1. U. T. System: Recommendation to Approve Docket No. 110

RECOMMENDATION

It is recommended that Docket No. 110 be approved.

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

2. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part Two, Chapter III, Section 11 (Insurance on Money and Securities; Fidelity Bonds)

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Acting Executive Vice Chancellor for Health Affairs, and the Vice Chancellor and General Counsel that the Regents' Rules and Regulations, Part Two, Chapter III, Section 11, relating to insurance on money and securities and fidelity bonds, be amended as set forth below in congressional style:

Sec. 11. Insurance on Money and Securities; Fidelity Bonds

11.1 Insurance on Money and Securities

11.11 The [~~As approved by the Board, the~~] System carries a blanket System-wide crime insurance policy insuring against loss of money or securities, including loss caused by employee dishonesty, at any of the component institutions. The terms of the policy shall be negotiated by the U. T. System Administration Director of Business and Administrative Services. The purchase or renewal of the policy shall be approved by the Executive Vice Chancellor for Business Affairs if the premium is in excess of $100,000 [~~The premium paid by each institution is separately computed and is based on the coverage applicable at each institution~~].

11.12 At the time any loss occurs at any institution, the U. T. System Administration Director of Business and Administrative Services [~~Executive Vice Chancellor for Business Affairs~~] shall be notified by the appropriate chief business officer. The U. T. System Administration Director of Business and Administrative Services [~~and~~] shall approve all loss claims and settlements up to $50,000. Any settlement over $50,000 [~~$2,000~~] and up to $500,000 [~~under $10,000~~] shall be approved by the Executive Vice Chancellor for Business Affairs. Notification of the settlement will be given to the Board at the discretion of the Executive Vice Chancellor for Business Affairs. Settlements over $500,000 and up to $1,000,000 shall be approved by the Executive Vice Chancellor for Business Affairs and shall be reported to the Board for ratification. Settlements in excess [~~the amount~~] of $1,000,000 [~~$10,000 or more~~] must have the approval of the Board. [~~Money and securities coverage may be combined with the blanket position fidelity bond.~~]

11.13 If a loss is so extensive that partial settlements in excess of $1,000,000 are necessary, the Chancellor is delegated authority to execute all documents related to the partial settlement or adjustment. The Board will be notified by the Chancellor of all partial settlements made in excess of $500,000. Final settlement of claims in excess of $1,000,000 will require approval by the Board.

11.2 Fidelity Bonds

11.21 If the System discontinues its employee dishonesty insurance coverage, [~~As approved by the Board,~~] the System may purchase, in accordance with all applicable State laws, [~~shall carry~~] a blanket position (fidelity) bond covering [~~that shall cover~~] employees of all component institutions. [~~All employees shall be covered in the amount of not less than $5,000 each. For total coverage in excess of $10,000, approval of the State Auditor is necessary.~~]

11.22 [~~The Secretary of State and the State Comptroller of Public Accounts shall be each furnished with an original of the bond.~~

~~11.23~~] The premium for the bond shall be [~~is~~] prorated to the component institutions on the basis of the number of employees covered for which a premium charge is made and the excess coverage thereon.

11.23 [~~11.24~~] At the time a loss occurs, the U. T. System Administration Director of Business and Administrative Services shall be notified by the appropriate chief business officer. The U. T. System Administration Director of Business and Administrative Services shall approve all loss claims and settlements up to $50,000. Any settlement over $50,000 and up to $500,000 shall be approved by the Executive Vice Chancellor for Business Affairs. Notification of the settlement will be given to the Board at the discretion of the Executive Vice Chancellor for Business Affairs. Settlements over $500,000 and up to $1,000,000 shall be approved by the Executive Vice Chancellor for Business Affairs and shall be reported to the Board for ratification. Settlements in excess of $1,000,000 [~~the Executive Vice Chancellor for Business Affairs shall be notified by the chief business officer and shall approve all loss claims and settlements. Any settlement over $2,000 and under $10,000 shall be reported to the Board for ratification. Settlements in the amount of $10,000 or more~~] must have the approval of the Board.

11.24 [~~11.25~~] If a loss is so extensive that partial settlements in excess of $1,000,000 are necessary, the Chancellor is delegated authority to execute all documents related to the partial settlement or adjustment. The Board will be notified by the Chancellor of all partial settlements made in excess of $500,000. Final settlement of claims in excess of $1,000,000 will require approval of the Board [~~The blanket position fidelity bond coverage may be combined with money and securities coverage~~].

BACKGROUND INFORMATION

Currently, the U. T. System purchases a crime insurance policy covering losses of money and securities. Coverage for losses arising from employee dishonesty has been included in this insurance policy, making the purchase of a blanket position fidelity bond unnecessary.

Part Two, Chapter III, Section 11 of the Regents' Rules and Regulations specifies the authority to purchase insurance on money and securities and to settle claims made against that policy. The section also specifies purchase authority and claims settlement procedures if U. T. System should decide to purchase a blanket position fidelity bond in lieu of employee dishonesty insurance.

The proposed changes to Part Two, Chapter III, Section 11 of the Regents' Rules and Regulations remove language regarding the purchase of bonds that is now outdated due to recent statutory changes and make the policy and settlement approval requirements consistent with those for other types of insurance as specified in Part Two, Chapter VII, Section 3 of the Regents' Rules and Regulations. Among those requirements are provisions for large partial settlements, which may be approved by the Chancellor.

