U. T. Board, (except as necessary to pay PUF bonds debt service). The annual distribution rate calculated using the trailing 12-quarter average value of the PUF is within the 7% maximum allowable distribution rate.

Value of PUF Investments (1)	Proposed Distribution	Proposed Distribution as a % of Value of PUF Investments	Maximum Allowed Rate
$7,327,022,700	$348,033,578	**4.75%**	7.00%

(1) Source: UTIMCO

Background information on the PHF and LTF: The spending policy objectives of the PHF and the LTF are to:

A. provide a predictable stable stream of distributions over time;

B. ensure that the inflation adjusted value of the distributions is maintained over the long-term; and

C. ensure that the inflation adjusted value of the assets of the PHF and the LTF, as appropriate, after distributions is maintained over the long-term.

The goal is for the average spending rate of the PHF or the LTF, as appropriate, over time not to exceed the average annual investment return of such fund after inflation in order to preserve the purchasing power of such fund's distributions and underlying assets.

Unless otherwise established by UTIMCO and approved by the U. T. Board, the spending formula under the PHF Investment Policy and the LTF Investment Policy increases distributions at the rate of inflation subject to a distribution range of 3.5% to 5.5% of the average market value of the PHF assets and LTF assets for each Fund's respective trailing twelve fiscal quarters. The Investment Policies expressly reserve to the U. T. Board the ability to approve a per unit distribution amount for the

PHF and the LTF, as appropriate, that, in their judgment, would be more appropriate than the formula rate calculated by the spending policy provisions.

Because of significant negative returns in the global equity markets during the past three years, the PHF's net asset value of $690.2 million at November 30, 2002 is less than the original PHF contributions of $820.0 million. As a consequence, the recommendation is to depart from the spending formula and not to increase the PHF rate of $0.047 per unit for fiscal year 2004. The PHF's average distribution rate calculated using the prior twelve quarter average value of the PHF is 4.8%, within the range of 3.5% to 5.5% set forth in the PHF Investment Policy. The recommended distribution rate of $0.047 per unit was approved by the UTIMCO Board on February 18, 2003.

In addition to the spending policy objectives for the LTF (described above), the LTF Investment Policy expressly recognizes that, under the Uniform Management of Institutional Funds Act, the U. T. Board may distribute from the LTF the net appreciation, realized and unrealized, in the fair market value of LTF assets over the historic dollar value of the fund. At November 30, 2002, the net asset value of the LTF was $2,597.6 million and the historic dollars value of the LTF was $1,831.4 million. The 2.5% increase in LTF distribution rate from $0.258 per unit to $0.2645 is recommended based on the investment policy to increase the distribution by the average rate of inflation for the trailing twelve quarters. The consumer price index for the prior three years as of November 30, 2002, was 2.5%. The LTF's average distribution rate calculated using the prior twelve quarter average value of the LTF is 4.50%, within the range of 3.5% to 5.5% set forth in the LTF Investment Policy. The recommended distribution rate of $.2645 per unit was approved by the UTIMCO Board on February 18, 2003.

U.T. System: Recommendation to Approve 2004 Budget Preparation Policies and Limitations for General Operating Budgets, Auxiliary Enterprises, Contracts and Grants, Restricted Current Funds, Designated Funds, and Service and Revolving Funds Activities and Calendar for Budget Operations

RECOMMENDATION

With the concurrence of the U. T. System Executive Officers, the Chancellor recommends that the U. T. Board of Regents approve the following Budget Preparation Policies and Limitations and Calendar for use in preparing the 2004 Operating Budget for the U. T. System as set out below:

U. T. System 2004 Budget Preparation Policies

General Guidelines – The regulations and directives that will be included in the General Appropriations Act enacted by the 78th Texas Legislature serve as the basis for these guidelines and policies. In preparing the draft of the 2004 Operating Budget, the president of each component institution should adhere to guidelines and policies as detailed below and as included in the General Appropriations Act. Following legislative approval of the General Appropriations Act, the Chancellor will issue detailed instructions regarding the implementation of those regulations and directives into the component budget process.

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

Salary Guidelines – Recommendations regarding salary policy are subject to the following directives.

1. Salaries Proportional by Fund – Unless otherwise restricted, payment for salaries, wages, and benefits paid from appropriated funds, including local funds and educational and general funds as defined in Texas Education Code Sec. 51.009 (a) and (c), shall be proportional to the source of funds.

2. Merit Increases – Subject to available resources and resolution of any major salary inequities, institutions should give priority to implementing merit salary increases for faculty and staff.

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

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

To be eligible for a merit increase, classified staff must have been employed by the institution for at least six months as of August 31, 2003.

3. Other Increases – Equity adjustments, competitive offers, and increases to accomplish contractual commitments may also be granted in this budget and should also consider merit where appropriate, subject to available resources. Such increases should be noted and explained in the supplemental data accompanying the budget.

4. New Positions – Subject to available resources, new administrative and professional, classified staff and faculty positions are to be requested only when justified by workloads or to meet needs for developing new programs.

5. Tobacco Settlement Funds – The distribution from the Endowment Funds appropriated to Higher Education and to the Permanent Health Fund for Health Related Institutions should be estimated at $0.047 per unit as shown in the following tables:

Individual Endowments

Component	Annual
U. T. El Paso	$1,175,000
U. T. SWMC Dallas	2,350,000
U. T. MB Galveston	1,175,000
U. T. HSC Houston	1,175,000
U. T. HSC San Antonio	9,400,000
U. T. MDA Cancer Ctr.	4,700,000
U. T. HC Tyler	1,175,000
U. T. RAHC*	940,000

*Lower Rio Grande Valley Regional Academic Health Center (RAHC)

Permanent Health Fund

Component	Annual
U. T. SWMC Dallas	$2,210,594
U. T. MB Galveston	1,875,745
U. T. HSC Houston	1,807,273
U. T. HSC San Antonio	1,651,546
U. T. MDA Cancer Ctr.	1,751,117
U. T. HC Tyler	1,219,323

6. It is the expectation that 2004 salary increases for merit, equity, or other reasons be included in the Operating Budgets.

Staff Benefits Guidelines – Recommendations regarding the state contribution for employee staff benefits such as group insurance premiums, teacher retirement, and optional retirement are subject to legislative determination via the General Appropriations Act. Upon approval of this legislation, the Chancellor will issue appropriate instructions regarding the implementation of the benefits into the budget process.

Other Employee Benefits – Employer contributions to the self-insured Unemployment Compensation Fund are based on an actuarial study. Workers' Compensation Insurance rates are experience rated for each component. The Chancellor will issue appropriate instructions regarding the implementation of Unemployment Compensation Fund and Workers' Compensation Insurance Benefits.

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

Budget Reductions and Limitations – The General Appropriations Act may contain provisions requiring budget reductions and budget restrictions, which may impact the 2004 Operating Budget. Upon approval of this legislation, the Chancellor or other appropriate authority will issue instructions regarding the implementation of any of these reductions and limitations into the budgeting process.

2004 Operating Budget Calendar

May 8, 2003	U. T. Board of Regents approves budget policies
June 2-9, 2003	Budget goals and priorities/resource allocation hearings with System Administration
June 20, 2003	Draft copies of budgets, salary rosters, and supplemental data due to System Administration
June 30 – July 8, 2003	Technical Budget hearings with System Administration
July 14, 2003	Final copies of budgets due to System Administration
July 30, 2003	Operating Budget Summaries mailed to U. T. Board of Regents
August 6-7, 2003	U. T. Board of Regents approves Operating Budget
August 15, 2003	Approved budgets and salary rosters due to System Administration for copying and binding

BACKGROUND INFORMATION

The U. T. System 2004 Budget Preparation Policies will track the regulations and directives that will be included in the General Appropriations Act to be enacted by the 78th Texas Legislature. Following legislative approval of the General Appropriations Act, the Chancellor will issue detailed instructions regarding the implementation of these regulations and directives.

U. T. System: Request for Approval of a New Regental Policy entitled The University of Texas System Debt 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 The University of Texas System Debt Policy, substantially in the form on the subsequent pages.

BACKGROUND INFORMATION

The U. T. System issues debt through three primary programs: the Revenue Financing System (RFS), the Permanent University Fund (PUF), and the Higher Education Assistance Fund (HEAF). The U. T. System Debt Policy will govern the use of debt under each of these programs to finance capital projects within the U. T. System.

In addition to compliance with the U. T. System Debt Policy, any debt incurred by the U. T. System will be issued pursuant to a resolution approved by the U. T. Board of Regents and in accordance with the laws of the State of Texas. Before any debt can be issued, the U. T. System must obtain an opinion from bond counsel that the issue complies with applicable State and federal laws. The U. T. System must also receive the necessary approvals from both the Texas Bond Review Board and the Texas Attorney General.

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

The University of Texas System Debt Policy

Purpose

This policy governs the use of debt to finance capital projects within The University of Texas System ("System"). The prudent use of debt can help the System achieve its strategic objectives while maintaining a credit rating that appropriately balances financial flexibility with cost of capital.

Financing Programs

The System issues debt through three primary programs, the Revenue Financing System ("RFS"), the Permanent University Fund ("PUF"), and the Higher Education Assistance Fund ("HEAF"). This policy will govern the issuance of all System debt.

Revenue Financing System – The RFS was created by the Board of Regents of The University of Texas System ("Board") through the adoption of a Master Resolution on February 14, 1991. The Board established the RFS for the purpose of assembling the System's revenue-supported debt capacity into a single financing program in order to provide a cost-effective debt program to component institutions of the System and to maximize the financing options available to the Board.

Permanent University Fund - Article VII, Section 18 of the Texas Constitution authorizes the Board to issue bonds and notes secured by the System's interest in the Available University Fund ("AUF"). The AUF consists of distributions from the total return of PUF investments. The Constitution limits the amount of PUF debt that may be issued by the System to 20% of the cost value of investments and other assets of the PUF. The Constitution prohibits the issuance of PUF debt for auxiliary projects.

Higher Education Assistance Fund ("HEAF") - Article VII, Section 17 of the Texas Constitution authorizes the Board to issue bonds and notes secured by pledged revenues consisting of up to 50% of the money allocated annually to the Board for U. T. Pan American and U. T. Brownsville. Bonds issued under this authority are typically referred to as HEAF bonds or constitutional appropriation bonds. The Constitution prohibits the issuance of HEAF debt for auxiliary projects, except to the extent of a project's use for educational and general activities.

Authority

All debt incurred by the System will be issued or incurred pursuant to resolutions approved by the U. T. Board of Regents and in accordance with the general laws of the State of Texas, including particularly Article VII, Sections 17 and 18 of the Texas Constitution, Chapters 55 and 65 of the Texas Education Code, and Chapters 1207 and 1371 of the Texas Government Code. Before any debt can be issued, the System must obtain an opinion from bond counsel that the issue complies with applicable Texas and federal laws. The System must also receive the necessary approvals from both the Texas Bond Review Board and the Texas Attorney General.

Debt Guidelines

Any debt must be issued in strict compliance with applicable law. The following debt guidelines will apply:

I. ***Project Funding***- The System will borrow money, through the issuance of debt, to finance only those projects that have been approved for financing by the Board of Regents. Capital projects are generally evaluated and prioritized through the System's Capital Improvement Program. For construction projects that require debt financing, bond proceeds will be provided only after design development approval and appropriation of funds by the Board of Regents.

II. ***Interest Rate Exposure***- The Office of Finance will evaluate and determine the appropriate amount of its interest rate exposure, defined as the possible increase in capital costs resulting from rising short-term interest rates. The System will limit its variable rate debt in accordance with rating agency guidelines for assessing the debt structure of peer institutions of higher education with comparable credit ratings. In determining the amount of variable rate debt, the Office of Finance will evaluate the level of variable rate assets that may be available to provide a natural hedge to interest rate fluctuations. The System will seek to minimize its cost of capital within a prudent level of exposure to interest rate volatility. The System shall broadly target variable rate debt of 30-50% of total outstanding debt.

III. ***Amortization***- The amortization of tax-exempt debt will be based on the types of assets financed, the expected availability of cashflows to meet debt service requirements, and tax regulations. Generally, the amortization of tax-exempt debt should not exceed the useful life of the financed asset and may never exceed the Internal Revenue Service limit of 120% of the useful life of the financed asset. The maximum maturity of RFS debt is limited to 50 years by Chapter 55 of the Texas Education Code. The maximum maturity of PUF debt is limited to 30 years by Article VII, Section 18 of the Texas Constitution. The maximum maturity of HEAF debt is limited to 10 years by Article VII, Section 17 of the Texas Constitution.

IV. ***Financial Ratios***- The System will use selected actual and pro forma financial ratios, consistent with major credit rating agency criteria, to ensure the System is operating within appropriate financial bounds. Although other ratios may also be evaluated, the primary financial ratios to be analyzed include the debt service coverage ratio, the debt burden ratio, and the leverage ratio.

V. ***Economies of Scale***- Debt financings will be coordinated to the extent practical so that multiple project needs can be accommodated in a single borrowing, thereby increasing the efficiency of the debt issuance. Since many issuance costs do not vary with the size of a borrowing, a large bond issue increases the efficiency of the financing by spreading fixed costs over a greater number of projects.

VI. ***Refunding Opportunities***- The Office of Finance will actively consider refinancing of outstanding debt issues when net savings for that refinancing, measured on a net present value basis, are positive. Since there are limitations on the number of allowable refinancings, it is important to use refinancing opportunities wisely. In evaluating refunding opportunities, the Office of Finance will consider the value of the call option to be exercised, including the amount of time to the call date and the amount of time from the call date to maturity. Based on these and other factors, the Office of Finance will determine the minimum savings threshold for any particular refunding transaction. Refundings that do not produce savings may be considered under certain circumstances, such as eliminating restrictive bond covenants or other situations that produce a greater benefit to the System.

VII. ***Disclosure***- The Office of Finance will provide updated financial information and operating data and timely notice of specified material events to each nationally recognized municipal securities information repository and any state information depository, pursuant to its continuing disclosure undertakings with respect to Rule 15c2-12 promulgated by the Securities and Exchange Commission.

VIII. ***Hedging Instruments***- The Office of Finance will consider the use of interest rate swaps and other interest rate risk management tools after carefully evaluating the risks and benefits of any proposed transaction, in accordance with the U. T. System Interest Rate Swap Policy. By using swaps in a prudent manner, the System can take advantage of market opportunities to minimize expected costs and manage interest rate risk. As outlined in the U. T. System Interest Rate Swap Policy, the use of swaps must be tied directly to System debt instruments. The System shall not enter into swap transactions for speculative purposes.

IX. ***Project Financing***- The Office of Finance will consider the use of project financing in those limited circumstances where the benefits of such a transaction exceed the increased costs. Project financing can be a useful financing technique in certain circumstances; however, these transactions are typically less efficient and more costly than traditional financing due to lower credit ratings, fewer economies of scale, the funding of a reserve fund, and the cost of bond insurance. Project financing does not preserve or increase debt capacity relative to traditional financing. The credit rating agencies and the System include project debt when assessing the debt capacity of component institutions.

X. ***Taxable Debt***- The System may use taxable debt for those projects that have an intended use or other characteristics that preclude the use of tax-exempt debt. The System will strive to allocate its available resources, including equity capital, among its various capital projects to minimize or eliminate the need to issue taxable debt, thereby minimizing the System's cost of capital. Any use of taxable debt would require separate Board approval and be subject to the same statutory requirements as tax-exempt debt.

XI. ***Reporting Requirements***- The Annual Financial Report ("AFR") prepared by the System and presented to the Board will discuss the status of all outstanding bond and note indebtedness. The AFR presented to the Board provides detailed information on the System's outstanding bonds and notes, including, by series, the amount outstanding, interest rates, maturity dates, a summary of the changes in outstanding indebtedness, and the associated debt service requirements.

U. T. System: Request for Approval of Amendments to the Regental Policy entitled Available University Fund Spending 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 Regental Policy entitled Available University Fund Spending Policy be amended as set forth in congressional style on the subsequent pages.

BACKGROUND INFORMATION

The Board approved the Available University Fund (AUF) Spending Policy in April 1993 to establish procedures for the approval of Permanent University Fund (PUF) funded projects, criteria for project selection, minimum debt service coverage, and minimum reserve balance.

The amendments primarily update the AUF spending policy to reflect current U. T. System practices, such as quarterly reporting on the PUF, and to make the AUF spending policy consistent with other U. T. System policies such as the PUF investment policy. Other changes amend the PUF project justification criteria to make them consistent with criteria included in the Capital Improvement Program.

AVAILABLE UNIVERSITY FUND SPENDING POLICY

In order to provide a consistent and dependable level of funding and to maintain the highest credit ratings level possible, the appropriation of the Available University Fund (AUF) shall be governed by the following:

A. Any staff recommendation to appropriate funds from the AUF or from Permanent University Fund (PUF) bond proceeds will be presented in the context of that appropriation's impact on: (a) AUF funding for the support and maintenance of U. T. Austin[~~U. T. Austin operations~~], (b) bond ratings, (c) projected AUF balances, and (d) other PUF projects in the Capital Improvement Program [~~Plan~~] (CIP). As such, the following procedures will apply:

1. A forecast of at least six years of the income and expenditures of the AUF will be presented at each meeting of the U. T. Board of Regents' Finance and Planning Committee by the Office of Finance. Quarterly, The University of Texas Investment Management Company (UTIMCO) shall provide to the Office of Finance a forecast of the PUF distributions to the AUF that will be the basis of the AUF forecast. Included as part of the AUF forecast will be the projected amount of remaining PUF debt capacity calculated in accordance with this policy. [~~Prior to each meeting of the U. T. Board of Regents at which a PUF funded project or AUF expenditure is submitted for approval, a forecast of at least seven years of the income and expenditures of the Available University Fund shall be completed. That forecast shall include, as separately identified expenditures, each of the proposed PUF projects recommended for approval in that agenda.~~]

2. As a part of each agenda item requesting approval of AUF expenditures or PUF funded projects, a statement indicating compliance with this policy based on the most recent forecast shall be included.

[~~3. Accompanying the forecast, there will be a listing of all PUF projects from the CIP which are in a delayed or pending status and the amount of time they have already been delayed, plus a listing of all other projects which may be delayed as a result of the actions recommended for that meeting.~~]

[~~4~~]3. In preparing recommendations for projects to be approved, the staff will be guided by the following [~~general priorities~~]justification criteria:

   a. [~~Repair and renovation projects~~]Consistency with institution's mission;

   b. [~~Library and equipment projects~~]Project need;

   c. [~~New construction projects.~~]Unique opportunity;

   d. Matching funds/leverage;

   e. Cost effectiveness;

   f. State of existing facility condition; and

   g. Other available funding sources.

   [~~While these general priorities will shape recommendations, the specific merits of an individual proposed project will determine which of several pending projects across~~

~~all categories as well as within each category may be recommended for funding as resources become available. In selecting which projects will be recommended, the staff will consider the following attributes:~~]

[~~a. Emergency needs~~

~~b. Contribution to the mission of the U. T. System as well as to the mission of the component~~

~~c. Availability of alternate sources of funding including the use of revenue bonds~~

~~d. Leveraging effect from external financial participation and internal sources and operating efficiencies.~~]

[~~5~~]4. No project will be recommended for approval, if in any of the forecasted years, the required appropriations from the AUF or PUF bond proceeds would cause:

a. The forecasted AUF expenditures for program enrichment at U. T. Austin to fall below 45 percent of the sum of the projected U. T. System share of the net divisible AUF annual income and interest income on AUF balances (subject to the limits imposed by b. and c. below);

b. Debt service coverage to be less than 1.50:1.00 and;

c. The forecasted end of year AUF balance to be less than $30 million.

B. Permanent University Fund Investment Income Forecast and AUF Expenditures

1. In conjunction with the annual U. T. System budget process, UTIMCO shall recommend to the U. T. Board of Regents in May of each year an amount to be distributed to the AUF during the next fiscal year. UTIMCO's recommendation on the annual distribution shall be an amount equal to 4.75% of the trailing twelve quarter average of the net asset value of the PUF for the quarter ending February of each year. [~~The University of Texas Investment Management Company shall provide a forecast of the investment income of the Permanent University Fund at least annually prior to the adoption of the U. T. System Capital Budget and Operating Budgets of U. T. Austin and the U. T. System Administration. In order to assure a high level of confidence in the results, the forecast will be based on the lower of current interest rates or long-term historical interest rates and explicitly stated assumptions. Concurrence of the Investment Advisory Committee on assumptions will be sought.~~]

2. Operating expenditures of the U. T. System Administration will be carefully controlled in order to maximize the opportunity to meet the capital needs of the component institutions and the operating budget needs of U. T. Austin. Wherever possible, alternate funding from component institutions, State [~~state~~] funds, or other sources will be sought. Programs for which alternative funding cannot be obtained will be evaluated for possible reductions or phase out.

3. [~~Each two years beginning in June 1993 the~~] The [~~Capital Improvement Plan (~~CIP[~~)~~] will be reviewed and updated every two years. The update will include an estimated start date for each project which will be based on the criteria set forth in Section [~~A4~~] A3 above, project readiness, projected fund availability, and relative urgency of need for the completed project.

AVAILABLE UNIVERSITY FUND SPENDING POLICY

[~~4. During each fiscal year, the aggregate transfers to U. T. Austin from its annual AUF appropriation will be limited to no more than the ratable portion of the appropriation for the year unless prior approval is obtained from the Chancellor.~~]

U. T. Board of Regents: Proposed Amendment to the Regents' Rules and Regulations, Part One, Chapter VI, Section 6 (Use of University Facilities)

RECOMMENDATION

The Chancellor concurs in the recommendation of the Acting Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Academic Affairs, and the Vice Chancellor and General Counsel that the Regents' Rules and Regulations, Part One, Chapter VI, Section 6 relating to use of University facilities be amended by adding a new Subsection 6.(14) to read as set forth below in congressional style:

. . .

6.(14) Use of Facilities for Weddings.

The president of a component institution, or his or her delegate, and the Chancellor of the U. T. System, or his or her delegate, may designate one or more indoor and/or outdoor areas that may be used for weddings, subject to the following conditions:

6.(14)1. Requests for use of such space must be made at least fourteen (14) days in advance.

6.(14)2. Use of such space for activities of a component institution or the U. T. System shall have priority over weddings.

6.(14)3. A charge for the use of such space will be made that at least recovers the actual cost.

6.(14)4. The user shall be required to execute a Facilities Use Agreement, the form and content of which has been approved by the U. T. System Office of General Counsel and provides for adequate insurance.

BACKGROUND INFORMATION

The Regents' Rules and Regulations currently provide no authority for the facilities of a component institution or the U. T. System, other than a Special Use Facility, to be used for the purpose of weddings.

The proposed addition of Subsection 6.(14) to Part One, Chapter VI, Section 6 of the Regents' Rules and Regulations will provide the authority to use certain designated space for weddings under the limited conditions set forth in the new Subsection 6.(14).

THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS

Finance and Planning Committee **April 1, 2003**

Agenda Item: Historical Review of Optimum Asset Allocations Discussion Item

Presenter: Bob L. Boldt, President, Chief Executive Officer and Chief Investment Officer, UTIMCO

Purpose:
At the January 7, 2003, U. T. System Board of Regents' Finance and Planning Committee Meeting, Chairman Miller requested a review of past asset allocations used by The University of Texas Investment Management Company. The purpose of this presentation is to provide the requested "Rearview Mirror Review" or a historical review of optimum asset allocations for each quarter over the past ten years.

Outline of Key Points/Policy Issues:
Determine Policy Portfolio target allocations and allowable ranges for each asset class for each quarter for November 1992 through November 2002,

Determine actual quarterly returns for each asset category,

Using actual returns for each asset category, calculate returns to perfectly good and perfectly poor tactical asset allocation.

Background Information:
Bruce Myers' made a PowerPoint presentation at the January 7, 2003 U. T. System Board of Regents' Finance and Planning Committee meeting.

THE UNIVERSITY OF TEXAS
INVESTMENT MANAGEMENT COMPANY

Historical Review of Optimum Asset Allocations

Presentation to Finance and Planning Committee of
The University of Texas System Board of Regents

Bob L. Boldt

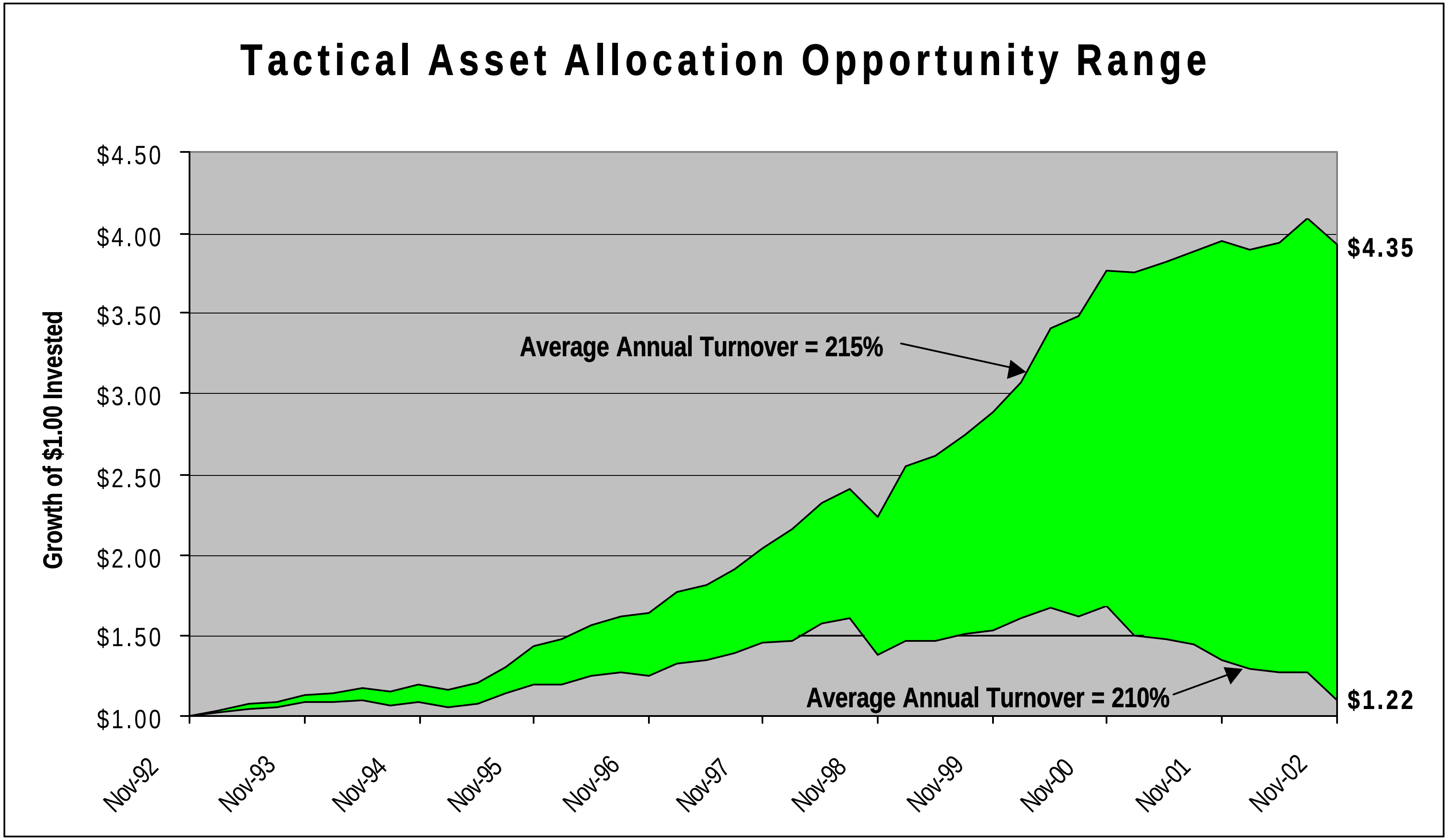
April 1, 2003

Analysis Methodology

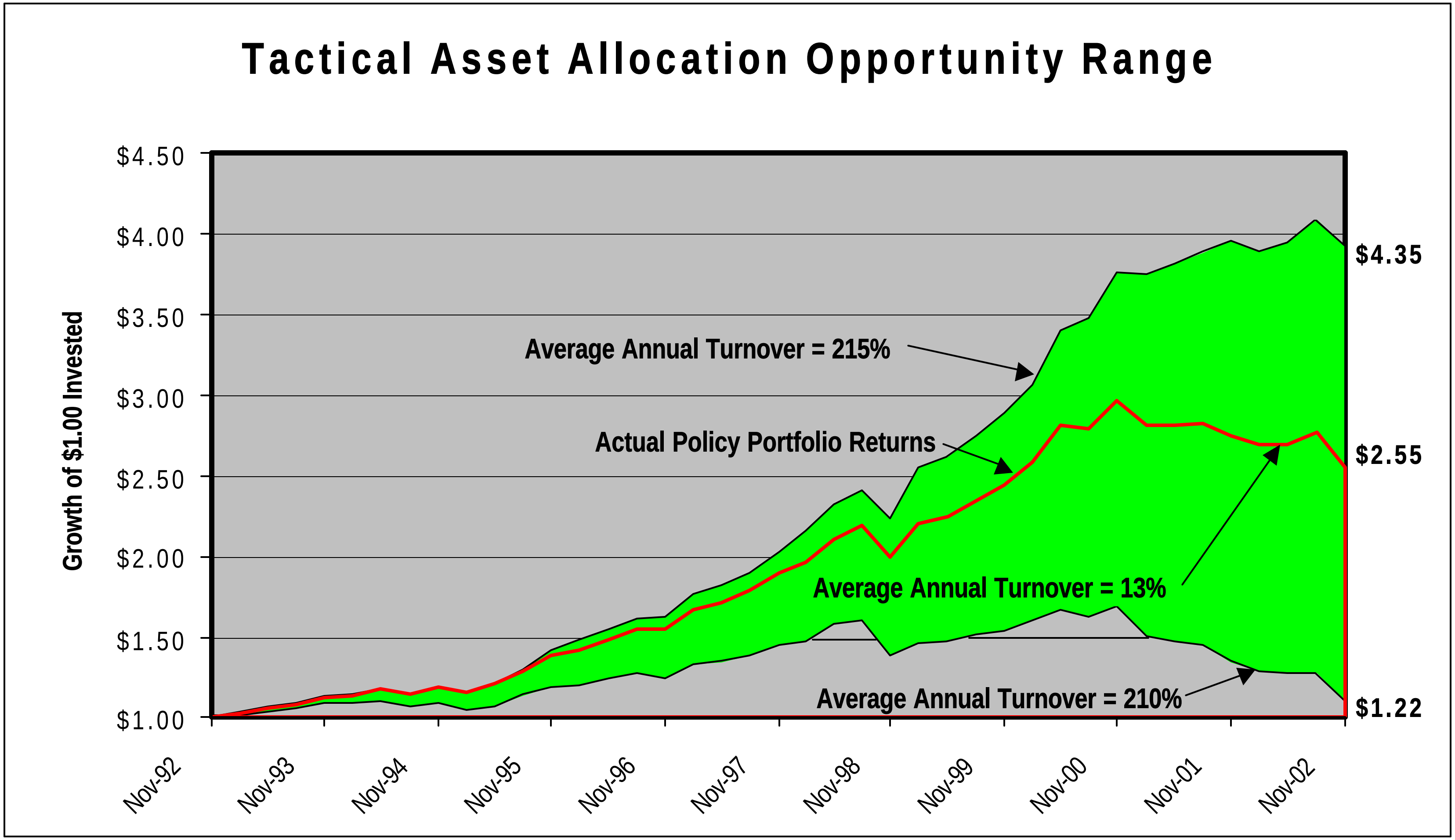
- Determine Policy Portfolio target allocation and allowable ranges for each asset class for each quarter over the past ten years (November 1992 through November 2002); determine actual quarterly returns for each asset category,

- Using actual returns for each asset category, calculate returns to perfectly good and perfectly poor tactical asset allocation :
  - To calculate perfectly good tactical allocation performance: at the beginning of each quarter, look ahead to actual performance of each asset category for that quarter and set allocation at extremes of allowable ranges to take the greatest advantage of actual returns.
  - To calculate perfectly poor tactical allocation performance: same procedure as above, but set allocations at extreme of ranges so that subsequent performance is the worst possible.
  - Deduct reasonable transaction costs from subsequent returns.

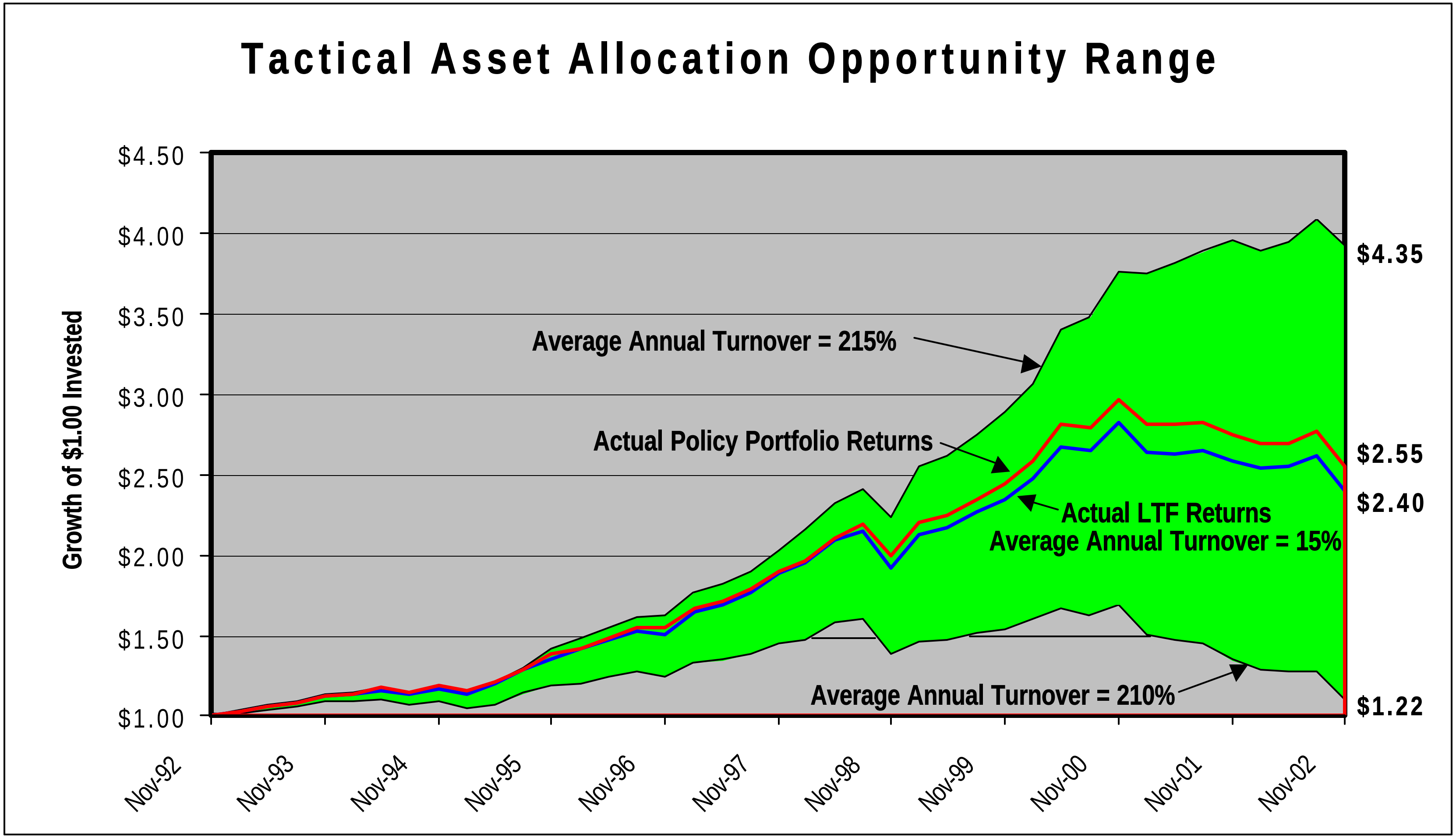
Tactical Asset Allocation Analysis



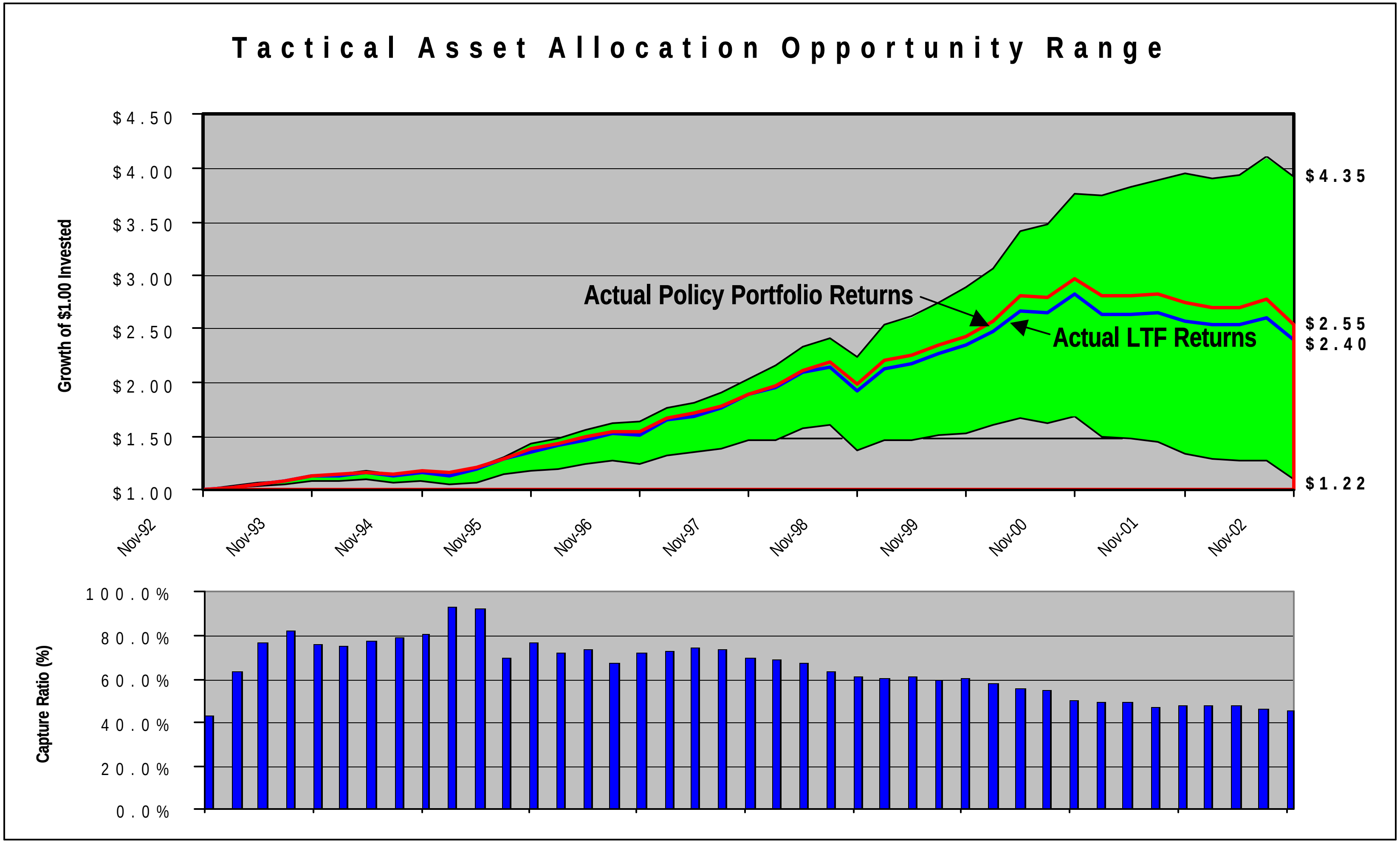
Tactical Asset Allocation Analysis



Tactical Asset Allocation Analysis



Tactical Asset Allocation Analysis



Summary

- There were very significant opportunities to add value through Tactical Asset Allocation over the past 10 years; however, possible opportunity losses from failing to make the correct tactical decisions were large and the portfolio turnover required by the activist tactical allocation strategy was exceptionally high,
- Actual endowment portfolio performance trailed Policy Portfolio performance primarily because of flaws in Policy Portfolio construction,
- The “Capture Ratio” fell in recent years because of the strong performance of fixed income securities relative to equity securities of all types and the lower than optimal allocations to fixed income in the actual endowment portfolios,
- UTIMCO staff has begun the evaluation of several Tactical Asset Allocation specialist managers to determine if they might be of assistance in improving the Capture Ratio.

UTIMCO

1996

THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY

THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS

Finance and Planning Committee **April 1, 2003**

Agenda Item: Quarterly Permanent University Fund Update Discussion Item

Presenter: Philip R. Aldridge, The University of Texas System Office of Finance

Purpose:
The Office of Finance provides an update on the Permanent University Fund (PUF) to the Finance and Planning Committee on a quarterly basis. The purpose of this presentation is to update the Committee on changes in the forecasted distributions from the PUF to the Available University Fund (AUF) and the resulting impacts on remaining PUF debt capacity, U. T. Austin excellence funds and the balance in the AUF.

Outline of Key Points/Policy Issues:
As of January 31, 2003, the market value of the PUF was $6.3 billion compared to $6.4 billion as of November 30, 2002. As a result of market value declines in recent quarters, PUF distributions to the AUF are projected to decline through FY 2006 and to be capped for a period of time because the purchasing power of the PUF will not have been maintained as required by the Texas Constitution.

The most significant change from previous forecasts is a reduction in the operating budget for U. T. System Administration from FY 2003 through FY 2010. The operating budget has been held constant pending resolution of the current budget situation.

Based on the current AUF model assumptions, there is no additional PUF debt capacity beyond PUF projects already approved and reflected in the Capital Improvement Program as well as $30 million of LERR (Library, Equipment, Repair and Rehabilitation) funding per year included in the model. Under the 7.4% return scenario, the balance in the AUF is projected to rise from $49.2 million at the end of FY 2002 to $84.0 million by FY 2004 before declining steadily to $6.2 million by FY 2010.