3. U. T. System: Recommended Approval of Non-Personnel Aspects of the Operating Budgets for the Fiscal Year Ending August 31, 2003, Including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans, and Authorization for the Chancellor to Make Editorial Corrections Therein; and Approval of Permanent University Fund Bond Proceeds Reserve Allocation for Library, Equipment, Repair and Rehabilitation Projects

RECOMMENDATION

The Chancellor, with the concurrence of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Acting Executive Vice Chancellor for Health Affairs, and presidents of the U. T. System component institutions, recommends that the non-personnel aspects of the U. T. System Operating Budgets for the fiscal year ending August 31, 2003, including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans, be approved.

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

It is requested that Permanent University Fund Bond Proceeds in the amount of $30,000,000 be appropriated from reserves to fund Library, Equipment, Repair and Rehabilitation Projects for Fiscal Year 2003. In addition, it is recommended that the U. T. System component institutions be authorized to purchase approved equipment items and library materials and to contract for repair and rehabilitation projects following standard purchasing and contracting procedures within approved dollar limits. Substitute equipment purchases are to receive prior approval by the Chancellor and the appropriate Executive Vice Chancellor and, where required, the U. T. Board of Regents. Transfers by the U. T. System Administration of allocated funds to institutional control or to vendors will coincide with vendor payment requirements. Final approval of specific repair and rehabilitation projects will be in accordance with procedures for construction projects established by the Board.

Fiscal Year 2003 funds from these reserves not expended or obligated by contract/purchase order within six months after the close of Fiscal Year 2003 are to be available for future System-wide reallocation unless specific authorization to continue obligating the funds is given by the Executive Vice Chancellor for Business Affairs on recommendation of the president of the component institution and the appropriate Executive Vice Chancellor.

This item requires the concurrence of the Academic Affairs and Health Affairs Committees.

BACKGROUND INFORMATION

Chancellor Burck gave a PowerPoint presentation at the July 2, 2002 Finance and Planning Committee meeting and will summarize recommendations on the Operating Budget at the August 7, 2002 meeting of the U. T. Board of Regents.

Personnel aspects of the Operating Budgets will be considered in Executive Session (See Item 3a on Page 1).

The appropriation of Permanent University Fund Bond Proceed Reserves will be presented in the Fiscal Year 2003 Library, Equipment, Repair and Rehabilitation Budget. An allocation of $30,000,000 is being requested for Library, Equipment, Repair and Rehabilitation Projects for Fiscal Year 2003. The allocation of these reserves to the U. T. System component institutions was developed from prioritized lists of projects submitted by the component institutions and reviewed by U. T. System Administration staff.

As required by the Available University Fund (AUF) Spending Policy, a forecast of revenues and expenses of the AUF for seven years, including the above allocation, has been prepared and is set forth on Page 19. The additional appropriation of Permanent University Fund Bond Proceeds for this allocation is within the policy as shown in the forecast.

AVAILABLE UNIVERSITY FUND OPERATING STATEMENT
ACTUAL AND FORECAST DATA

($ Millions)	Actual FYE 01	Estimated FYE 02	Budget FYE 03	Forecast FYE 04	Forecast FYE 05	Forecast FYE 06	Forecast FYE 07	Forecast FYE 08
Distributions from the Permanent University Fund (PUF) (1)	$ 317.1	$ 338.4	$ 363.0	$ 355.6	$ 347.6	$ 354.0	$ 370.0	$ 388.5
Surface & Other Income	9.3	7.3	7.4	7.4	7.5	7.5	7.6	7.6
Divisible Income	326.3	345.8	370.4	363.0	355.1	361.5	377.6	396.1
UT Share (Two-Thirds Share)	217.6	230.5	246.9	242.0	236.7	241.0	251.7	264.1
Available University Fund (AUF) Interest Income	12.4	8.2	8.2	10.8	12.3	13.4	14.5	15.6
Income Available to UT	229.9	238.7	255.1	252.8	249.0	254.4	266.2	279.7
TRANSFERS:								
PUF Debt Service (2)	(60.7)	(120.7)	(82.0)	(102.1)	(104.5)	(107.5)	(110.5)	(113.4)
Debt Service Reimbursement (Austin Bldg Revenue Bonds)	(3.4)	(3.4)	(3.4)	(3.4)	-	-	-	-
System Administration	(24.9)	(25.2)	(26.3)	(27.7)	(29.3)	(30.8)	(32.4)	(34.1)
System Administration Capital Budget	(3.2)	(1.0)	(3.3)	(3.4)	(3.5)	(3.7)	(3.8)	(4.0)
NCEA/Sandia/Information Tech./Telecomm. Services (3)	(1.1)	(2.5)	(4.5)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
UT Austin Excellence Funds	(102.5)	(107.2)	(114.8)	(113.7)	(112.0)	(114.5)	(119.8)	(125.8)
Other Transfers and Changes	(1.1)	(5.5)	-	-	-	-	-	-
Net Surplus/(Deficit)	33.1	(26.8)	20.8	1.3	(1.5)	(3.1)	(1.4)	1.3
Ending AUF Balance - System	76.1	49.4	70.2	71.5	70.1	67.0	65.5	66.8
PUF Debt Service Coverage	3.79:1	3.13:1	3.11:1	2.46:1	2.38:1	2.37:1	2.41:1	2.47:1

(1) In light of current market conditions, the 9.35% expected annual average rate of investment return is under examination by the University of Texas Investment Management Company (UTIMCO) staff and the expected average rate may be lowered by UTIMCO's Board of Directors. Beginning in FY03, distribution amounts are based on a 4.75% distribution rate of the trailing 12-quarter market value of the PUF. The forecasted PUF distributions incorporate PUF market values through June 2002.

(2) PUF debt service based on all PUF projects currently included in the Capital Improvement Program plus additional $30 million annual Library, Equipment, Repair and Renovation (LERR) appropriations. PUF debt service in FY02 includes $44.5 million used to retire outstanding debt.

(3) Funding for National Center for Educational Accountability (NCEA), Sandia National Laboratories Project, Information Technology bandwidth, and the Office of Telecommunication Services.

Office of Finance-7/23/02

4. U. T. Board of Regents: Proposed Adoption of Eleventh Supplemental Resolution to the Master Resolution Authorizing the Issuance of Board of Regents of The University of Texas System Revenue Financing System Refunding Bonds in One or More Installments in an Aggregate Principal Amount Not to Exceed $215,000,000; Authorization for Officers of U. T. System to Complete All Related Transactions; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity

RECOMMENDATION

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

a. Adopt the Eleventh Supplemental Resolution to the Master Resolution substantially in the form before the Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Revenue Financing System Refunding Bonds in one or more installments in an aggregate principal amount not to exceed $215,000,000 with a final maturity not to exceed the year 2020 for the purpose of refunding up to a maximum amount of $190,840,000 of the outstanding Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1999A and Series 1999B, maturing in the years 2010 through 2020 and to pay the costs of issuance and any original issue discount, provided the transaction produces net present value savings of at least 5% of the refunded bonds

b. Authorize appropriate officers and employees of the U. T. System as set forth in the Eleventh Supplemental Resolution to take any and all actions necessary to carry out the intentions of the U. T. Board of Regents, including determining the method of sale and the selection of the underwriters, within the limitations and procedures specified therein; making certain covenants and agreements in connection therewith; and resolving other matters incident and related to the issuance, sale, security, and delivery of such bonds.

The Chancellor also concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System (the "Master Resolution") adopted by the U. T. Board of Regents on February 14, 1991, amended on October 8, 1993 and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as set out on Page 23, the U. T. Board of Regents resolves that:

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

b. The component institutions, which are “Members” as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt.

BACKGROUND INFORMATION

On February 14, 1991, the Board adopted a Master Resolution establishing the Revenue Financing System to create a cost-effective, System-wide financing structure for component institutions of the U. T. System. Since that time, the Board has adopted 10 supplemental resolutions following the Master Resolution format to provide debt financing for projects that have received requisite approval by the U. T. System Board of Regents and the Texas Higher Education Coordinating Board. The proposed Eleventh Supplemental Resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

Adoption of the Eleventh Supplemental Resolution would authorize the issuance of Revenue Financing System Refunding Bonds in an aggregate principal amount not to exceed $215,000,000 in one or more installments to advance refund a portion of the outstanding Revenue Financing System Bonds, Series 1999A and Series 1999B up to a maximum amount of $190,840,000 maturing in the years 2010 through 2020.

An advance refunding involves issuing bonds to refund outstanding bonds in advance of the call date. Refunding bonds are issued at lower interest rates thereby producing debt service savings.

The Series 1999A and Series 1999B Bonds were issued in September 1999 in the aggregate amounts of $101,745,000 for the Series 1999A Bonds and $180,830,000 for the Series 1999B Bonds. The Series 1999A and Series 1999B Bonds are callable on August 15, 2009, or on any date thereafter at par. The callable bonds have coupons ranging from 5.375% to 5.75%.

With interest rates at current levels, the net present value savings are approximately 4% assuming all of the callable Series 1999A and Series 1999B Bonds are refunded. This translates into debt service savings of approximately $600,000 per year. A further decline in interest rates is necessary to achieve the minimum 5% savings target. Adoption of this resolution will provide the flexibility to execute the transaction quickly should interest rates decline further.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned Assistant Vice Chancellor for Finance of The University of Texas System, a U. T. System Representative under the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System (the “Master Resolution”) adopted by the U. T. Board of Regents (“Board”) on February 14, 1991, and amended on October 8, 1993 and August 14, 1997, do hereby execute this certificate for the benefit of the Board pursuant to Section 5(a)(ii) of the Master Resolution in connection with the authorization by the Board to issue “Parity Debt” and do certify that to the best of my knowledge, the Board is in compliance with and not in default of any terms, provisions, and conditions in the Master Resolution, the First Supplemental Resolution Establishing the Revenue Financing System Commercial Paper Program (“First Supplemental”), the Second Supplemental Resolution, the Third Supplemental Resolution, the Fourth Supplemental Resolution, the Fifth Supplemental Resolution, the Sixth Supplemental Resolution, the Seventh Supplemental Resolution as amended, the Eighth Supplemental Resolution, the Ninth Supplemental Resolution as amended, and the Tenth Supplemental Resolution.

EXECUTED this 16th day of July, 2002

/s/ Philip Aldridge
Assistant Vice Chancellor for Finance

5. U. T. System: Proposed Adoption of Resolution Amending the Amended and Restated First Supplemental Resolution to the Master Resolution Establishing the Revenue Financing System Commercial Paper Notes, Series A Program; Request for Approval to Increase the Amount of Liquidity Provided Through the Short Intermediate Term Fund; and Request for Authorization for Officers of U. T. System to Complete All Transactions Related Thereto

RECOMMENDATION

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

a. Adopt a resolution substantially in the form set out on Pages 26 - 35 amending the Amended and Restated First Supplemental Resolution to the Master Resolution Establishing the Revenue Financing System Commercial Paper Notes, Series A program to increase the maximum amount of the interim financing program to $750 million and to provide for multiple commercial paper dealers

b. Approve the increase in the amount of liquidity provided through the Short Intermediate Term Fund to $750 million, subject to a daily maximum maturity amount of $75 million plus accrued interest

c. Authorize appropriate officers and employees of U. T. System to take any and all actions necessary to carry out the intentions of the U. T. Board of Regents.