Background Information:
Annually, the U. T. Board of Regents approves a distribution amount to the AUF. The PUF investment policy provides that in conjunction with the annual U. T. System budget process, UTIMCO shall recommend to the U. T. Board in May of each year an amount to be distributed to the AUF during the next fiscal year. UTIMCO's recommendation on the annual distribution shall be an amount equal to 4.75% of the trailing twelve-quarter average of the net asset value of the PUF for the quarter ending February of each year.

The University of Texas System
Office of Finance

Quarterly Permanent University Fund Update

Finance and Planning Committee

April 1, 2003

[Will not be presented at the meeting as an audiovisual presentation]

Executive Summary

- As of January 31, 2003, the market value of the PUF was $6.3 billion, compared to $6.4 billion on November 30, 2002.

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

- The debt capacity analyses are based on an expected average annual rates of return on PUF investments of 9.35% (Prior Asset Allocation) and 7.40% through FY 2009 and 9.35% beginning FY 2010 (UTIMCO-approved Asset Allocation).

- There is no additional PUF debt capacity, beyond PUF projects currently approved and anticipated LERR allocations, based on the current assumptions under either rate of return scenario.

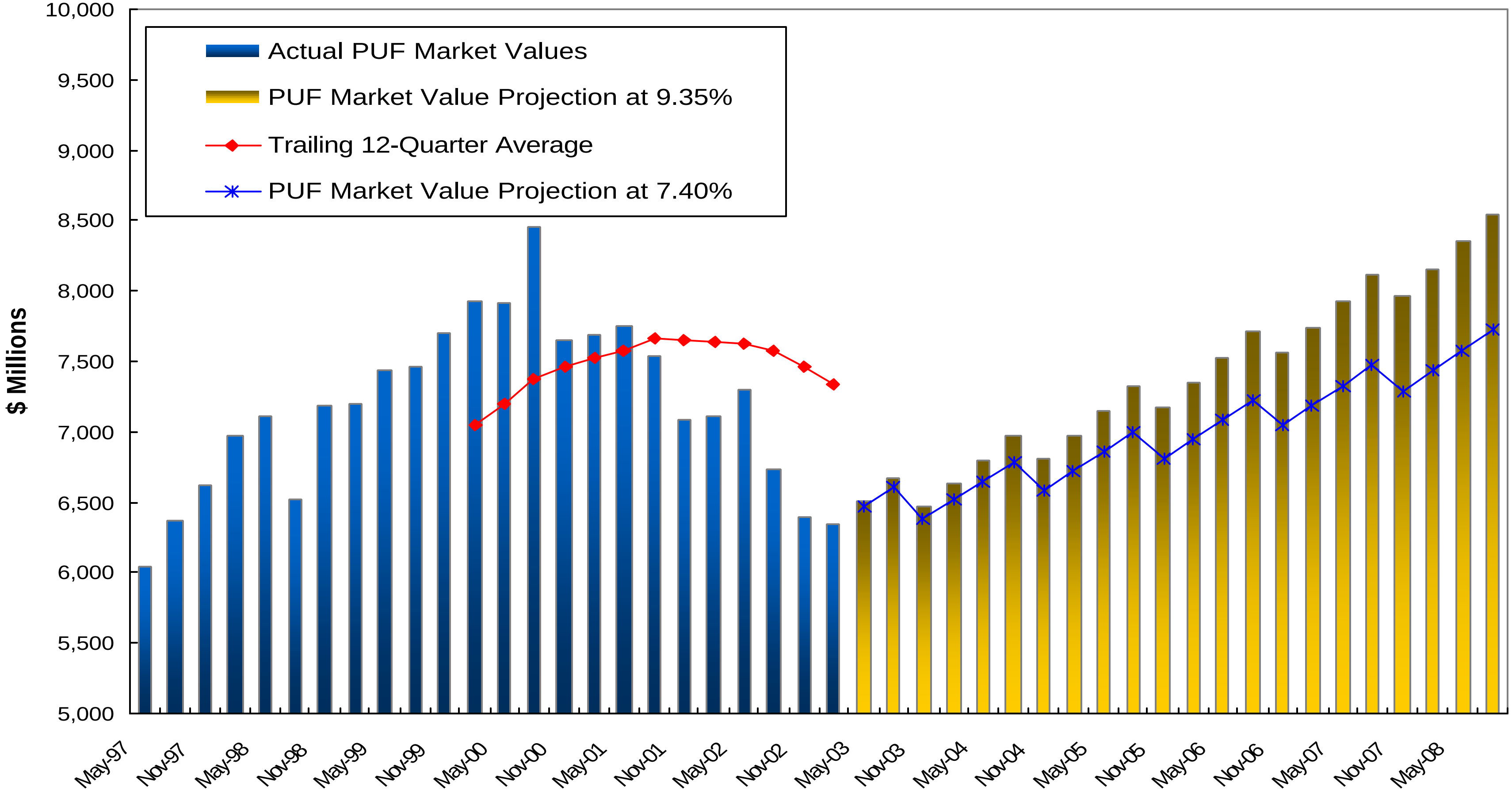
Executive Summary, Cont.

- PUF distributions are projected to decline through FY 2006 and to be capped for a period of time because the purchasing power of the PUF will not have been maintained, as required by the Texas Constitution.

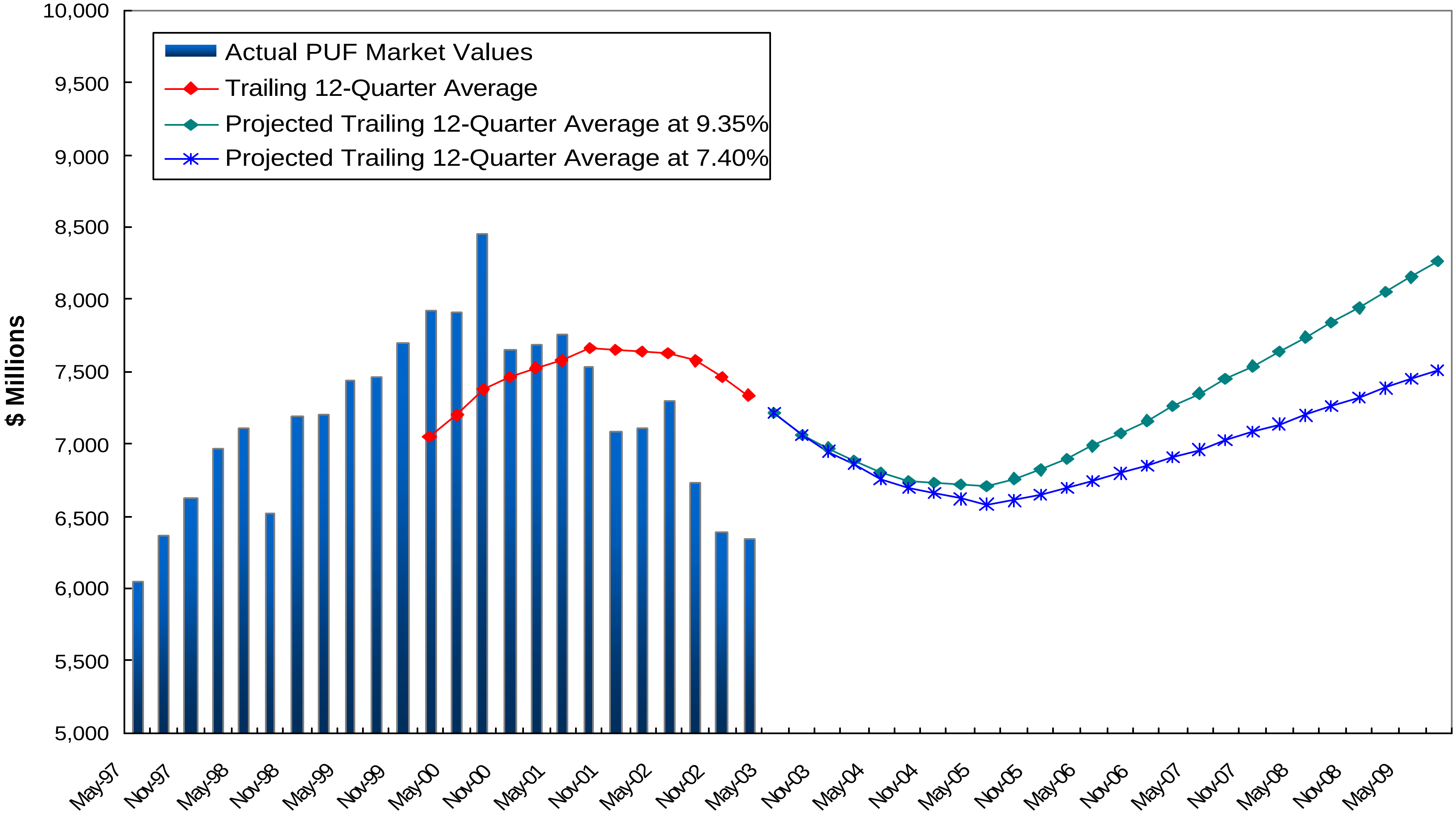
- Under the 9.35% scenario, the PUF distribution is capped at $344.7 million from FY 2008 through FY 2012.

- Under the 7.40% scenario the PUF distribution is capped at $318.0 million from FY 2007 through FY 2012.

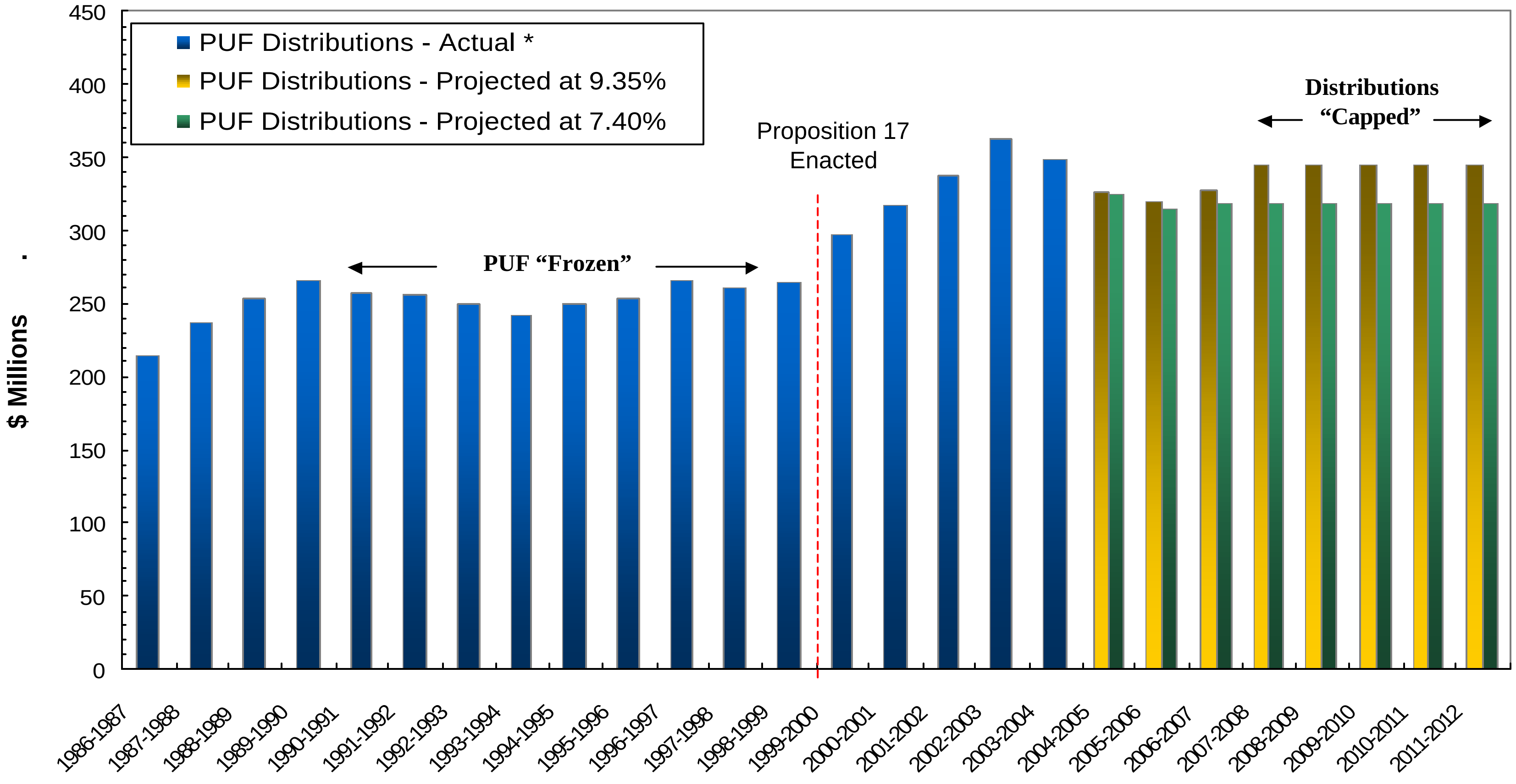
PUF Market Value Through January 31, 2003



Comparison of Projected Trailing 12Q Market Averages



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

- The assumptions are the same for both cases except for the projected PUF annual rate of return, assuming either 9.35% or 7.40%, starting from the PUF market value as of January 31, 2003.

    - 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 February 2003.

    - 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 at 9.35%

Additional PUF Debt Capacity ($0 Million)	$0.0	$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	$0.0

Available University Fund Operating Statement Forecast Data ($ Millions)	Actual FY 02	Projected FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FYE 10
PUF Distribution Amount	$338.4	$363.0	$348.2	$326.8	$319.1	$327.8	$344.7	$344.7	$344.7
Surface & Other Income	8.1	7.4	7.4	7.5	7.5	7.6	7.6	7.6	7.7
Divisible Income	346.5	370.4	355.6	334.3	326.6	335.4	352.3	352.3	352.4
UT System Share (2/3)	231.0	246.9	237.1	222.8	217.7	223.6	234.8	234.9	234.9
AUF Interest Income	8.4	4.1	3.9	5.9	7.8	9.2	10.3	10.3	9.9
Income Available to U.T.	239.4	251.0	241.0	228.8	225.6	232.8	245.1	245.1	244.8
TRANSFERS:									
UT Austin Excellence Funds (45%)	(107.2)	(114.8)	(108.5)	(102.9)	(101.5)	(104.7)	(110.3)	(110.3)	(110.2)
PUF Debt Service on Approved Projects	(68.1)	(69.3)	(93.9)	(100.6)	(102.8)	(106.2)	(109.3)	(112.1)	(115.0)
PUF Cash Defeasance/CPPP Insurance Funding	(59.0)	-	-	-	-	-	-	-	-
PUF Debt Service on Add. Debt Capacity	-	-	-	-	-	-	-	-	-
System Administration	(25.7)	(29.6)	(28.8)	(28.3)	(28.3)	(28.3)	(28.3)	(28.3)	(28.3)
Other	(3.0)	(4.5)	(1.1)	(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)	(27.0)	29.4	5.4	(4.1)	(8.1)	(7.5)	(3.9)	(6.6)	(9.7)
Ending AUF Balance - System	49.2	78.6	84.0	79.9	71.8	64.2	60.4	53.8	44.1
PUF Debt Service Coverage	3.11:1	3.62:1	2.57:1	2.27:1	2.19:1	2.19:1	2.24:1	2.19:1	2.13:1

PUF Debt Capacity-Base Case at 7.40%

Additional PUF Debt Capacity ($0 Million)	$0.0	$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	$0.0

Available University Fund Operating Statement Forecast Data ($ Millions)	Actual	Projected							
	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FYE 10
PUF Distribution Amount	$338.4	$363.0	$348.2	$325.6	$314.7	$318.0	$318.0	$318.0	$318.0
Surface & Other Income	8.1	7.4	7.4	7.5	7.5	7.6	7.6	7.6	7.7
Divisible Income	346.5	370.4	355.6	333.1	322.2	325.5	325.6	325.6	325.6
UT System Share (2/3)	231.0	246.9	237.1	222.1	214.8	217.0	217.0	217.1	217.1
AUF Interest Income	8.4	4.1	3.9	5.9	7.7	8.8	9.2	8.7	7.8
Income Available to U.T.	239.4	251.0	241.0	227.9	222.5	225.8	226.2	225.8	224.9
TRANSFERS:									
UT Austin Excellence Funds (45%)	(107.2)	(114.8)	(108.5)	(102.6)	(100.1)	(101.6)	(101.8)	(101.6)	(101.2)
PUF Debt Service on Approved Projects	(68.1)	(69.3)	(93.9)	(100.6)	(102.8)	(106.2)	(109.3)	(112.1)	(115.0)
PUF Cash Defeasance/CPPP Insurance Funding	(59.0)	-	-	-	-	-	-	-	-
PUF Debt Service on Add. Debt Capacity	-	-	-	-	-	-	-	-	-
System Administration	(25.7)	(29.6)	(28.8)	(28.3)	(28.3)	(28.3)	(28.3)	(28.3)	(28.3)
Other	(3.0)	(4.5)	(1.1)	(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)	(27.0)	29.4	5.4	(4.5)	(9.8)	(11.3)	(14.3)	(17.3)	(20.6)
Ending AUF Balance - System	49.2	78.6	84.0	79.4	69.6	58.3	44.0	26.8	6.2
PUF Debt Service Coverage	3.11:1	3.62:1	2.57:1	2.27:1	2.16:1	2.13:1	2.07:1	2.01:1	1.96:1

PUF Debt Capacity Sensitivities at 9.35%

Board-Determined	Board-Determined	Board-Determined	Market-Dependent	Market-Dependent									
		PUF	PUF	Change in	Projected Available University Fund Balance ($ Millions)							Add'l.	Projected PUF
Annual LERR	U.T. Austin Excellence	Distribution Rate	Investment Return	Tax-Exempt Rates	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	Debt Capacity	Market Value in FY 2030
$30 Million	45.0%	4.75%	9.35%	NA	84.0	79.9	71.8	64.2	60.4	53.7	44.0	None	24,060,277,839
$30 Million	45.0%	4.75%	9.35%	NA	84.0	79.9	71.8	64.2	60.4	53.7	44.0	None	24,060,277,839
$20 Million	45.0%	4.75%	9.35%	NA	81.8	76.4	67.5	59.9	56.9	52.1	45.0	37.6	24,060,277,839
$10 Million	45.0%	4.75%	9.35%	NA	79.6	72.7	62.8	55.1	52.8	49.6	45.0	76.8	24,060,277,839
None	45.0%	4.75%	9.35%	NA	77.3	68.9	58.1	50.3	48.7	47.2	45.0	116.0	24,060,277,839
$30 Million	**40.0%**	4.75%	9.35%	NA	84.2	79.8	71.3	63.6	60.3	54.2	45.0	146.9	24,060,277,839
$30 Million	**45.0%**	4.75%	9.35%	NA	84.0	79.9	71.8	64.2	60.4	53.7	44.0	None	24,060,277,839
$30 Million	**50.0%**	4.75%	9.35%	NA	71.9	56.2	36.2	16.2	-1.2	-21.7	-45.7	None	24,060,277,839
$30 Million	45.0%	**4.50%**	9.35%	NA	77.1	66.6	52.1	38.0	27.4	13.8	-3.0	None	25,662,749,923
$30 Million	45.0%	**4.75%**	9.35%	NA	84.0	79.9	71.8	64.2	60.4	53.7	44.0	None	24,060,277,839
$30 Million	45.0%	**5.00%**	9.35%	NA	84.8	81.0	73.0	65.4	61.5	54.8	45.0	75.2	22,544,113,975
$30 Million	45.0%	4.75%	**8.35%**	NA	84.0	79.6	70.7	61.1	48.8	33.5	14.8	None	18,479,166,582
$30 Million	45.0%	4.75%	**9.35%**	NA	84.0	79.9	71.8	64.2	60.4	53.7	44.0	None	24,060,277,839
$30 Million	45.0%	4.75%	**10.35%**	NA	82.3	76.7	67.7	60.4	58.1	53.1	45.0	21.0	30,993,405,987
$30 Million	45.0%	4.75%	9.35%	**+ 50 bps**	82.7	77.1	67.4	58.1	52.3	43.6	31.7	None	24,060,277,839
$30 Million	45.0%	4.75%	9.35%	**NA**	84.0	79.9	71.8	64.2	60.4	53.7	44.0	None	24,060,277,839
$30 Million	45.0%	4.75%	9.35%	**-50 bps**	83.8	79.6	71.5	64.1	60.5	54.2	45.0	19.1	24,060,277,839

THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS

Finance and Planning Committee **March 31, 2003**

Agenda Item: UT TeleCampus Cost Study Discussion Item

Presenter: Dr. Darcy Hardy, Assistant Vice Chancellor and Director, UT TeleCampus

Purpose:
The purpose of this presentation is to report the results of a cost comparison study conducted at the request of the Finance and Planning Committee.

Outline of Key Points/Policy Issues:
Key points to be presented are as follows:
- TeleCampus statistics
- Description of study
- Study methodology
- Findings
- Conclusions

Study results indicate that the TeleCampus can deliver instruction at a cost that is generally lower than its on-campus equivalent.

Background Information:
As a result of the presentation made to the Finance and Planning Committee in October 2002, the TeleCampus staff was asked to conduct a cost comparison study that looked specifically at the delivery costs of on-campus and online instruction.

UT TeleCampus Cost Study

TeleCampus Mission

The UT TeleCampus is a service-driven, central support system for online education initiatives among the fifteen universities and health science centers that comprise the U. T. System as they strive to meet the educational needs of Texas, the nation and the world.

TeleCampus Mission

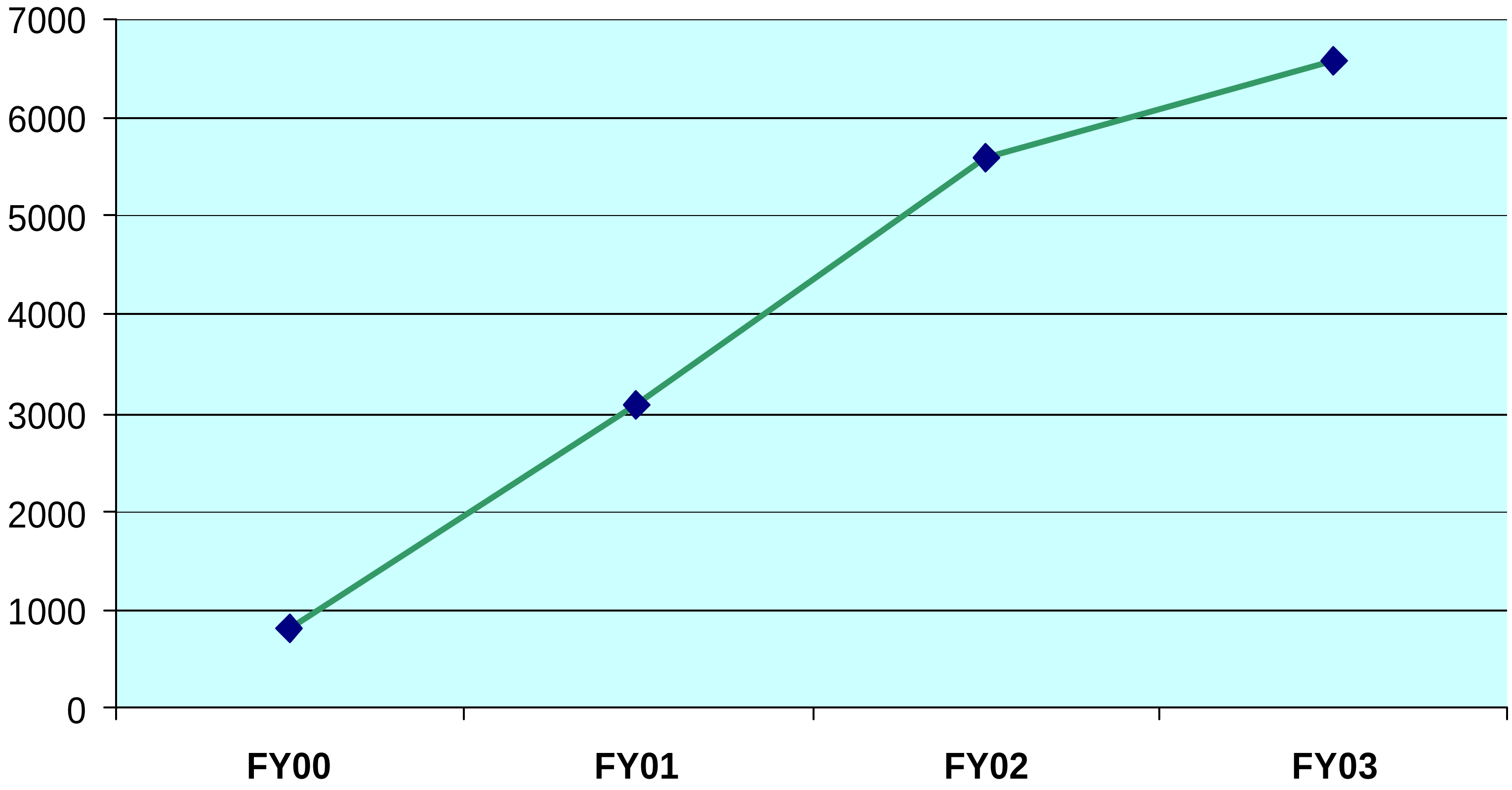
Key to the UT TeleCampus operations are two guiding principles:

- All UT TeleCampus activities must be consistent with the mission of the University of Texas System in its effort to provide access and high-quality educational opportunities for Texans.
- The UT TeleCampus would not exist without the support of the U. T. System faculty. The TeleCampus must promote and support U. T. faculty throughout online course development and delivery.

TeleCampus Stats

- Over 16,000 enrollments to date
- 13 fully online programs
- Over 175 courses in TeleCampus catalog
- 104 courses offered in Spring 2003
- Over 200 faculty and instructors served across System
  - Funded, supported, trained
- Completion rates
  - 85% (Undergraduate)
  - 97% (Graduate)

TeleCampus Enrollment Growth



Accolades

- Awards
  - Two time recipient of United States Distance Learning Association's Program of Excellence Award
  - Other Awards
    - University Continuing Education Association; Texas Distance Learning Association; Telecon
- Press
  - Chronicle of Higher Education; EDUCAUSE Quarterly & Review; Other scholarly journals
- TeleCampus is viewed as model
  - Southern Association of Colleges and Schools (SACS)
  - Western Interstate Commission on Higher Education/Western Cooperative for Educational Telecommunications (WICHE/WCET)
  - National Center for Higher Education Management Systems (NCHEMS)

Financial Impact of TeleCampus

Fall 1999 through Summer 2002

- Direct financial support to campuses for course development - $4.5 Million
- Revenue generated for campuses by TeleCampus courses - $9.2 Million
  - Tuition, fees, formula funding from TeleCampus enrollments
  - Approximately 50% are “new” dollars to the System

Study Methodology

- Meetings held
  - Office of Finance (Philip Aldridge)
  - Controller's Office (Randy Wallace, Debbie Frederick)
  - Academic Affairs (Ed Sharpe, Mike Kerker)
- Eight courses identified for comparison
  - Single course per campus
  - Mix of graduate and undergraduate
  - Taught on-campus and online
- Common unit of comparison is one Semester Credit Hour (SCH)

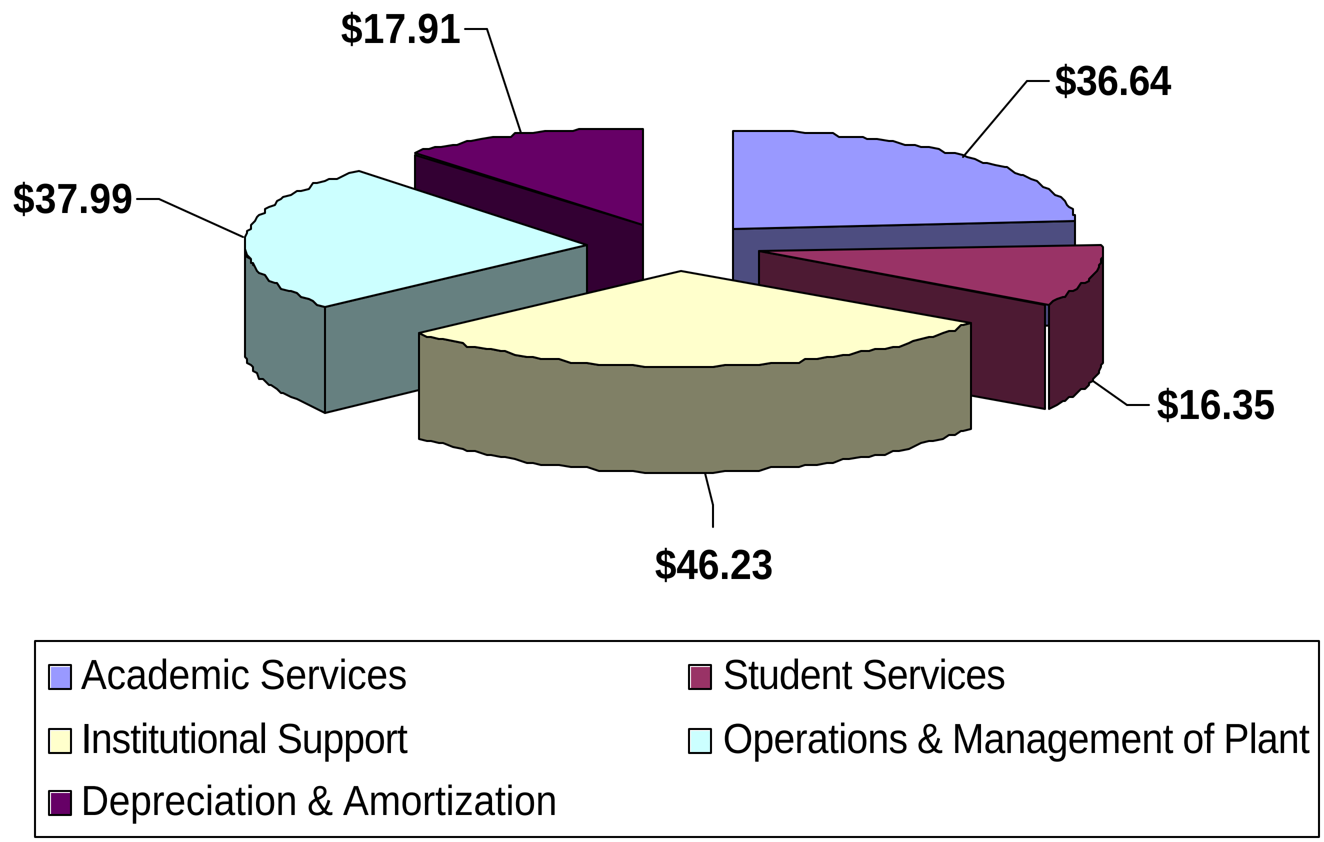
Study Methodology

- Information for on-campus costs from component survey
- Information for on-campus costs from the 2002 Annual Financial Report
- SCH numbers from the Texas Higher Education Coordinating Board Statistical Report for 2002
- Information for TeleCampus costs from the UT TeleCampus budget

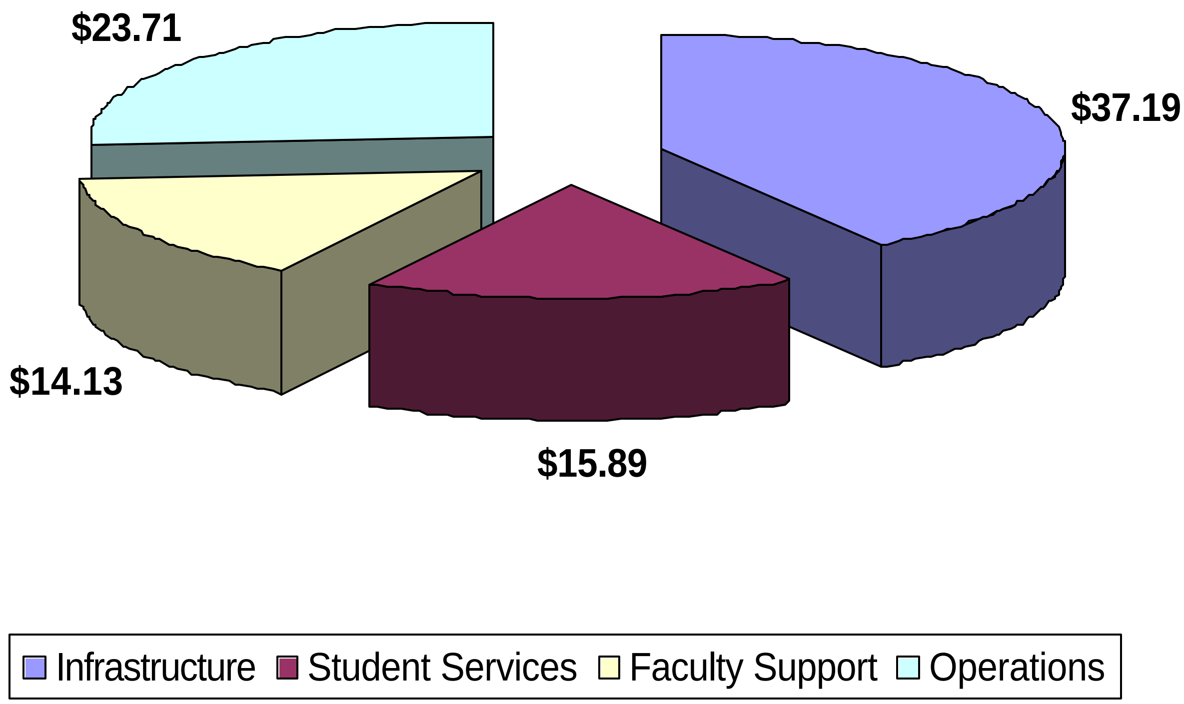
Instructional Costs

- Instructional costs include faculty salary plus teaching assistant stipends (if any)
- Study assumes that instructional costs are equal for on-campus and online delivery for a specific course because both types of courses are taught in-load by faculty

Avg. On-Campus Costs/SCH



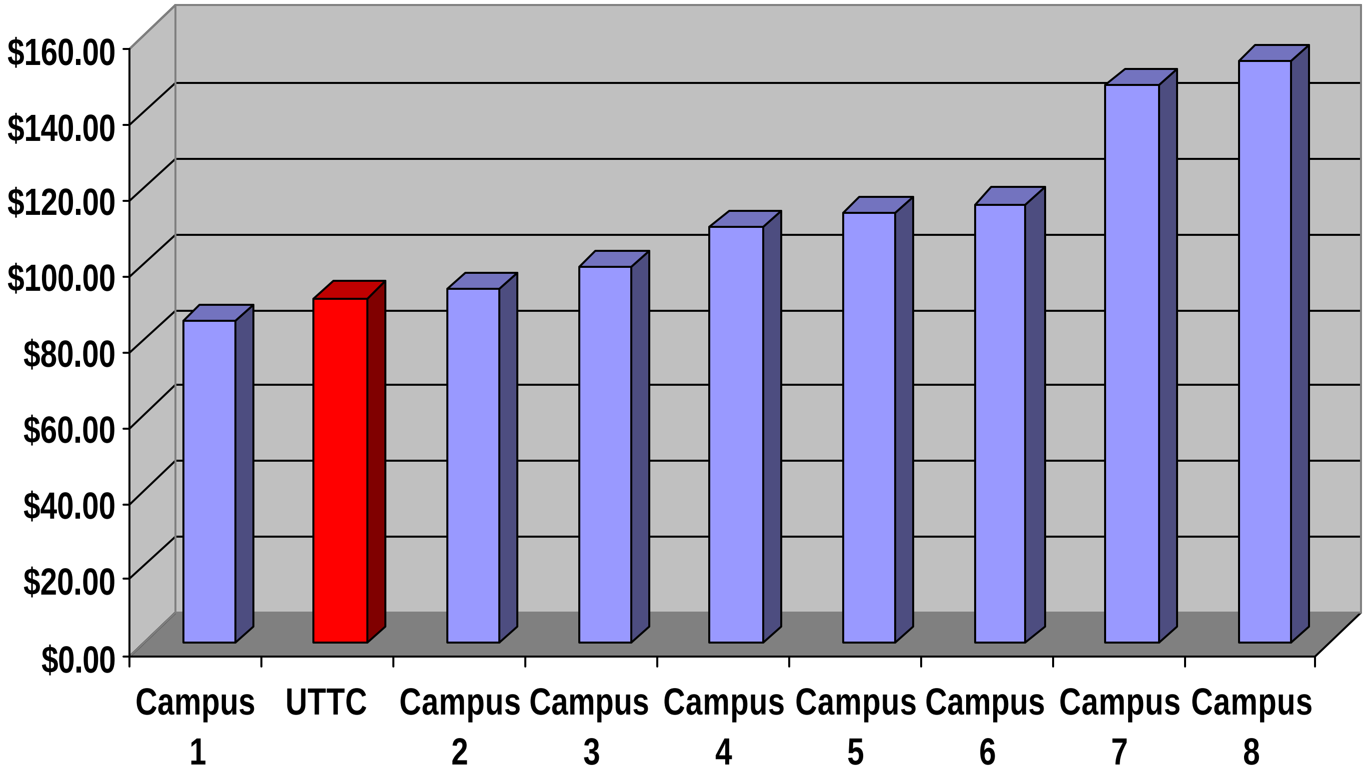
TeleCampus Costs/SCH



Delivery Costs Comparison

TeleCampus costs vs. campus “bricks & mortar” costs

Total Costs/SCH



Summary of Study

- The average component cost of delivery on-campus is $114/SCH
- TeleCampus cost of delivery is $91/SCH
- Delivery costs through the TeleCampus are generally lower than the on-campus equivalent (second lowest)
- As TeleCampus enrollments continue to grow, costs/SCH will decline over time

Conclusions

- The TeleCampus extends the reach of the U. T. System at a delivery cost that is equal to or lower than the delivery of on-campus instruction
- "Closing the Gaps" points out the need to enroll 500,000 new freshmen by 2015
  - Online delivery of quality courses can reduce the need to build additional campus facilities and extend the capacity of the U. T. System to meet the coming demand

Conclusions

- TeleCampus is well-placed to leverage System-wide contracts to the benefit of the components
  - Course Management Systems
  - 24 X 7 technical support services
  - Academic support services (tutoring)
- TeleCampus is a System-wide high quality distance education infrastructure that reduces the need for campuses to duplicate services and commit resources
- Without a centralized utility like the TeleCampus, every campus would be forced to build its own TeleCampus-like infrastructure

THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS

Finance and Planning Committee **April 1, 2003**

Agenda Item: Analysis of Financial Condition (AFC) Peer Comparison Discussion Item

Presenter: Randy Wallace, Assistant Vice Chancellor – Controller and Chief Budget Officer

Purpose:
The purpose of this report is to compare financial ratios of our institutions to nationwide peer institutions.

Outline of Key Points/Policy Issues:
All of the institutions with the exception of U. T. El Paso and U. T. Medical Branch - Galveston (U.T.M.B.) are either outperforming or performing above or near the averages of its peers. It should be noted that the financial statements of several of U.T.M.B.'s peers are strictly hospital financials, which do not include the wide range of activities that U.T.M.B.'s financials include such as the medical school, physician's practice plan and research activities. Additionally, several of the entities to which U.T.M.B. is being compared have a more favorable hospital payor mix than U.T.M.B. Approximately one-third of U.T.M.B.'s budget is related to the healthcare operations of the Correctional Managed Healthcare organization, an operation unique among U.S. health science centers. U. T. El Paso and U.T.M.B. are already monitored monthly as a result of the previous Analysis of Financial Condition. It is difficult to evaluate the performance of U. T. M. D. Anderson Cancer Center and U. T. Health Center - Tyler due to U. T. M. D. Anderson Cancer Center having only one peer and U. T. Health Center - Tyler only having two peers that are private hospitals with no state support. However, nothing in this analysis causes us concern regarding the financial condition of U. T. M. D. Anderson Cancer Center or U. T. Health Center - Tyler.

Background Information:
The U. T. System has prepared the Analysis of Financial Condition since 1995. Since that time, the same basic ratios relying on trends for rating purposes have been used. With the implementation of Governmental Accounting Standards Board Statements 34 and 35 in 2002, the basis of accounting and presentation of the financial statements changed, making comparable information unavailable for prior periods. Since no trends are available in 2002, the Office of the Controller took a different approach and compared each institution to a group of nationwide peer institutions.

Analysis of Financial Condition
Peer Comparison
2002

The University of Texas System

April 2003

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The University of Texas System
Analysis of Financial Condition Peer Comparison 2002

Executive Summary

The U. T. System has prepared the Analysis of Financial Condition (AFC) since 1995. Since that time, the same basic ratios relying on trends for rating purposes have been used. With the implementation of Governmental Accounting Standards Board (GASB) 34/35 in 2002, the basis of accounting and presentation of the financial statements has changed, making comparable information unavailable for prior periods.

Since no trends are available in 2002, the Controller's Office took a different approach and compared each institution to a group of nationwide peer institutions. System Administration Academic Affairs and Health Affairs and the institutions' chief business officers provided peers for each institution. Several of the peers identified were in a system where only consolidated financial information for the system was available; therefore, those institutions were excluded from the analysis. Also, financial statements are still not available for many of the peers identified.

The analysis was performed from the three primary statements published: Balance Sheet; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows. If debt for a university system was located at the system level and not on the individual institution's books, we "pushed down" the debt to ensure that the net assets for the peers were comparable.