BACKGROUND INFORMATION

The Revenue Financing System Commercial Paper Notes, Series A program was established on April 12, 1990. The size of the program was increased on February 9, 1995 and November 13, 1997, up to the current authorization of $350 million to meet the financing needs of the U. T. System.

The increase in program authorization from $350 million to $750 million is needed to facilitate the funding of construction costs of projects reflected in the FY 2002-2007 Capital Improvement Program, including $322 million of new tuition revenue bonds authorized by the 77th Texas Legislature in House Bill 658. There is currently $313 million of commercial paper notes outstanding and the current $350 million limit is expected to be met by September 2002.

The resolution authorizing the program currently provides for a single commercial paper dealer. Having multiple dealers on a $750 million program is beneficial by providing broad distribution and creating competitive pricing without adversely affecting investor liquidity. Approval of this item would delegate authority to select one or more commercial paper dealers as provided in the resolution. The resolution has been reviewed by outside bond counsel and the U. T. System Office of General Counsel.

Since November 1993, liquidity for the commercial paper program has been provided through the Short Intermediate Term Fund. With the increase to $750 million, The University of Texas Investment Management Company (UTIMCO) has agreed to increase the liquidity commitment. In consideration for its commitment, the Short Intermediate Term Fund will continue to receive a commitment fee equal to 0.10% per annum times the amount of the commitment.

RESOLUTION
AMENDING THE AMENDED AND RESTATED
FIRST SUPPLEMENTAL RESOLUTION
TO THE MASTER RESOLUTION
ESTABLISHING THE REVENUE FINANCING SYSTEM
COMMERCIAL PAPER PROGRAM

WHEREAS, on April 12, 1990, the Board adopted a Master Resolution Establishing The University of Texas System Revenue Financing System, as amended and restated on February 14, 1991 and further amended on October 8, 1993 and August 14, 1997 (referred to herein as the "Master Resolution"); and

WHEREAS, unless otherwise defined herein, terms used herein shall have the meaning given in the Master Resolution; and

WHEREAS, the Master Resolution establishes the Revenue Financing System (the "Financing System") comprised of the institutions now or hereafter constituting components of The University of Texas System which are designated "Members" of the Financing System by action of the Board and pledges the Pledged Revenues attributable to each Member of the Financing System to the payment of Parity Debt to be outstanding under the Master Resolution; and

WHEREAS, the Amended and Restated First Supplemental Resolution to the Master Resolution Establishing the Revenue Financing System Commercial Paper Program was adopted by the Board on February 9, 1995, as amended on November 13, 1997 (the "First Supplement") to establish an interim financing program pursuant to which the Board has issued its Revenue Financing System Commercial Paper Notes, Series A to provide interim financing for capital improvements and to finance equipment purchases; and

WHEREAS, the First Supplement named the investment banking firm which was to serve as the dealer to sell and place the commercial paper notes to be issued thereunder; and

WHEREAS, the Board deems it necessary to amend the First Supplement to increase the aggregate principal amount of Notes which may be outstanding and, pursuant to Section 3.04 of the First Supplement, to provide authority for the U.T. System Representative to select, evaluate and replace investment banking firms to serve as commercial paper dealers with respect to the Notes in order to achieve the most efficient marketing of the Notes and therefor the lowest cost of borrowing.

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM THAT:

Section 1. In addition to the definitions set forth in the preamble of this Resolution, the terms used in this Resolution and not otherwise defined shall have the meanings given in the Master Resolution or in Exhibit "A" to the First Supplement.

Section 2. Sections 2.01 and 4.01 of the First Supplement are hereby amended by substituting the amount "$750,000,000" in place of "$350,000,000" each time that $350,000,000 currently appears in such sections. The amendment to the First Supplement shall take effect immediately pursuant to Section 5.01(a)(v) of the First Supplement since it increases the amount of Notes which may be Outstanding pursuant to Section 4.01 of the First Supplement.

Section 3. The Office of Finance has solicited and reviewed the qualifications of investment banking firms interested in serving as a commercial paper Dealer for the Notes and is hereby authorized and directed to select up to four Dealers based upon such review. The number of Dealers to be selected, which Dealers to select and the amount of Notes for which each Dealer is responsible should be based upon a determination that the selection is expected to result in the lowest overall cost of the commercial paper program after taking into account not only the fees to be paid to the Dealers but the expectations as to the performance of each Dealer in providing broad distribution of the Notes and creating competitive pricing without adversely affecting investor liquidity. The U.T. System Representative, acting for and on behalf of the Board, is authorized to enter into and carry out a Dealer Agreement with each Dealer for the fees and with and subject to such terms as determined by the U.T. System Representative. Each Dealer Agreement shall be substantially in the form and substance presented to the Board in connection with the consideration of this Resolution with such changes as are acceptable to the U.T. System Representative.

The U.T. System Representative is further authorized and directed from time to time to review the Note program and the performance of each Dealer and to periodically solicit and review the qualifications of investment banking firms, including the Dealer, interested in serving as Dealer. Based upon that review and the determinations made pursuant to the first paragraph of this Section, the Dealers may be changed and additional or different Dealers may be selected and new Dealer Agreements entered into as authorized by the preceding paragraph.

Section 4. The Chairman of the Board, the Vice Chairman of the Board, the Counsel and Secretary to the Board of Regents of The University of Texas System, the U.T. System Representatives, and the other officers, employees, and agents of the Board are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to effectuate the purposes of this Resolution. In addition, the Chairman of the Board, the Vice Chairman of the Board, the Chancellor, the Executive Vice Chancellor for Business Affairs, the Assistant Vice Chancellor for Finance or the Director of Finance, with the advice of Bond Counsel, are hereby authorized to approve, subsequent to the date of the adoption of this Resolution, any technical amendments to this Resolution as may be required by Fitch Investors Service, L.P., Moody's Investors Service, Inc., or Standard & Poor's Ratings Group, a Division of McGraw-Hill, Inc. as a condition to the granting or maintenance of a rating on the Notes acceptable to a U.T. System Representative, or as may be required by the Attorney General's office in connection with the approval of this Resolution.

Section 5. The recitals set forth in the preamble to this Resolution are hereby incorporated into this Resolution and made a part hereof for all purposes.

Section 6. It is hereby found and determined that each of the officers and members of the Board was duly and sufficiently notified officially and personally, in advance, of the time, place, and purpose of the Meeting at which this Resolution was adopted, and that this Resolution would be introduced and considered for adoption at said meeting; that said meeting was open to the public, and public notice of the time, place, and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code.

PASSED AND ADOPTED, this

ATTEST:

Counsel and Secretary to the
Board of Regents of
The University of Texas System

Chairman, Board of Regents
of The University of Texas System

(SEAL)

TAX EXEMPT COMMERCIAL PAPER DEALER AGREEMENT

Between

THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

and

____

CP DEALER

Dated _____________, 2002

Relating to
Board of Regents of The University of Texas System Revenue Financing System
Commercial Paper Notes, Series A

TAX EXEMPT COMMERCIAL PAPER DEALER AGREEMENT

_____________.20__

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Attention: ________________

Re: Board of Regents of The University of Texas System
Revenue Financing System Commercial Paper Notes Series A, $750,000,000

Ladies and Gentlemen:

This letter agreement (the "Agreement") sets forth our understanding of the basis on which _____________________________("Dealer") proposes to work with the Board of Regents of The University of Texas System (the "Board"), the governing body of The University of Texas System (the "System"), in connection with the issuance and sale by the Board of its above captioned commercial paper notes (the "Notes"). The Note Resolution provides for the appointment of up to four commercial paper dealers, ________________, __________________ and ______________, being the initial commercial paper Dealers, to perform certain duties, including the offering and sale from time-to-time of the Notes on behalf of the Board.

The Board has requested Dealer to act as commercial paper dealer in connection with the sale of the Notes in the public debt markets, and Dealer has indicated its willingness to act in such capacity on the terms and conditions contained herein. The Notes will be represented by either individual note certificates ("Certificated Notes") or a master note of the Board substantially in the forms appended as Exhibit C to the Board's Amended and Restated First Supplemental Resolution to the Master Resolution Establishing the Revenue Financing System Commercial Paper Program, adopted on February 9, 1995, as amended on November 13, 1997, and August __, 2002, relating to the Notes (the "Note Resolution"). Notes represented by a master note shall be referred to herein as "Book-Entry Notes". The Notes are to be issued pursuant to an Amended and Restated Commercial Paper Issuing and Paying Agent Agreement dated March 1, 1995, (the "Issuing and Paying Agent Agreement") between the Board and Bankers Trust Company (the "Issuing Agent"). Terms used herein and not otherwise defined shall have the meaning given in the Note Resolution.

1. The Notes are not currently supported by a line or letter of credit. The Board will notify Dealer and the holders of outstanding Notes prior to entering into a Credit Agreement to provide the Board with liquidity with regard to its obligations under the Notes. In addition, no such liquidity facility will be entered into with respect to or supporting then outstanding Notes. In the event a Credit Agreement is entered into with respect to the Notes, the Board will notify

Dealer and the holders of outstanding Notes prior to substituting a new a Credit Agreement or terminating the then existing Credit Agreement.

2. Since the date of the Board's most recent statement of financial condition, there has not occurred, and prior to any sale of Notes hereunder there will not have occurred any material adverse change in the financial condition or general affairs of the Board.

3. The Notes have been rated A-1+, and F-1+ by Standard and Poor's Ratings Group, and Moody's Investors Service, Inc. and Fitch Investors Service L.P., respectively. Prior to the initial purchase or placement by Dealer of Notes hereunder, Dealer shall have received such legal opinions and certifications as Dealer may reasonably require.

4. The Dealer shall act as non-exclusive Dealer with respect to the Notes. The Dealer acknowledges that the Board may enter into agreements with other Dealers in connection with the offering and sale of the Notes on behalf of the Board as set forth in the Note Resolution. The U.T. System Representative shall notify the Dealer, in writing with a copy to the Issuing Agent, of the principal amount of Notes allocated to the Dealer. This allocation may be changed by the U.T. System Representative from time to time with written notice to the Dealer and the Issuing Agent.

5. The Notes will be issued by the Board pursuant to the Note Resolution and the laws of the State of Texas, particularly Chapter 55, Texas Education Code and Chapter 1371, Texas Government Code. The Notes will have a maturity at the time of issuance of not more than 270 days and will not contain any provision for automatic "rollover". In addition, the Notes will be issued in an aggregate principal amount not to exceed at any one time outstanding $750,000,000, and shall be issued in principal amounts of $100,000 or in integral multiples of $1,000 in excess thereof and will bear such interest rates (if interest bearing), as shall mutually be agreed to by the Board and Dealer at the time of each proposed purchase or placement as provided in the Note Resolution. In addition, the Notes allocated to the Dealer shall not be sold in principal amounts, which would result in more than $25,000,000 in principal of Notes coming due on any one date.