The ratios themselves and their calculations were taken from Bond rating Agencies, as well as publications from public accounting firms such as KPMG. We chose the ratios that provided the most value, not necessarily those that were most similar to those used in the past. The focus was placed on the five ratios where information was available for all institutions:

- Primary Reserve Ratio – measures the financial strength of the institution by comparing expendable net assets to total expenses less depreciation. This ratio provides a snapshot of financial strength and flexibility by indicating how long the institution could function by using its expendable reserves without relying on additional net assets generated by operations. Permanent Health Fund amounts were excluded from expendable net assets as U. T. System considers these amounts nonexpendable.
- Annual Operating Margin Ratio – indicates whether the institution has balanced annual operating expenses with revenues. Depreciation expense is included, as it is believed that inclusion of depreciation reflects a more complete picture of operating performance as it reflects use of physical assets.
- Return on Net Assets Ratio – determines whether the institution is financially better off than in previous years by measuring economic return. Debt not included on the institution's books that was attributable to the institution was "pushed down" to reflect true total net assets.
- Expendable Resources to Total Net Assets Ratio– measures how much of total net assets is expendable. Debt not included on the institution's books that was attributable to the institution was "pushed down" to reflect true total net assets.
- Operating Margin excluding Gifts Ratio– measures an institution's dependence on gifts to finance operations.

Please note that these ratios only deal with the financial aspects of the institution and must be considered with key performance indicators in academics, infrastructure and student and faculty satisfaction to understand a more complete measure of total institutional strength.

The institutions can be categorized into the following four groups:

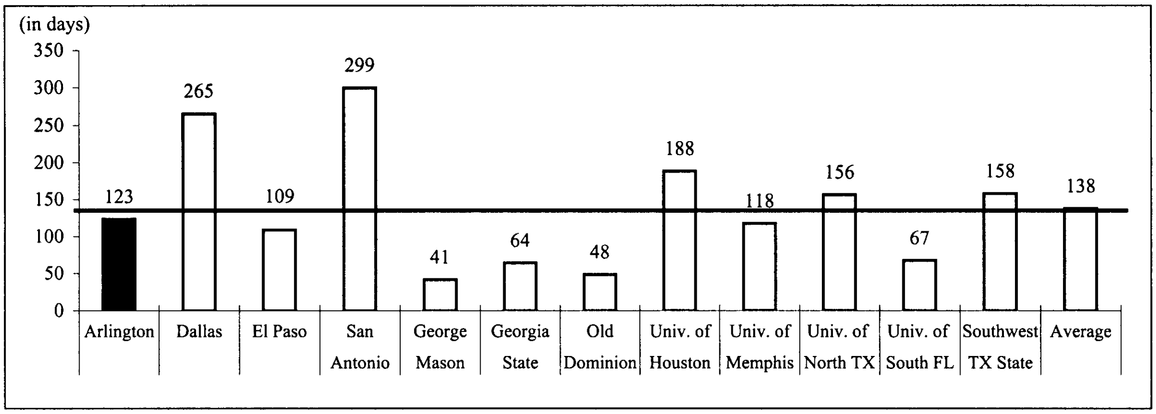
- Outperforming its peers by every measure provided in this analysis
- Performing above or near the averages of its peers
- Performing below the level of the peers outlined in this analysis, and
- Difficult to evaluate performance relative to its peers

All of the institutions with the exception of U.T. El Paso and U.T. Medical Branch at Galveston (U.T.M.B.) are either outperforming or performing above or near the averages of its peers. It should be noted that the financial statements of several of U.T.M.B.'s peers are strictly hospital financials, which do not include the wide range of activities that U.T.M.B.'s financials include such as the medical school, physician's practice plan and research activities. Additionally, several of the entities to which U.T.M.B. is being compared have a more favorable hospital payor mix than U.T.M.B. Approximately one-third of U.T.M.B.'s budget is related to the healthcare operations of the Correctional Managed Healthcare organization, an operation unique among U.S. health science centers. U.T. El Paso and U.T.M.B. are already monitored monthly as a result of the previous Analysis of Financial Condition. It is difficult to evaluate the performance of U.T.M.D. Anderson Cancer Center and U.T.H.C. at Tyler due to U.T.M.D. Anderson Cancer Center having only one peer and U.T.H.C. at Tyler only having two peers that are private hospitals with no state support. However, nothing in this analysis causes us concern regarding the financial condition of U.T.M.D. Anderson Cancer Center or U.T.H.C. at Tyler.

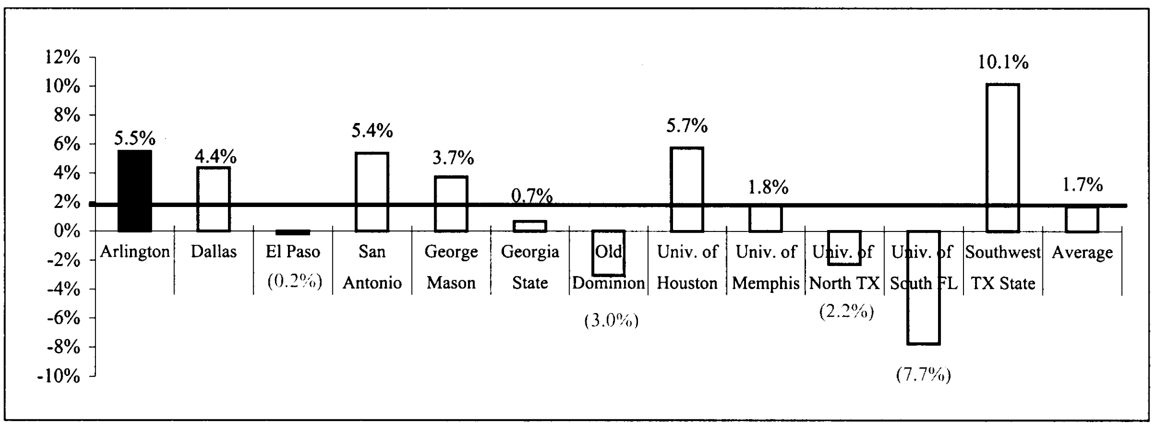
In past years, the Analysis of Financial Condition has served to identify potential problems immediately following year-end results so that corrective actions could be implemented. While we believe that this peer comparison was a worthwhile exercise, it is not feasible to prepare a peer comparison on an annual basis that can serve as an early indicator of financial condition. Gathering and analyzing the financial statements in a timely fashion proved very difficult, and several of the peers identified by the institutions were in a system where only consolidated financial information for the system was available. In addition, the analysis performed did not bring any matters to our attention that had not already come to light with the previous analysis. We do feel that it would be appropriate to prepare this type of peer comparison every two to three years. For the 2003 Analysis of Financial Condition, we plan to return to trends for our institutions, as we will have two years of activity under the new format.

The University of Texas at Arlington and Peers

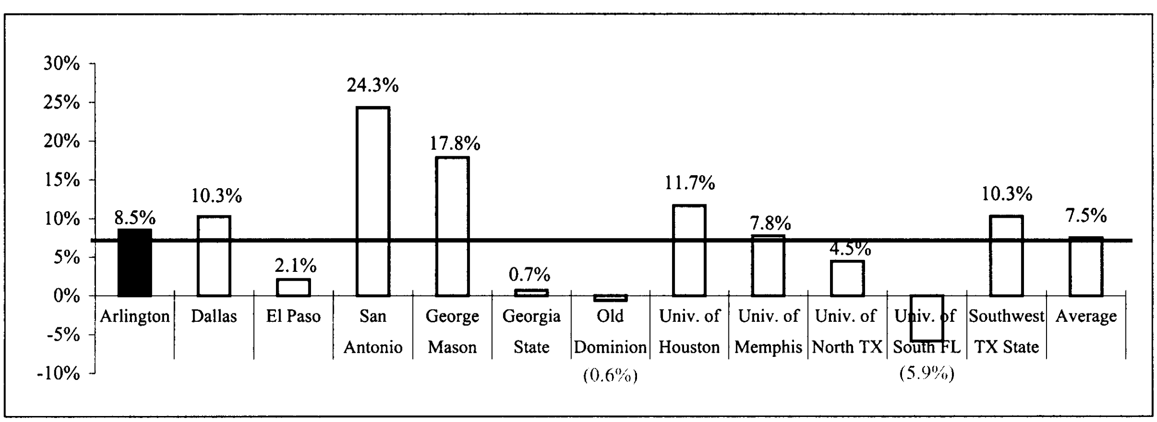
1. **Primary Reserve Ratio** - Measures the financial strength of an institution by comparing expendable net assets to total expenses, excluding depreciation (in days).



2. **Annual Operating Margin Ratio** - Indicates the direction and degree to which an institution has balanced annual operating expenses with revenues.

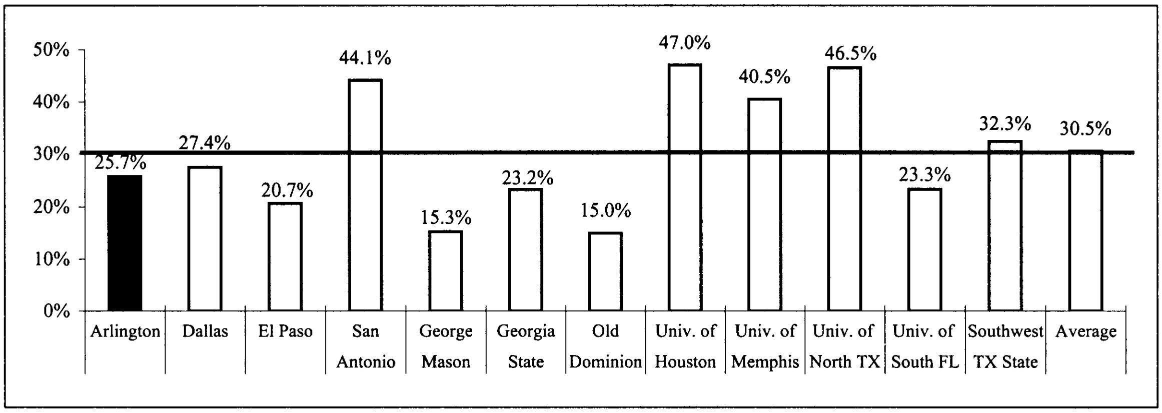


3. **Return on Net Assets Ratio** - Determines whether an institution is financially better off than in previous years by measuring total economic return.

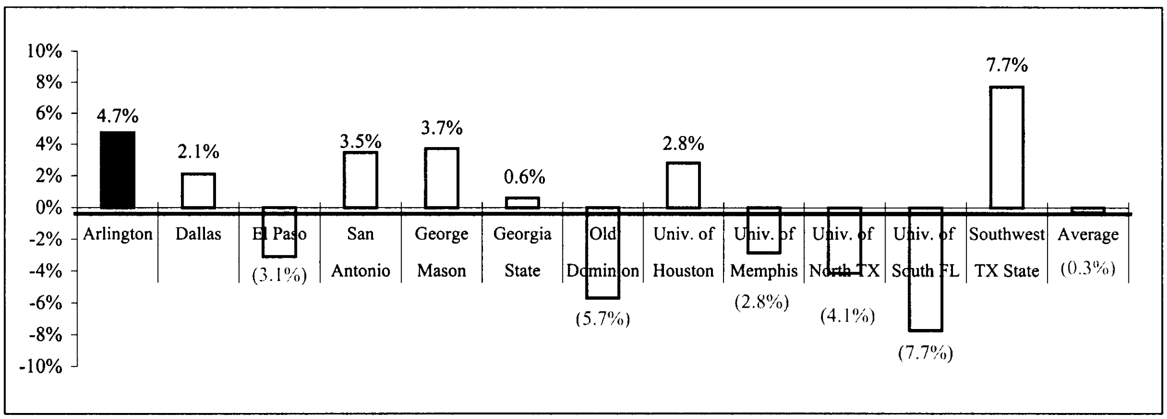


The University of Texas at Arlington and Peers

4. **Expendable Resources to Total Net Assets Ratio** - Measures how much of Total Net Assets is expendable.



5. **Operating Margin Excluding Gifts Ratio** - Measures the institution's dependence on gifts to finance annual operations.



Primary Reserve Ratio - U.T. Arlington's ratio of 123 days fell slightly below the average ratio of 138 days. However, U.T. Dallas and U.T. San Antonio increased the average with the two highest ratios of all the peers at 265 days and 299 days, respectively.

Annual Operating Margin Ratio - U.T. Arlington's margin of 5.5% exceeded the average margin of 1.7%. As displayed in the graph, U.T. El Paso, Old Dominion University, University of North Texas and University of South Florida all experienced negative margins in 2002.

Return on Net Assets Ratio - U.T. Arlington's ratio of 8.5% surpassed the average ratio of 7.5%. While U.T. San Antonio's ratio of 24.3% contributed to a higher average, the University of South Florida's ratio of (5.9%) partially offset the increase in the average caused by U.T. San Antonio.

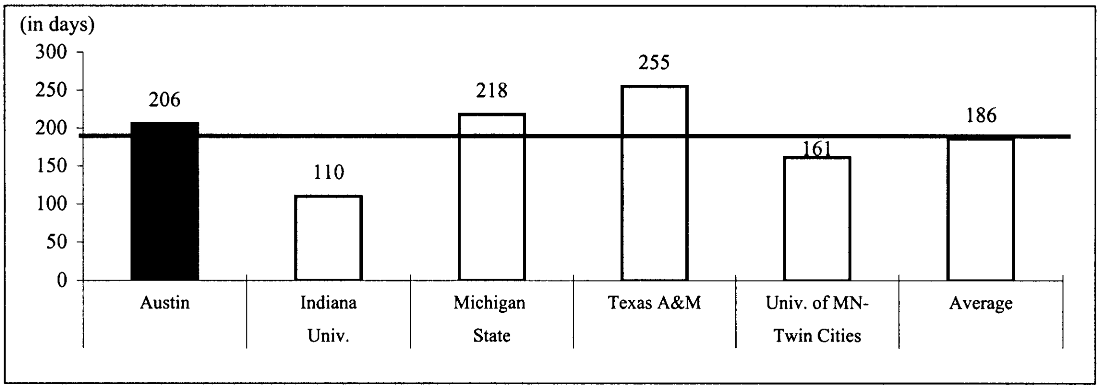
Expendable Resources to Total Net Assets Ratio - U.T. Arlington's ratio of 25.7% was lower than the average for the group of 30.5%. Numerous institutions within the peer group experienced above average ratios.

Operating Margin Excluding Gifts Ratio - U.T. Arlington's ratio of 4.7% was well above the average of (0.3%), which indicates that U.T. Arlington does not rely as heavily upon gifts to fund operations as some of the other institutions within the peer group.

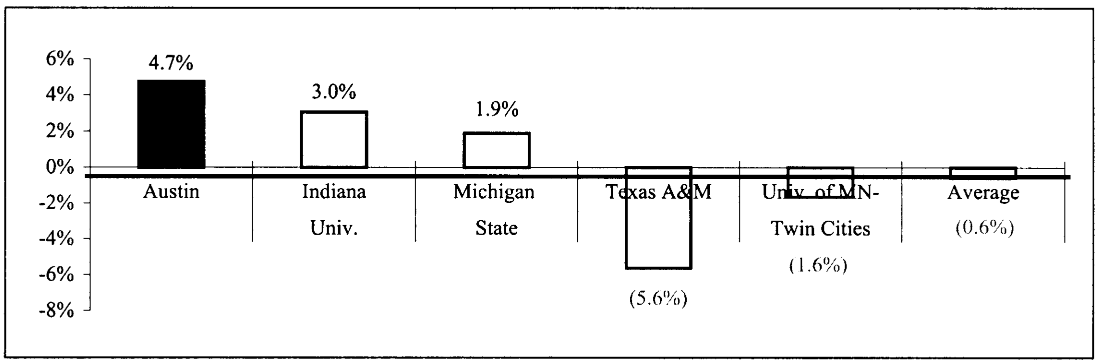
Overall, U.T. Arlington is performing above or near the average of its peers.

The University of Texas at Austin and Peers

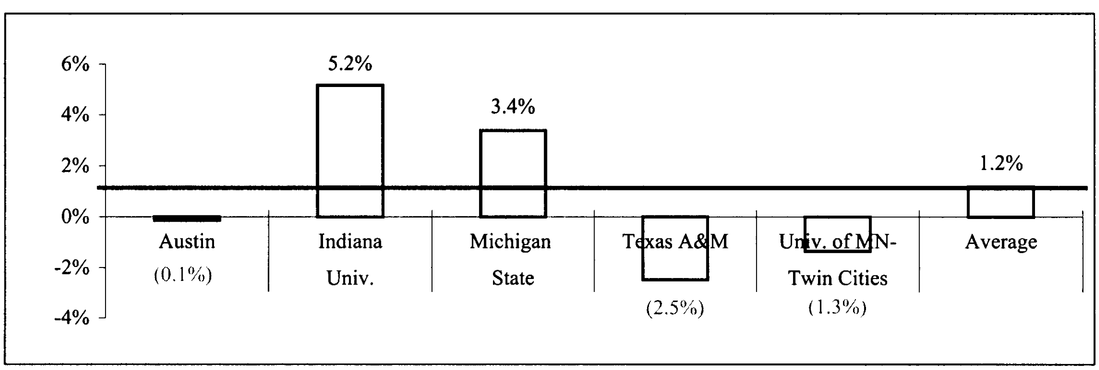
1. **Primary Reserve Ratio** - Measures the financial strength of an institution by comparing expendable net assets to total expenses, excluding depreciation (in days).



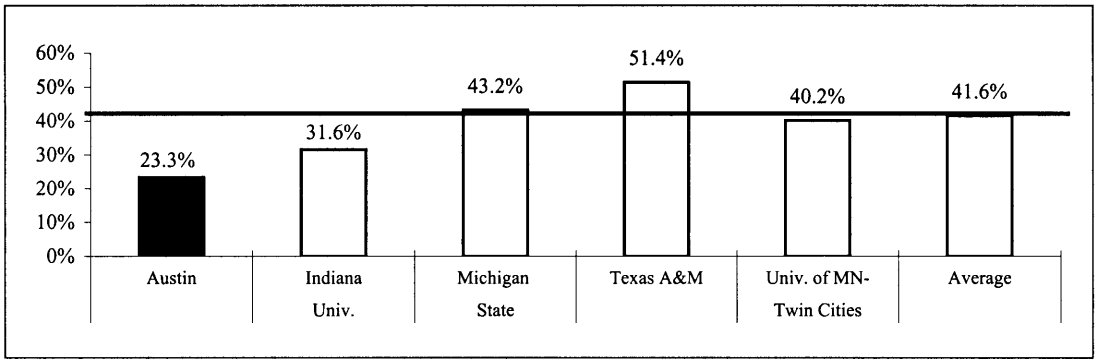
2. **Annual Operating Margin Ratio** - Indicates the direction and degree to which an institution has balanced annual operating expenses with revenues.



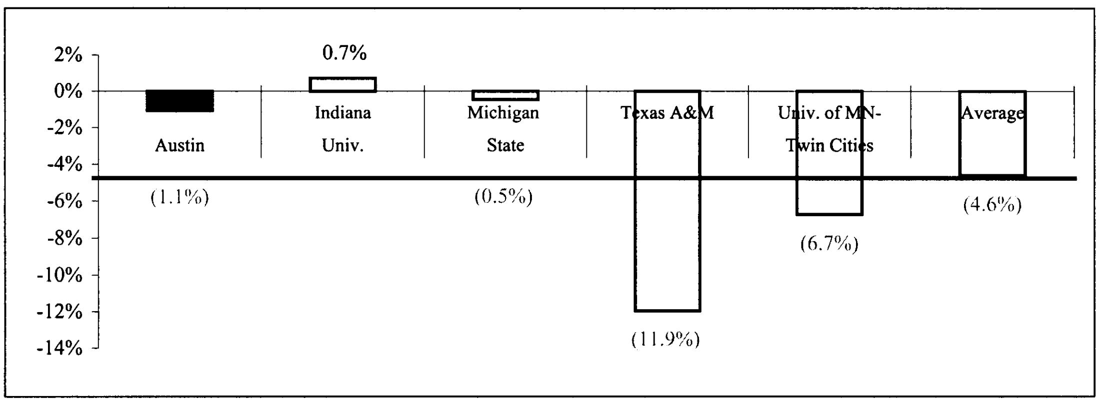
3. **Return on Net Assets Ratio** - Determines whether an institution is financially better off than in previous years by measuring total economic return.



4. **Expendable Resources to Total Net Assets Ratio** - Measures how much of Total Net Assets is expendable.



5. **Operating Margin Excluding Gifts Ratio** - Measures the institution's dependence on gifts to finance annual operations.



Primary Reserve Ratio - U.T. Austin's ratio of 206 days exceeded the average of 186 days.

Annual Operating Margin Ratio - U.T. Austin's margin of 4.7% was significantly higher than the average of (0.6%). Texas A&M and University of Minnesota-Twin Cities both incurred negative margins, which had a downward impact on the average.

Return on Net Assets Ratio - U.T. Austin's ratio of (0.1%) fell below the average of 1.2% due to negative fair market value adjustments of $168.4 million. Texas A&M and University of Minnesota-Twin Cities also experienced below average ratios of (2.5%) and (1.3%), respectively.

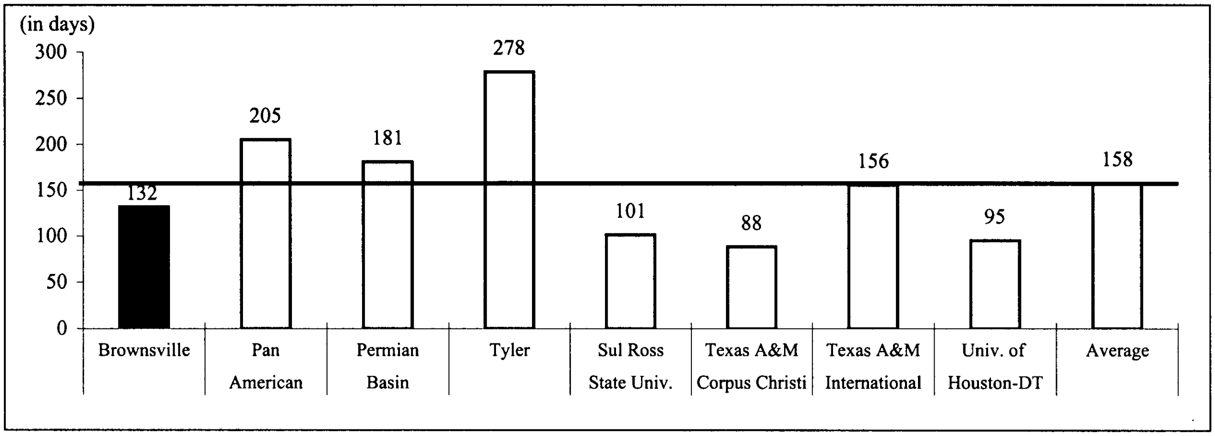
Expendable Resources to Total Net Assets Ratio - U.T. Austin's ratio of 23.3% was lower than the average of 41.6%.

Operating Margin Excluding Gifts Ratio - U.T. Austin's ratio of (1.1%) was above the average for the peers of (4.6%). Based on Texas A&M's ratio of (11.9%) and University of Minnesota-Twin Cities' ratio of (6.7%), it appears that U.T. Austin does not rely upon gifts as heavily as these two peers.

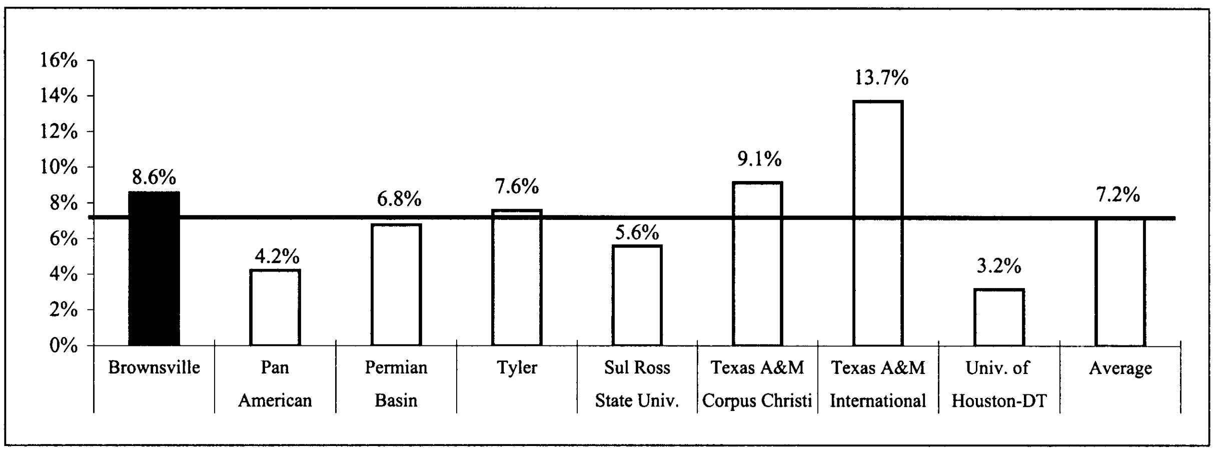
Overall, U.T. Austin is performing above or near the averages of its peers.

The University of Texas at Brownsville and Peers

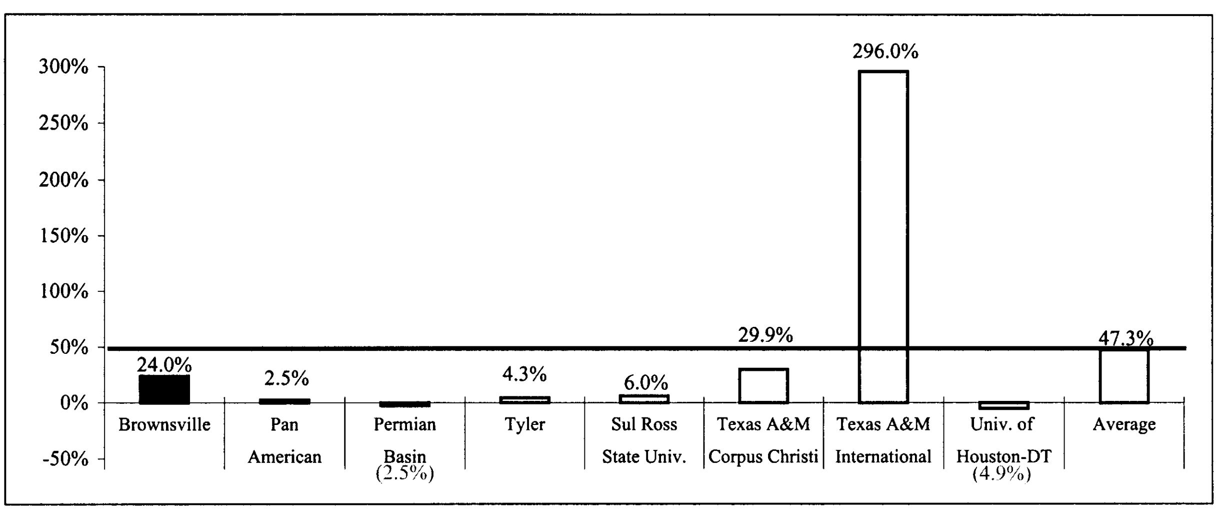
1. **Primary Reserve Ratio** - Measures the financial strength of an institution by comparing expendable net assets to total expenses, excluding depreciation (in days).



2. **Annual Operating Margin Ratio** - Indicates the direction and degree to which an institution has balanced annual operating expenses with revenues.

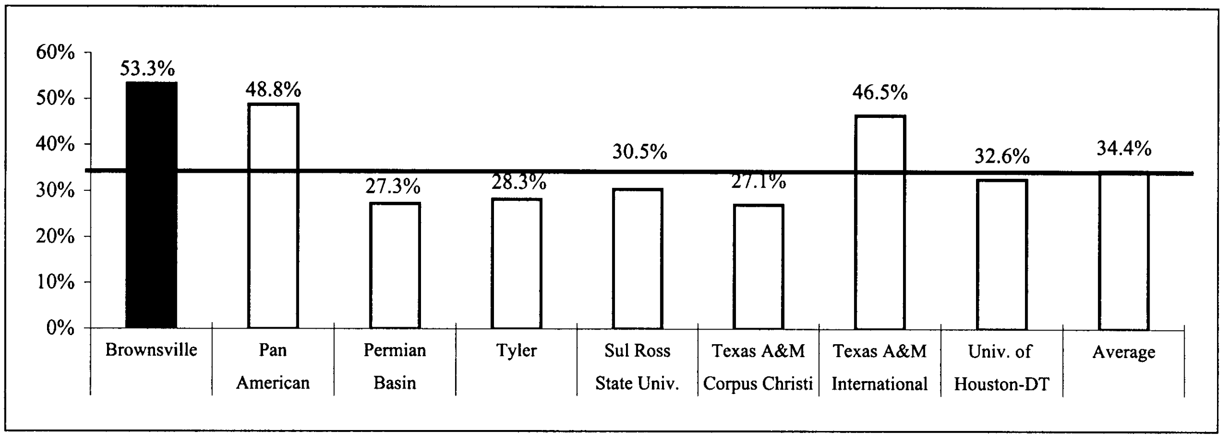


3. **Return on Net Assets Ratio** - Determines whether an institution is financially better off than in previous years by measuring total economic return.

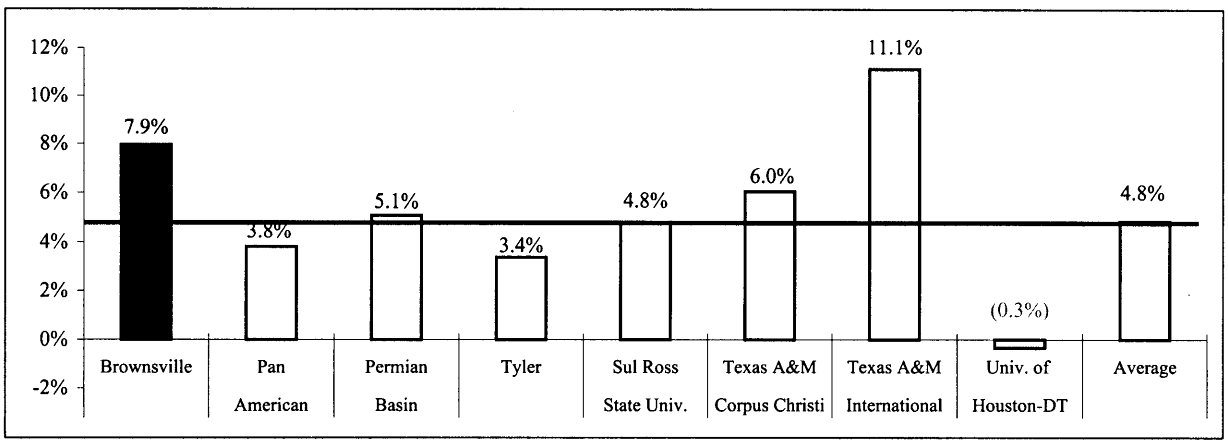


The University of Texas at Brownsville and Peers

4. **Expendable Resources to Total Net Assets Ratio** - Measures how much of Total Net Assets is expendable.



5. **Operating Margin Excluding Gifts Ratio** - Measures the institution's dependence on gifts to finance annual operations.



Primary Reserve Ratio - U.T. Brownsville's ratio of 132 days fell below the average ratio of 158 days. However, U.T. Pan American and U.T. Tyler increased the average with the two highest ratios of all the peers at 205 days and 278 days, respectively.

Annual Operating Margin Ratio - U.T. Brownsville's margin of 8.6% exceeded the average of 7.2% and was the third highest behind Texas A&M International and Texas A&M Corpus Christi.

Return on Net Assets Ratio - U.T. Brownsville's ratio of 24% was lower than the average of 47.3%. Texas A&M International had an exceptionally high ratio of 296%, which significantly increased the average. Texas A&M International's ratio was so high due to a reduction in bonds payable from 2001 to 2002.

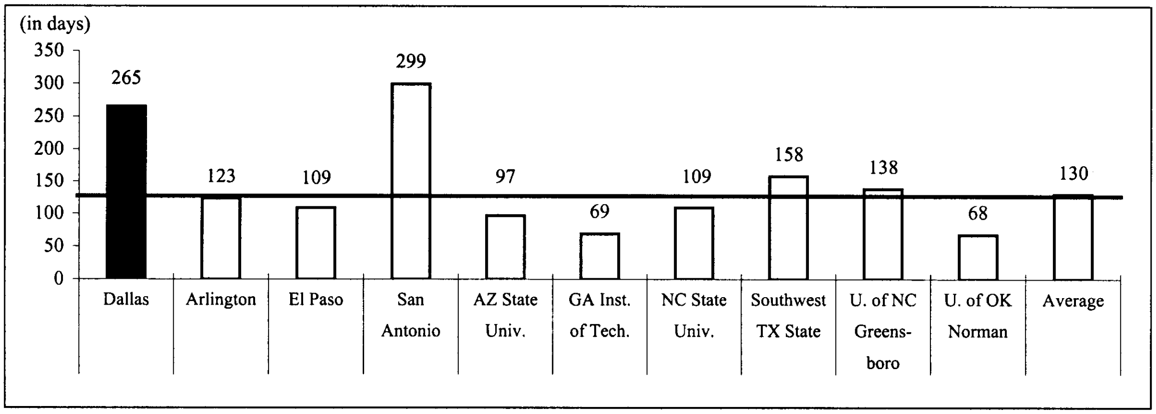
Expendable Resources to Total Net Assets Ratio - U.T. Brownsville's ratio of 53.3% was significantly higher than the average of 34.4%. U.T. Pan American's ratio of 48.8% and Texas A&M International's ratio of 46.5% both contributed to the relatively high average.

Operating Margin Excluding Gifts Ratio - U.T. Brownsville's ratio of 7.9% surpassed the average of 4.8%. Once again Texas A&M International's ratio of 11.1% had an upward effect on the average. U.T. Brownsville's ratio indicates that it does not rely as heavily upon gifts to fund operations as some of its peers.

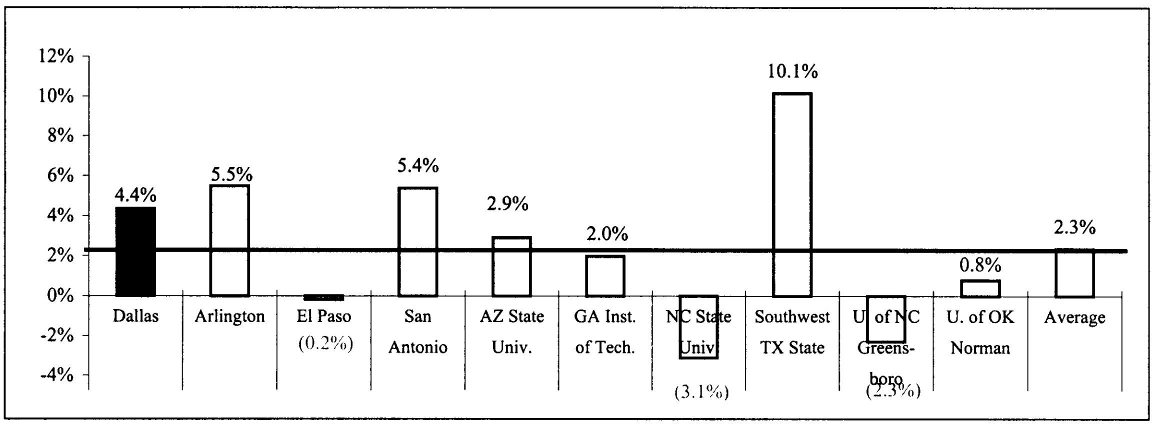
Overall, U.T. Brownsville is performing above or near the averages of its peers.

The University of Texas at Dallas and Peers

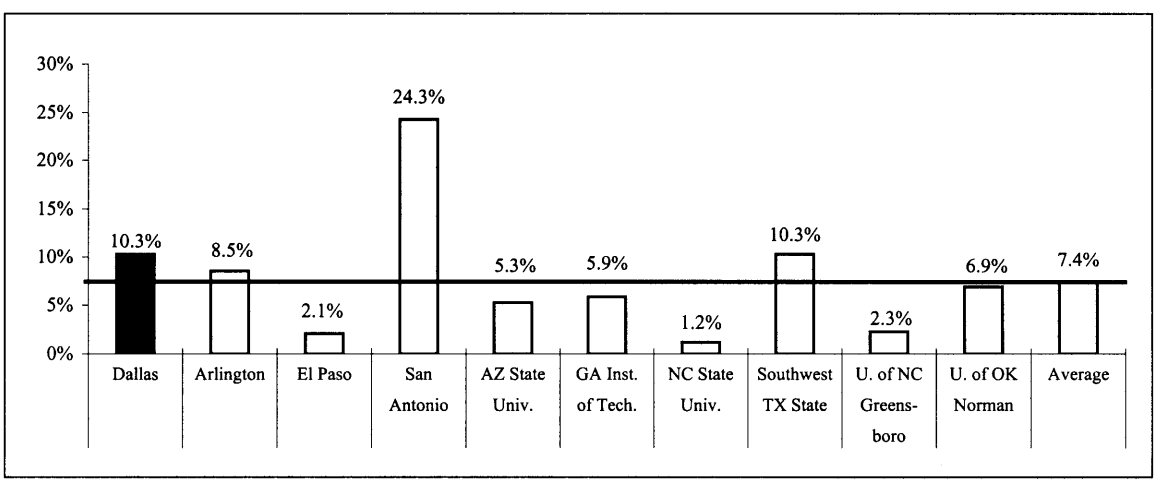
1. **Primary Reserve Ratio** - Measures the financial strength of an institution by comparing expendable net assets to total expenses, excluding depreciation (in days).



2. **Annual Operating Margin Ratio** - Indicates the direction and degree to which an institution has balanced annual operating expenses with revenues.

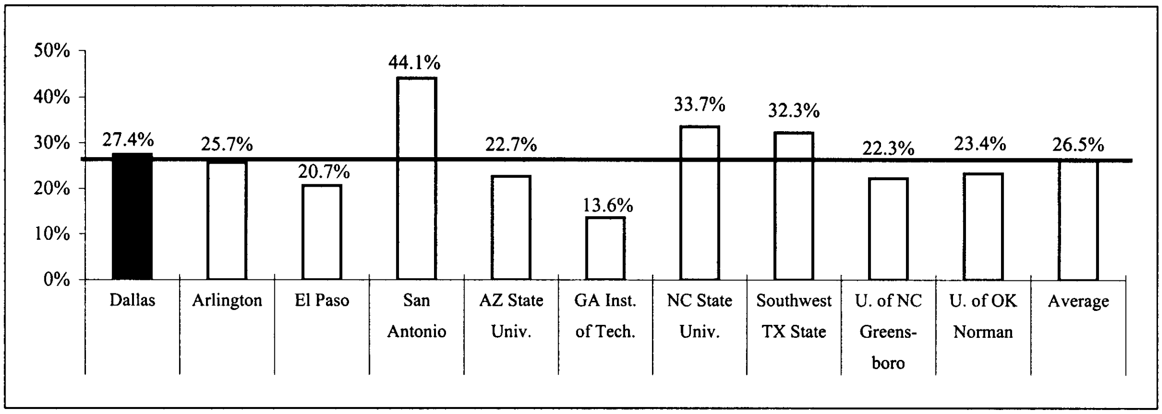


3. **Return on Net Assets Ratio** - Determines whether an institution is financially better off than in previous years by measuring total economic return.

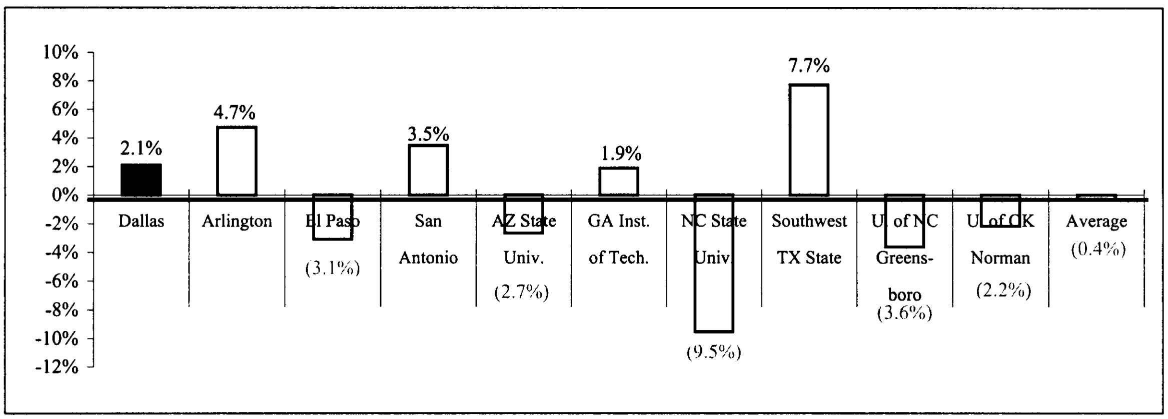


The University of Texas at Dallas and Peers

4. <u>Expendable Resources to Total Net Assets Ratio</u> - Measures how much of Total Net Assets is expendable.



5. <u>Operating Margin Excluding Gifts Ratio</u> - Measures the institution's dependence on gifts to finance annual operations.



Primary Reserve Ratio - U.T. Dallas' ratio of 265 days far exceeded the average of 130 days. U.T. Dallas' ratio was second only to U.T. San Antonio's ratio of 299 days.

Annual Operating Margin Ratio - U.T. Dallas' margin of 4.4% was higher than the average of its peers of 2.3%. Southwest Texas State University increased the average with the highest ratio of all the peers at 10.1%.

Return on Net Assets Ratio - U.T. Dallas' ratio of 10.3% exceeded the average of 7.4%. U.T. Dallas had the second highest ratio along with Southwest Texas State University.

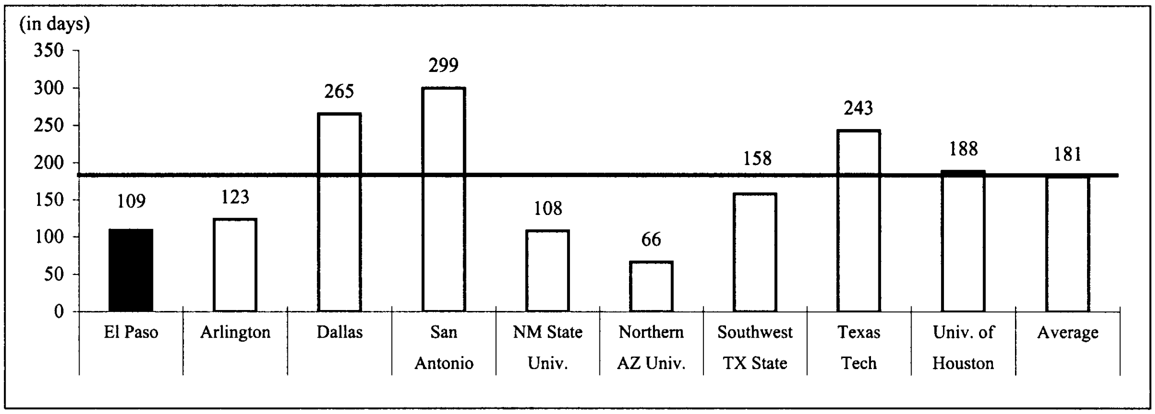
Expendable Resources to Total Net Assets Ratio - U.T. Dallas' ratio of 27.4% was slightly higher than the average of 26.5%.

Operating Margin Excluding Gifts Ratio - U.T. Dallas' margin of 2.1% was greater than the average of (0.4%), which indicates that U.T. Dallas does not rely as heavily upon gifts to fund operations as some of the other institutions in the peer group.

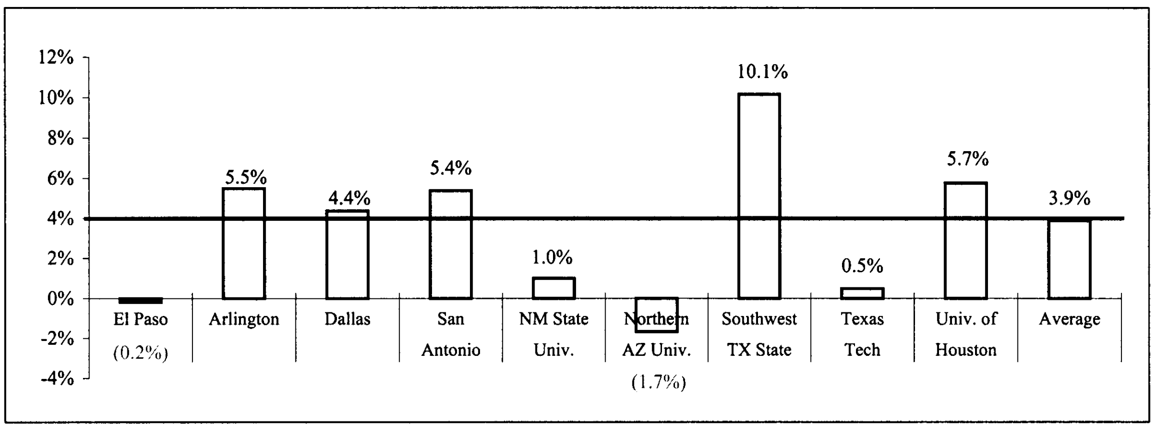
U.T. Dallas is outperforming its peers by every measure provided in this analysis.

The University of Texas at El Paso and Peers

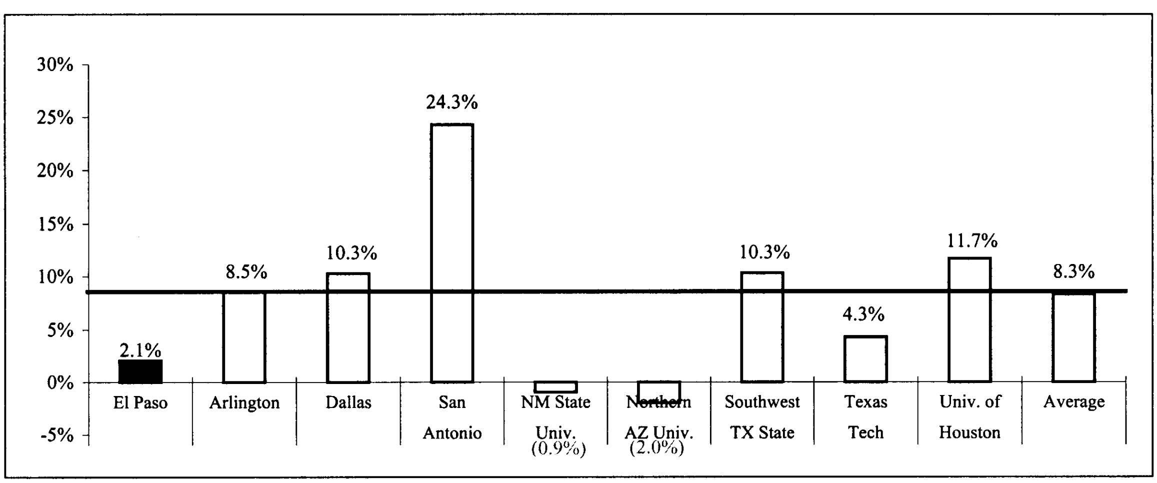
1. **Primary Reserve Ratio** - Measures the financial strength of an institution by comparing expendable net assets to total expenses, excluding depreciation (in days).



2. **Annual Operating Margin Ratio** - Indicates the direction and degree to which an institution has balanced annual operating expenses with revenues.

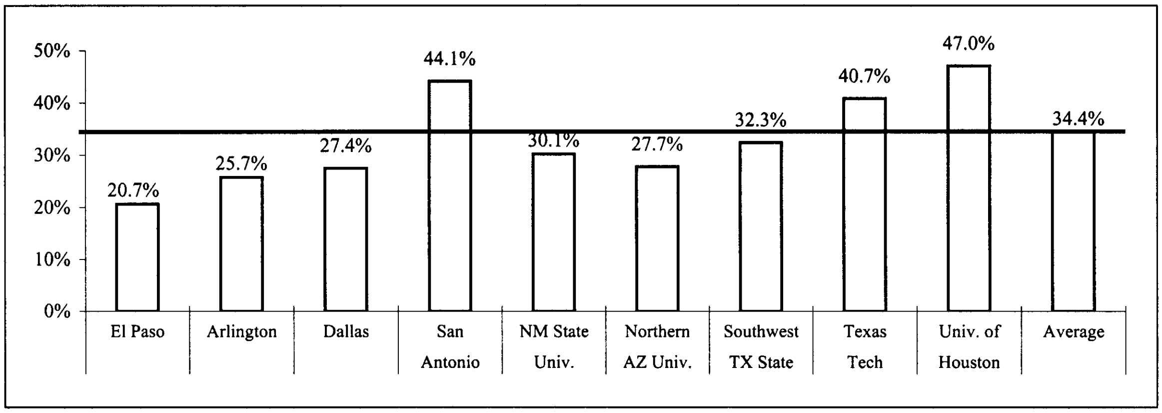


3. **Return on Net Assets Ratio** - Determines whether an institution is financially better off than in previous years by measuring total economic return.

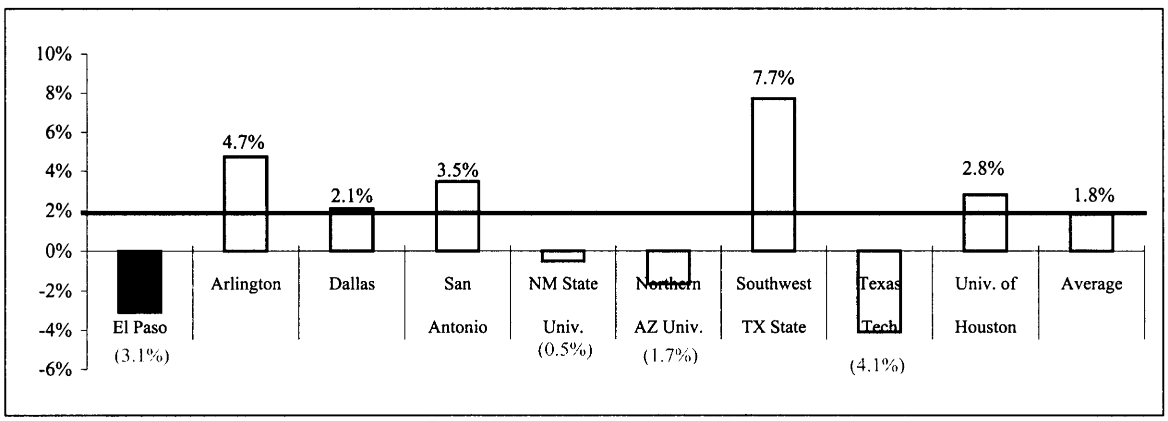


The University of Texas at El Paso and Peers

4. **Expendable Resources to Total Net Assets Ratio** - Measures how much of Total Net Assets is expendable.



5. **Operating Margin Excluding Gifts Ratio** - Measures the institution's dependence on gifts to finance annual operations.



Primary Reserve Ratio - U.T. El Paso's ratio of 109 days was lower than the average of 181 days. U.T. Dallas, U.T. San Antonio and Texas Tech University all increased the average with the three highest ratios of all the peers at 265 days, 299 days and 243 days, respectively.

Annual Operating Margin Ratio - U.T. El Paso's margin of (0.2%) fell below the average of 3.9%. U.T. El Paso and Northern Arizona University both experienced a negative margin in 2002.

Return on Net Assets Ratio - U.T. El Paso's ratio of 2.1% was lower than the average of 8.3%. While U.T. San Antonio's ratio of 24.3% contributed to a higher average, New Mexico State University's ratio of (0.9%) and Northern Arizona University's ratio of (2%) partially offset the increase in the average caused by U.T. San Antonio.

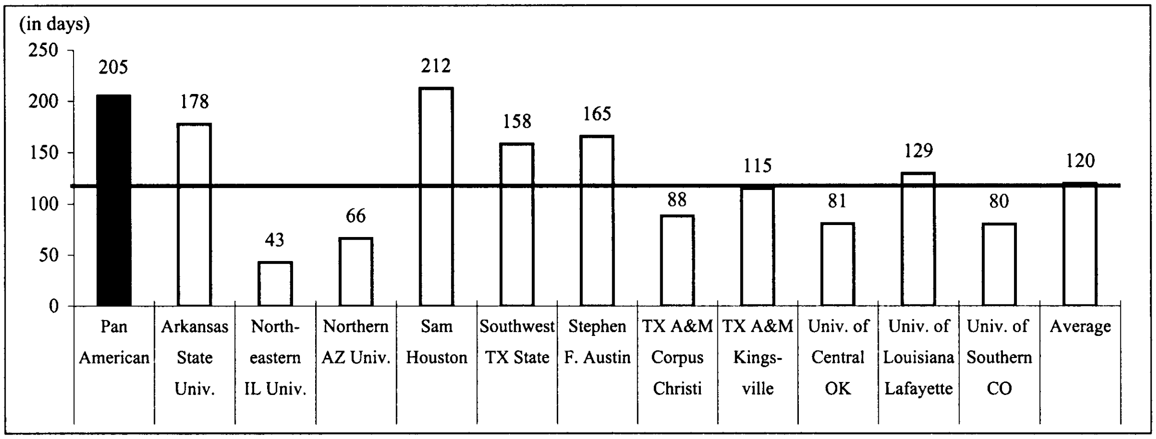
Expendable Resources to Total Net Assets Ratio - U.T. El Paso's ratio of 20.7% fell below the average of 34.4%.

Operating Margin Excluding Gifts Ratio - U.T. El Paso's margin of (3.1%) was lower than the average of 1.8%. New Mexico State University, Northern Arizona University and Texas Tech University all experienced negative margins excluding gifts as well.

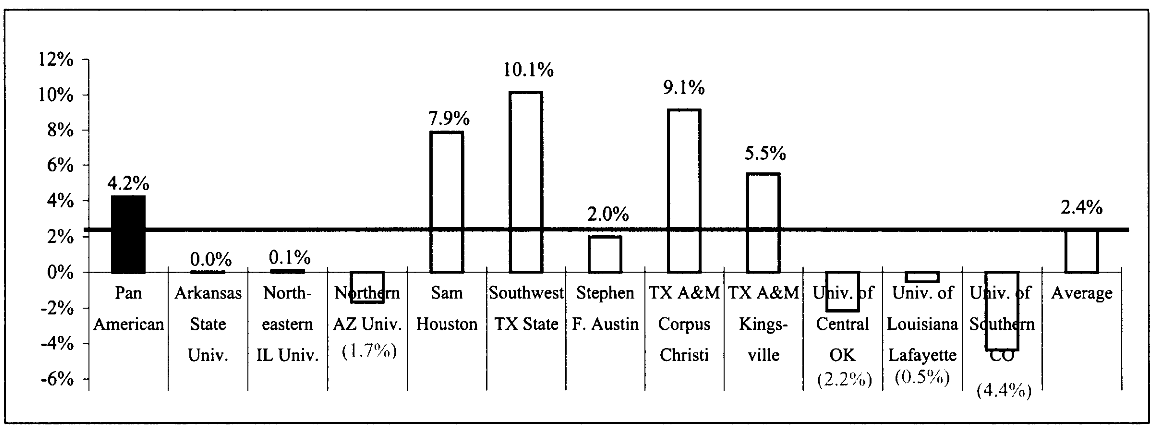
U.T. El Paso is performing below the level of the peers outlined in this analysis.

The University of Texas - Pan American and Peers

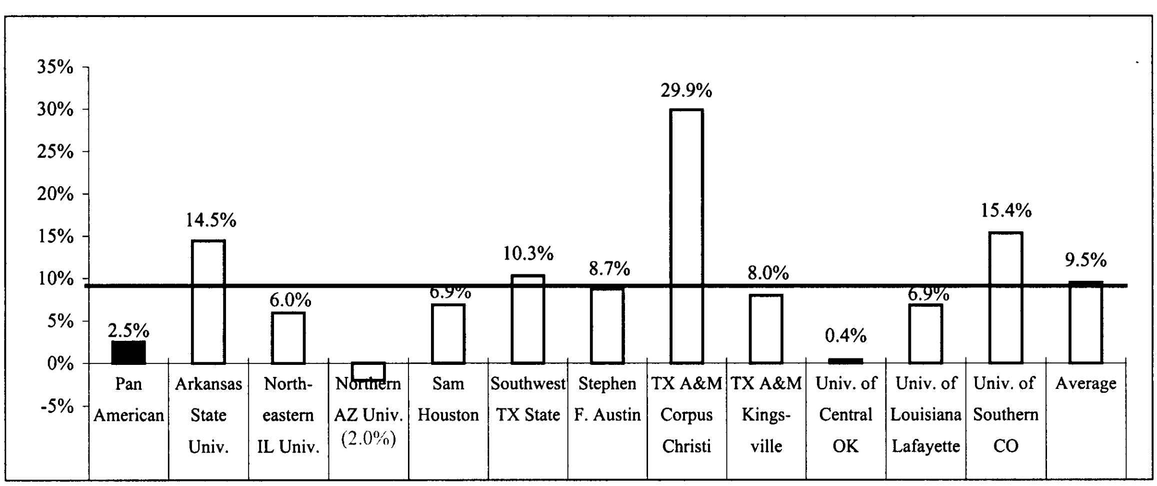
1. **Primary Reserve Ratio** - Measures the financial strength of an institution by comparing expendable net assets to total expenses, excluding depreciation (in days).



2. **Annual Operating Margin Ratio** - Indicates the direction and degree to which an institution has balanced annual operating expenses with revenues.

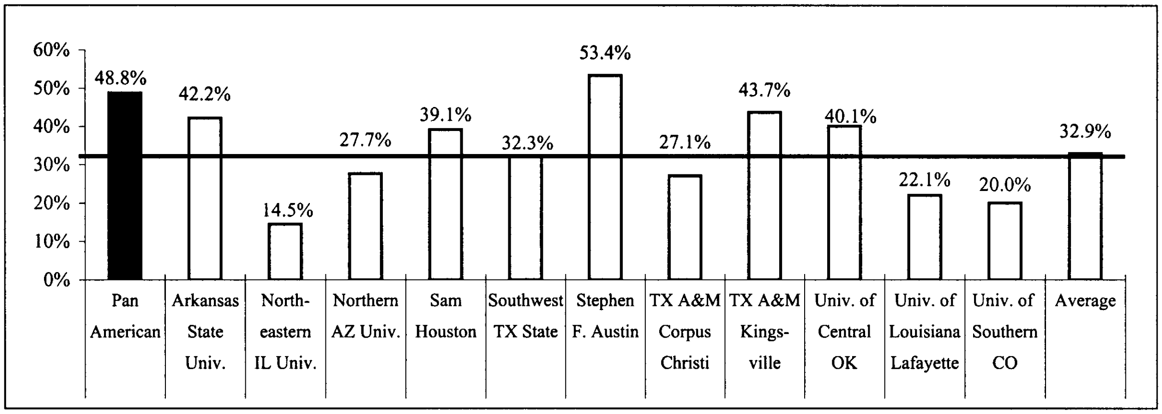


3. **Return on Net Assets Ratio** - Determines whether an institution is financially better off than in previous years by measuring total economic return.

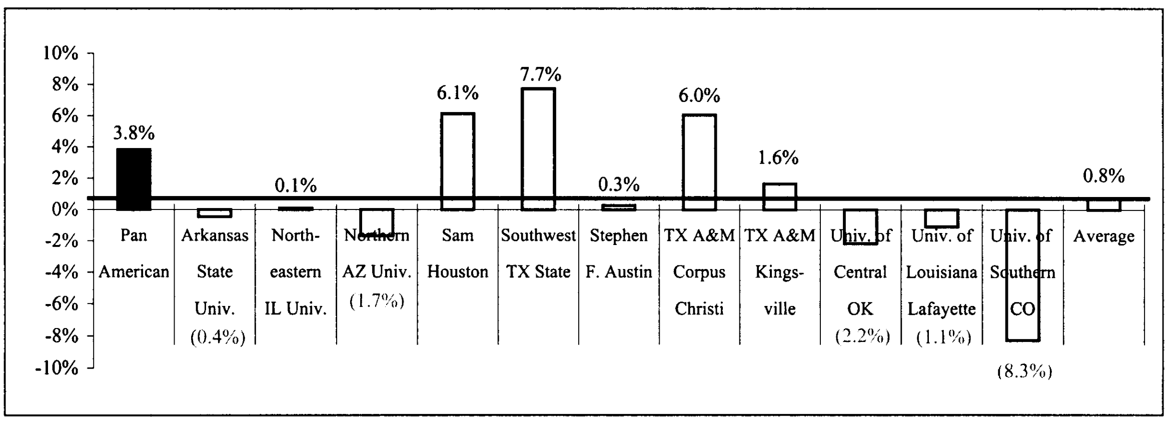


The University of Texas - Pan American and Peers

4. **Expendable Resources to Total Net Assets Ratio** - Measures how much of Total Net Assets is expendable.



5. **Operating Margin Excluding Gifts Ratio** - Measures the institution's dependence on gifts to finance annual operations.



Primary Reserve Ratio - U.T Pan American's ratio of 205 days far exceeded the average of 120 days and was the second highest ratio as compared to the peers.

Annual Operating Margin Ratio - U.T. Pan American's margin of 4.2% was higher than the average of 2.4%. Southwest Texas State University and Texas A&M University-Corpus Christi both increased the average with the two highest ratios of 10.1% and 9.1%, respectively.

Return on Net Assets Ratio - U.T. Pan American's ratio of 2.5% fell below the average of 9.5%. Texas A&M University-Corpus Christi's ratio of 29.9% had an upward effect on the average.

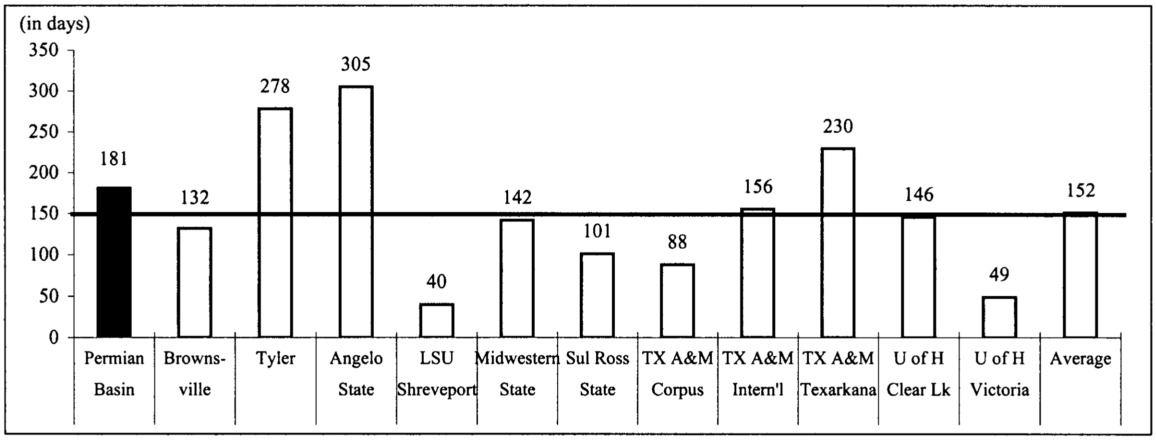
Expendable Resources to Total Net Assets Ratio - U.T. Pan American's ratio of 48.8% was much higher than the average ratio of 32.9%. Only Stephen F. Austin State University's ratio of 53.4% was higher than U.T. Pan American's ratio.

Operating Margin Excluding Gifts Ratio - U.T. Pan American's margin of 3.8% surpassed the average of 0.8%, which indicates that U.T. Pan American does not rely as heavily upon gifts to fund operations as some of the other institutions in the peer group.

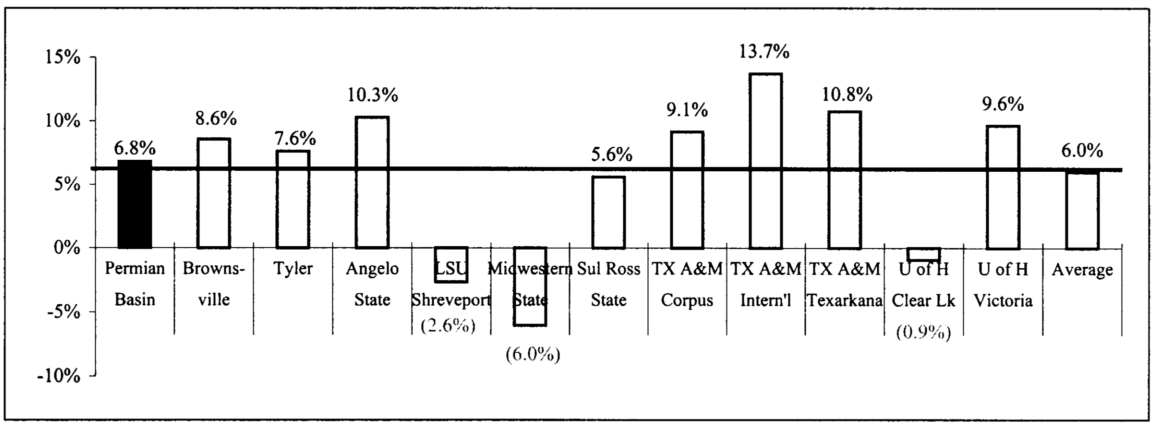
Overall, U.T. Pan American is outperforming its peers.

The University of Texas of the Permian Basin and Peers

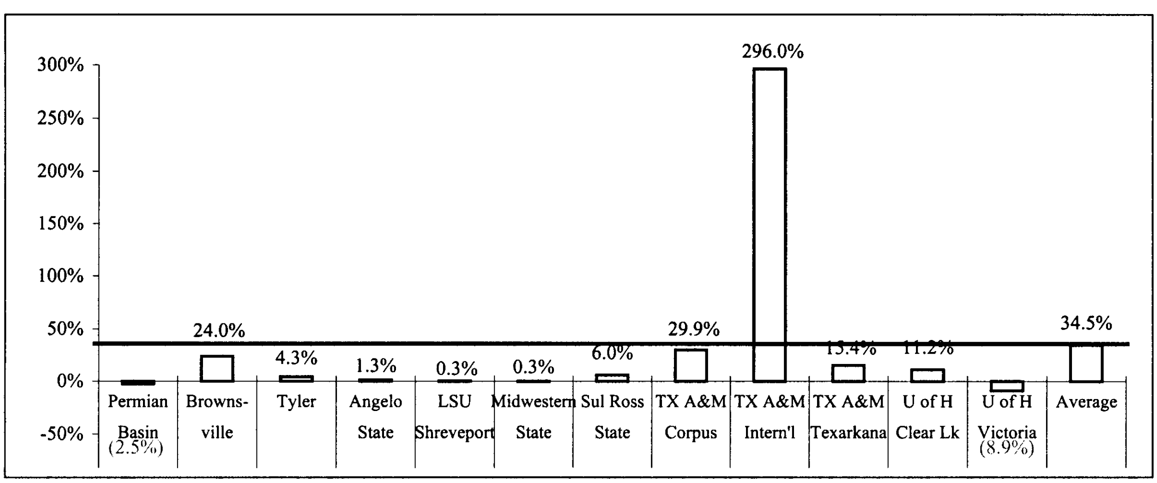
1. **Primary Reserve Ratio** - Measures the financial strength of an institution by comparing expendable net assets to total expenses, excluding depreciation (in days).



2. **Annual Operating Margin Ratio** - Indicates the direction and degree to which an institution has balanced annual operating expenses with revenues.

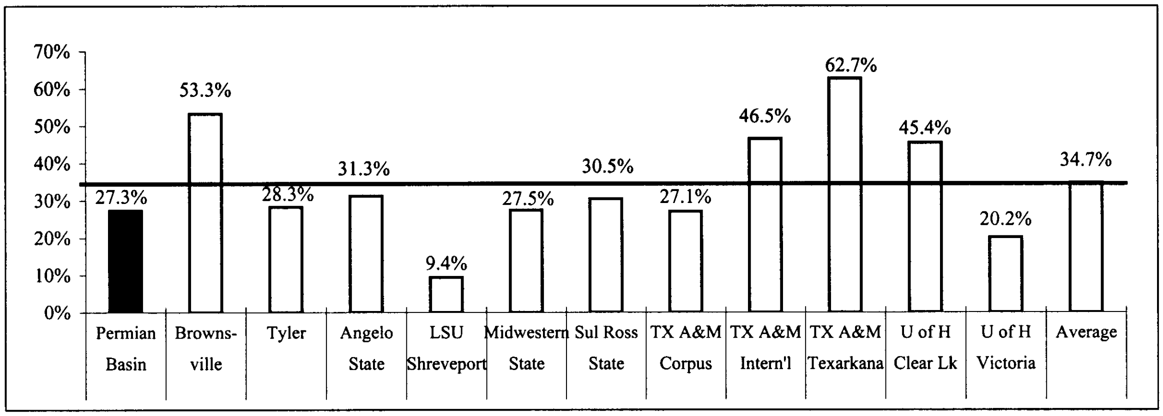


3. **Return on Net Assets Ratio** - Determines whether an institution is financially better off than in previous years by measuring total economic return.

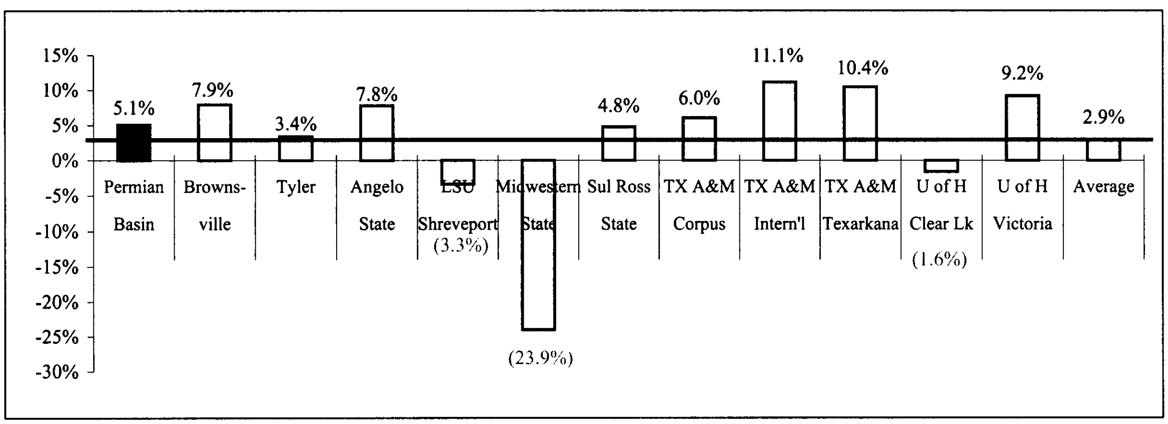


The University of Texas of the Permian Basin and Peers

4. **Expendable Resources to Total Net Assets Ratio** - Measures how much of Total Net Assets is expendable.



5. **Operating Margin Excluding Gifts Ratio** - Measures the institution's dependence on gifts to finance annual operations.



Primary Reserve Ratio - U.T. Permian Basin's ratio of 181 days exceeded the average of 152 days. U.T. Tyler, Angelo State University and Texas A&M-Texarkana all had exceptionally high ratios of 278 days, 305 days and 230 days, respectively which significantly increased the average.

Annual Operating Margin Ratio - U.T. Permian Basin's margin of 6.8% was slightly above the average of 6%.

Return on Net Assets Ratio - U.T. Permian Basin's ratio of (2.5%) was substantially below the average of 34.5%. Texas A&M International had an exceptionally high ratio of 296%, which significantly increased the average. Texas A&M International's ratio was so high due to a reduction in bonds payable from 2001 to 2002.

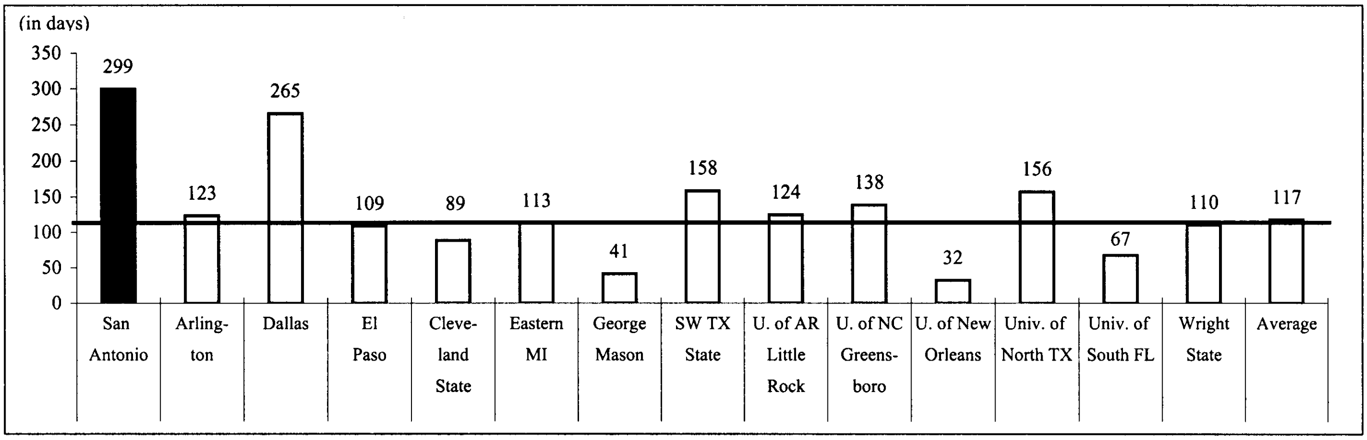
Expendable Resources to Total Net Assets Ratio - U.T. Permian Basin's ratio of 27.3% was lower than the average of 34.7%. U.T. Brownsville and Texas A&M University-Texarkana had the two highest ratios of 53.3% and 62.7%, respectively, which increased the average.

Operating Margin Excluding Gifts Ratio - U.T. Permian Basin's margin of 5.1% was higher than the average for the peers of 2.9%, which indicates that U.T. Permian Basin does not rely as heavily upon gifts to fund operations as some of the other institutions in the peer group.

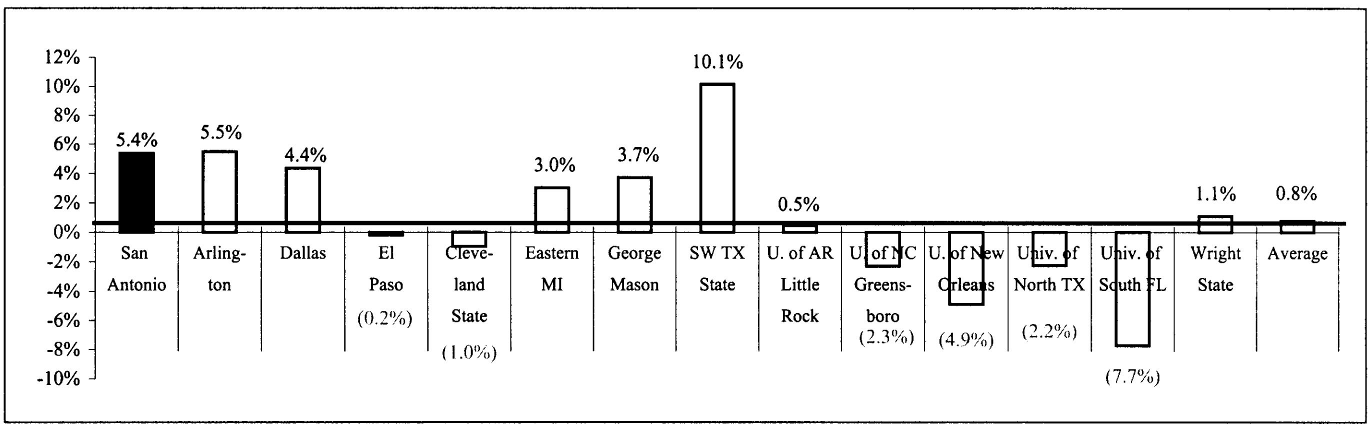
Overall, U.T. Permian Basin is performing above or near its peers.

The University of Texas at San Antonio and Peers

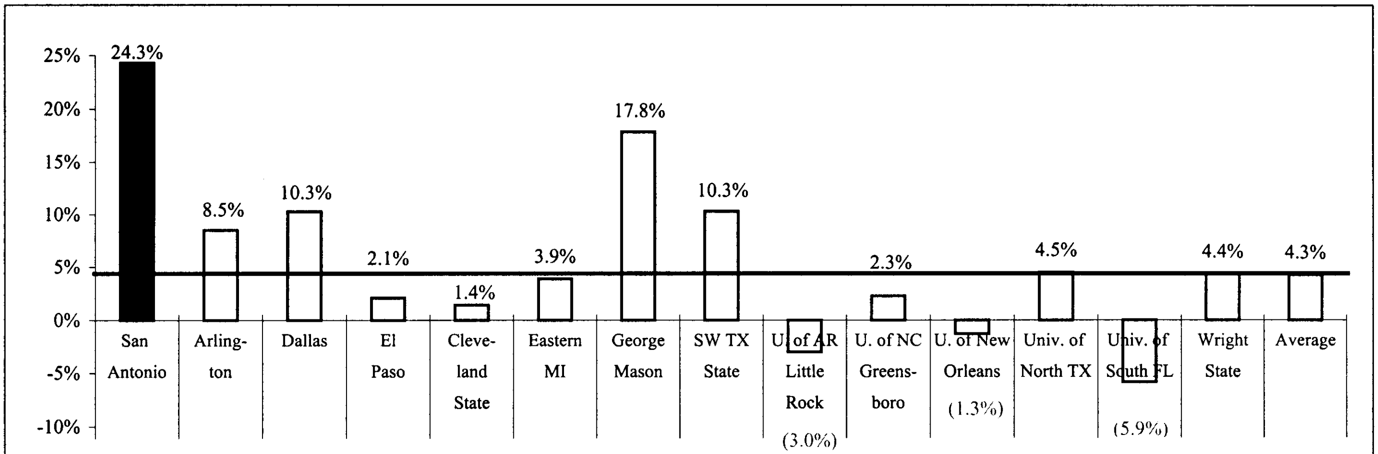
1. **Primary Reserve Ratio** - Measures the financial strength of an institution by comparing expendable net assets to total expenses, excluding depreciation (in days).



2. **Annual Operating Margin Ratio** - Indicates the direction and degree to which an institution has balanced annual operating expenses with revenues.

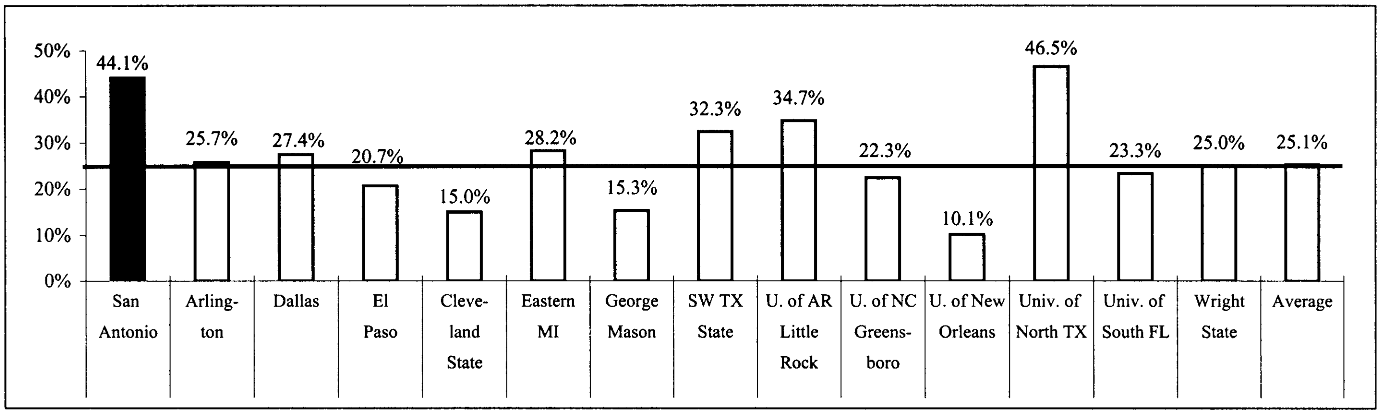


3. **Return on Net Assets Ratio** - Determines whether an institution is financially better off than in previous years by measuring total economic return.

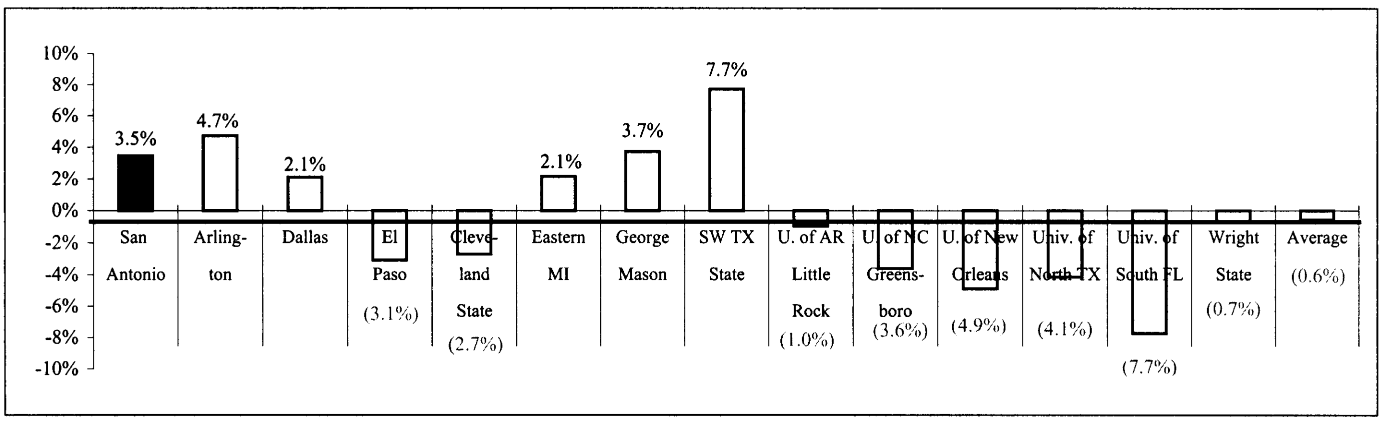


The University of Texas at San Antonio and Peers

4. **Expendable Resources to Total Net Assets Ratio** - Measures how much of Total Net Assets is expendable.



5. **Operating Margin Excluding Gifts Ratio** - Measures the institution's dependence on gifts to finance annual operations.



Primary Reserve Ratio - U.T. San Antonio's ratio of 299 days was significantly higher than the average of 117 days and was the highest ratio of all the peers.

Annual Operating Margin Ratio - U.T. San Antonio's margin of 5.4% exceeded the average margin of 0.8% while numerous peers experienced negative margins.

Return on Net Assets Ratio - U.T. San Antonio's ratio of 24.3% was substantially higher than the average of 4.3% and was the highest ratio of all the peers.

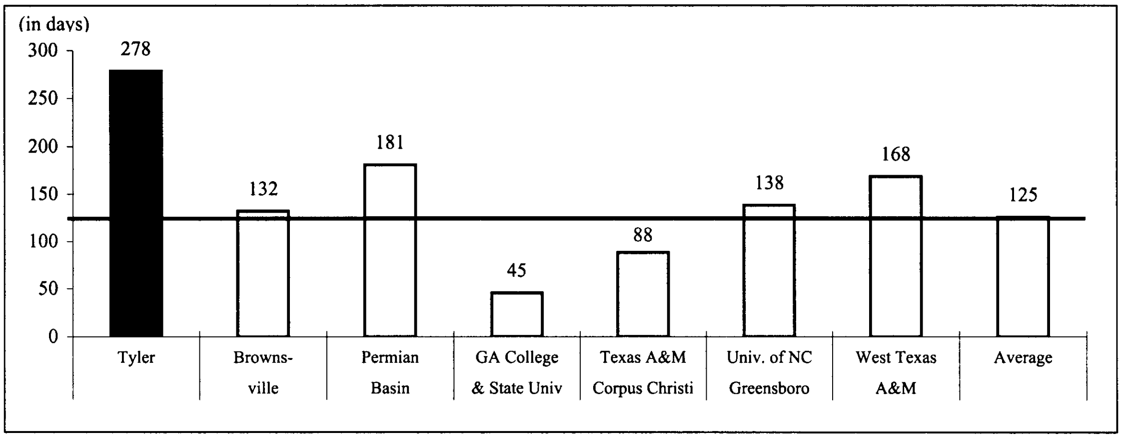
Expendable Resources to Total Net Assets Ratio - U.T. San Antonio's ratio of 44.1% surpassed the average of 25.1% and was the second highest ratio next to the University of North Texas' ratio of 46.5%.