6. (a) On the date of a proposed issuance of Notes, a designated representative of Dealer, acting on behalf of Dealer, shall confer with the U. T. System Representative as to the principal amounts, maturities and denominations and the applicable interest rates at which Notes are to be issued, as deemed necessary by the U.T. System Representative.

(b) All transactions in Notes between the Dealer and the Board shall be in accordance with the Note Resolution, the Issuing and Paying Agent Agreement, this Agreement, and with the customs and practices in the commercial paper market regarding settlement and delivery formally adopted in writing from time to time by the New York Clearinghouse, to the extent not inconsistent with the Note Resolution. As early as possible, **but not later than 10:30 a.m. (New York City time)** on the day on which any Notes are maturing, the Dealer shall notify the Board of the difference, if any, between the amount of maturing Notes and the amount of Notes which the Dealer has arranged to sell or believes will be sold on that day. As early as possible on the day on which any Notes are to be issued, the Dealer shall notify the Board of the proposed final maturities, prices and interest rates (which interest rates shall not exceed 15% per annum) at which the Dealer will purchase or cause the purchase of the Notes, and provide the Board with any other information as required for delivery of such Notes. Except as described below, the Dealer shall not be obligated to purchase or cause the purchase of any Notes unless and until agreement has been reached in each case on the foregoing points and the Dealer has agreed to such purchase. **Not later than 12:30 p.m. (New York City time)** on the date of each transaction the Dealer shall either (a) confirm each transaction made with or arranged by it or (b) notify the Board and the Issuing Agent of the difference, if any, between the amount of maturing Notes and the amount of Notes which the Dealer has arranged to sell or has agreed to purchase. Such confirmations and notifications shall be given by telephone (or by other telecommunications medium acceptable to the Issuer) and in writing to the Issuer and the Issuing Agent.

(c) When agreement is reached on the foregoing, (i) if the Notes are evidenced by Certificated Notes, the Board will instruct the Issuing Agent or another issuing agent designated by the Board in a written notice to Dealer to deliver executed and countersigned Certificated Notes to ____________________, _____________, _________, New York, New York ______, Attention: ________ or such other address as provided to the Board by Dealer prior to 12:30 p.m., New York City time, on the date of issuance and (ii) if the Notes are to be Book-Entry Notes, the issuance of and payment for such Notes will be governed by a letter agreement between the Board and The Depository Trust Company dated March 2, 1995, and Dealer covenants to comply with such provisions.

(d) Following Dealer's receipt of duly and properly completed Certificated Notes (when certificated Notes are to be used), Dealer or its agent will transfer by the close of business on such day immediately available funds to the Issuing Agent or to such other bank as may be designated in writing by the Board to Dealer in an amount equal to the proceeds of the Certificated Notes.

7. The Board understands that, in connection with the sale of the Notes, one or more of the following relating to the Board may be prepared: (i) annual information reports, (ii) interim information reports, and (iii) other reports or offering materials (all of the foregoing being hereinafter called the "Offering Materials"), which may be distributed to account executives of Dealer, as well as to purchasers and prospective purchasers of the Notes. To provide a basis for the preparation of the Offering Materials and to assist Dealer' normal credit review procedures, the Board shall provide Dealer (a) annual financial statements within 120 days of the end of each of its fiscal years, and (b) with any reports provided to any rating agency and any information generally supplied in writing to security analysts that are materially adverse to the holders. The Board will notify each Dealer when the Comprehensive Annual Financial Report of the State of Texas for each year has become available online through the Texas Comptroller's Office.

8. (a) Dealer agrees to furnish all Offering Materials to the Board for its written approval prior to the use thereof in offering the Notes. No other written information, circulars or statements will be distributed by Dealer. If, at any time during the term of this Agreement, any event occurs or circumstances exist as a result of which any then current Offering Materials

would include such an untrue statement or omission, the Board will promptly notify Dealer and provide to Dealer revised information that corrects such untrue statement or omission. The Board agrees that the obligations of the Dealer under this Agreement are conditioned upon Dealer being able to provide such Offering Materials to purchasers or potential purchasers as Dealer in its reasonable judgment deems appropriate.

(b) The Board will use the proceeds of Notes for authorized purposes as described in the Note Resolution.

(c) The Board covenants to take all actions as are necessary in the opinion of McCall, Parkhurst & Horton L.L.P. to maintain the exclusion from gross income of interest on the Notes for Federal income tax purposes.

9. The Board represents that (i) the System is an institution of higher education operating under the laws of the State of Texas, (ii) it has taken all necessary action and has full power (A) to enter into this Agreement, the Issuing and Paying Agency Agreement and all other agreements applicable to the issuance of the Notes and (B) to issue and deliver the Notes and to carry out its obligation thereunder and hereunder and (iii) the Notes when issued will constitute the legal, valid and binding obligations of the Board and shall be enforceable in accordance with their terms.

10. Each sale of Notes by the Board hereunder shall be deemed to be a representation by it that:

(i) the representations, warranties and covenants of the Board contained in this Agreement are true and correct on and as of the date of such sale;

(ii) no event has occurred and is continuing, or would result from such sale, which constitutes or would constitute an event of default, or which would constitute an event of default but for the requirement that notice be given or time elapse or both, under any of the Board's indebtedness secured with the Pledged Revenues of the Board; and

(iii) there has been no material adverse change in the financial condition or operations of the System since the date of the most recent Offering Materials, which has not been disclosed to Dealer in writing.