Operating Margin Excluding Gifts Ratio - U.T. San Antonio's margin excluding gifts of 3.5% was above the average margin excluding gifts of (0.6%), which indicates that U.T. San Antonio does not rely as heavily upon gifts to fund operations.

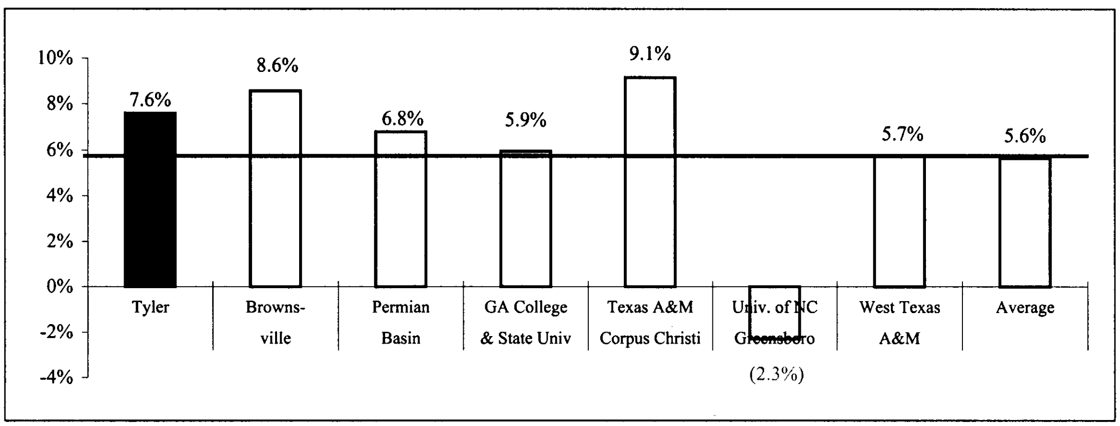
U.T. San Antonio is outperforming its peers by every measure provided in this analysis.

The University of Texas at Tyler and Peers

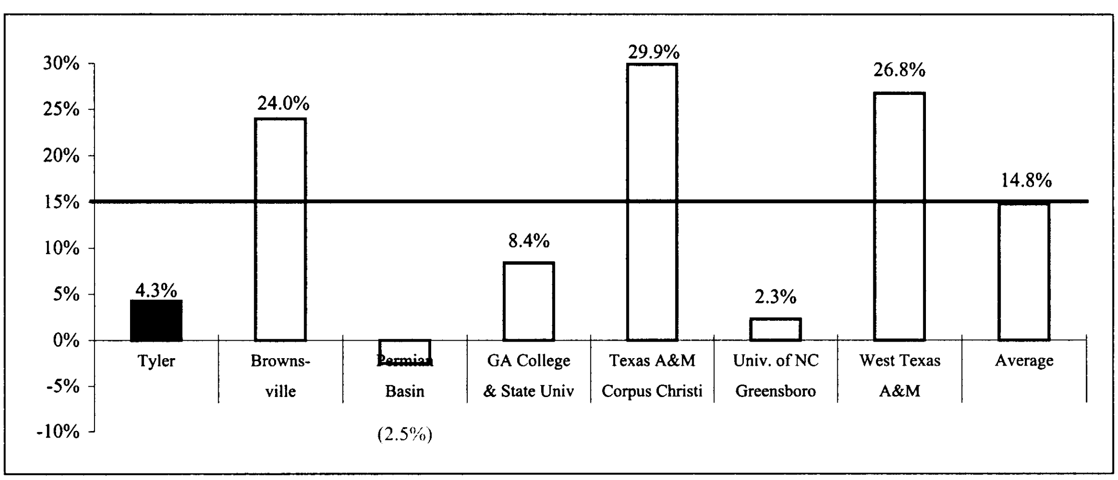
1. **Primary Reserve Ratio** - Measures the financial strength of an institution by comparing expendable net assets to total expenses, excluding depreciation (in days).



2. **Annual Operating Margin Ratio** - Indicates the direction and degree to which an institution has balanced annual operating expenses with revenues.

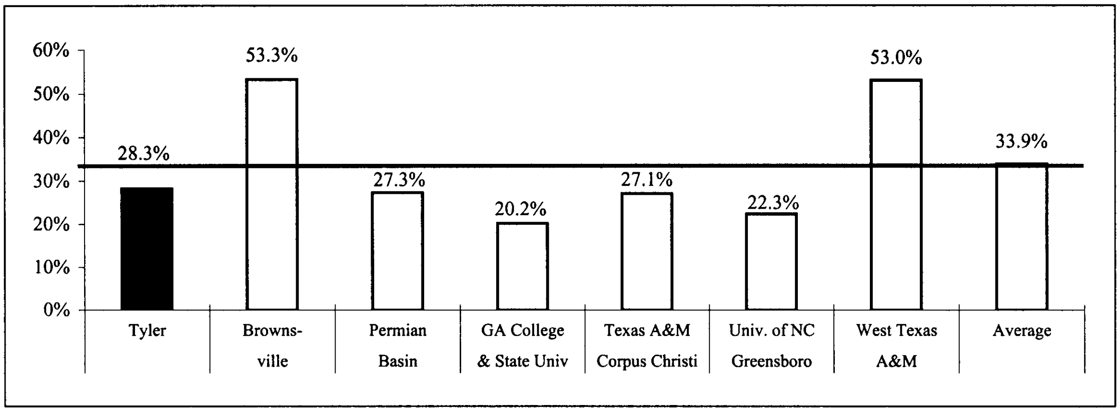


3. **Return on Net Assets Ratio** - Determines whether an institution is financially better off than in previous years by measuring total economic return.

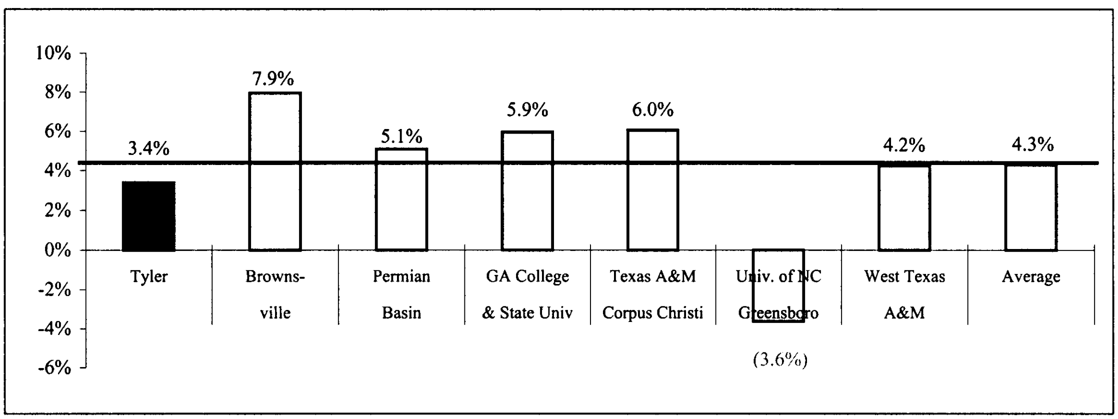


The University of Texas at Tyler and Peers

4. **Expendable Resources to Total Net Assets Ratio** - Measures how much of Total Net Assets is expendable.



5. **Operating Margin Excluding Gifts Ratio** - Measures the institution's dependence on gifts to finance annual operations.



Primary Reserve Ratio - U.T. Tyler's ratio of 278 days was substantially higher than the average of 125 days and was higher than the ratios of all the peers.

Annual Operating Margin Ratio - U.T. Tyler's margin of 7.6% exceeded the average margin of 5.6%.

Return on Net Assets Ratio - U.T. Tyler's ratio of 4.3% was significantly lower than the average of 14.8%

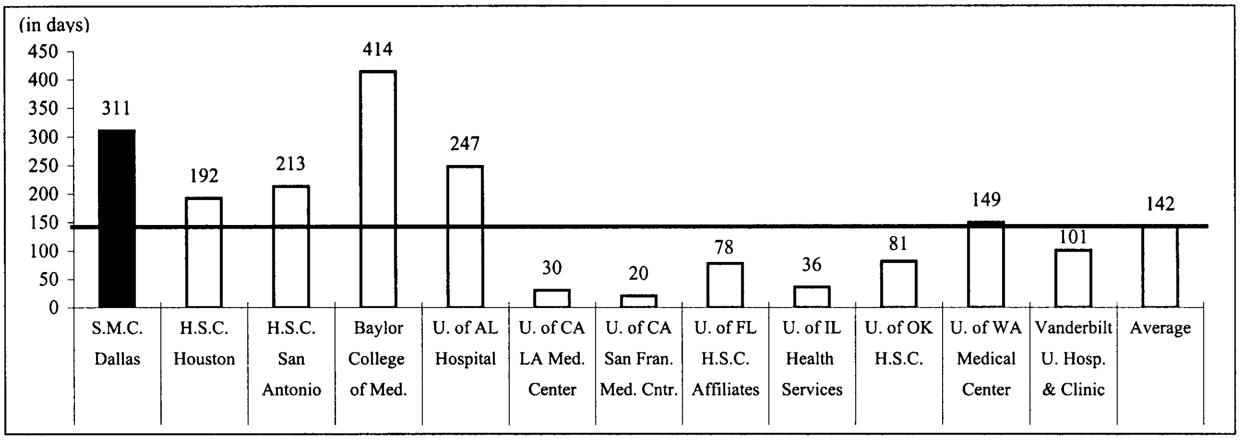
Expendable Resources to Total Net Assets Ratio - U.T. Tyler's ratio of 28.3% was below the average of 33.9%. U.T. Brownsville and West Texas A&M University increased the average with the two highest ratios of all the peers at 53.3% and 53%, respectively.

Operating Margin Excluding Gifts Ratio - U.T. Tyler's margin excluding gifts of 3.4% was slightly below the average of 4.3%. University of North Carolina-Greensboro experienced a negative margin excluding gifts, which had a downward affect on the average.

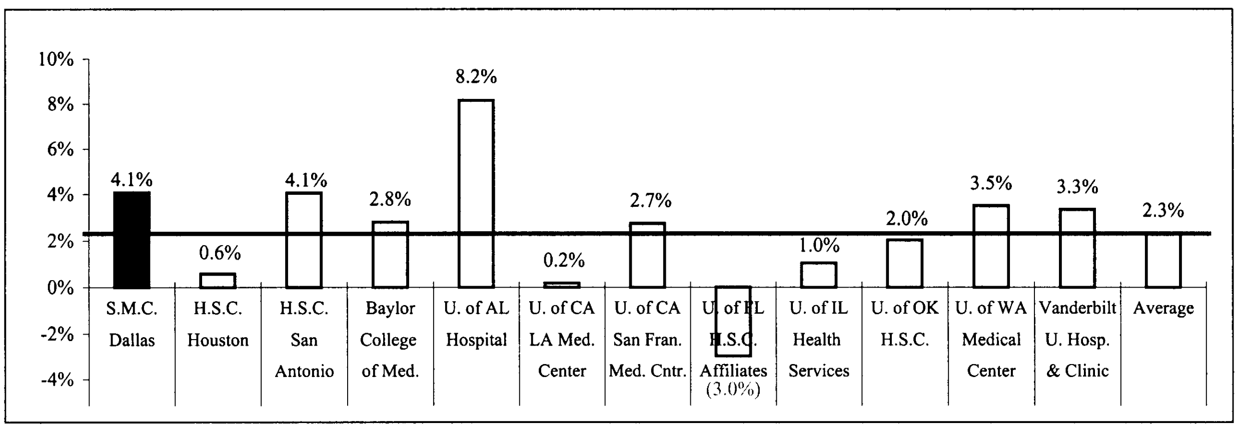
Overall, U.T. Tyler is performing above or near the averages of its peers.

The University of Texas Southwestern Medical Center at Dallas and Peers

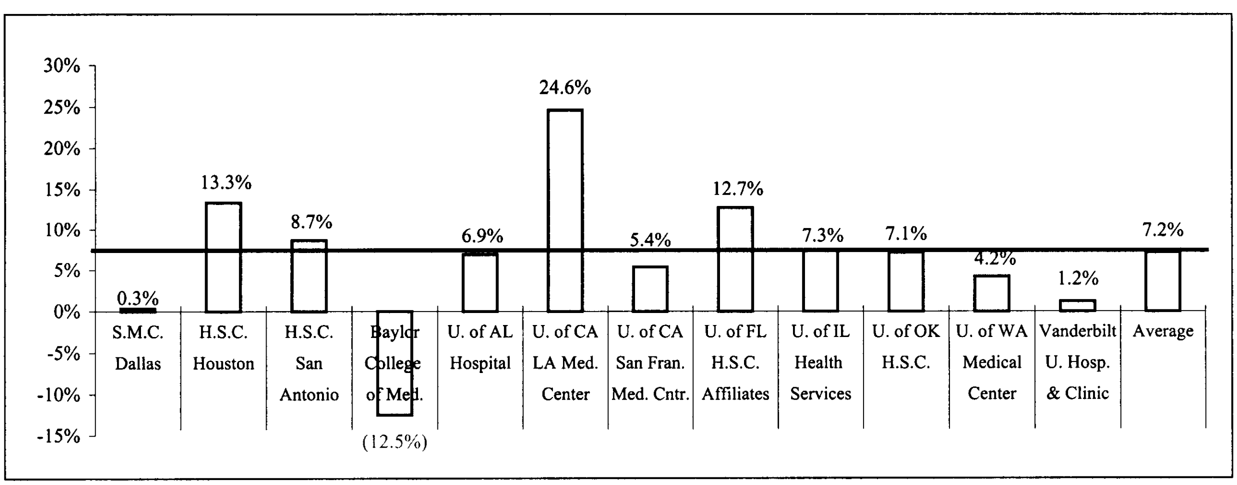
1. **Primary Reserve Ratio** - Measures the financial strength of an institution by comparing expendable net assets to total expenses, excluding depreciation (in days).



2. **Annual Operating Margin Ratio** - Indicates the direction and degree to which an institution has balanced annual operating expenses with revenues.

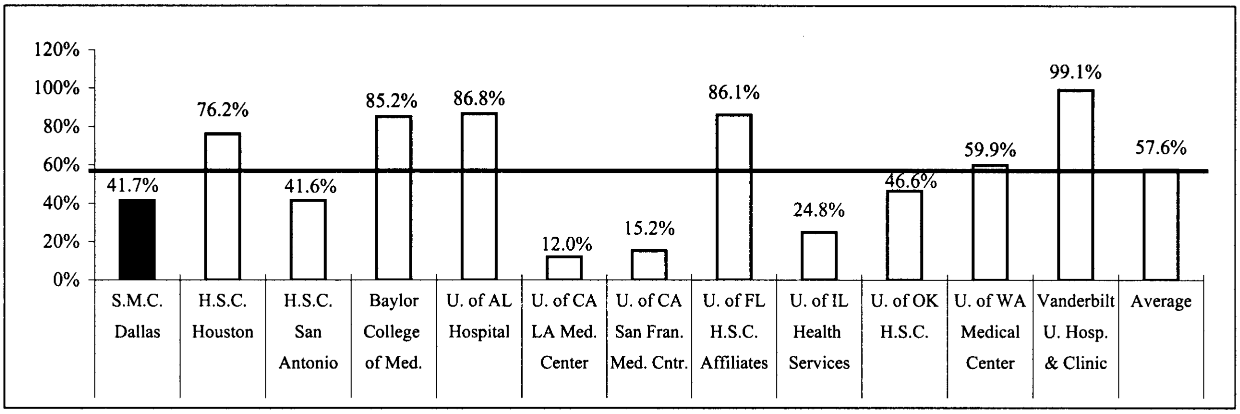


3. **Return on Net Assets Ratio** - Determines whether an institution is financially better off than in previous years by measuring total economic return.

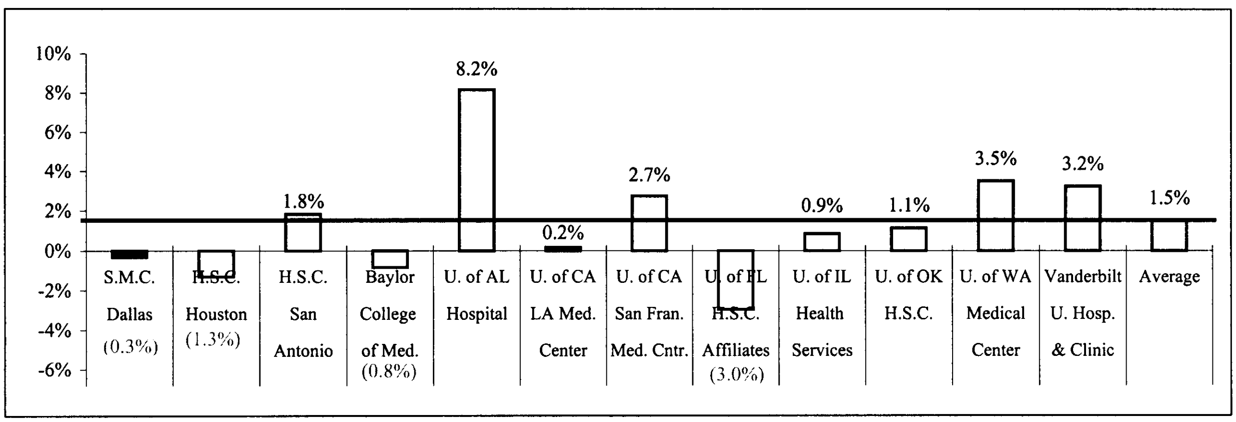


The University of Texas Southwestern Medical Center at Dallas and Peers

4. **Expendable Resources to Total Net Assets Ratio** - Measures how much of Total Net Assets is expendable.



5. **Operating Margin Excluding Gifts Ratio** - Measures the institution's dependence on gifts to finance annual operations.



Primary Reserve Ratio - U.T. Southwestern Medical Center's ratio of 311 days significantly exceeded the average of 142 days and was the second highest ratio after Baylor College of Medicine's ratio of 414 days.

Annual Operating Margin Ratio - U.T. Southwestern Medical Center's margin of 4.1% was higher than the average margin of 2.3%. U.T. Southwestern Medical Center, along with U.T.H.S.C. at San Antonio, had the second highest margin next to University of Alabama Hospital's margin of 8.2%.

Return on Net Assets Ratio - U.T. Southwestern Medical Center's ratio of 0.3% was well below the average of 7.2%. While the University of California at Los Angeles Medical Center's ratio of 24.6% contributed to a higher average, Baylor College of Medicine's ratio of (12.5%) partially offset the increase in the average caused by the University of California at Los Angeles Medical Center.

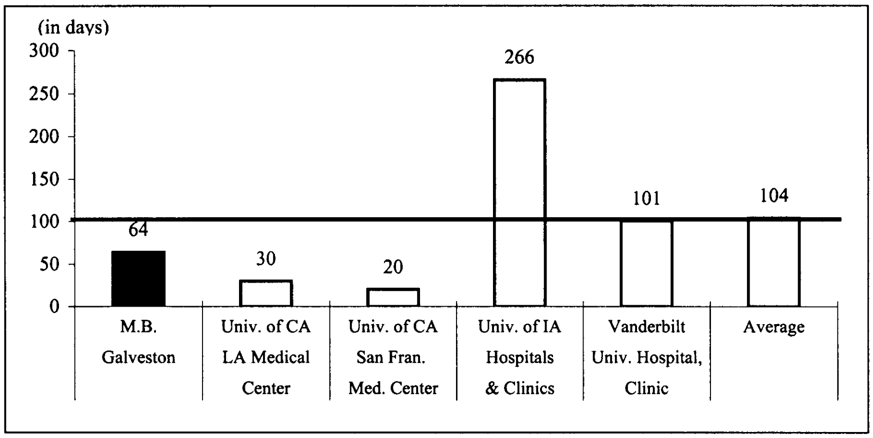
Expendable Resources to Total Net Assets Ratio - U.T. Southwestern Medical Center's ratio of 41.7% was lower than the average of 57.6%.

Operating Margin Excluding Gifts Ratio - U.T. Southwestern Medical Center's margin excluding gifts of (0.3%) was below the average of 1.5%. Several institutions experienced negative margins excluding gifts.

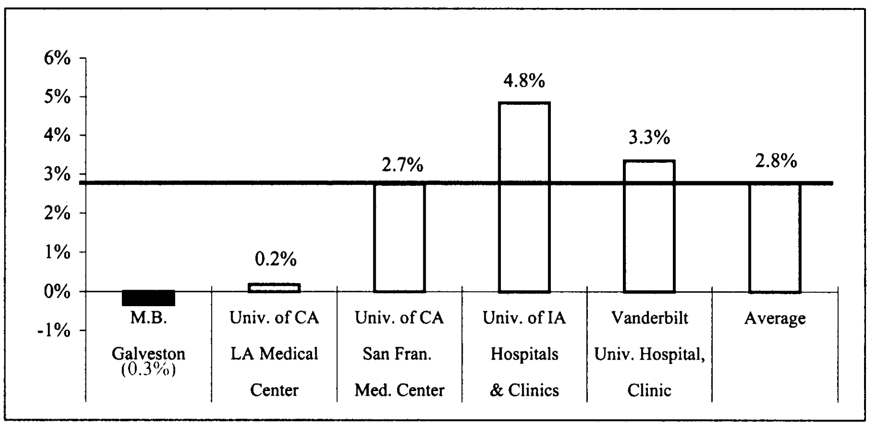
Overall, U.T. Southwestern Medical Center is performing above or near the averages of its peers.

The University of Texas Medical Branch at Galveston and Peers

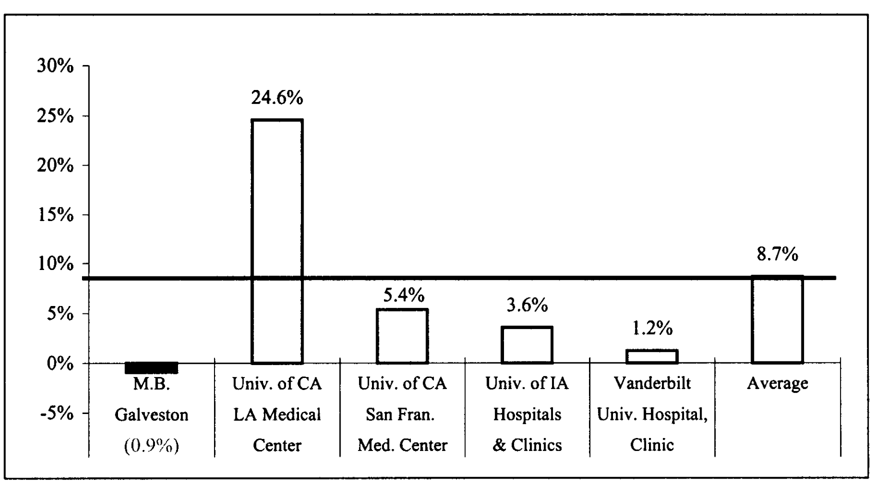
1. **Primary Reserve Ratio** - Measures the financial strength of an institution by comparing expendable net assets to total expenses, excluding depreciation (in days).



2. **Annual Operating Margin Ratio** - Indicates the direction and degree to which an institution has balanced annual operating expenses with revenues.

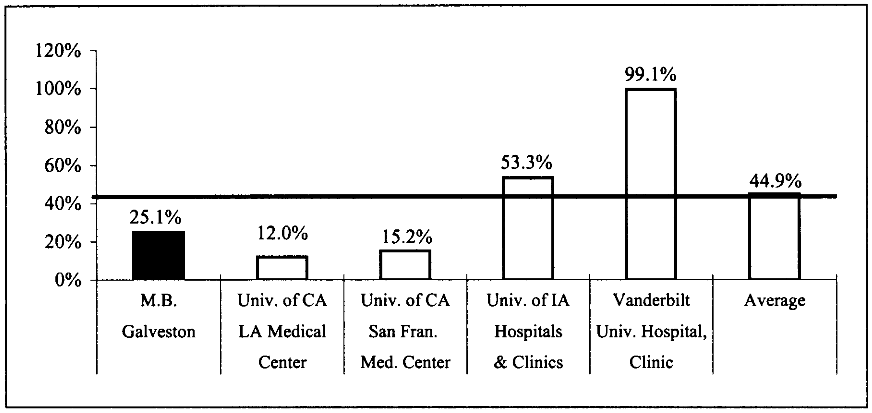


3. **Return on Net Assets Ratio** - Determines whether an institution is financially better off than in previous years by measuring total economic return.

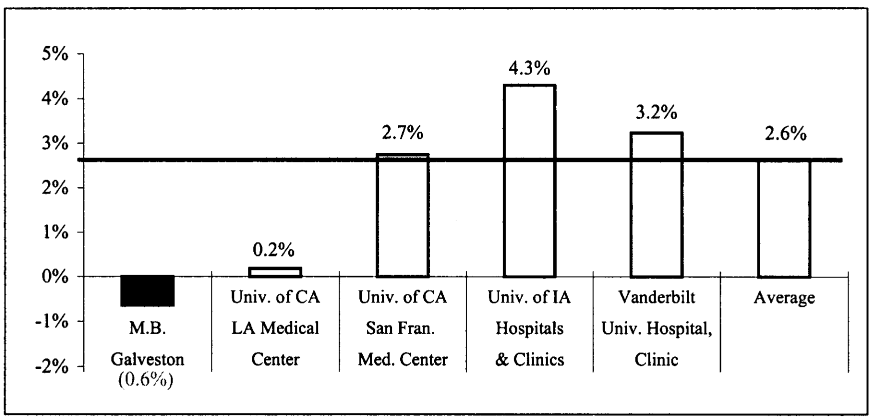


The University of Texas Medical Branch at Galveston and Peers

4. **Expendable Resources to Total Net Assets Ratio** - Measures how much of Total Net Assets is expendable.



5. **Operating Margin Excluding Gifts Ratio** - Measures the institution's dependence on gifts to finance annual operations.



Primary Reserve Ratio - U.T. Medical Branch at Galveston's (U.T.M.B.'s) ratio of 64 days fell below the average of 104 days. University of Iowa Hospitals and Clinics' ratio of 266 days had a significant upward affect on the average.

Annual Operating Margin Ratio - U.T.M.B.'s margin of (0.3%) was lower than the average margin of 2.8%. It should be noted that the financial statements of several of the peers are strictly hospital financials which do not include the wide range of activities that U.T.M.B.'s financials include such as the medical school, physician's practice plan and research activities. Additionally, several of the entities to which U.T.M.B. is being compared have a more favorable hospital payor mix than U.T.M.B. Approximately one-third of U.T.M.B.'s budget is related to the healthcare operations of the Correctional Managed Healthcare organization, an operation unique among U.S. health science centers.

Return on Net Assets Ratio - U.T.M.B.'s ratio of (0.9%) was much lower than the average ratio of 8.7%. The University of California at Los Angeles Medical Center's ratio of 24.6% was significantly higher than the ratios of the other three peers and increased the average.

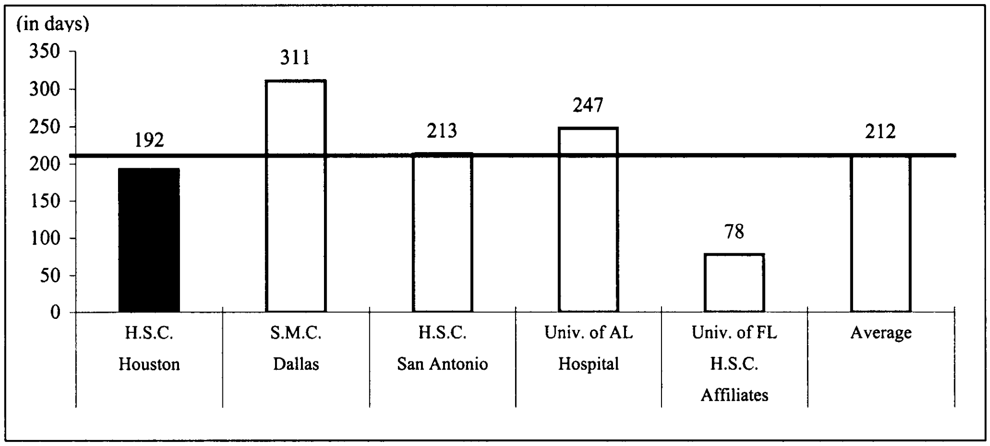
Expendable Resources to Total Net Assets Ratio - U.T.M.B.'s ratio of 25.1% fell below the average ratio of 44.9%. Vanderbilt University Hospital and Clinics' ratio of 99.1% was substantially higher than the ratios of the other peers and had a significant upward affect on the average.

Operating Margin Excluding Gifts Ratio - U.T.M.B.'s margin excluding gifts of (0.6%) remained lower than the average margin excluding gifts of 2.6%.

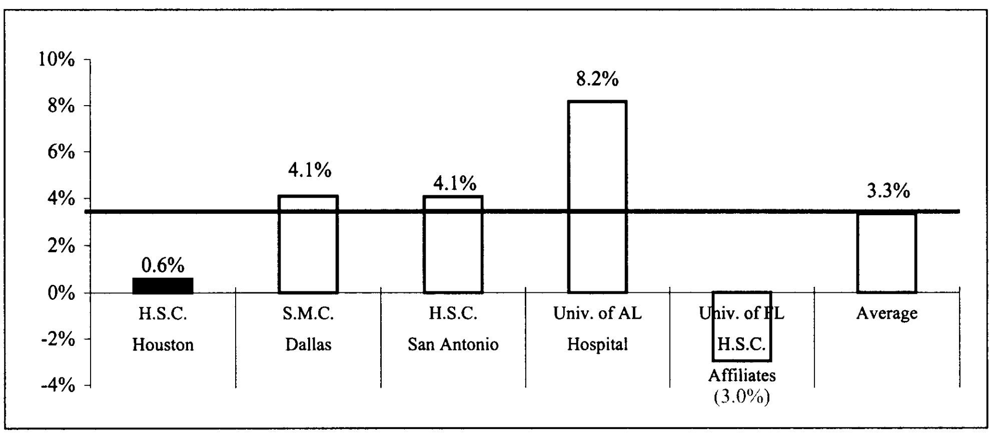
While U.T.M.B. is performing below the level of the peers illustrated in this analysis, we recognize that U.T.M.B. is somewhat unique among U.S. health science centers.

The University of Texas Health Science Center at Houston and Peers

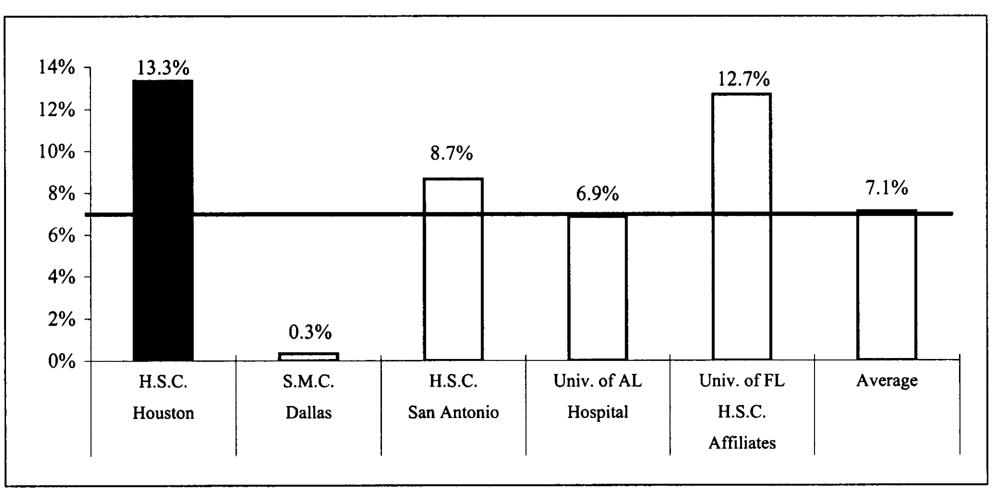
1. **Primary Reserve Ratio** - Measures the financial strength of an institution by comparing expendable net assets to total expenses, excluding depreciation (in days).



2. **Annual Operating Margin Ratio** - Indicates the direction and degree to which an institution has balanced annual operating expenses with revenues.

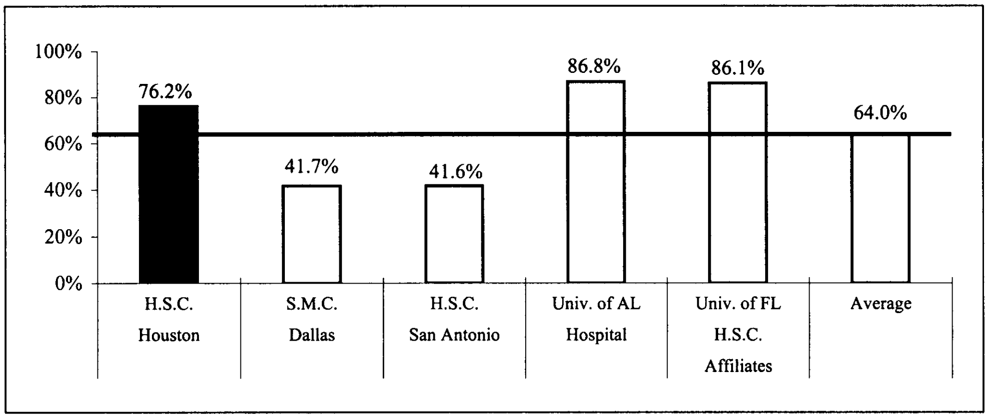


3. **Return on Net Assets Ratio** - Determines whether an institution is financially better off than in previous years by measuring total economic return.

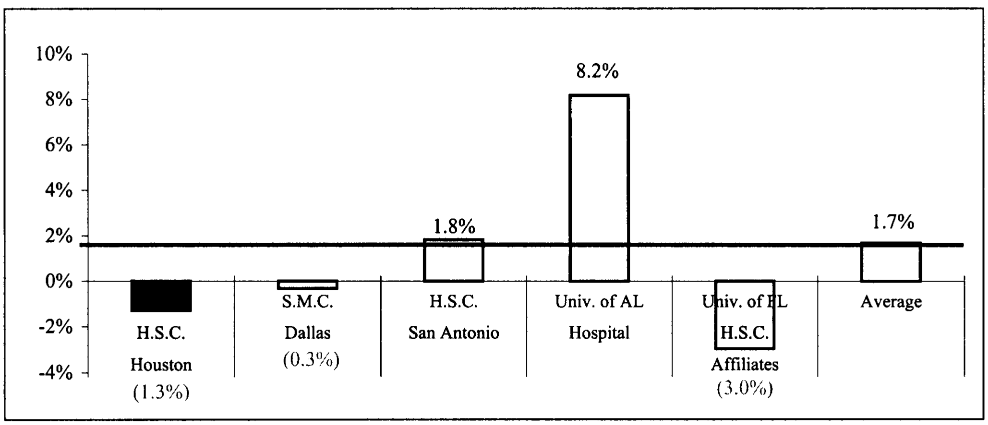


The University of Texas Health Science Center at Houston and Peers

4. **Expendable Resources to Total Net Assets Ratio** - Measures how much of Total Net Assets is expendable.



5. **Operating Margin Excluding Gifts Ratio** - Measures the institution's dependence on gifts to finance annual operations.



Primary Reserve Ratio - U.T.H.S.C. at Houston's ratio of 192 days was lower than the average ratio of 212 days. U.T. Southwestern Medical Center's ratio was the highest at 311 days, which increased the average.

Annual Operating Margin Ratio - U.T.H.S.C. at Houston's margin of 0.6% fell below the average of 3.3%. The University of Alabama Hospital experienced the highest margin of 8.2%, while University of Florida Health Science Center Affiliates experienced the lowest margin of (3%).

Return on Net Assets Ratio - U.T.H.S.C. at Houston's ratio of 13.3% far exceeded the average ratio of 7.1% and was the highest ratio of all the peers.

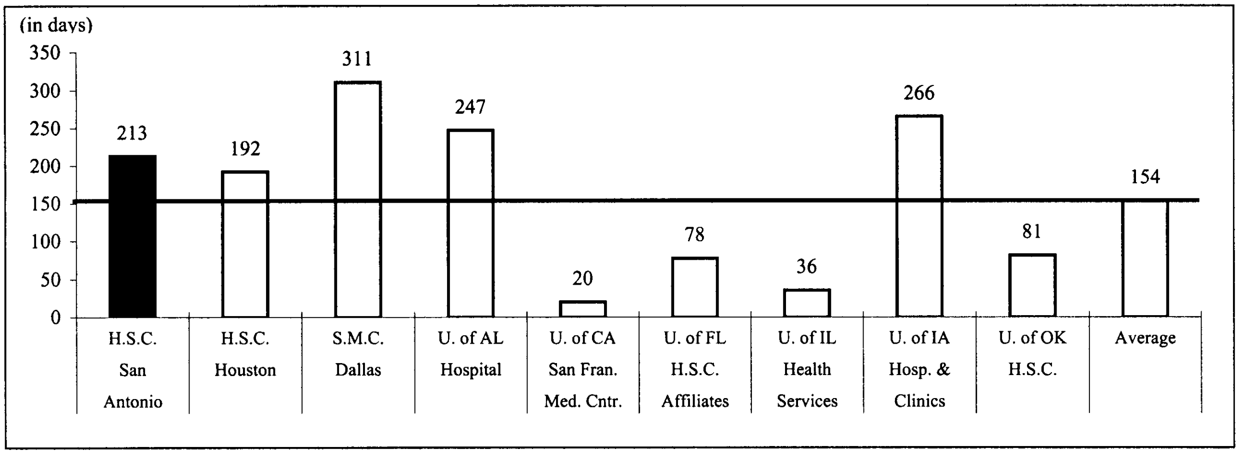
Expendable Resources to Total Net Assets Ratio - U.T.H.S.C. at Houston's ratio of 76.2% was above the average ratio of 64%.

Operating Margin Excluding Gifts Ratio - U.T.H.S.C. at Houston's margin excluding gifts was (1.3%) and fell below the average of 1.7%. Once again the University of Alabama Hospital experienced the highest margin excluding gifts of 8.2%, while University of Florida Health Science Center Affiliates experienced the lowest margin excluding gifts of (3%). It appears that neither of these entities rely upon gifts to fund operations.

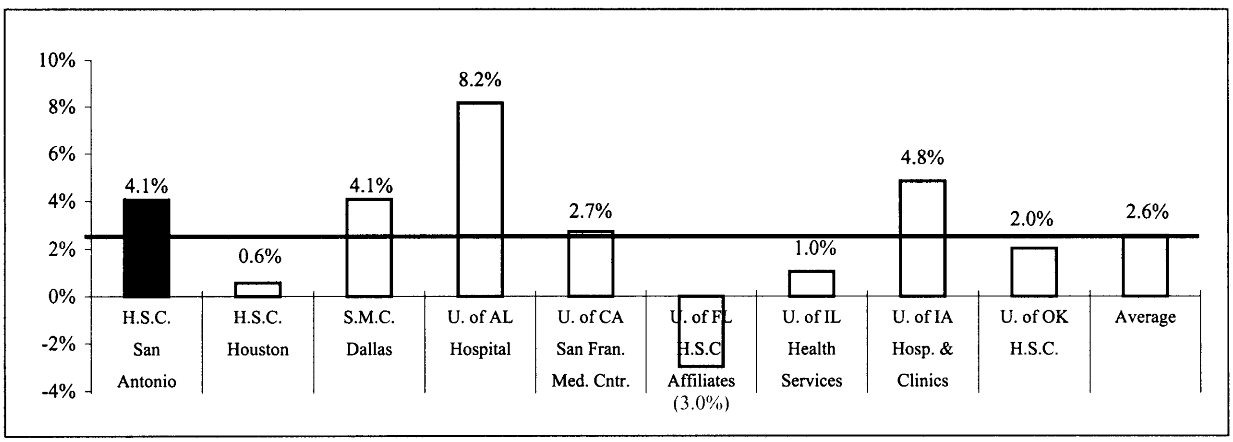
Overall, U.T.H.S.C. at Houston is performing above or near the averages of its peers.

The University of Texas Health Science Center at San Antonio and Peers

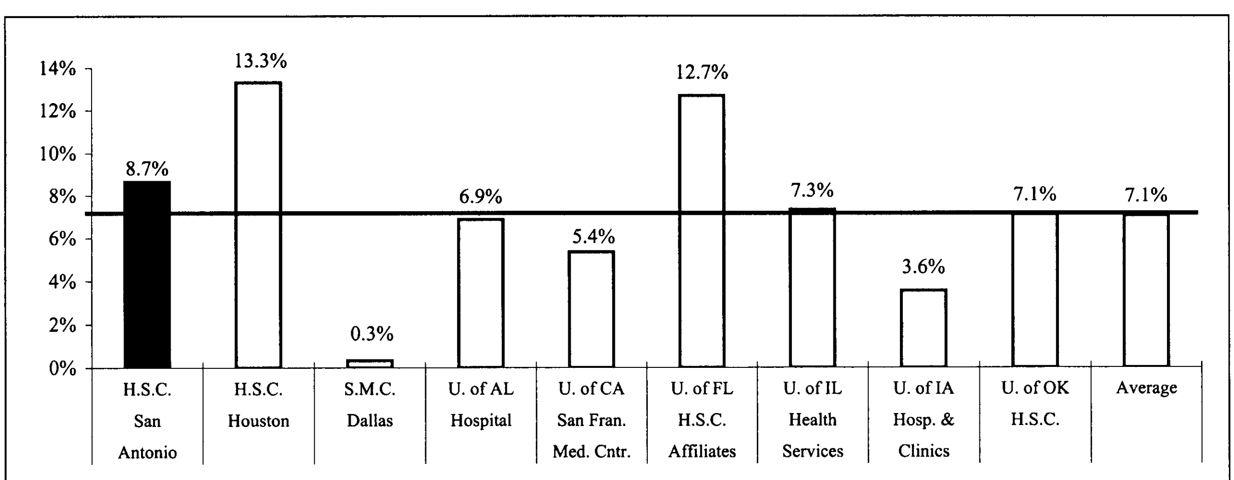
1. **Primary Reserve Ratio** - Measures the financial strength of an institution by comparing expendable net assets to total expenses, excluding depreciation (in days).



2. **Annual Operating Margin Ratio** - Indicates the direction and degree to which an institution has balanced annual operating expenses with revenues.

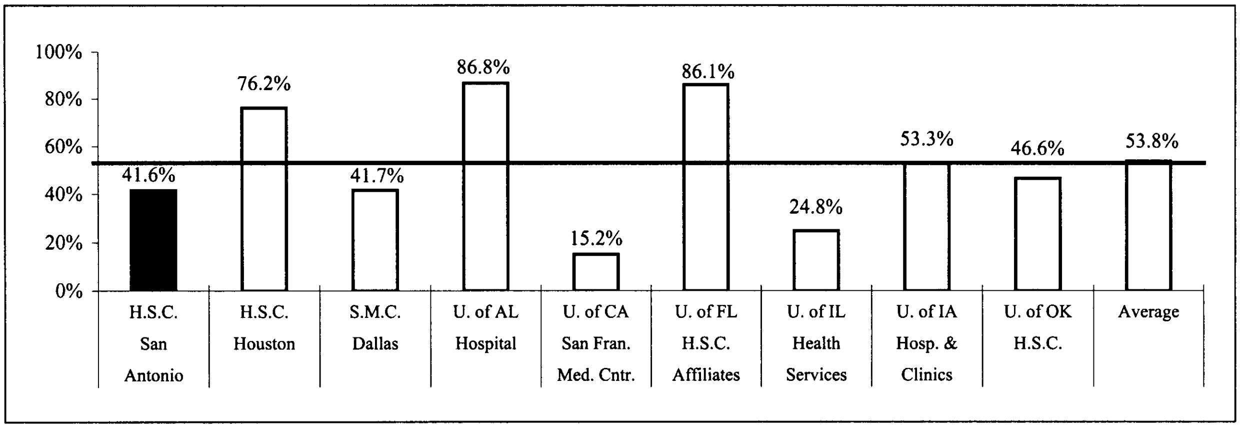


3. **Return on Net Assets Ratio** - Determines whether an institution is financially better off than in previous years by measuring total economic return.

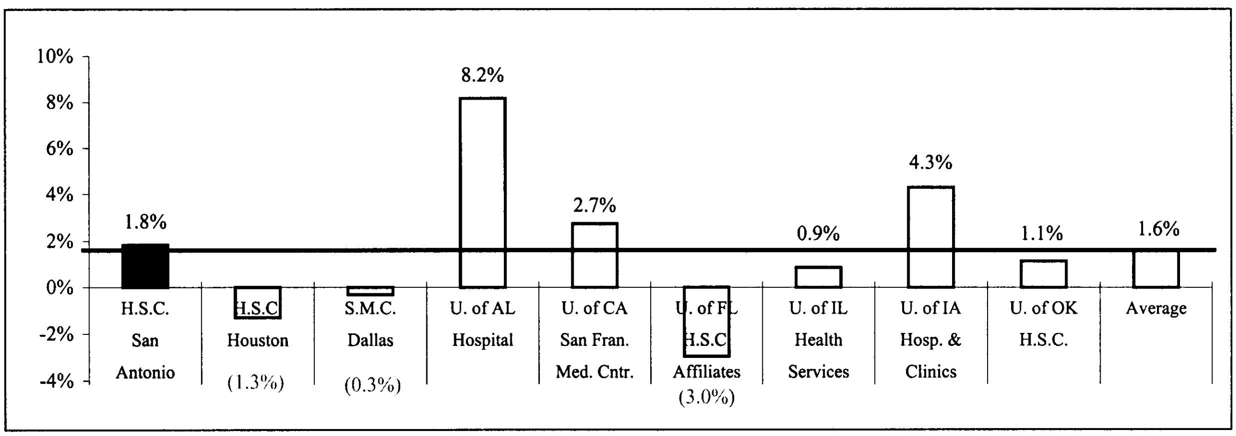


The University of Texas Health Science Center at San Antonio and Peers

4. **Expendable Resources to Total Net Assets Ratio** - Measures how much of Total Net Assets is expendable.



5. **Operating Margin Excluding Gifts Ratio** - Measures the institution's dependence on gifts to finance annual operations.



Primary Reserve Ratio - U.T.H.S.C. at San Antonio's ratio of 213 days well exceeded the average ratio of 154 days.

Annual Operating Margin Ratio - U.T.H.S.C. at San Antonio's margin of 4.1% was higher than the average margin of 2.6%.

Return on Net Assets Ratio - U.T.H.S.C. at San Antonio's ratio of 8.7% was above the average ratio 7.1%. Both U.T.H.S.C. at Houston and University of Florida Health Science Center Affiliates had the two highest ratios of 13.3% and 12.7%, respectively, which increased the average.

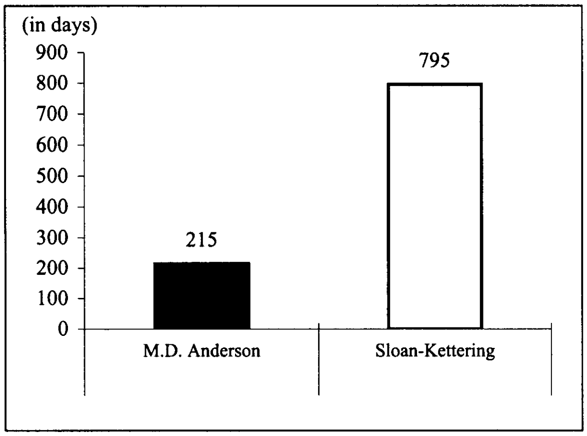
Expendable Resources to Total Net Assets Ratio - U.T.H.S.C. at San Antonio's ratio of 41.6% fell below the average of 53.8%. U.T.H.S.C. at Houston, University of Alabama Hospital and University of Florida Health Science Center Affiliates all had relatively high ratios of 76.2%, 86.8% and 86.1%, respectively, which had an upward affect on the average.

Operating Margin Excluding Gifts Ratio - U.T.H.S.C. at San Antonio's margin excluding gifts of 1.8% was slightly higher than the average margin excluding gifts of 1.6%.

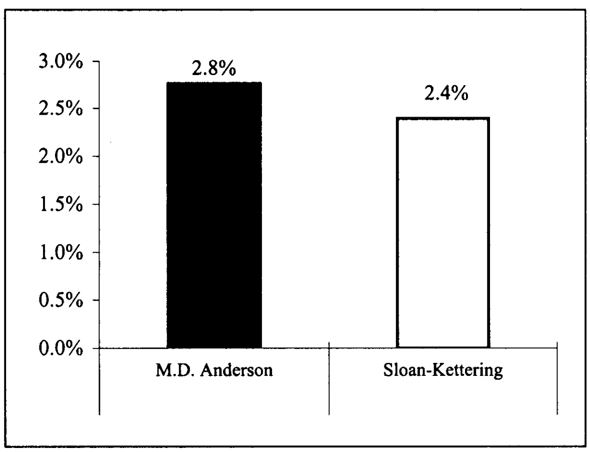
U.T.H.S.C. at San Antonio is outperforming its peers with the exception of expendable net assets.

The University of Texas M.D. Anderson Cancer Center and Peer

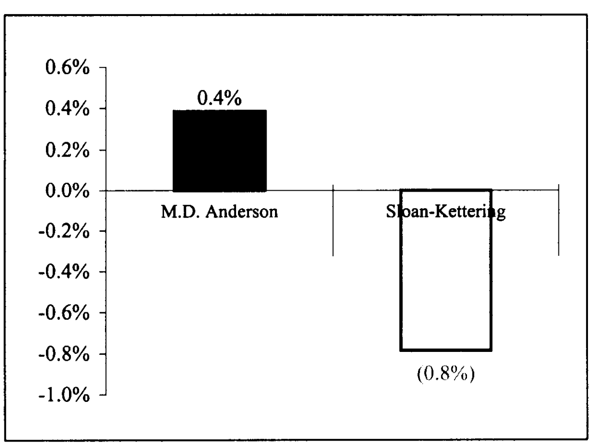
1. **Primary Reserve Ratio** - Measures the financial strength of an institution by comparing expendable net assets to total expenses, excluding depreciation (in days).



2. **Annual Operating Margin Ratio** - Indicates the direction and degree to which an institution has balanced annual operating expenses with revenues.

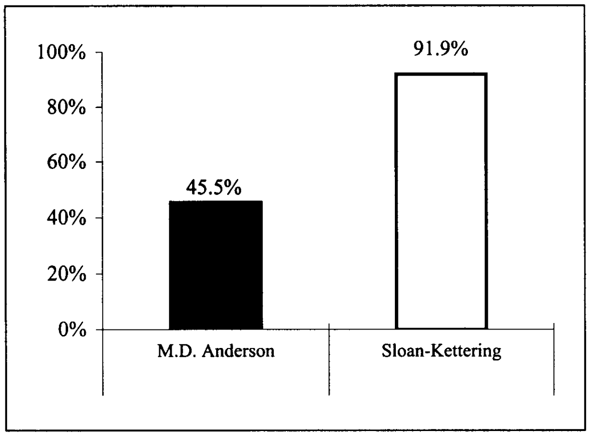


3. **Return on Net Assets Ratio** - Determines whether an institution is financially better off than in previous years by measuring total economic return.

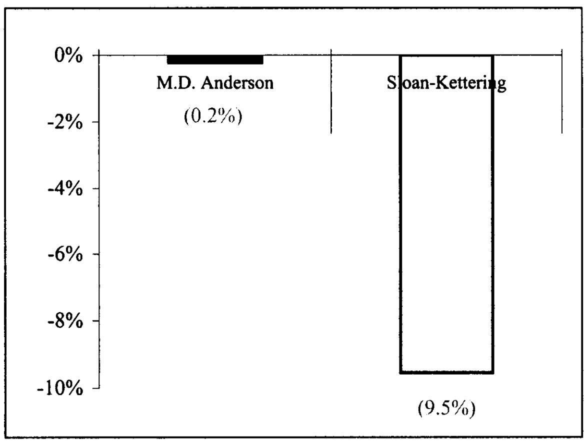


The University of Texas M.D. Anderson Cancer Center and Peer

4. **Expendable Resources to Total Net Assets Ratio** - Measures how much of Total Net Assets is expendable.



5. **Operating Margin Excluding Gifts Ratio** - Measures the institution's dependence on gifts to finance annual operations.



Primary Reserve Ratio - U.T.M.D. Anderson Cancer Center's ratio was 215 days, which is much lower than the ratio for Sloan-Kettering of 795 days. It should be noted that Sloan-Kettering is the only organization U.T.M.D. Anderson Cancer Center and Health Affairs considers as its peer. Additionally, Sloan-Kettering's fiscal year-end is December 31 and financials for FY 2002 were not available. Thus, we relied upon information for the year ended December 31, 2001.

Annual Operating Margin Ratio - U.T.M.D. Anderson Cancer Center's margin of 2.8% was slightly higher than the margin for Sloan-Kettering of 2.4%.

Return on Net Assets Ratio - U.T.M.D. Anderson Cancer Center's ratio equaled 0.4%, which was higher than Sloan-Kettering's ratio of (0.8%).

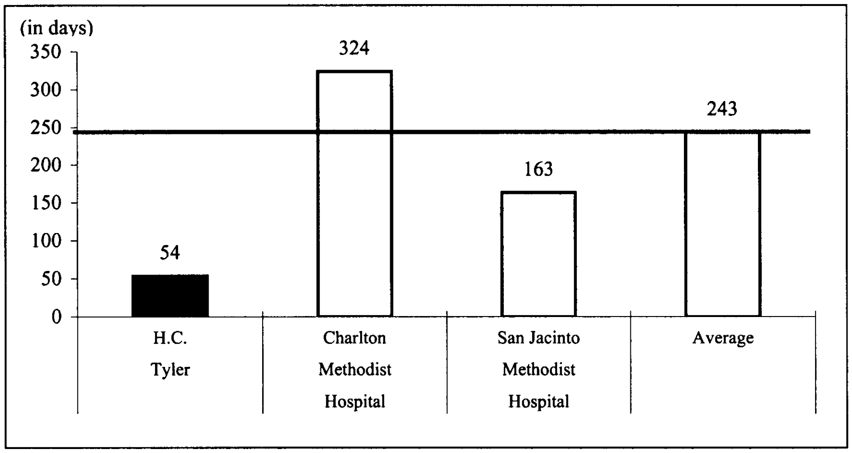
Expendable Resources to Total Net Assets Ratio - U.T.M.D. Anderson Cancer Center's ratio equaled 45.5% and fell below the ratio for Sloan-Kettering of 91.9%.

Operating Margin Excluding Gifts Ratio - U.T.M.D. Anderson Cancer Center's margin excluding gifts of (0.2%) was higher than Sloan-Kettering's margin excluding gifts of (9.5%). This ratio indicates that U.T.M.D. Anderson Cancer Center does not rely as heavily upon gifts to fund operations.

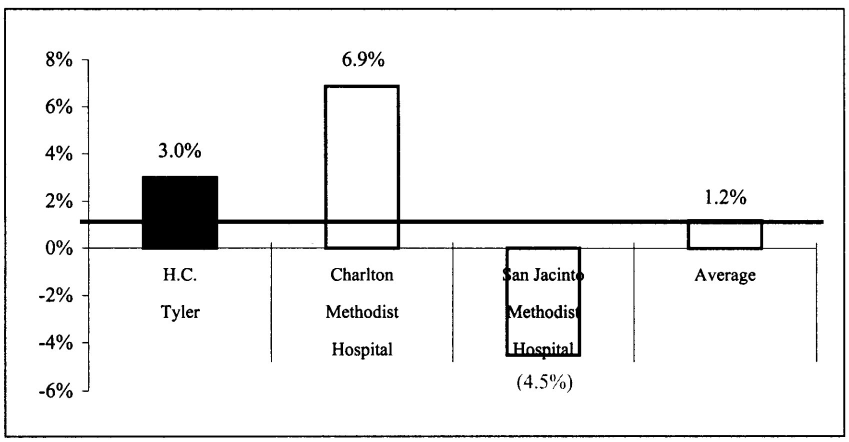
It is difficult to evaluate U.T.M.D. Anderson Cancer Center's overall performance relative to its peers given that only one peer is presented in this analysis; however, nothing in this analysis causes us concern regarding the financial condition of U.T.M.D. Anderson Cancer Center.

The University of Texas Health Center at Tyler and Peers

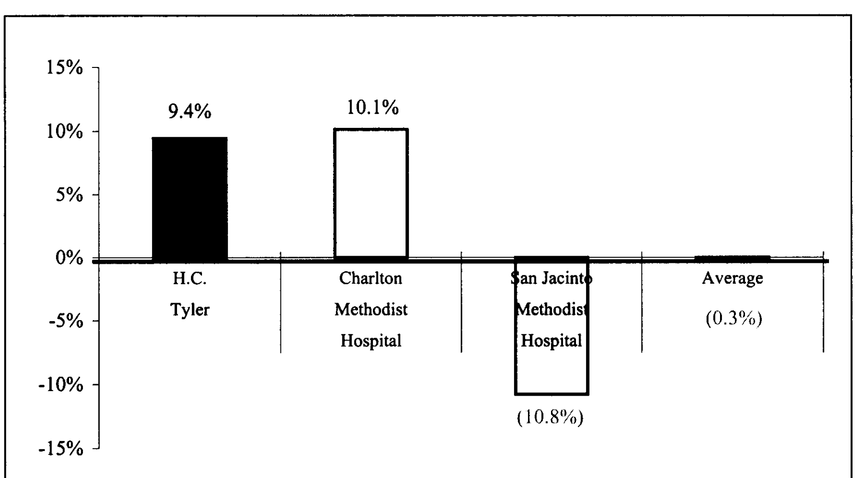
1. **Primary Reserve Ratio** - Measures the financial strength of an institution by comparing expendable net assets to total expenses, excluding depreciation (in days).



2. **Annual Operating Margin Ratio** - Indicates the direction and degree to which an institution has balanced annual operating expenses with revenues.

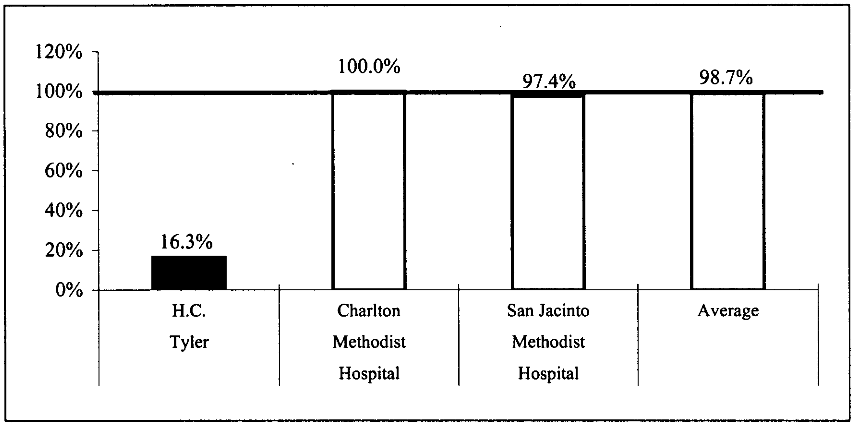


3. **Return on Net Assets Ratio** - Determines whether an institution is financially better off than in previous years by measuring total economic return.

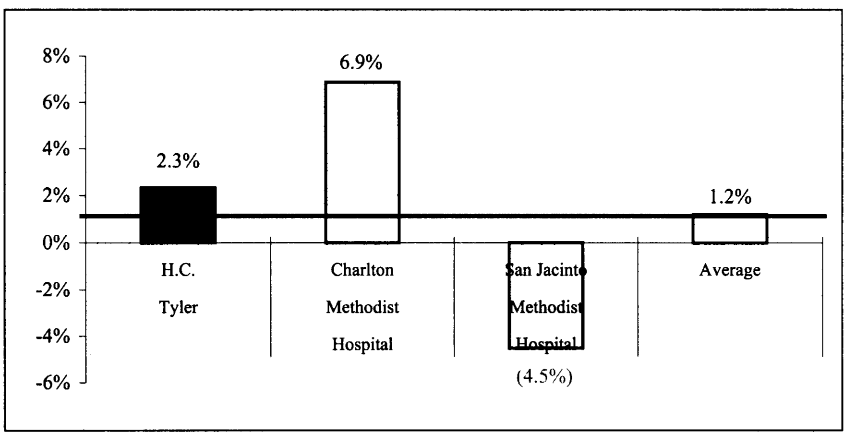


The University of Texas Health Center at Tyler and Peers

4. **Expendable Resources to Total Net Assets Ratio** - Measures how much of Total Net Assets is expendable.



5. **Operating Margin Excluding Gifts Ratio** - Measures the institution's dependence on gifts to finance annual operations.



Primary Reserve Ratio - U.T.H.C. at Tyler's ratio of 54 days was significantly lower than the average of 243 days. It should be noted that we were only able to obtain financials for two of U.T.H.C. at Tyler's peers. Additionally, the peers for U.T.H.C. at Tyler presented in this analysis are both hospitals.

Annual Operating Margin Ratio - U.T.H.C. at Tyler's margin of 3% exceeded the average margin of 1.2%.

Return on Net Assets Ratio - U.T.H.C. at Tyler's ratio of 9.4% was considerably higher than the average for the peers of (0.3%).

Expendable Resources to Total Net Assets Ratio - U.T.H.C. at Tyler's ratio of 16.3% was substantially lower than the average for the peers of 98.7%.

Operating Margin Excluding Gifts Ratio - U.T.H.C. at Tyler's margin excluding gifts was 2.3%, which surpassed the average margin excluding gifts of 1.2%. The two peers do not rely on gifts for operations.

It is difficult to evaluate U.T.H.C. at Tyler's overall performance relative to its peers given that only two peers are presented in this analysis, both peers are private hospitals with no state support and neither of the two peers have substantial education and research activities; however, nothing in this analysis causes us concern over the financial condition of U.T.H.C. at Tyler.

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Appendix A - Definitions of Evaluation Factors

1. **Primary Reserve Ratio** – Measures the financial strength of an institution by comparing expendable net assets to total expenses, excluding depreciation (in days). Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, U.T. System considers the PHF to be nonexpendable. Therefore, the PHF was subtracted from expendable net assets for U.T. El Paso and the six U.T. health-related institutions. This ratio provides a snapshot of financial strength and flexibility by indicating how long the institution could function using its expendable reserves without relying on additional net assets generated by operations.

$$\textbf{Formula} = \left(\frac{\text{Expendable Net Assets + Unrestricted Net Assets - PHF}}{\text{Total Expenses – Depreciation Expense}}\right) * 365$$

2. **Annual Operating Margin Ratio** - This ratio indicates whether an institution is living within its available resources.

$$\textbf{Formula} = \frac{\text{Op. Rev. + Approp. + RAHC Transfer + Op. Gifts + Inv. Inc. + AUF Transfer + GEF Transfer + Excellence Funding – Op. Exp. – Int. Exp.}}{\text{Op. Rev. + Approp. + RAHC Transfer + Op. Gifts + Inv. Inc. + AUF Transfer + GEF Transfer + Excellence Funding}}$$

3. **Return on Net Assets Ratio** – This ratio determines whether the institution is financially better off than in previous years by measuring total economic return. An improving trend indicates that the institution is increasing its net assets and is likely to be able to set aside financial resources to strengthen its future financial flexibility.

$$\textbf{Formula} = \frac{\text{Change in Net Assets (Adjusted for Change in Debt not on Institution's Books)}}{\text{Beginning Restated Net Assets – Debt not on Institution's Books}}$$

4. **Expendable Resources to Total Net Assets Ratio** – Measures the amount of an institution's total net assets that are expendable.

$$\textbf{Formula} = \frac{\text{Expendable Net Assets + Unrestricted Net Assets - PHF}}{\text{Total Net Assets – Debt not on Institution's Books}}$$

5. **Operating Margin Excluding Gifts Ratio** – Determines an institution's dependence on gifts to finance annual operations.

$$\textbf{Formula} = \frac{\text{Op. Rev. + Approp. + RAHC Transfer + Inv. Inc. + AUF Transfer + GEF Transfer + Excellence Funding – Op. Exp. – Int. Exp.}}{\text{Op. Rev. + Approp. + RAHC Transfer + Inv. Inc. + AUF Transfer + GEF Transfer + Excellence Funding}}$$

Appendix B - Calculation of Expendable Net Assets
The University of Texas at Arlington and Peers
As of August 31, 2002
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Debt Service	Funds Functioning Restricted	Other Expendable	Total	Total Unrestricted Net Assets	Less: PHF*	Total Expendable Net Assets
Arlington	$ 6.6	-	2.2	21.9	30.6	44.8	-	75.4
Dallas	13.1	-	5.0	47.8	66.0	46.7	-	112.7
El Paso	9.4	-	3.5	25.1	37.9	43.3	(21.3)	59.9
San Antonio	74.8	-	0.3	23.9	99.0	39.7	-	138.7
George Mason	-	-	-	41.0	41.0	(6.8)	-	34.2
Georgia State	0.5	-	-	9.7	10.2	53.4	-	63.6
Old Dominion	5.5	-	-	6.9	12.4	13.6	-	26.0
Univ. of Houston	0.8	-	-	58.1	58.9	208.3	-	267.2
Univ. of Memphis	19.7	0.3	-	12.3	32.3	47.3	-	79.6
Univ. of North TX	-	5.0	1.7	23.6	30.3	98.1	-	128.4
Univ. of South FL	39.9	0.1	-	6.6	46.6	77.6	-	124.2
Southwest TX State	-	4.6	-	68.1	72.7	26.2	-	98.9

*Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, U.T. System considers the PHF to be nonexpendable. Therefore, the PHF is subtracted from expendable net assets.

Appendix B - Calculation of Expendable Net Assets
The University of Texas at Austin and Peers
As of August 31, 2002
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Debt Service	Funds Functioning Restricted	Other Expendable	Total	Total Unrestricted Net Assets	**Total Expendable Net Assets**
Austin	66.9	-	66.3	268.0	401.2	301.8	703.0
Indiana Univ.	52.8	27.0	-	181.3	261.1	244.8	505.9
Michigan State	22.9	-	109.8	125.2	257.9	451.5	709.4
Texas A&M	-	-	23.0	99.8	122.8	451.0	573.8
Univ. of MN	-	-	-	450.0	450.0	315.4	765.4

Appendix B - Calculation of Expendable Net Assets
The University of Texas at Brownsville and Peers
As of August 31, 2002
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Restricted Expendable Net Assets: Funds Functioning Restricted	Restricted Expendable Net Assets: Other Expendable	Restricted Expendable Net Assets: Total	Total Unrestricted Net Assets	Total Expendable Net Assets
Brownsville	$ 4.7	-	3.5	8.2	22.5	30.7
Pan American	3.3	6.8	13.0	23.1	54.8	77.9
Permian Basin	0.6	-	4.7	5.3	6.7	12.0
Tyler	-	-	18.2	18.2	10.3	28.5
Sul Ross State Univ.	-	-	4.1	4.1	6.5	10.6
Texas A&M-Corpus	-	-	14.6	14.6	4.3	18.9
Texas A&M-Intern'l	-	-	9.1	9.1	8.3	17.4
Univ. of Houston-DT	1.0	-	6.3	7.3	10.7	18.0

Appendix B - Calculation of Expendable Net Assets
The University of Texas at Dallas and Peers
As of August 31, 2002
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Restricted Expendable Net Assets: Debt Service	Restricted Expendable Net Assets: Funds Functioning Restricted	Restricted Expendable Net Assets: Other Expendable	Restricted Expendable Net Assets: Total	Total Unrestricted Net Assets	Less: PHF*	Total Expendable Net Assets
Dallas	$ 13.1	-	5.0	47.8	66.0	46.7	-	112.7
Arlington	6.6	-	2.2	21.9	30.6	44.8	-	75.4
El Paso	9.4	-	3.5	25.1	37.9	43.3	(21.3)	59.9
San Antonio	74.8	-	0.3	23.9	99.0	39.7	-	138.7
Arizona State Univ.	20.0	15.9	-	58.3	94.2	103.1	-	197.3
GA Institute of Tech.	-	-	-	7.4	7.4	109.2	-	116.6
NC State Univ.	30.6	7.1	-	109.5	147.2	77.4	-	224.6
Southwest TX State	-	4.6	-	68.1	72.7	26.2	-	98.9
U of NC-Greensboro	4.8	3.7	-	24.9	33.4	41.4	-	74.8
U of OK-Norman	7.8	11.0	-	21.0	39.8	44.0	-	83.8

*Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, U.T. System considers the PHF to be nonexpendable. Therefore, the PHF is subtracted from expendable net assets.

Appendix B - Calculation of Expendable Net Assets
The University of Texas at El Paso and Peers
As of August 31, 2002
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Debt Service	Funds Functioning Restricted	Other Expendable	Total	Total Unrestricted Net Assets	Less: PHF*	Total Expendable Net Assets
El Paso	$ 9.4	-	3.5	25.1	37.9	43.3	(21.3)	59.9
Arlington	6.6	-	2.2	21.9	30.6	44.8	-	75.4
Dallas	13.1	-	5.0	47.8	66.0	46.7	-	112.7
San Antonio	74.8	-	0.3	23.9	99.0	39.7	-	138.7
NM State Univ.	6.6	-	-	24.4	31.0	74.7	-	105.7
Northern AZ Univ.	0.4	1.3	-	17.8	19.5	25.6	-	45.1
Southwest TX State	-	4.6	-	68.1	72.7	26.2	-	98.9
Texas Tech	33.3	-	24.9	99.4	157.6	117.0	-	274.6
Univ. of Houston	0.8	-	-	58.1	58.9	208.3	-	267.2

*Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, U.T. System considers the PHF to be nonexpendable. Therefore, the PHF is subtracted from expendable net assets.

Appendix B - Calculation of Expendable Net Assets
The University of Texas - Pan American and Peers
As of August 31, 2002
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Debt Service	Funds Functioning Restricted	Other Expendable	Total	Total Unrestricted Net Assets	Total Expendable Net Assets
Pan American	$ 3.3	-	6.8	13.0	23.1	54.8	77.9
AR State Univ.	35.7	3.3	-	11.9	50.9	22.7	73.6
Northeastern IL	-	0.5	-	4.3	4.8	6.9	11.7
Northern AZ Univ.	0.4	1.3	-	17.8	19.5	25.6	45.1
Sam Houston State	-	-	-	11.1	11.1	54.0	65.1
Southwest TX State	-	4.6	-	68.1	72.7	26.2	98.9
Stephen F. Austin	1.2	0.5	-	10.1	11.8	43.8	55.6
Texas A&M-Corpus	-	-	-	14.6	14.6	4.3	18.9
Texas A&M-Kingsville	-	-	-	10.1	10.1	17.0	27.1
Univ. of Central OK	1.5	4.9	-	0.5	6.9	11.5	18.4
Univ. of LA-Lafayette	-	-	-	48.9	48.9	(0.6)	48.3
Univ. of Southern CO	-	-	0.2	4.6	4.8	5.7	10.5

Appendix B - Calculation of Expendable Net Assets
The University of Texas of the Permian Basin and Peers
As of August 31, 2002
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Debt Service	Other Expendable	Total	Total Unrestricted Net Assets	Total Expendable Net Assets
Permian Basin	$ 0.6	-	4.7	5.3	6.7	12.0
Brownsville	4.7	-	3.5	8.2	22.5	30.7
Tyler	-	-	18.2	18.2	10.3	28.5
Angelo State	-	-	9.5	9.5	38.5	48.0
LSU Shreveport	0.3	-	4.4	4.7	(1.3)	3.4
Midwestern State	-	0.5	1.0	1.5	19.9	21.4
Sul Ross State	-	-	4.1	4.1	6.5	10.6
Texas A&M-Corpus	-	-	14.6	14.6	4.3	18.9
Texas A&M-Intern'l.	-	-	9.1	9.1	8.3	17.4
Texas A&M-Texarkana	-	-	0.4	0.4	7.9	8.3
U of H-Clear Lake	-	-	0.5	0.5	27.8	28.3
U of H-Victoria	-	-	1.5	1.5	1.6	3.1

Appendix B - Calculation of Expendable Net Assets
The University of Texas at San Antonio and Peers
As of August 31, 2002
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Debt Service	Funds Functioning Restricted	Other Expendable	Total	Total Unrestricted Net Assets	Less: PHF*	Total Expendable Net Assets
San Antonio	$ 74.8	-	0.3	23.9	99.0	39.7	-	138.7
Arlington	6.6	-	2.2	21.9	30.6	44.8	-	75.4
Dallas	13.1	-	5.0	47.8	66.0	46.7	-	112.7
El Paso	9.4	-	3.5	25.1	37.9	43.3	(21.3)	59.9
Cleveland State	-	-	-	20.6	20.6	24.0	-	44.6
Eastern Michigan	-	-	-	45.5	45.5	26.8	-	72.3
George Mason	-	-	-	41.0	41.0	(6.8)	-	34.2
Southwest Texas State	-	4.6	-	68.1	72.7	26.2	-	98.9
U. of AR-Little Rock	-	-	-	9.1	9.1	29.4	-	38.5
U. of NC-Greensboro	4.8	3.7	-	24.9	33.4	41.4	-	74.8
Univ. of New Orleans	-	-	-	21.1	21.1	(6.3)	-	14.8
Univ. of North TX	-	5.0	1.7	23.6	30.3	98.1	-	128.4
Univ. of South FL	39.9	0.1	-	6.6	46.6	77.6	-	124.2
Wright State	-	0.4	-	19.2	19.6	50.9	-	70.5

*Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, U.T. System considers the PHF to be nonexpendable. Therefore, the PHF is subtracted from expendable net assets.

Appendix B - Calculation of Expendable Net Assets
The University of Texas at Tyler and Peers
As of August 31, 2002
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Debt Service	Other Expendable	Total	Total Unrestricted Net Assets	Total Expendable Net Assets
Tyler	$ -	-	18.2	18.2	10.3	28.5
Browsville	4.7	-	3.5	8.2	22.5	30.7
Permian Basin	0.6	-	4.7	5.3	6.7	12.0
GA College & State	-	-	4.1	4.1	3.7	7.8
TX A&M-Corpus	-	-	14.6	14.6	4.3	18.9
U. of NC-Greensboro	4.8	3.7	24.9	33.4	41.4	74.8
West Texas A&M	-	-	4.2	4.2	29.5	33.7

Appendix B - Calculation of Expendable Net Assets
The University of Texas Southwestern Medical Center at Dallas and Peers
As of August 31, 2002
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Debt Service	Funds Functioning Restricted	Other Expendable	Total	Total Unrestricted Net Assets	Less: PHF*	Total Expendable Net Assets
S.M.C. Dallas	$ 52.1	-	8.8	265.4	326.3	302.0	(42.6)	585.7
H.S.C. Houston	81.3	-	25.2	64.8	171.3	136.2	(21.3)	286.2
H.S.C. San Antonio	50.3	-	3.4	93.5	147.2	268.2	(170.3)	245.1
Baylor College of Med.	-	-	-	93.6	93.6	882.5	-	976.1
U. of AL Hospital	-	-	-	4.0	4.0	420.1	-	424.1
U. of CA-LA Med Cntr	1.8	7.7	-	13.3	22.8	41.8	-	64.6
U. of CA-SF Med Cntr	2.1	-	-	4.6	6.7	38.2	-	44.9
U. of FL HSC Affiliates	-	-	-	-	-	69.6	-	69.6
U. of IL Health Serv.	-	0.7	-	-	0.7	35.2	-	35.9
U. of OK HSC	17.1	3.7	-	17.2	38.0	96.4	-	134.4
U. of WA Med. Center	-	-	-	1.5	1.5	166.9	-	168.4
Vanderbilt Hosp./Clinic	-	-	-	40.4	40.4	136.4	-	176.8

*Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, U.T. System considers the PHF to be nonexpendable. Therefore, the PHF is subtracted from expendable net assets.

Appendix B - Calculation of Expendable Net Assets
The University of Texas Medical Branch at Galveston and Peers
As of August 31, 2002
(In Millions)

	Restricted Expendable Net Assets					Total		Total
Institution	Capital Projects	Debt Service	Funds Functioning Restricted	Other Expendable	Total	Unrestricted Net Assets	Less: PHF*	Expendable Net Assets
M.B. Galveston	$ 7.5	-	10.3	61.2	79.0	154.9	(21.3)	212.6
U. of CA-LA Med Cntr	1.8	7.7	-	13.3	22.8	41.8	-	64.6
U. of CA-SF Med Cntr	2.1	0.0	-	4.6	6.7	38.2	-	44.9
U. of IA Hosp. & Clinics	-	-	-	310.4	310.4	84.5	-	394.9
Vanderbilt Hosp./Clinic	-	-	-	40.4	40.4	136.4	-	176.8

*Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, U.T. System considers the PHF to be nonexpendable. Therefore, the PHF is subtracted from expendable net assets.

Appendix B - Calculation of Expendable Net Assets
The University of Texas Health Science Center at Houston and Peers
As of August 31, 2002
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Restricted Expendable Net Assets: Debt Service	Restricted Expendable Net Assets: Funds Functioning Restricted	Restricted Expendable Net Assets: Other Expendable	Restricted Expendable Net Assets: Total	Total Unrestricted Net Assets	Less: PHF*	**Total Expendable Net Assets**
H.S.C. Houston	$ 81.3	-	25.2	64.8	171.3	136.2	(21.3)	286.2
S.M.C. Dallas	52.1	-	8.8	265.4	326.3	302.0	(42.6)	585.7
H.S.C. San Antonio	50.3	-	3.4	93.5	147.2	268.2	(170.3)	245.1
U. of AL Hospital	-	-	-	4.0	4.0	420.1	-	424.1
U. of FL HSC Affiliates	-	-	-	-	-	69.6	-	69.6

*Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, U.T. System considers the PHF to be nonexpendable. Therefore, the PHF is subtracted from expendable net assets.

Appendix B - Calculation of Expendable Net Assets
The University of Texas Health Science Center at San Antonio and Peers
As of August 31, 2002
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Restricted Expendable Net Assets: Debt Service	Restricted Expendable Net Assets: Funds Functioning Restricted	Restricted Expendable Net Assets: Other Expendable	Restricted Expendable Net Assets: Total	Total Unrestricted Net Assets	Less: PHF*	Total Expendable Net Assets
H.S.C. San Antonio	$ 50.3	-	3.4	93.5	147.2	268.2	(170.3)	245.1
H.S.C. Houston	81.3	-	25.2	64.8	171.3	136.2	(21.3)	286.2
S.M.C. Dallas	52.1	-	8.8	265.4	326.3	302.0	(42.6)	585.7
U. of AL Hospital	-	-	-	4.0	4.0	420.1	-	424.1
U. of CA-SF Med Cntr	2.1	-	-	4.6	6.7	38.2	-	44.9
U. of FL HSC Affiliates	-	-	-	-	-	69.6	-	69.6
U. of IL Health Serv.	-	0.7	-	-	0.7	35.2	-	35.9
U. of IA Hosp. & Clinics	-	-	-	310.4	310.4	84.5	-	394.9
U. of OK HSC	17.1	3.7	-	17.2	38.0	96.4	-	134.4

*Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, U.T. System considers the PHF to be nonexpendable. Therefore, the PHF is subtracted from expendable net assets.

Appendix B - Calculation of Expendable Net Assets
The University of Texas M.D. Anderson Cancer Center and Peer
As of August 31, 2002
(In Millions)

Institution		Restricted Expendable Net Assets					Total Unrestricted Net Assets	Less: PHF*	Total Expendable Net Assets
		Capital Projects	Debt Service	Funds Functioning Restricted	Other Expendable	Total			
M.D. Anderson	$	131.6	-	56.8	162.4	350.8	521.2	(85.2)	786.8
Sloan-Kettering		-	-	-	204.0	204.0	1,977.0	-	2,181.0

*Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, U.T. System considers the PHF to be nonexpendable. Therefore, the PHF is subtracted from expendable net assets.

Appendix B - Calculation of Expendable Net Assets
The University of Texas Health Center at Tyler and Peers
As of August 31, 2002
(In Millions)

Institution	Restricted Expendable Net Assets: Capital Projects	Debt Service	Funds Functioning Restricted	Other Expendable	Total	Total Unrestricted Net Assets	Less: PHF*	Total Expendable Net Assets
H.C. Tyler	$ 1.2	-	0.1	3.8	5.1	31.9	(21.3)	15.7
Charlton Methodist	-	-	-	-	-	81.2	-	81.2
San Jacinto Methodist	-	-	-	-	-	62.4	-	62.4

*Although the Texas State Comptroller required the Permanent Health Fund (PHF) to be reported as unrestricted, U.T. System considers the PHF to be nonexpendable. Therefore, the PHF is subtracted from expendable net assets.