11. Dealer hereby names ____________________ of Dealer as the designated representative of Dealer in the performance of its duties and obligations under this Agreement. In the event that the person or persons so acting as the designated representative of Dealer are not able to perform the duties and obligations set forth in this Agreement, the Board may contact the individual named in Section 12 of this Agreement with respect to the performance by Dealer of its duties and obligations under this Agreement.

12. All notices required or permitted under the terms and provisions hereof shall be in writing (which shall include electronic transmission) and shall, unless otherwise provided herein,

be effective when received at the address specified below or at such other address as shall be specified in a notice furnished hereunder.

If to the Board:

Board of Regents of The University of Texas System
221 West 6th Street, Suite 1700
Austin, Texas 78701
Attention: Philip Aldridge, Assistant Vice Chancellor for Finance
Tel. No.: (512) 225-1692
Facsimile No.: (512) 225-1698
email: paldridge@utsystem.edu

If to Dealer:

____
____
____
Attention: ______________________
Tel: No.: ______________________
Facsimile No.: __________________
email: ________________________

13. This Agreement is to be delivered and performed, and shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of Texas.

14. The Board agrees to reimburse Dealer for the actual fees and expenses of any outside counsel utilized by Dealer in connection with the execution and delivery of this Agreement; such fees and expenses, however shall not exceed $2,000.

15. For the services to be performed by Dealer under this Agreement, the Board agrees to pay a fee calculated in the manner set forth in the addendum to this Agreement. Such addendum may be amended from time to time upon the mutual agreement of the U.T. System Representative and the representative of Dealer.

16. This Agreement may be terminated by either party, at any time upon thirty (30) days notice to such effect to the other party. Any such termination, however, shall not affect the obligation of the Board under Sections 9, 10, 14 or 15 hereof or the rights or responsibilities of the parties arising prior to the termination of this Agreement.

If the foregoing is in accordance with your understanding of this Agreement, please sign and return to us a counterpart hereof, whereupon this letter agreement along with all counterparts will become a binding agreement between us in accordance with its terms.

Very truly yours,

THE UNIVERSITY OF TEXAS SYSTEM

By: ______________________________
Assistant Vice Chancellor for Finance

Accepted and agreed to this ________________:

[DEALER]

By: ______________________________
Authorized Signatory

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

RECOMMENDATION

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

U. T. Arlington	$ 4,000,000
U. T. Austin	$ 2,500,000
U. T. El Paso	$ 2,030,000
U. T. Southwestern Medical Center – Dallas	$ 8,125,000
U. T. Medical Branch - Galveston	$10,000,000
U. T. Health Science Center - San Antonio	$ 1,000,000
U. T. M. D. Anderson Cancer Center	$20,000,000
U. T. Health Center - Tyler	$ 1,513,000
U. T. System Administration	$ 200,000
TOTAL	$49,368,000

The Chancellor also concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System (the "Master Resolution") adopted by the U. T. Board of Regents on February 14, 1991, amended on October 8, 1993 and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as set out on Page 38, the U. T. Board of Regents resolves that:

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

b. Sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the

Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the Board relating to the Financing System

c. The component institutions and U. T. System Administration, which are “Members” as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the aggregate amount of $49,368,000 for the purchase of equipment

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

BACKGROUND INFORMATION

At the April 14, 1994 meeting, the U. T. Board of Regents approved the use of Revenue Financing System debt for equipment purchases in accordance with the Guidelines Governing Administration of the Revenue Financing System. The guidelines specify that the equipment to be financed must have a useful life of at least three years. The debt is amortized twice a year with full amortization not to exceed 10 years.

This agenda item requests approval of an aggregate amount of $49,368,000 for equipment financing for Fiscal Year 2003, of which $927,000 represents the carryover of equipment authorized for purchase during FY 2002 by U. T. El Paso.

For FY 2002, the Board approved $31,715,000 of equipment financing, of which $17,129,000 has been issued as of June 30, 2002. An additional $13,000,000 is expected to be issued by the end of the fiscal year.

With the issuance of all requested equipment financing debt, the debt service coverage for the U. T. System is projected to range from 2.0 to 3.0 times from FY 2003 to FY 2007. Further details on the equipment to be financed and debt coverage ratios for individual component institutions can be found on Page 39.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned Assistant Vice Chancellor for Finance of The University of Texas System, a U. T. System Representative under the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System (the “Master Resolution”), adopted by the U. T. Board of Regents (“Board”) on February 14, 1991, and amended on October 8, 1993 and August 14, 1997, do hereby execute this certificate for the benefit of the Board pursuant to Section 5(a)(ii) of the Master Resolution in connection with the authorization by the Board to issue “Parity Debt” to finance the equipment costs at U. T. Arlington, U. T. Austin, U. T. El Paso, U. T. Southwestern Medical Center - Dallas, U. T. Medical Branch - Galveston, U. T. Health Science Center - San Antonio, U. T. M. D. Anderson Cancer Center, U. T. Health Center - Tyler, and U. T. System Administration, and do certify that to the best of my knowledge, the Board is in compliance with and not in default of any terms, provisions, and conditions in the Master Resolution, the First Supplemental Resolution Establishing the Revenue Financing System Commercial Paper Program (“First Supplemental”), the Second Supplemental Resolution, the Third Supplemental Resolution, the Fourth Supplemental Resolution, the Fifth Supplemental Resolution, the Sixth Supplemental Resolution, the Seventh Supplemental Resolution as amended, the Eighth Supplemental Resolution, the Ninth Supplemental Resolution as amended, and the Tenth Supplemental Resolution.