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Appendix C - Calculation of Annual Operating Margin
The University of Texas at Arlington and Peers
As of August 31, 2002
(In Millions)

Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items				Margin From SRECNA	Other Adjustments for U.T. Institutions & Southwest TX				Annual Operating Margin
		Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.		GEF Transfer	GR Adjust.	HB 1839 Excellence Funding	Interest Expense	
Arlington	$ 12.1	5.5	(1.5)	-	(3.6)	11.7	0.9	-	4.6	(3.9)	13.3
Dallas	(10.2)	7.5	(4.3)	-	(15.1)	1.7	3.5	-	4.1	(2.2)	7.2
El Paso	(11.6)	5.1	(0.5)	-	(12.4)	(4.0)	2.2	0.5	3.9	(3.0)	(0.4)
San Antonio	10.0	0.5	(0.7)	-	(3.0)	13.2	0.7	-	1.7	(5.2)	10.3
George Mason	11.7	-	-	(0.6)	-	12.3	-	-	-		12.3
Georgia State	1.4	-	(1.1)	-	-	2.5	-	-	-	-	2.5
Old Dominion	(6.7)	-	-	-	(0.7)	(6.0)	-	-	-	-	(6.0)
Univ. of Houston	38.8	90.6	(77.4)	(1.8)	(0.4)	27.8	-	-	-	-	27.8
Univ. of Memphis	6.0	1.3	-	-	(0.1)	4.8	-	-	-	-	4.8
Univ. of North TX	(6.8)	1.1	-	(1.1)	-	(6.8)	-	-	-	-	(6.8)
Univ. of South FL	(57.3)	2.0	(9.8)	-	0.3	(49.8)	-	-	-	-	(49.8)
Southwest TX State	31.1	0.2	-	0.5	(0.5)	30.9	-	-	-	(4.2)	26.7

Appendix C - Calculation of Annual Operating Margin
The University of Texas at Austin and Peers
As of August 31, 2002
(In Millions)

Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments for Austin & A&M GEF Transfer	AUF Transfer	Interest Expense	Annual Operating Margin
Austin	$ (239.8)	13.3	(15.8)	-	(168.4)	**(68.9)**	40.2	109.6	(16.1)	**64.8**
Indiana Univ.	37.4	-	-	-	(18.9)	**56.3**	-	-	-	**56.3**
Michigan State	11.3	0.8	-	-	(13.6)	**24.1**	-	-	-	**24.1**
Texas A&M	(85.4)	18.2	(38.2)	(3.5)	(37.7)	**(24.2)**	-	-	(19.9)	**(44.1)**
Univ. of MN	(115.1)	-	(1.3)	-	(84.3)	**(29.5)**	-	-	-	**(29.5)**

Appendix C - Calculation of Annual Operating Margin
The University of Texas at Brownsville and Peers
As of August 31, 2002
(In Millions)

Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items Other Nonop. Revenues	Other Nonop. Expenses	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adj. for U.T., A&M & Sul Ross GEF Transfer	HB 1839 Excellence Funding	Interest Expense	Annual Operating Margin
Brownsville	$ 7.2	0.1	(1.9)	(0.3)	9.3	-	-	(1.3)	8.0
Pan American	4.6	4.0	(4.3)	(3.1)	8.0	0.5	0.1	(2.4)	6.2
Permian Basin	0.8	0.2	(0.2)	(1.4)	2.2	0.3	0.3	(0.9)	1.9
Tyler	(2.7)	0.2	(0.5)	(4.9)	2.5	1.2	0.3	(0.7)	3.3
Sul Ross State Univ.	1.7	-	(1.4)	(0.1)	3.2	-	-	(0.9)	2.3
Texas A&M-Corpus	7.9	0.5	(2.5)	(0.5)	10.4	-	-	(2.4)	8.0
Texas A&M-Intern'l	11.0	0.5	(0.1)	(0.7)	11.3	-	-	(4.1)	7.2
Univ. of Houston-DT	(2.9)	-	(5.2)	0.2	2.1	-	-	-	2.1

Appendix C - Calculation of Annual Operating Margin
The University of Texas at Dallas and Peers
As of August 31, 2002
(In Millions)

		Less: Nonoperating Items					Other Adjustments for U.T. Institutions & Southwest TX				
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	GEF Transfer	GR Adjust.	HB 1839 Excellence Funding	Interest Expense	Annual Operating Margin
Dallas	$ (10.2)	7.5	(4.3)	-	(15.1)	1.7	3.5	-	4.1	(2.2)	7.2
Arlington	12.1	5.5	(1.5)	-	(3.6)	11.7	0.9	-	4.6	(3.9)	13.3
El Paso	(11.6)	5.1	(0.5)	-	(12.4)	(4.0)	2.2	0.5	3.9	(3.0)	(0.4)
San Antonio	10.0	0.5	(0.7)	-	(3.0)	13.2	0.7	-	1.7	(5.2)	10.3
Arizona State Univ.	6.8	-	(9.7)	-	(6.9)	23.4	-	-	-	-	23.4
GA Institute of Tech.	10.3	-	-	-	(2.9)	13.2	-	-	-	-	13.2
NC State Univ.	(29.3)	-	(1.0)	-	(4.8)	(23.5)	-	-	-	-	(23.5)
Southwest TX State	31.1	0.2	-	0.5	(0.5)	30.9	-	-	-	(4.2)	26.7
U of NC-Greensboro	(14.4)	-	(0.2)	-	(9.7)	(4.5)	-	-	-	-	(4.5)
U of OK-Norman	2.7	-	-	-	(1.1)	3.8	-	-	-	-	3.8

Appendix C - Calculation of Annual Operating Margin
The University of Texas at El Paso and Peers
As of August 31, 2002
(In Millions)

Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments for U.T. Institutions & Southwest TX GEF Transfer	GR Adjust.	HB 1839 Excellence Funding	Interest Expense	Annual Operating Margin
El Paso	$ (11.6)	5.1	(0.5)	-	(12.4)	(4.0)	2.2	0.5	3.9	(3.0)	(0.4)
Arlington	12.1	5.5	(1.5)	-	(3.6)	11.7	0.9	-	4.6	(3.9)	13.3
Dallas	(10.2)	7.5	(4.3)	-	(15.1)	1.7	3.5	-	4.1	(2.2)	7.2
San Antonio	10.0	0.5	(0.7)	-	(3.0)	13.2	0.7	-	1.7	(5.2)	10.3
NM State Univ.	(2.3)	-	(3.4)	-	(2.7)	3.8	-	-	-	-	3.8
Northern AZ Univ.	(3.9)	0.8	(0.3)	-	-	(4.4)	-	-	-	-	(4.4)
Southwest TX State	31.1	0.2	-	0.5	(0.5)	30.9	-	-	-	(4.2)	26.7
Texas Tech	(1.2)	8.5	-	(3.3)	(8.5)	2.1	-	-	-	-	2.1
Univ. of Houston	38.8	90.6	(77.4)	(1.8)	(0.4)	27.8	-	-	-	-	27.8

Appendix C - Calculation of Annual Operating Margin
The University of Texas - Pan American and Peers
As of August 31, 2002
(In Millions)

Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments for U.T., A&M, Sam Houston & Southwest TX GEF Transfer	HB 1839 Excellence Funding	Interest Expense	Annual Operating Margin
Pan American	$ 4.6	4.0	(4.3)	-	(3.1)	8.0	0.5	0.1	(2.4)	6.2
AR State Univ.	15.4	19.4	(3.1)	-	(0.9)	-	-	-	-	-
Northeastern IL	0.6	0.5	-	-	-	0.1	-	-	-	0.1
Northern AZ Univ.	(3.9)	0.8	(0.3)	-	-	(4.4)	-	-	-	(4.4)
Sam Houston State	11.2	2.2	-	-	(1.9)	10.9	-	-	(1.1)	9.8
Southwest TX State	31.1	0.2	-	0.5	(0.5)	30.9	-	-	(4.2)	26.7
Stephen F. Austin	0.2	-	-	(0.2)	(2.1)	2.5	-	-	-	2.5
Texas A&M-Corpus	7.9	0.5	(2.5)	-	(0.5)	10.4	-	-	(2.4)	8.0
Texas A&M-Kingsville	2.3	1.0	(3.1)	-	(1.5)	5.9	-	-	(0.9)	5.0
Univ. of Central OK	(1.7)	-	-	-	0.2	(1.9)	-	-	-	(1.9)
Univ. of LA-Lafayette	(0.8)	0.6	-	-	(0.6)	(0.8)	-	-	-	(0.8)
Univ. of Southern CO	(1.7)	0.4	-	-	-	(2.1)	-	-	-	(2.1)

Appendix C - Calculation of Annual Operating Margin
The University of Texas of the Permian Basin and Peers
As of August 31, 2002
(In Millions)

Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items Other Nonop. Revenues	Other Nonop. Expenses	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments for U.T., A&M, Angelo State & Sul Ross GEF Transfer	HB 1839 Excellence Funding	Interest Expense	Annual Operating Margin
Permian Basin	$ 0.8	0.2	(0.2)	(1.4)	2.2	0.3	0.3	(0.9)	1.9
Brownsville	7.2	0.1	(1.9)	(0.3)	9.3	-	-	(1.3)	8.0
Tyler	(2.7)	0.2	(0.5)	(4.9)	2.5	1.2	0.3	(0.7)	3.3
Angelo State	3.7	-	(3.5)	(1.8)	9.0	-	-	(1.9)	7.1
LSU Shreveport	(0.9)	-	-	(0.1)	(0.8)	-	-	-	(0.8)
Midwestern State	(3.3)	-	-	-	(3.3)	-	-	-	(3.3)
Sul Ross State	1.7	-	(1.4)	(0.1)	3.2	-	-	(0.9)	2.3
Texas A&M-Corpus	7.9	0.5	(2.5)	(0.5)	10.4	-	-	(2.4)	8.0
Texas A&M-Intern'l.	11.0	0.5	(0.1)	(0.7)	11.3	-	-	(4.1)	7.2
Texas A&M-Texarkana	1.6	0.1	(0.2)	(0.2)	1.9	-	-	(0.2)	1.7
U of H-Clear Lake	5.9	7.1	(0.8)	0.2	(0.6)	-	-	-	(0.6)
U of H-Victoria	(1.6)	-	(3.4)	(0.4)	2.2	-	-	-	2.2

Appendix C - Calculation of Annual Operating Margin
The University of Texas at San Antonio and Peers
As of August 31, 2002
(In Millions)

Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items – Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments for U.T. Institutions & Southwest TX – GEF Transfer	GR Adjust.	HB 1839 Excellence Funding	Interest Expense	Annual Operating Margin
San Antonio	$ 10.0	0.5	(0.7)	-	(3.0)	13.2	0.7	-	1.7	(5.2)	10.3
Arlington	12.1	5.5	(1.5)	-	(3.6)	11.7	0.9	-	4.6	(3.9)	13.3
Dallas	(10.2)	7.5	(4.3)	-	(15.1)	1.7	3.5	-	4.1	(2.2)	7.2
El Paso	(11.6)	5.1	(0.5)	-	(12.4)	(4.0)	2.2	0.5	3.9	(3.0)	(0.4)
Cleveland State	(1.8)	-	-	-	0.1	(1.9)	-	-	-	-	(1.9)
Eastern Michigan	8.5	0.1	-	-	0.6	7.8	-	-	-	-	7.8
George Mason	11.7	-	-	(0.6)	-	12.3	-	-	-	-	12.3
Southwest Texas State	31.1	0.2	-	0.5	(0.5)	30.9	-	-	-	(4.2)	26.7
U. of AR-Little Rock	(0.8)	-	(0.3)	-	(1.0)	0.5	-	-	-	-	0.5
U. of NC-Greensboro	(14.4)	-	(0.2)	-	(9.7)	(4.5)	-	-	-	-	(4.5)
Univ. of New Orleans	(8.8)	-	-	-	(0.6)	(8.2)	-	-	-	-	(8.2)
Univ. of North TX	(6.8)	1.1	-	(1.1)	-	(6.8)	-	-	-	-	(6.8)
Univ. of South FL	(57.3)	2.0	(9.8)	-	0.3	(49.8)	-	-	-	-	(49.8)
Wright State	(2.1)	-	(3.3)	-	(1.5)	2.7	-	-	-	-	2.7

Appendix C - Calculation of Annual Operating Margin
The University of Texas at Tyler and Peers
As of August 31, 2002
(In Millions)

Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items Other Nonop. Revenues	Other Nonop. Expenses	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments for U.T. & A&M GEF Transfer	HB 1839 Excellence Funding	Interest Expense	Annual Operating Margin
Tyler	$ (2.7)	0.2	(0.5)	(4.9)	2.5	1.2	0.3	(0.7)	3.3
Browsville	7.2	0.1	(1.9)	(0.3)	9.3	-	-	(1.3)	8.0
Permian Basin	0.8	0.2	(0.2)	(1.4)	2.2	0.3	0.3	(0.9)	1.9
GA College & State	3.0	-	(0.8)	(0.2)	4.0	-	-	-	4.0
TX A&M-Corpus	7.9	0.5	(2.5)	(0.5)	10.4	-	-	(2.4)	8.0
U. of NC-Greensboro	(14.4)	-	(0.2)	(9.7)	(4.5)	-	-	-	(4.5)
West Texas A&M	3.3	0.8	(1.2)	(2.0)	5.7	-	-	(1.3)	4.4

Appendix C - Calculation of Annual Operating Margin
The University of Texas Southwestern Medical Center at Dallas and Peers
As of August 31, 2002
(In Millions)

Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items				Margin From SRECNA	Other Adjustments for U.T. Institutions Only			Annual Operating Margin
		Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.		GEF Transfer	RAHC Transfer	Interest Expense	
S.M.C. Dallas	$ (49.5)	4.3	(8.0)	(1.7)	(69.4)	25.3	12.5	-	(7.7)	30.1
H.S.C. Houston	(3.3)	15.6	(9.8)	(2.9)	(9.4)	3.2	1.7	1.7	(3.4)	3.2
H.S.C. San Antonio	(16.6)	1.9	(1.5)	-	(30.5)	13.5	1.7	6.5	(3.4)	18.3
Baylor College of Med.	(159.3)	-	-	(6.0)	(179.0)	25.7	-	-	-	25.7
U. of AL Hospital	41.2	-	(0.1)	-	(16.5)	57.8	-	-	-	57.8
U. of CA-LA Med Cntr	7.2	-	-	5.7	-	1.5	-	-	-	1.5
U. of CA-SF Med Cntr	23.4	-	(0.6)	-	-	24.0	-	-	-	24.0
U. of FL HSC Affiliates	(9.6)	-	(0.6)	-	0.5	(9.5)	-	-	-	(9.5)
U. of IL Health Serv.	3.6	-	-	-	(0.4)	4.0	-	-	-	4.0
U. of OK HSC	11.1	-	-	-	(1.7)	12.8	-	-	-	12.8
U. of WA Med. Center	13.4	-	(2.4)	-	-	15.8	-	-	-	15.8
Vanderbilt Hosp./Clinic	21.2	-	-	-	(1.8)	23.0	-	-	-	23.0

Appendix C - Calculation of Annual Operating Margin
The University of Texas Medical Branch at Galveston and Peers
As of August 31, 2002
(In Millions)

Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items: Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments for MBG: GEF Transfer	Interest Expense	Annual Operating Margin
M.B. Galveston	$ (46.8)	3.1	(2.8)	(4.5)	(34.2)	(8.4)	5.9	(1.8)	(4.3)
U. of CA-LA Med Cntr	7.2	-	-	5.7	-	1.5	-	-	1.5
U. of CA-SF Med Cntr	23.4	-	(0.6)	-	-	24.0	-	-	24.0
U. of IA Hosp. & Clinics	27.3	-	-	(2.2)	-	29.5	-	-	29.5
Vanderbilt Hosp./Clinic	21.2	-	-	-	(1.8)	23.0	-	-	23.0

Appendix C - Calculation of Annual Operating Margin
The University of Texas Health Science Center at Houston and Peers
As of August 31, 2002
(In Millions)

Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments for U.T. Institutions Only GEF Transfer	RAHC Transfer	Interest Expense	Annual Operating Margin
H.S.C. Houston	(3.3)	15.6	(9.8)	(2.9)	(9.4)	3.2	1.7	1.7	(3.4)	3.2
S.M.C. Dallas	(49.5)	4.3	(8.0)	(1.7)	(69.4)	25.3	12.5	-	(7.7)	30.1
H.S.C. San Antonio	(16.6)	1.9	(1.5)	-	(30.5)	13.5	1.7	6.5	(3.4)	18.3
U. of AL Hospital	41.2	-	(0.1)	-	(16.5)	57.8	-	-	-	57.8
U. of FL HSC Affiliates	(9.6)	-	(0.6)	-	0.5	(9.5)	-	-	-	(9.5)

Appendix C - Calculation of Annual Operating Margin
The University of Texas Health Science Center at San Antonio and Peers
As of August 31, 2002
(In Millions)

Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items — Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments for U.T. Institutions Only — GEF Transfer	RAHC Transfer	Interest Expense	Annual Operating Margin
H.S.C. San Antonio	$ (16.6)	1.9	(1.5)	-	(30.5)	13.5	1.7	6.5	(3.4)	18.3
H.S.C. Houston	(3.3)	15.6	(9.8)	(2.9)	(9.4)	3.2	1.7	1.7	(3.4)	3.2
S.M.C. Dallas	(49.5)	4.3	(8.0)	(1.7)	(69.4)	25.3	12.5	-	(7.7)	30.1
U. of AL Hospital	41.2	-	(0.1)	-	(16.5)	57.8	-	-	-	57.8
U. of CA-SF Med Cntr	23.4	-	(0.6)	-	-	24.0	-	-	-	24.0
U. of FL HSC Affiliates	(9.6)	-	(0.6)	-	0.5	(9.5)	-	-	-	(9.5)
U. of IL Health Serv.	3.6	-	-	-	(0.4)	4.0	-	-	-	4.0
U. of IA Hosp. & Clinics	27.3	-	-	(2.2)	-	29.5	-	-	-	29.5
U. of OK HSC	11.1	-	-	-	(1.7)	12.8	-	-	-	12.8

Appendix C - Calculation of Annual Operating Margin
The University of Texas M.D. Anderson Cancer Center and Peer
As of August 31, 2002
(In Millions)

Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items — Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments for MDA — GEF Transfer	Interest Expense	Annual Operating Margin
M.D. Anderson	$ 4.9	27.6	(22.7)	(0.2)	(41.0)	41.2	5.1	(7.3)	39.0
Sloan-Kettering	(119.9)	19.7	(17.4)	-	(148.9)	26.7	-	-	26.7

Appendix C - Calculation of Annual Operating Margin
The University of Texas Health Center at Tyler and Peers
As of August 31, 2002
(In Millions)

Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items				Margin From SRECNA	Other Adjustments for HCT		Annual Operating Margin
		Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.		GEF Transfer	NETI & GR Adj.	
H.C. Tyler	$ 2.4	(0.9)	(0.2)	(1.0)	(3.5)	8.0	0.2	(4.7)	3.5
Charlton Methodist	7.5	0.2	-	-	-	7.3	-	-	7.3
San Jacinto Methodist	(6.3)	-	-	-	-	(6.3)	-	-	(6.3)

THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS

Finance and Planning Committee **April 1, 2003**

Agenda Item: Monthly Financial Report Discussion Item

Presenter: Randy Wallace, Assistant Vice Chancellor – Controller and Chief Budget Officer

Purpose:
The purpose of this item is to discuss the January Monthly Financial Report operating results of the institutions.

Outline of Key Points/Policy Issues:
The January 2003 Monthly Financial Report has incorporated the seven percent reduction in 2003 state appropriations. Since state appropriations are accrued, five-twelfths of the reductions are reflected in the January operating results of the institutions. The institutions have provided projections estimating year-end results that include expense reductions associated with the reduction in state appropriations. The January Monthly Financial Report shows a $139.9 million operating loss for the first five months of the fiscal year.

Background Information:
A Monthly Financial Report has been prepared to track the financial results of the institutions since 1990.

THE UNIVERSITY OF TEXAS System

Monthly Financial Report

(Unaudited)

System Office:

The University of Texas System Administration

Academic Components:

The University of Texas at Arlington

The University of Texas at Austin

The University of Texas at Brownsville

The University of Texas at Dallas

The University of Texas at El Paso

The University of Texas – Pan American

The University of Texas of the Permian Basin

The University of Texas at San Antonio

The University of Texas at Tyler

Health Components:

The University of Texas Southwestern Medical Center at Dallas

The University of Texas Medical Branch at Galveston

The University of Texas Health Science Center at Houston

The University of Texas Health Science Center at San Antonio

The University of Texas M.D. Anderson Cancer Center

The University of Texas Health Center at Tyler

January 2003

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THE UNIVERSITY OF TEXAS SYSTEM

MONTHLY FINANCIAL REPORT

(Unaudited)

FOR THE FIVE MONTHS ENDING

JANUARY 31, 2003

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The University of Texas System
Monthly Financial Report

Foreword

The Monthly Financial Report (MFR) for 2003 compares the results of operations between the current year-to-date cumulative amounts and the prior year-to-date cumulative amounts. Explanations are provided for institutions having the largest variances in adjusted income (loss) year-to-date as compared to the prior year, both in terms of dollars and percentages. In addition, although no significant variance may exist, institutions with losses may be discussed.

A significant change for 2003 is inclusion of the endowment funds realized gains and losses in System Administration's operating results. In the past, these amounts have not been included as the focus has been on results from operations. However, since realized gains and losses are included at year-end in determining the system-wide operating margin, we have begun including these realized gains and losses for 2003 at the System Administration level.

The data is reported in three sections: (1) Operating Revenues, (2) Operating Expenses and (3) Other Nonoperating Adjustments. Presentation of State appropriation revenues are required under GASB 35 to be reflected as nonoperating revenues, so all institutions will report an Operating Loss prior to this adjustment. The MFR provides an Adjusted Income (Loss), which takes into account the nonoperating adjustments associated with core operating activities. An Adjusted Margin (as a percentage of operating and nonoperating revenue adjustments) is calculated for each period and is intended to reflect relative operating contributions to financial health.

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UNAUDITED

The University of Texas System
Comparison of Operating Results and Margin
For the Five Months Ending January 31, 2003

	January Year-to-Date FY 2003	January Year-to-Date FY 2002 (Restated)	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$342,720,660	$295,393,754	$47,326,906	16.02%
Sponsored Programs	763,077,581	676,435,892	86,641,689	12.81%
Net Sales and Services of Educational Activities	97,396,479	61,251,250	36,145,229	59.01%
Net Sales and Services of Hospitals	630,796,958	571,068,812	59,728,146	10.46%
Net Professional Fees	292,085,989	269,984,464	22,101,525	8.19%
Net Auxiliary Enterprises	106,983,815	96,357,600	10,626,215	11.03%
Other Operating Revenues	153,116,142	145,269,542	7,846,600	5.40%
Total Operating Revenues	**2,386,177,624**	**2,115,761,314**	**270,416,310**	**12.78%**
Operating Expenses				
Salaries and Wages	1,518,867,462	1,401,991,136	116,876,326	8.34%
Employee Benefits and Related Costs	386,903,186	349,146,261	37,756,925	10.81%
Professional Fees and Contracted Services	65,733,955	62,630,557	3,103,398	4.96%
Other Contracted Services	123,116,141	111,924,329	11,191,812	10.00%
Scholarships and Fellowships	271,121,751	218,939,551	52,182,200	23.83%
Travel	32,188,494	26,747,742	5,440,752	20.34%
Materials and Supplies	302,562,134	295,401,289	7,160,845	2.42%
Utilities	59,246,169	59,322,598	(76,429)	-0.13%
Telecommunications	23,422,403	20,713,492	2,708,911	13.08%
Repairs and Maintenance	41,350,863	42,841,123	(1,490,260)	-3.48%
Rentals and Leases	29,348,646	24,489,328	4,859,318	19.84%
Printing and Reproduction	14,896,044	14,658,122	237,922	1.62%
Bad Debt Expense	(150)	1,374	(1,524)	-110.92%
Claims and Losses	0	5,882,130	(5,882,130)	-100.00%
Federal Sponsored Programs Pass-Throughs	11,242,189	10,400,856	841,333	8.09%
State Sponsored Programs Pass-Throughs	1,090,340	671,082	419,258	62.47%
Depreciation and Amortization	127,746,690	125,976,570	1,770,120	1.41%
Other Operating Expenses	166,579,682	166,113,688	465,994	0.28%
Total Operating Expenses	**3,175,415,999**	**2,937,851,228**	**237,564,771**	**8.09%**
Operating Loss	**(789,238,375)**	**(822,089,914)**	**32,851,539**	**4.00%**
Other Nonoperating Adjustments				
State Appropriations	690,036,461	697,179,032	(7,142,571)	-1.02%
Gift Contributions for Operations	88,182,589	79,016,554	9,166,035	11.60%
Net Investment Income	196,528,861	206,231,882	(9,703,021)	-4.70%
Interest Expense on Capital Asset Financings	(31,865,920)	(29,073,668)	(2,792,252)	-9.60%
Net Other Nonoperating Adjustments	**942,881,991**	**953,353,800**	**(10,471,809)**	**-1.10%**
Adjusted Income (Loss)	**153,643,616**	**131,263,886**	**22,379,730**	**17.05%**
Adjusted Margin (as a percentage)	**4.57%**	**4.24%**		
Realized Investment Gains (Losses)	(293,518,918)	(93,512,969)	(200,005,949)	-213.88%
Adjusted Income (Loss) with Investment Gains (Losses)	**($139,875,302)**	**$37,750,917**	**($177,626,219)**	**-470.52%**
Adjusted Margin % with Investment Gains (Losses)	**-4.56%**	**1.26%**		

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The University of Texas System
Comparison of Year-to-Date FY 2003 Adjusted Income (Loss)
to Year-to-Date FY 2002 Adjusted Income (Loss)
For the Five Months Ending January 31, 2003

	Year-to-Date FY 2003 Adjusted Income (Loss)		Year-to-Date FY 2002 Adjusted Income (Loss) (Restated)	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage	
UT System Administration	$114,689,373		$88,735,496	$25,953,877	29.25%	(1)
UT Arlington	1,853,657		1,227,736	625,921	50.98%	
UT Austin	36,242,064		24,739,809	11,502,255	46.49%	(2)
UT Brownsville	644,124		3,013,751	(2,369,627)	-78.63%	
UT Dallas	(345,686)		902,167	(1,247,853)	-138.32%	(3)
UT El Paso	(808,512)	(4)	(817,463)	8,951	1.09%	
UT Pan American	2,558,188		612,200	1,945,988	317.87%	(5)
UT Permian Basin	1,838,220		1,140,252	697,968	61.21%	
UT San Antonio	2,223,844		2,257,977	(34,133)	-1.51%	
UT Tyler	504,963		1,468,685	(963,722)	-65.62%	
UTSMC Dallas	(4,149,969)		6,610,797	(10,760,766)	-162.78%	(6)
UTMB Galveston	(22,177,570)	(7)	(17,725,644)	(4,451,926)	-25.12%	
UTHSC Houston	(8,266,778)	(8)	(6,583,433)	(1,683,345)	-25.57%	
UTHSC San Antonio	6,744,306		12,073,698	(5,329,392)	-44.14%	
UTMD Anderson	24,095,417		13,130,651	10,964,766	83.51%	(9)
UTHC Tyler	(2,002,025)		477,207	(2,479,232)	-519.53%	(10)
Total Adjusted Income (Loss)	153,643,616		131,263,886	22,379,730	17.05%	
Realized Investment Gains (Losses)	(293,518,918)		(93,512,969)	(200,005,949)	-213.88%	(11)
Total Adjusted Income (Loss) Including Realized Gains (Losses)	**($139,875,302)**		**$37,750,917**	**($177,626,219)**	**-470.52%**	

THE UNIVERSITY OF TEXAS SYSTEM
EXPLANATION OF VARIANCES ON THE MONTHLY FINANCIAL REPORT
For the Five Months Ending January 31, 2003

Explanations are provided for institutions having the largest variances in adjusted income (loss) year-to-date as compared to the prior year, both in terms of dollars and percentages. Explanations are also provided for institutions with a current year-to-date adjusted loss.

(1) _U.T. System Administration_ – The $26 million (29.3%) increase in adjusted income over the same period last year was primarily due to Employee Group Insurance (EGI) claims lagging behind EGI premiums. Offsetting these positive revenues are three items: less interest and investment income for the Permanent University Fund (PUF) of $5.5 million, lower interest income earned on AUF balances in the State Treasury of $1.5 million, and increases in realized investment losses in medical liability insurance holdings of $2 million. These reductions in the interest and investment income are due to lower interest rates and the decline in the market.

(2) _U.T. Austin_ – The $11.5 million (46.5%) increase in adjusted income over the same period last year was primarily due to increased Available University Funding (AUF) of $4 million year-to-date and an increase in gift contributions for operations of $9.2 million largely due to a pledge received from the Lyndon Baines Johnson Foundation.

(3) _U.T. Dallas_ – The $1.2 million (138.3%) decrease in adjusted income over the same period last year was primarily due to expenses outpacing revenue growth. Salaries and benefit expenses increased $6.5 million as a result of faculty added to address enrollment growth. In addition, *U.T. Dallas* had $1.3 million of non-recurring costs for office supplies, computers, and accessories associated with the commissioning of the new Engineering building. As a result of the increased expenses, *U.T. Dallas* has a year-to-date net loss of $346,000. *U.T. Dallas* is anticipating ending the year with a $4.4 million profit. The year-end estimate includes expense reductions associated with the 7% reduction in state appropriations.

(4) _U.T. El Paso_ – The $809,000 year-to-date net loss was primarily due to the reduced state appropriations of $1.4 million year-to-date. *U.T. El Paso* is anticipating ending the year with a $1.6 million profit. The year-end estimate includes expense reductions associated with the 7% reduction in state appropriations.

(5) _U.T. Pan American_ – The $1.9 million (317.9%) increase in adjusted income over the same period last year was primarily due to a 12.3% increase in student headcount and a 13.3% increase in semester credit hours from fall 2001 to fall 2002. Additionally, a 10% increase was experienced in both headcount and semester credit hours for the spring semester, as well as an increase in statutory designated tuition rates.

(6) _U.T.S.M.C. Dallas_ – The $10.8 million (162.8%) decrease in adjusted income over the same period last year was primarily due to increased expenses in the physician practice plan as well as lower gift contributions of $1.5 million. Salaries, wages and fringe benefits in the physician practice plan increased as a result of the creation of new positions in Obstetrics-Gynecology, Internal Medicine and Cardio-Thoracic Surgery, as well as annual salary increases. Pharmaceutical expenses also increased by $1.1 million. As a result of the increased physician practice plan expenses, decreased state appropriations due to Legislative reductions and decreased gifts, *U.T.S.M.C. Dallas* has a year-to-date net loss of $4.1 million. Physician practice plan revenues are expected to accelerate in future months and expenses are expected to decrease. *U.T.S.M.C. Dallas* is anticipating ending the year with a $396,000 profit. The year-end estimate includes expense reductions associated with the 7% reduction in state appropriations.

(7) _U.T.M.B. Galveston_ – The $22.2 million year-to-date net loss was primarily due to downward margin pressure prevalent throughout the healthcare industry. Hospital and clinic volumes continue to grow; however the Legislative reductions of state appropriations and Correctional Managed Care have decreased revenues approximately $25 million year-to-date. *U.T.M.B Galveston* anticipates ending the year with a $29.7 million loss. The year-end estimate includes expense reductions associated with the 7% reduction in state appropriations.

(8) _U.T.H.S.C. Houston_ – The $8.3 million year-to-date net loss was primarily due to a $4.6 million year-to-date net loss in the physician practice plan. Faculty salaries have increased $3.7 million due to a slight increase in the number of faculty as well as merit and market adjustments and promotions. State appropriation reductions are contributing $2.7 million to the loss. Information systems upgrade expenses, mandated by the State Auditor, have also contributed to *U.T.H.S.C. Houston's* deficit. *U.T.H.S.C. Houston* is anticipating ending the year with a $10 million loss.

The year-end estimate includes expense reductions associated with the 7% reduction in state appropriations.

(9) *U.T.M.D. Anderson* – The $11 million (83.5%) increase in adjusted income over the same period last year was primarily due to increased operating revenues of $61.6 million versus increased operating expenses of $41.9 million. Following the events of September 11, 2001, *U.T.M.D. Anderson* experienced a decline in the number of clinical visits which, combined with a decrease in the number of international patients, caused revenues to be reduced in the first part of 2002. Increased patient volumes combined with higher charge rates have increased hospital revenues by $48.2 million and professional fees by $8.7 million. The largest increase in expense is related to salary and wages, which have increased $25.7 million or 9.9% compared to the prior year. Included in the operating results is a $3.1 million reduction in state appropriations year-to-date. Interest expense on capital asset financing has increased $2.9 million due to five additional debt financed capital projects in 2003.

(10) *U.T.H.C. Tyler* – The $2.5 million (519.5%) increase in the adjusted loss over the same period last year was primarily due to a change in the payor mix. While Medicaid patients are increasing, more profitable private pay and commercial insurance patients are decreasing. Increased Medicaid contractual adjustments are placing pressure on adjusted income. Length of stay increases for Medicaid patients have also contributed to a rise in contractual adjustments. Salaries and wages have increased due to merit increases and professional fee expenses were $995,000 higher due to the severe nursing shortage. As a result of the reduced revenues and increased expenses, *U.T.H.C. Tyler* has a year-to-date net loss of $2 million. *U.T.H.C. Tyler's* management is in the process of changing the physician incentive plans to be based on net collections and increasing co-pays for the hospital and is currently anticipating ending the year with a $124,000 profit. The year-end estimate includes expense reductions associated with the 7% reduction in state appropriations and $4 million in anticipated Medicare cost recoveries.

(11) *Realized Investment Gains (Losses)* – The $200 million (213.9%) increase in realized investment losses over the same period last year was due to losses for the endowment funds. Of the $293.5 million year-to-date loss, $214.4 million related to the Permanent University Fund (PUF), $62 million related to the Long Term Fund (LTF) and $17.1 million related to the Permanent Health Fund (PHF). The additional decline from prior year to current year is due to worsening financial market conditions.

GLOSSARY OF TERMS

OPERATING REVENUES:

STUDENT TUITION AND FEES – *All student tuition and fee revenues earned at the U.T. component institution for educational purposes.*

SPONSORED PROGRAMS – *Funding received from local, state and federal governments or private agencies, organizations or individuals. Includes amounts received for services performed on grants, contracts, and agreements from these entities for current operations. This also includes indirect cost recoveries and pass-through federal and state grants.*

NET SALES AND SERVICES OF EDUCATIONAL ACTIVITIES – *Revenues that are related to the conduct of instruction, research, and public service and revenues from activities that exist to provide an instructional and laboratory experience for students that create goods and services that may be sold.*

NET SALES AND SERVICES OF HOSPITALS – *Revenues (net of discounts, allowances, and bad debt expense) generated from U.T. health institution's daily patient care, special or other services, as well as revenues from health clinics that are part of a hospital.*

NET PROFESSIONAL FEES – *Revenues (net of discounts, allowances, and bad debt expense) derived from the fees charged by the professional staffs at U.T. health institutions as part of the Medical Practice Plans. These revenues are also identified as Practice Plan income. Examples of such fees could include doctor's fees for clinic visits, medical and dental procedures, professional opinions, and anatomical procedures, such as analysis of specimens after a surgical procedure, etc.*

NET AUXILIARY ENTERPRISES – *Revenues derived from a service to students, faculty, or staff in which a fee is charged that is directly related to, although not necessarily equal to the cost of the service (e.g., bookstores, dormitories, dining halls, snack bars, inter-collegiate athletic programs, etc.).*

OTHER OPERATING REVENUES – *Other revenues generated from sales or services provided to meet current fiscal year operating expenses, which are not included in the preceding categories (e.g., certified non-profit healthcare company revenues, donated drugs, interest on student loans, patent and royalty income, etc.).*

TOTAL OPERATING REVENUES – *U.T. component institutionally generated funding needed to meet current fiscal year operating expenses.*

OPERATING EXPENSES :

SALARIES AND WAGES – *Expenses for all salaries and wages of individuals employed by the institution including full-time, part-time, longevity, hourly, seasonal, etc.*

EMPLOYEE BENEFITS AND RELATED COSTS – *Expenses for all employee benefits paid by the institution or paid by the state on behalf of the institution.*

PROFESSIONAL FEES AND CONTRACTED SERVICES – *Payments for services rendered on a fee, contract, or other basis by a person, firm, corporation, or company recognized as possessing a high degree of learning and responsibility. Includes such items as services of a consultant, legal counsel, financial or audit fees, medical contracted services, guest lecturers (not employees) and expert witnesses.*

OTHER CONTRACTED SERVICES – *Payments for services rendered on a contractual basis by a person, firm, corporation or company that posses a lesser degree of learning and responsibility than that required for Professional Fees and Contracted Services. Includes such items as temporary employment expenses, fully insured medical plans expenses, janitorial services, dry cleaning services, etc.*

SCHOLARSHIPS AND FELLOWSHIPS – *Payments made for scholarship grants to students authorized by law.*

TRAVEL – *Payments for travel costs incurred during travel by employees, board or commission members and elected/appointed officials on state business.*

MATERIALS AND SUPPLIES – *Payments for consumable items. Includes, but is not limited to: computer consumables, office supplies, paper products, soap, lights, plants, fuels and lubricants, chemicals and gasses, medical supplies and copier supplies. Also includes postal services, and subscriptions and other publications not for permanent retention.*

UTILITIES – *Payments for the purchase of electricity, natural gas, water, thermal energy and waste disposal.*

TELECOMMUNICATIONS - *Electronically transmitted communications services (telephone, internet, computation center services, etc.).*

REPAIRS AND MAINTENANCE – *Payments for the maintenance and repair of equipment, furnishings, motor vehicles, buildings and other plant facilities. Includes, but is* <u>*not*</u> *limited to repair and maintenance to copy machines, furnishings, equipment – including medical and laboratory equipment, office equipment and aircraft.*

RENTALS AND LEASES – *Payments for rentals or leases of furnishings and equipment, vehicles, land and office buildings (all rental of space).*

PRINTING AND REPRODUCTION – *Printing and reproduction costs associated with the printing/copying of the institution's documents and publications.*

BAD DEBT EXPENSE – *Expenses incurred by the university related to nonrevenue receivables such as non-payment of student loans.*

CLAIMS AND LOSSES – *Payments for claims from self-insurance programs. Other claims for settlements and judgments are considered nonoperating expenses.*

FEDERAL SPONSORED PROGRAMS PASS-THROUGHS – *Pass-throughs to other Texas state agencies, including other universities, of federal grants and contracts.*

STATE SPONSORED PROGRAMS PASS-THROUGHS – *Pass-throughs to other Texas state agencies, including Texas universities.*

DEPRECIATION AND AMORTIZATION – *Estimated depreciation and amortization expense.*

OTHER OPERATING EXPENSES – *Other operating expenses not identified in other line items above (e.g., certified non-profit healthcare company expenses, property taxes, insurance premiums, credit card fees, hazardous waste disposal expenses, meetings and conferences, etc.).*

TOTAL OPERATING EXPENSES – *Total operating expenses for U.T. System component institution.*

OPERATING LOSS – *Total operating revenues less total operating expenses before other nonoperating adjustments like state appropriations.*

<u>**OTHER NONOPERATING ADJUSTMENTS**</u>**:**

STATE APPROPRIATIONS – *Appropriations from the State General Revenue fund, which supplement the U.T. component institutional revenue in meeting operating expenses, such as faculty salaries, utilities, and institutional support. Also includes Higher Education Assistance Funds (HEAF), which is a source of state appropriated general revenue to U.T. Brownsville and U.T. Pan American. HEAF funds are appropriated for construction, library and equipment expenses for Texas public universities that do not benefit from the Permanent University Fund (PUF) bond proceeds.*

GIFT CONTRIBUTIONS FOR OPERATIONS – *Consist of public and private unrestricted gifts used in current operations. Excludes gifts for capital acquisition and endowment gifts.*

NET INVESTMENT INCOME – *Interest and dividend income. Includes Long Term Fund distributions paid from prior year gains to component institutions. Also includes Permanent University Fund distributions to the Available University Fund.*

INTEREST EXPENSE ON CAPITAL ASSET FINANCINGS – *Interest expenses associated with bond and note borrowings utilized to finance capital improvement projects by an institution. This consists of the interest portion of mandatory debt service transfers under the Revenue Financing System and Tuition Revenue bond programs.*

NET OTHER NONOPERATING ADJUSTMENTS – *Sum of the other nonoperating adjustments.*

ADJUSTED INCOME (LOSS) – *Total operating revenues less total operating expenses plus net other nonoperating adjustments.*

ADJUSTED MARGIN (as a percentage) – *Percentage of Adjusted Income (Loss) divided by Total Operating Revenues plus Net Nonoperating Adjustments less Interest Expense on Capital Asset Financings.*

REALIZED INVESTMENT GAINS (LOSSES) – *Realized gains and losses on endowment funds managed by UTIMCO.*

TOTAL ADJUSTED INCOME (LOSS) INCLUDING REALIZED GAINS (LOSSES) – *Total Adjusted Income including Realized Gains (Losses).*

UNAUDITED
The University of Texas System Administration
Comparison of Operating Results and Margin
For the Five Months Ending January 31, 2003

	January Year-to-Date FY 2003	January Year-to-Date FY 2002	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Net Sales and Services of Educational Activities	$38,890,052	$6,497,719	$32,392,333	498.52%
Other Operating Revenues	9,817,722	2,130,758	7,686,964	360.76%
Total Operating Revenues	**48,707,774**	**8,628,477**	**40,079,297**	**464.50%**
Operating Expenses				
Salaries and Wages	8,503,150	6,662,194	1,840,956	27.63%
Employee Benefits and Related Costs	2,903,191	2,471,931	431,260	17.45%
Professional Fees and Contracted Services	4,398,653	3,533,529	865,124	24.48%
Other Contracted Services	5,110,325	(757,923)	5,868,248	774.25%
Travel	596,186	480,202	115,984	24.15%
Materials and Supplies	669,016	765,153	(96,137)	-12.56%
Utilities	12,436	14,455	(2,019)	-13.97%
Telecommunications	208,232	278,106	(69,874)	-25.12%
Repairs and Maintenance	263,063	294,198	(31,135)	-10.58%
Rentals and Leases	413,418	236,418	177,000	74.87%
Printing and Reproduction	200,244	164,875	35,369	21.45%
Claims and Losses	0	5,882,130	(5,882,130)	-100.00%
Depreciation and Amortization	661,415	496,005	165,410	33.35%
Other Operating Expenses	4,175,288	1,150,747	3,024,541	262.83%
Total Operating Expenses	**28,114,617**	**21,672,020**	**6,442,597**	**29.73%**
Operating Loss	**20,593,157**	**(13,043,543)**	**33,636,700**	**257.88%**
Other Nonoperating Adjustments				
State Appropriations	381,821	364,880	16,941	4.64%
Gift Contributions for Operations	429,344	206,232	223,112	108.18%
Net Investment Income	93,296,941	101,220,467	(7,923,526)	-7.83%
Interest Expense on Capital Asset Financings	(11,890)	(12,540)	650	5.18%
Net Other Nonoperating Adjustments	**94,096,216**	**101,779,039**	**(7,682,823)**	**-7.55%**
Adjusted Income (Loss)	**114,689,373**	**88,735,496**	**25,953,877**	**29.25%**
Adjusted Margin (as a percentage)	**80.31%**	**80.36%**		
Realized Investment Gains (Losses)	(293,518,918)	(93,512,969)	(200,005,949)	-213.88%
Adjusted Income (Loss) with Investment Gains (Losses)	**($178,829,545)**	**($4,777,473)**	**($174,052,072)**	**-3643.18%**
Adjusted Margin % with Investment Gains (Losses)	**118.66%**	**-28.26%**		

UNAUDITED
The University of Texas at Arlington
Comparison of Operating Results and Margin
For the Five Months Ending January 31, 2003

	January Year-to-Date FY 2003	January Year-to-Date FY 2002	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$40,470,035	$33,742,540	$6,727,495	19.94%
Sponsored Programs	23,391,698	17,758,246	5,633,452	31.72%
Net Sales and Services of Educational Activities	2,727,669	1,334,129	1,393,540	104.45%
Net Auxiliary Enterprises	6,612,445	5,804,449	807,996	13.92%
Other Operating Revenues	2,226,977	1,423,250	803,727	56.47%
Total Operating Revenues	**75,428,824**	**60,062,614**	**15,366,210**	**25.58%**
Operating Expenses				
Salaries and Wages	54,172,701	49,617,952	4,554,749	9.18%
Employee Benefits and Related Costs	13,628,046	12,206,874	1,421,172	11.64%
Professional Fees and Contracted Services	800,309	563,099	237,210	42.13%
Other Contracted Services	2,595,131	1,818,066	777,065	42.74%
Scholarships and Fellowships	24,587,089	18,625,080	5,962,009	32.01%
Travel	1,013,010	885,330	127,680	14.42%
Materials and Supplies	6,588,412	5,891,364	697,048	11.83%
Utilities	1,902,065	2,680,703	(778,638)	-29.05%
Telecommunications	888,482	780,231	108,251	13.87%
Repairs and Maintenance	2,856,174	2,544,237	311,937	12.26%
Rentals and Leases	781,186	560,725	220,461	39.32%
Printing and Reproduction	962,886	876,748	86,138	9.82%
Federal Sponsored Programs Pass-Throughs	9,480	32,352	(22,872)	-70.70%
Depreciation and Amortization	3,621,873	3,179,785	442,088	13.90%
Other Operating Expenses	1,874,749	1,863,765	10,984	0.59%
Total Operating Expenses	**116,281,593**	**102,126,311**	**14,155,282**	**13.86%**
Operating Loss	**(40,852,769)**	**(42,063,697)**	**1,210,928**	**2.88%**
Other Nonoperating Adjustments				
State Appropriations	42,911,038	43,213,007	(301,969)	-0.70%
Gift Contributions for Operations	531,787	782,938	(251,151)	-32.08%
Net Investment Income	1,185,411	1,148,548	36,863	3.21%
Interest Expense on Capital Asset Financings	(1,921,810)	(1,853,060)	(68,750)	-3.71%
Net Other Nonoperating Adjustments	**42,706,426**	**43,291,433**	**(585,007)**	**-1.35%**
Adjusted Income (Loss)	**$1,853,657**	**$1,227,736**	**$625,921**	**50.98%**
Adjusted Margin (as a percentage)	**1.54%**	**1.17%**		

UNAUDITED
The University of Texas at Austin
Comparison of Operating Results and Margin
For the Five Months Ending January 31, 2003

	January Year-to-Date FY 2003	January Year-to-Date FY 2002	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$160,474,032	$139,778,072	$20,695,960	14.81%
Sponsored Programs	154,788,780	139,999,268	14,789,512	10.56%
Net Sales and Services of Educational Activities	28,792,385	26,004,735	2,787,650	10.72%
Net Auxiliary Enterprises	62,580,071	56,306,099	6,273,972	11.14%
Other Operating Revenues	54,455,531	49,367,094	5,088,437	10.31%
Total Operating Revenues	**461,090,799**	**411,455,268**	**49,635,531**	**12.06%**
Operating Expenses				
Salaries and Wages	308,610,592	287,851,279	20,759,313	7.21%
Employee Benefits and Related Costs	70,088,808	62,739,593	7,349,215	11.71%
Professional Fees and Contracted Services	10,027,404	9,495,882	531,522	5.60%
Other Contracted Services	16,700,126	17,090,765	(390,639)	-2.29%
Scholarships and Fellowships	87,365,361	73,353,915	14,011,446	19.10%
Travel	10,025,518	8,364,933	1,660,585	19.85%
Materials and Supplies	37,841,059	36,180,205	1,660,854	4.59%
Utilities	15,124,705	15,956,151	(831,446)	-5.21%
Telecommunications	4,733,079	4,363,396	369,683	8.47%
Repairs and Maintenance	9,452,413	9,363,807	88,606	0.95%
Rentals and Leases	5,060,989	5,689,533	(628,544)	-11.05%
Printing and Reproduction	4,599,428	4,711,535	(112,107)	-2.38%
Federal Sponsored Programs Pass-Throughs	4,829,576	3,800,763	1,028,813	27.07%
State Sponsored Programs Pass-Throughs	1,079,720	671,082	408,638	60.89%
Depreciation and Amortization	29,646,985	27,311,003	2,335,982	8.55%
Other Operating Expenses	13,372,661	14,119,695	(747,034)	-5.29%
Total Operating Expenses	**628,558,424**	**581,063,537**	**47,494,887**	**8.17%**
Operating Loss	**(167,467,625)**	**(169,608,269)**	**2,140,644**	**1.26%**
Other Nonoperating Adjustments				
State Appropriations	135,727,196	136,490,611	(763,415)	-0.56%
Gift Contributions for Operations	36,729,172	27,566,257	9,162,915	33.24%
Net Investment Income	38,477,262	37,410,163	1,067,099	2.85%
Interest Expense on Capital Asset Financings	(7,223,941)	(7,118,953)	(104,988)	-1.47%
Net Other Nonoperating Adjustments	**203,709,689**	**194,348,078**	**9,361,611**	**4.82%**
Adjusted Income (Loss)	**$36,242,064**	**$24,739,809**	**$11,502,255**	**46.49%**
Adjusted Margin (as a percentage)	**5.39%**	**4.04%**		

UNAUDITED
The University of Texas at Brownsville
Comparison of Operating Results and Margin
For the Five Months Ending January 31, 2003

	January Year-to-Date FY 2003	January Year-to-Date FY 2002	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$3,721,264	$3,561,578	$159,686	4.48%
Sponsored Programs	44,022,865	39,454,969	4,567,896	11.58%
Net Sales and Services of Educational Activities	2,014,744	1,834,863	179,881	9.80%
Net Auxiliary Enterprises	223,281	79,639	143,642	180.37%
Other Operating Revenues	9,715	8,696	1,019	11.72%
Total Operating Revenues	**49,991,869**	**44,939,745**	**5,052,124**	**11.24%**
Operating Expenses				
Salaries and Wages	16,651,680	14,978,007	1,673,673	11.17%
Employee Benefits and Related Costs	3,331,566	2,962,024	369,542	12.48%
Professional Fees and Contracted Services	951,898	898,516	53,382	5.94%
Scholarships and Fellowships	28,507,959	23,243,267	5,264,692	22.65%
Travel	242,086	275,850	(33,764)	-12.24%
Materials and Supplies	1,689,957	1,738,516	(48,559)	-2.79%
Utilities	741,887	414,920	326,967	78.80%
Telecommunications	494,459	377,961	116,498	30.82%
Repairs and Maintenance	315,232	218,378	96,854	44.35%
Rentals and Leases	834,670	1,027,717	(193,047)	-18.78%
Printing and Reproduction	158,215	202,271	(44,056)	-21.78%
State Sponsored Programs Pass-Throughs	10,620	0	10,620	100.00%
Depreciation and Amortization	1,285,234	766,975	518,259	67.57%
Other Operating Expenses	3,423,528	3,476,966	(53,438)	-1.54%
Total Operating Expenses	**58,638,991**	**50,581,368**	**8,057,623**	**15.93%**
Operating Loss	**(8,647,122)**	**(5,641,623)**	**(3,005,499)**	**-53.27%**
Other Nonoperating Adjustments				
State Appropriations	9,721,282	9,015,374	705,908	7.83%
Gift Contributions for Operations	105,129	0	105,129	100.00%
Net Investment Income	177,724	175,785	1,939	1.10%
Interest Expense on Capital Asset Financings	(712,889)	(535,785)	(177,104)	-33.06%
Net Other Nonoperating Adjustments	**9,291,246**	**8,655,374**	**635,872**	**7.35%**
Adjusted Income (Loss)	**$644,124**	**$3,013,751**	**$(2,369,627)**	**-78.63%**
Adjusted Margin (as a percentage)	**1.07%**	**5.57%**		

UNAUDITED
The University of Texas at Dallas
Comparison of Operating Results and Margin
For the Five Months Ending January 31, 2003

	January Year-to-Date FY 2003	January Year-to-Date FY 2002	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$30,331,712	$28,355,696	$1,976,016	6.97%
Sponsored Programs	12,929,756	10,065,185	2,864,571	28.46%
Net Sales and Services of Educational Activities	1,589,120	2,038,233	(449,113)	-22.03%
Net Auxiliary Enterprises	1,840,375	1,738,973	101,402	5.83%
Other Operating Revenues	2,193,550	1,857,870	335,680	18.07%
Total Operating Revenues	**48,884,513**	**44,055,957**	**4,828,556**	**10.96%**
Operating Expenses				
Salaries and Wages	40,775,941	35,791,515	4,984,426	13.93%
Employee Benefits and Related Costs	9,381,117	7,914,822	1,466,295	18.53%
Professional Fees and Contracted Services	951,096	614,509	336,587	54.77%
Other Contracted Services	1,891,439	1,550,359	341,080	22.00%
Scholarships and Fellowships	14,678,333	14,506,110	172,223	1.19%
Travel	918,775	862,067	56,708	6.58%
Materials and Supplies	5,117,329	3,861,325	1,256,004	32.53%
Utilities	2,134,732	2,008,087	126,645	6.31%
Telecommunications	587,687	467,355	120,332	25.75%
Repairs and Maintenance	1,266,634	1,142,267	124,367	10.89%
Rentals and Leases	614,071	351,787	262,284	74.56%
Printing and Reproduction	421,323	312,239	109,084	34.94%
Federal Sponsored Programs Pass-Throughs	155,866	46,437	109,429	235.65%
Depreciation and Amortization	3,431,000	3,381,215	49,785	1.47%
Other Operating Expenses	1,962,079	2,065,020	(102,941)	-4.98%
Total Operating Expenses	**84,287,422**	**74,875,114**	**9,412,308**	**12.57%**
Operating Loss	**(35,402,909)**	**(30,819,157)**	**(4,583,752)**	**-14.87%**
Other Nonoperating Adjustments				
State Appropriations	30,399,458	27,731,482	2,667,976	9.62%
Gift Contributions for Operations	2,282,990	1,192,851	1,090,139	91.39%
Net Investment Income	3,488,679	3,807,511	(318,832)	-8.37%
Interest Expense on Capital Asset Financings	(1,113,904)	(1,010,520)	(103,384)	-10.23%
Net Other Nonoperating Adjustments	**35,057,223**	**31,721,324**	**3,335,899**	**10.52%**
Adjusted Income (Loss)	**$(345,686)**	**$902,167**	**$(1,247,853)**	**-138.32%**
Adjusted Margin (as a percentage)	**-0.41%**	**1.17%**		

UNAUDITED
The University of Texas at El Paso
Comparison of Operating Results and Margin
For the Five Months Ending January 31, 2003

	January Year-to-Date FY 2003	January Year-to-Date FY 2002	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$23,636,365	$19,977,785	$3,658,580	18.31%
Sponsored Programs	41,581,437	36,322,819	5,258,618	14.48%
Net Sales and Services of Educational Activities	1,519,599	1,959,640	(440,041)	-22.46%
Net Auxiliary Enterprises	11,583,150	9,419,625	2,163,525	22.97%
Other Operating Revenues	18,705	18,408	297	1.61%
Total Operating Revenues	**78,339,256**	**67,698,277**	**10,640,979**	**15.72%**
Operating Expenses				
Salaries and Wages	44,005,686	41,403,551	2,602,135	6.28%
Employee Benefits and Related Costs	11,216,242	9,940,485	1,275,757	12.83%
Professional Fees and Contracted Services	3,548,243	2,069,699	1,478,544	71.44%
Other Contracted Services	1,895,556	2,727,027	(831,471)	-30.49%
Scholarships and Fellowships	33,477,697	26,482,547	6,995,150	26.41%
Travel	2,460,178	2,044,727	415,451	20.32%
Materials and Supplies	7,563,707	5,936,313	1,627,394	27.41%
Utilities	2,311,244	1,856,417	454,827	24.50%
Telecommunications	512,641	420,793	91,848	21.83%
Repairs and Maintenance	1,304,410	1,469,156	(164,746)	-11.21%
Rentals and Leases	504,542	402,127	102,415	25.47%
Printing and Reproduction	317,764	407,129	(89,365)	-21.95%
Federal Sponsored Programs Pass-Throughs	1,569,363	2,587,652	(1,018,289)	-39.35%
Depreciation and Amortization	4,037,926	5,028,811	(990,885)	-19.70%
Other Operating Expenses	2,108,612	1,639,204	469,408	28.64%
Total Operating Expenses	**116,833,811**	**104,415,638**	**12,418,173**	**11.89%**
Operating Loss	**(38,494,555)**	**(36,717,361)**	**(1,777,194)**	**-4.84%**
Other Nonoperating Adjustments				
State Appropriations	34,488,927	33,023,425	1,465,502	4.44%
Gift Contributions for Operations	2,257,819	1,808,790	449,029	24.82%
Net Investment Income	2,374,947	2,573,698	(198,751)	-7.72%
Interest Expense on Capital Asset Financings	(1,435,650)	(1,506,015)	70,365	4.67%
Net Other Nonoperating Adjustments	**37,686,043**	**35,899,898**	**1,786,145**	**4.98%**
Adjusted Income (Loss)	**$(808,512)**	**$(817,463)**	**$8,951**	**1.09%**
Adjusted Margin (as a percentage)	**-0.69%**	**-0.78%**		

UNAUDITED
The University of Texas-Pan American
Comparison of Operating Results and Margin
For the Five Months Ending January 31, 2003

	January Year-to-Date FY 2003	January Year-to-Date FY 2002	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$18,012,249	$15,092,585	$2,919,664	19.35%
Sponsored Programs	39,812,957	29,978,998	9,833,959	32.80%
Net Sales and Services of Educational Activities	3,134,944	2,264,983	869,961	38.41%
Net Auxiliary Enterprises	2,717,190	2,247,665	469,525	20.89%
Other Operating Revenues	97,307	110,163	(12,856)	-11.67%
Total Operating Revenues	**63,774,647**	**49,694,394**	**14,080,253**	**28.33%**
Operating Expenses				
Salaries and Wages	27,648,545	25,574,890	2,073,655	8.11%
Employee Benefits and Related Costs	6,994,444	6,163,563	830,881	13.48%
Professional Fees and Contracted Services	271,288	112,802	158,486	140.50%
Other Contracted Services	1,552,212	1,044,196	508,016	48.65%
Scholarships and Fellowships	36,566,878	29,090,157	7,476,721	25.70%
Travel	949,823	756,756	193,067	25.51%
Materials and Supplies	4,555,959	4,291,910	264,049	6.15%
Utilities	1,586,193	1,817,141	(230,948)	-12.71%
Telecommunications	262,966	274,236	(11,270)	-4.11%
Repairs and Maintenance	785,108	705,269	79,839	11.32%
Rentals and Leases	173,467	143,041	30,426	21.27%
Printing and Reproduction	338,179	198,165	140,014	70.66%
Federal Sponsored Programs Pass-Throughs	1,287	0	1,287	100.00%
Depreciation and Amortization	3,069,329	3,012,154	57,175	1.90%
Other Operating Expenses	1,919,199	1,577,380	341,819	21.67%
Total Operating Expenses	**86,674,877**	**74,761,660**	**11,913,217**	**15.93%**
Operating Loss	**(22,900,230)**	**(25,067,266)**	**2,167,036**	**8.64%**
Other Nonoperating Adjustments				
State Appropriations	25,221,300	25,232,026	(10,726)	-0.04%
Gift Contributions for Operations	365,801	367,277	(1,476)	-0.40%
Net Investment Income	1,207,163	1,382,108	(174,945)	-12.66%
Interest Expense on Capital Asset Financings	(1,335,846)	(1,301,945)	(33,901)	-2.60%
Net Other Nonoperating Adjustments	**25,458,418**	**25,679,466**	**(221,048)**	**-0.86%**
Adjusted Income (Loss)	**$2,558,188**	**$612,200**	**$1,945,988**	**317.87%**
Adjusted Margin (as a percentage)	**2.82%**	**0.80%**		

UNAUDITED
The University of Texas of the Permian Basin
Comparison of Operating Results and Margin
For the Five Months Ending January 31, 2003

	January Year-to-Date FY 2003	January Year-to-Date FY 2002	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$4,773,930	$3,755,616	$1,018,314	27.11%
Sponsored Programs	3,120,945	2,839,053	281,892	9.93%
Net Sales and Services of Educational Activities	112,910	277,347	(164,437)	-59.29%
Net Auxiliary Enterprises	298,700	69,250	229,450	331.34%
Other Operating Revenues	70,658	88,362	(17,704)	-20.04%
Total Operating Revenues	**8,377,143**	**7,029,628**	**1,347,515**	**19.17%**
Operating Expenses				
Salaries and Wages	5,168,100	4,642,418	525,682	11.32%
Employee Benefits and Related Costs	1,196,915	1,091,601	105,314	9.65%
Professional Fees and Contracted Services	299,836	145,621	154,215	105.90%
Other Contracted Services	331,424	175,654	155,770	88.68%
Scholarships and Fellowships	3,289,772	2,695,603	594,169	22.04%
Travel	206,005	160,579	45,426	28.29%
Materials and Supplies	918,089	699,170	218,919	31.31%
Utilities	438,650	657,963	(219,313)	-33.33%
Telecommunications	129,459	125,621	3,838	3.06%
Repairs and Maintenance	181,041	510,232	(329,191)	-64.52%
Rentals and Leases	93,149	68,772	24,377	35.45%
Printing and Reproduction	117,723	92,471	25,252	27.31%
Depreciation and Amortization	535,845	503,230	32,615	6.48%
Other Operating Expenses	246,100	239,885	6,215	2.59%
Total Operating Expenses	**13,152,108**	**11,808,820**	**1,343,288**	**11.38%**
Operating Loss	**(4,774,965)**	**(4,779,192)**	**4,227**	**0.09%**
Other Nonoperating Adjustments				
State Appropriations	6,406,720	5,838,850	567,870	9.73%
Gift Contributions for Operations	353,979	377,737	(23,758)	-6.29%
Net Investment Income	189,543	213,572	(24,029)	-11.25%
Interest Expense on Capital Asset Financings	(337,057)	(510,715)	173,658	34.00%
Net Other Nonoperating Adjustments	**6,613,185**	**5,919,444**	**693,741**	**11.72%**
Adjusted Income (Loss)	**$1,838,220**	**$1,140,252**	**$697,968**	**61.21%**
Adjusted Margin (as a percentage)	**11.99%**	**8.47%**		

UNAUDITED
The University of Texas at San Antonio
Comparison of Operating Results and Margin
For the Five Months Ending January 31, 2003

	January Year-to-Date FY 2003	January Year-to-Date FY 2002	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$34,299,641	$27,482,235	$6,817,406	24.81%
Sponsored Programs	33,440,065	24,210,232	9,229,833	38.12%
Net Sales and Services of Educational Activities	1,046,360	667,985	378,375	56.64%
Net Auxiliary Enterprises	1,778,481	1,872,528	(94,047)	-5.02%
Other Operating Revenues	205,866	225,511	(19,645)	-8.71%
Total Operating Revenues	**70,770,413**	**54,458,491**	**16,311,922**	**29.95%**
Operating Expenses				
Salaries and Wages	42,732,336	37,968,701	4,763,635	12.55%
Employee Benefits and Related Costs	8,646,065	7,348,370	1,297,695	17.66%
Professional Fees and Contracted Services	1,025,041	659,169	365,872	55.51%
Other Contracted Services	832,508	1,109,007	(276,499)	-24.93%
Scholarships and Fellowships	30,374,847	20,984,822	9,390,025	44.75%
Travel	1,361,178	1,171,584	189,594	16.18%
Materials and Supplies	3,778,484	2,834,819	943,665	33.29%
Utilities	1,752,165	1,684,585	67,580	4.01%
Telecommunications	874,904	819,765	55,139	6.73%
Repairs and Maintenance	1,606,078	1,873,669	(267,591)	-14.28%
Rentals and Leases	609,392	402,081	207,311	51.56%
Printing and Reproduction	540,523	530,279	10,244	1.93%
Federal Sponsored Programs Pass-Throughs	1,433,300	502,279	931,021	185.36%
Depreciation and Amortization	4,272,386	5,248,935	(976,549)	-18.60%
Other Operating Expenses	1,249,722	1,795,952	(546,230)	-30.41%
Total Operating Expenses	**101,088,929**	**84,934,017**	**16,154,912**	**19.02%**
Operating Loss	**(30,318,516)**	**(30,475,526)**	**157,010**	**0.52%**
Other Nonoperating Adjustments				
State Appropriations	32,443,381	32,805,445	(362,064)	-1.10%
Gift Contributions for Operations	1,478,513	1,286,380	192,133	14.94%
Net Investment Income	1,196,515	1,384,238	(187,723)	-13.56%
Interest Expense on Capital Asset Financings	(2,576,049)	(2,742,560)	166,511	6.07%
Net Other Nonoperating Adjustments	**32,542,360**	**32,733,503**	**(191,143)**	**-0.58%**
Adjusted Income (Loss)	**$2,223,844**	**$2,257,977**	**$(34,133)**	**-1.51%**
Adjusted Margin (as a percentage)	**2.10%**	**2.51%**		

UNAUDITED
The University of Texas at Tyler
Comparison of Operating Results and Margin
For the Five Months Ending January 31, 2003

	January Year-to-Date FY 2003	January Year-to-Date FY 2002	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$4,782,288	$4,055,525	$726,763	17.92%
Sponsored Programs	4,007,424	2,599,754	1,407,670	54.15%
Net Sales and Services of Educational Activities	157,462	122,093	35,369	28.97%
Net Auxiliary Enterprises	410,572	354,686	55,886	15.76%
Other Operating Revenues	147,476	71,619	75,857	105.92%
Total Operating Revenues	**9,505,222**	**7,203,677**	**2,301,545**	**31.95%**
Operating Expenses				
Salaries and Wages	9,268,396	8,364,314	904,082	10.81%
Employee Benefits and Related Costs	2,295,641	1,841,589	454,052	24.66%
Professional Fees and Contracted Services	420,337	330,788	89,549	27.07%
Other Contracted Services	713,960	476,283	237,677	49.90%
Scholarships and Fellowships	3,311,345	2,150,102	1,161,243	54.01%
Travel	280,687	240,599	40,088	16.66%
Materials and Supplies	1,123,975	765,760	358,215	46.78%
Utilities	394,998	335,406	59,592	17.77%
Telecommunications	143,345	162,651	(19,306)	-11.87%
Repairs and Maintenance	336,947	486,060	(149,113)	-30.68%
Rentals and Leases	54,272	45,868	8,404	18.32%
Printing and Reproduction	292,838	180,840	111,998	61.93%
Depreciation and Amortization	1,125,000	1,100,259	24,741	2.25%
Other Operating Expenses	373,059	423,735	(50,676)	-11.96%
Total Operating Expenses	**20,134,800**	**16,904,254**	**3,230,546**	**19.11%**
Operating Loss	**(10,629,578)**	**(9,700,577)**	**(929,001)**	**-9.58%**
Other Nonoperating Adjustments				
State Appropriations	10,772,657	10,861,485	(88,828)	-0.82%
Gift Contributions for Operations	334,502	240,307	94,195	39.20%
Net Investment Income	312,000	350,530	(38,530)	-10.99%
Interest Expense on Capital Asset Financings	(284,618)	(283,060)	(1,558)	-0.55%
Net Other Nonoperating Adjustments	**11,134,541**	**11,169,262**	**(34,721)**	**-0.31%**
Adjusted Income (Loss)	**$504,963**	**$1,468,685**	**$(963,722)**	**-65.62%**
Adjusted Margin (as a percentage)	**2.41%**	**7.87%**		

UNAUDITED

The University of Texas Southwestern Medical Center at Dallas

Comparison of Operating Results and Margin

For the Five Months Ending January 31, 2003

	January Year-to-Date FY 2003	January Year-to-Date FY 2002	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$6,783,873	$6,000,154	$783,719	13.06%
Sponsored Programs	131,356,921	121,193,604	10,163,317	8.39%
Net Sales and Services of Educational Activities	10,816,829	12,189,821	(1,372,992)	-11.26%
Net Professional Fees	74,933,775	71,248,035	3,685,740	5.17%
Net Auxiliary Enterprises	3,018,681	2,697,303	321,378	11.91%
Other Operating Revenues	1,753,839	1,929,649	(175,810)	-9.11%
Total Operating Revenues	**228,663,918**	**215,258,566**	**13,405,352**	**6.23%**
Operating Expenses				
Salaries and Wages	158,666,588	145,132,410	13,534,178	9.33%
Employee Benefits and Related Costs	45,831,984	41,849,254	3,982,730	9.52%
Professional Fees and Contracted Services	4,432,180	5,769,755	(1,337,575)	-23.18%
Other Contracted Services	17,456,522	14,967,284	2,489,238	16.63%
Scholarships and Fellowships	4,098,681	3,612,948	485,733	13.44%
Travel	2,801,589	2,295,333	506,256	22.06%
Materials and Supplies	33,588,426	31,899,807	1,688,619	5.29%
Utilities	6,623,953	6,865,511	(241,558)	-3.52%
Telecommunications	1,931,493	1,828,451	103,042	5.64%
Repairs and Maintenance	919,306	1,143,187	(223,881)	-19.58%
Rentals and Leases	2,114,126	2,032,895	81,231	4.00%
Printing and Reproduction	1,057,590	1,079,993	(22,403)	-2.07%
Federal Sponsored Programs Pass-Throughs	99,452	435,262	(335,810)	-77.15%
Depreciation and Amortization	11,975,098	11,528,550	446,548	3.87%
Other Operating Expenses	10,659,309	10,930,851	(271,542)	-2.48%
Total Operating Expenses	**302,256,297**	**281,371,491**	**20,884,806**	**7.42%**
Operating Loss	**(73,592,379)**	**(66,112,925)**	**(7,479,454)**	**-11.31%**
Other Nonoperating Adjustments				
State Appropriations	46,151,788	46,696,373	(544,585)	-1.17%
Gift Contributions for Operations	8,499,568	10,000,881	(1,501,313)	-15.01%
Net Investment Income	18,908,680	19,336,168	(427,488)	-2.21%
Interest Expense on Capital Asset Financings	(4,117,626)	(3,309,700)	(807,926)	-24.41%
Net Other Nonoperating Adjustments	**69,442,410**	**72,723,722**	**(3,281,312)**	**-4.51%**
Adjusted Income (Loss)	**$(4,149,969)**	**$6,610,797**	**$(10,760,766)**	**-162.78%**
Adjusted Margin (as a percentage)	**-1.37%**	**2.27%**		

UNAUDITED
The University of Texas Medical Branch at Galveston
Comparison of Operating Results and Margin
For the Five Months Ending January 31, 2003

	January Year-to-Date FY 2003	January Year-to-Date FY 2002	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$3,730,655	$3,222,163	$508,492	15.78%
Sponsored Programs	60,104,260	54,676,052	5,428,208	9.93%
Net Sales and Services of Educational Activities	0	175,779	(175,779)	-100.00%
Net Sales and Services of Hospitals	238,158,515	227,538,626	10,619,889	4.67%
Net Professional Fees	52,628,333	50,958,911	1,669,422	3.28%
Net Auxiliary Enterprises	3,028,250	3,134,511	(106,261)	-3.39%
Other Operating Revenues	30,267,781	34,263,506	(3,995,725)	-11.66%
Total Operating Revenues	**387,917,794**	**373,969,548**	**13,948,246**	**3.73%**
Operating Expenses				
Salaries and Wages	268,191,933	250,989,283	17,202,650	6.85%
Employee Benefits and Related Costs	69,969,339	65,461,124	4,508,215	6.89%
Professional Fees and Contracted Services	4,845,029	4,851,422	(6,393)	-0.13%
Other Contracted Services	33,151,480	31,349,113	1,802,367	5.75%
Scholarships and Fellowships	1,482,226	1,251,945	230,281	18.39%
Travel	2,712,403	2,245,336	467,067	20.80%
Materials and Supplies	60,042,592	65,557,604	(5,515,012)	-8.41%
Utilities	8,818,506	8,629,980	188,526	2.18%
Telecommunications	4,111,114	3,822,598	288,516	7.55%
Repairs and Maintenance	11,337,338	10,118,543	1,218,795	12.05%
Rentals and Leases	3,987,796	4,090,037	(102,241)	-2.50%
Printing and Reproduction	827,650	913,707	(86,057)	-9.42%
Federal Sponsored Programs Pass-Throughs	717,524	420,007	297,517	70.84%
Depreciation and Amortization	20,021,255	20,956,017	(934,762)	-4.46%
Other Operating Expenses	50,716,809	54,807,697	(4,090,888)	-7.46%
Total Operating Expenses	**540,932,994**	**525,464,413**	**15,468,581**	**2.94%**
Operating Loss	**(153,015,200)**	**(151,494,865)**	**(1,520,335)**	**-1.00%**
Other Nonoperating Adjustments				
State Appropriations	120,088,247	122,737,635	(2,649,388)	-2.16%
Gift Contributions for Operations	1,382,376	1,761,924	(379,548)	-21.54%
Net Investment Income	10,236,176	10,027,187	208,989	2.08%
Interest Expense on Capital Asset Financings	(869,169)	(757,525)	(111,644)	-14.74%
Net Other Nonoperating Adjustments	**130,837,630**	**133,769,221**	**(2,931,591)**	**-2.19%**
Adjusted Income (Loss)	**$(22,177,570)**	**$(17,725,644)**	**$(4,451,926)**	**-25.12%**
Adjusted Margin (as a percentage)	**-4.27%**	**-3.49%**		

UNAUDITED
The University of Texas Health Science Center at Houston
Comparison of Operating Results and Margin
For the Five Months Ending January 31, 2003

	January Year-to-Date FY 2003	January Year-to-Date FY 2002	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$5,932,636	$5,425,911	$506,725	9.34%
Sponsored Programs	92,333,454	80,719,344	11,614,110	14.39%
Net Sales and Services of Educational Activities	3,869,428	3,665,342	204,086	5.57%
Net Sales and Services of Hospitals	13,884,168	13,875,015	9,153	0.07%
Net Professional Fees	36,667,471	32,090,018	4,577,453	14.26%
Net Auxiliary Enterprises	5,337,344	5,389,562	(52,218)	-0.97%
Other Operating Revenues	18,333,736	17,918,278	415,458	2.32%
Total Operating Revenues	**176,358,237**	**159,083,470**	**17,274,767**	**10.86%**
Operating Expenses				
Salaries and Wages	126,923,638	117,439,462	9,484,176	8.08%
Employee Benefits and Related Costs	29,474,409	26,920,318	2,554,091	9.49%
Professional Fees and Contracted Services	20,260,363	19,607,380	652,983	3.33%
Other Contracted Services	15,003,539	13,089,103	1,914,436	14.63%
Scholarships and Fellowships	1,511,166	1,297,672	213,494	16.45%
Travel	1,806,557	1,661,075	145,482	8.76%
Materials and Supplies	10,793,287	8,616,696	2,176,591	25.26%
Utilities	2,953,237	3,033,219	(79,982)	-2.64%
Telecommunications	1,360,295	1,460,489	(100,194)	-6.86%
Repairs and Maintenance	2,247,773	3,701,033	(1,453,260)	-39.27%
Rentals and Leases	3,419,694	2,174,525	1,245,169	57.26%
Printing and Reproduction	1,990,231	2,104,563	(114,332)	-5.43%
Bad Debt Expense	(150)	1,374	(1,524)	-110.92%
Federal Sponsored Programs Pass-Throughs	1,920,253	1,321,227	599,026	45.34%
Depreciation and Amortization	6,706,996	7,242,596	(535,600)	-7.40%
Other Operating Expenses	20,547,746	18,689,201	1,858,545	9.94%
Total Operating Expenses	**246,919,034**	**228,359,933**	**18,559,101**	**8.13%**
Operating Loss	**(70,560,797)**	**(69,276,463)**	**(1,284,334)**	**-1.85%**
Other Nonoperating Adjustments				
State Appropriations	60,443,218	61,520,029	(1,076,811)	-1.75%
Gift Contributions for Operations	327,863	185,983	141,880	76.29%
Net Investment Income	3,279,576	3,324,648	(45,072)	-1.36%
Interest Expense on Capital Asset Financings	(1,756,638)	(2,337,630)	580,992	24.85%
Net Other Nonoperating Adjustments	**62,294,019**	**62,693,030**	**(399,011)**	**-0.64%**
Adjusted Income (Loss)	**$(8,266,778)**	**$(6,583,433)**	**$(1,683,345)**	**-25.57%**
Adjusted Margin (as a percentage)	**-3.44%**	**-2.94%**		

UNAUDITED

The University of Texas Health Science Center at San Antonio

Comparison of Operating Results and Margin

For the Five Months Ending January 31, 2003

	January Year-to-Date FY 2003	January Year-to-Date FY 2002	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$5,688,333	$4,939,170	$749,163	15.17%
Sponsored Programs	54,072,189	52,056,636	2,015,553	3.87%
Net Sales and Services of Educational Activities	486,236	520,289	(34,053)	-6.55%
Net Professional Fees	48,474,856	45,244,313	3,230,543	7.14%
Net Auxiliary Enterprises	541,233	500,633	40,600	8.11%
Other Operating Revenues	22,476,488	25,009,770	(2,533,282)	-10.13%
Total Operating Revenues	**131,739,335**	**128,270,811**	**3,468,524**	**2.70%**
Operating Expenses				
Salaries and Wages	95,944,377	90,867,902	5,076,475	5.59%
Employee Benefits and Related Costs	23,229,669	22,280,055	949,614	4.26%
Professional Fees and Contracted Services	4,782,817	4,513,674	269,143	5.96%
Other Contracted Services	5,079,676	5,609,426	(529,750)	-9.44%
Scholarships and Fellowships	1,870,397	1,645,383	225,014	13.68%
Travel	1,664,824	1,374,135	290,689	21.15%
Materials and Supplies	7,801,273	8,594,846	(793,573)	-9.23%
Utilities	2,233,815	2,055,651	178,164	8.67%
Telecommunications	3,732,261	3,472,383	259,878	7.48%
Repairs and Maintenance	366,224	330,906	35,318	10.67%
Rentals and Leases	870,207	624,883	245,324	39.26%
Printing and Reproduction	624,457	746,738	(122,281)	-16.38%
Federal Sponsored Programs Pass-Throughs	247,884	393,239	(145,355)	-36.96%
Depreciation and Amortization	6,083,333	6,073,313	10,020	0.16%
Other Operating Expenses	38,338,934	37,613,772	725,162	1.93%
Total Operating Expenses	**192,870,148**	**186,196,306**	**6,673,842**	**3.58%**
Operating Loss	**(61,130,813)**	**(57,925,495)**	**(3,205,318)**	**-5.53%**
Other Nonoperating Adjustments				
State Appropriations	60,753,954	61,581,855	(827,901)	-1.34%
Gift Contributions for Operations	2,549,552	3,949,640	(1,400,088)	-35.45%
Net Investment Income	6,266,419	6,833,213	(566,794)	-8.29%
Interest Expense on Capital Asset Financings	(1,694,806)	(2,365,515)	670,709	28.35%
Net Other Nonoperating Adjustments	**67,875,119**	**69,999,193**	**(2,124,074)**	**-3.03%**
Adjusted Income (Loss)	**$6,744,306**	**$12,073,698**	**$(5,329,392)**	**-44.14%**
Adjusted Margin (as a percentage)	**3.35%**	**6.02%**		

UNAUDITED
The University of Texas M. D. Anderson Cancer Center
Comparison of Operating Results and Margin
For the Five Months Ending January 31, 2003

	January Year-to-Date FY 2003	January Year-to-Date FY 2002	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Student Tuition and Fees	$83,647	$4,724	$78,923	1,670.68%
Sponsored Programs	65,696,654	62,179,245	3,517,409	5.66%
Net Sales and Services of Educational Activities	1,696,882	1,218,688	478,194	39.24%
Net Sales and Services of Hospitals	356,855,227	308,626,835	48,228,392	15.63%
Net Professional Fees	73,879,593	65,155,556	8,724,037	13.39%
Net Auxiliary Enterprises	6,685,716	6,313,067	372,649	5.90%
Other Operating Revenues	9,910,526	9,753,902	156,624	1.61%
Total Operating Revenues	**514,808,245**	**453,252,017**	**61,556,228**	**13.58%**
Operating Expenses				
Salaries and Wages	286,371,851	260,646,581	25,725,270	9.87%
Employee Benefits and Related Costs	82,240,263	72,153,493	10,086,770	13.98%
Professional Fees and Contracted Services	6,752,915	8,492,854	(1,739,939)	-20.49%
Other Contracted Services	19,219,641	20,716,391	(1,496,750)	-7.22%
Travel	4,928,730	3,703,482	1,225,248	33.08%
Materials and Supplies	113,915,677	111,423,658	2,492,019	2.24%
Utilities	11,459,478	10,548,548	910,930	8.64%
Telecommunications	3,166,355	1,859,778	1,306,577	70.25%
Repairs and Maintenance	7,374,117	8,167,980	(793,863)	-9.72%
Rentals and Leases	8,997,219	5,856,014	3,141,205	53.64%
Printing and Reproduction	2,038,960	1,778,133	260,827	14.67%
Federal Sponsored Programs Pass-Throughs	123,096	783,337	(660,241)	-84.29%
Depreciation and Amortization	29,861,265	28,498,300	1,362,965	4.78%
Other Operating Expenses	13,748,992	13,670,278	78,714	0.58%
Total Operating Expenses	**590,198,559**	**548,298,827**	**41,899,732**	**7.64%**
Operating Loss	**(75,390,314)**	**(95,046,810)**	**19,656,496**	**20.68%**
Other Nonoperating Adjustments				
State Appropriations	60,631,034	66,502,045	(5,871,011)	-8.83%
Gift Contributions for Operations	30,451,555	29,191,050	1,260,505	4.32%
Net Investment Income	14,727,132	15,895,881	(1,168,749)	-7.35%
Interest Expense on Capital Asset Financings	(6,323,990)	(3,411,515)	(2,912,475)	-85.37%
Net Other Nonoperating Adjustments	**99,485,731**	**108,177,461**	**(8,691,730)**	**-8.03%**
Adjusted Income (Loss)	**$24,095,417**	**$13,130,651**	**$10,964,766**	**83.51%**
Adjusted Margin (as a percentage)	**3.88%**	**2.32%**		

UNAUDITED
The University of Texas Health Center at Tyler
Comparison of Operating Results and Margin
For the Five Months Ending January 31, 2003

	January Year-to-Date FY 2003	January Year-to-Date FY 2002	Variance of Current Year-to-Date to Prior Year-to-Date	Fluctuation Percentage
Operating Revenues				
Sponsored Programs	$2,418,176	$2,382,487	$35,689	1.50%
Net Sales and Services of Educational Activities	541,859	479,604	62,255	12.98%
Net Sales and Services of Hospitals	21,899,048	21,028,336	870,712	4.14%
Net Professional Fees	5,501,961	5,287,631	214,330	4.05%
Net Auxiliary Enterprises	328,326	429,610	(101,284)	-23.58%
Other Operating Revenues	1,130,265	1,092,706	37,559	3.44%
Total Operating Revenues	**31,819,635**	**30,700,374**	**1,119,261**	**3.65%**
Operating Expenses				
Salaries and Wages	25,231,948	24,060,677	1,171,271	4.87%
Employee Benefits and Related Costs	6,475,487	5,801,165	674,322	11.62%
Professional Fees and Contracted Services	1,966,546	971,858	994,688	102.35%
Other Contracted Services	1,582,602	959,578	623,024	64.93%
Travel	220,945	225,754	(4,809)	-2.13%
Materials and Supplies	6,574,892	6,344,143	230,749	3.64%
Utilities	758,105	763,861	(5,756)	-0.75%
Telecommunications	285,631	199,678	85,953	43.05%
Repairs and Maintenance	739,005	772,201	(33,196)	-4.30%
Rentals and Leases	820,448	782,905	37,543	4.80%
Printing and Reproduction	408,033	358,436	49,597	13.84%
Federal Sponsored Programs Pass-Throughs	135,108	78,301	56,807	72.55%
Depreciation and Amortization	1,411,750	1,649,422	(237,672)	-14.41%
Other Operating Expenses	1,862,895	2,049,540	(186,645)	-9.11%
Total Operating Expenses	**48,473,395**	**45,017,519**	**3,455,876**	**7.68%**
Operating Loss	**(16,653,760)**	**(14,317,145)**	**(2,336,615)**	**-16.32%**
Other Nonoperating Adjustments				
State Appropriations	13,494,440	13,564,510	(70,070)	-0.52%
Gift Contributions for Operations	102,639	98,307	4,332	4.41%
Net Investment Income	1,204,693	1,148,165	56,528	4.92%
Interest Expense on Capital Asset Financings	(150,037)	(16,630)	(133,407)	-802.21%
Net Other Nonoperating Adjustments	**14,651,735**	**14,794,352**	**(142,617)**	**-0.96%**
Adjusted Income (Loss)	**$(2,002,025)**	**$477,207**	**$(2,479,232)**	**-519.53%**
Adjusted Margin (as a percentage)	**-4.29%**	**1.05%**		

THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS

Finance and Planning Committee **April 1, 2003**

Agenda Item: Employee Group Insurance Vendors and Rates Approval Process — Discussion Item

Presenter: James Sarver, Director, Employee Group Insurance

Purpose:
The Office of Employee Group Insurance (EGI) at U. T. System Administration manages the various plans of group insurance for all component institutions of the System. The purpose of this presentation is to inform the Board of Regents (Board) of the challenges facing System staff in determining plan design, rates, and vendors for coverages under the Program. This presentation will also discuss the timing of processes required to adhere to Board and Committee meetings scheduled as they relate to these items and also to review the external factors influencing the ability to develop agenda material for approval under the current schedule.

Outline of Key Issues:
Health plan benefits and rates are directly related to the General Appropriation process and available funding. During years in which the Legislature meets, compliance with current board processes is virtually impossible since vendor selection, plan design, and rates are directly tied to the available funding which is unknown until after the May Board meeting.

Even during non-legislative periods, the current Board processes require that EGI have proposals and evaluations completed well in advance of the scheduled meetings. The current market requires EGI to make detailed and precise requests for proposals and to engage in constant and timely negotiation in order to obtain the most inclusive, reliable, and secure coverage terms. However, the approval process requires EGI to have its proposal evaluations and analysis completed nearly three months before Board action is obtained.

Background Information:
The Board of Regents' Rules and Regulations, Part Two, Chapter VI, Section 5, Subsection 5.3 specify "The Chancellor will submit for review and approval by the Board, recommendations on matters regarding the employee group insurance program." EGI anticipates that the General Appropriations process is not likely to conclude until after the May Board of Regents' meeting; therefore, decisions involving the employee group insurance program vendors, benefits, and rates cannot be finalized consistent with the current schedule.