EXECUTED this 12th day of July, 2002

/s/ Philip Aldridge
Assistant Vice Chancellor for Finance

APPROVAL OF U. T. SYSTEM EQUIPMENT FINANCING
FY 2003

Component	$ Amount of Request	Description of Equipment Purchases	Source of Funds	DSC* Min	DSC* Max
U. T. Arlington	$4,000,000	Computers, HVAC, security, vehicles and elevators	Designated Tuition and charges to users	1.62	2.38
U. T. Austin	2,500,000	Academic, research computers and equipment	Student fees and charges to users	1.59	2.08
U. T. El Paso	2,030,000	Vehicles, network upgrades, HVAC and Smart Card	Designated Tuition	1.21	2.21
U. T. Southwestern Medical Center - Dallas	8,125,000	Radiology oncology equipment	Patient income	2.29	3.26
U. T. Medical Branch - Galveston	10,000,000	Hospital and clinical equipment	Hospital income	2.29	4.18
U. T. Health Science Center - San Antonio	1,000,000	Clinical equipment	Patient income	0.97	1.54
U. T. M. D. Anderson Cancer Center	20,000,000	Diagnostic imaging, radiation and research equipment	Patient income	2.65	6.26
U. T. Health Center - Tyler	1,513,000	Medical, clinical equipment	Patient income	1.45	7.76
U. T. System Administration	200,000	Office equipment	AUF** and departmental funds	92.55	197.60
Total	$49,368,000			2.01	2.95

*Debt Service Coverage

**Available University Fund

U. T. System Office of Finance, June 11, 2002

7. U. T. System: Request for Approval to Exceed the Full-Time Equivalent Limitation on Employees Paid from Appropriated Funds as Required by the General Appropriations Act of the 77th Texas Legislature, Article IX, Section 6.14

RECOMMENDATION

The Chancellor concurs in the recommendation of the U. T. System Executive Officers and the presidents of certain U. T. System component institutions that the U. T. Board of Regents approve those institutions, as set forth in the table on Page 41, to exceed the number of full-time equivalent (FTE) employees for Fiscal Year 2003 that are authorized in Article III of the General Appropriations Act. Also, as required by Article IX, Section 6.14 of the General Appropriations Act, it is recommended that the U. T. Board of Regents submit a request to the Governor's Office and the Legislative Budget Board to grant approval for these institutions to exceed the authorized number of FTE employees paid from Appropriated Funds.

BACKGROUND INFORMATION

The General Appropriations Act places a limit on the number of FTE employees paid from Appropriated Funds that an institution may employ without written approval of the Governor and the Legislative Budget Board. In order to exceed the FTE limitation, a request must be submitted by the governing board and must include the date on which the board approved the request, a statement justifying the need to exceed the limitation, the source of funds to be used to pay the salaries, and an explanation as to why the functions of the proposed additional FTEs cannot be performed within current staffing levels.

The University of Texas System
REQUEST TO EXCEED FULL-TIME EQUIVALENT (FTE) LIMITATION
ON EMPLOYEES PAID FROM APPROPRIATED FUNDS
(Article IX, Section 6.14 of the General Appropriations Act)
Fiscal Year 2003

Component	FTE Limitation	FTE Positions Requested	Requested Increase in Number of FTEs
U. T. System Administration	223.80	258.40	34.60
U. T. Arlington	1,921.50	2,047.00	125.50
U.T. Brownsville	294.20	759.90	465.70
U. T. Dallas	1,163.50	1,304.80	141.30
U. T. El Paso	1,510.60	1,604.22	93.62
U. T. Pan American	1,257.00	1,394.35	137.35
U. T. Permian Basin	248.50	262.10	13.60
U. T. San Antonio	1,638.30	1,753.30	115.00
U. T. Tyler	353.30	393.30	40.00
U. T. Southwestern Medical Center - Dallas	1,669.50	1,739.50	70.00
U. T. Health Science Center - San Antonio	2,248.10	2,351.90	130.80
U. T. M. D. Anderson Cancer Center	7,861.40	8,859.40	998.00

Office of the Controller
U. T. System
July 2002

8. U. T. Board of Regents: Request to Allocate Available University Fund Monies to the Comprehensive Property Protection Program (CPPP)

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. Board of Regents allocate $5.5 million of Available University Fund monies to the Comprehensive Property Protection Program (CPPP) to offset the cost of self-insurance fund contributions to the U. T. System component institutions for the first year under the new CPPP structure.

BACKGROUND INFORMATION

The CPPP was established in 1995 as a means of financing catastrophic property losses. The program combines a $5 million self-insurance fund that was initially funded by the U. T. Board of Regents and a commercial property insurance policy. Major losses that have been reported under this program are the Welch Hall fire of 1996 at U. T. Austin, the Recreation Center fire of 2001 at U. T. Health Science Center - Houston, and damage at U. T. Health Science Center - Houston and U. T. M. D. Anderson Cancer Center from Tropical Storm Allison in 2001. The current CPPP fund balance is $2.8 million.

U. T. System Administration and the Risk Management Advisory Committee have explored alternate program structures that would establish a mechanism to finance wind and flood losses that are currently uninsured, reduce insurance premiums, and reduce U. T. System's vulnerability to insurance market cycles. In cooperation with Office of Finance staff, U. T. System Administration created a financial model that evaluated several deductible options using loss projections developed by the actuarial firm of Rudd & Wisdom, Inc.

The new structure of the CPPP consists of two distinct programs. One is a total self-insurance program that covers losses caused by named windstorms and flood. To protect the self-insurance fund, U. T. System component institutions in the Tier 1 wind zone and/or Flood Zone A would purchase Texas Windstorm Association and/or National Flood Insurance Program policies. Because these policies provide an underlying layer of protection for the program, the institutions that purchase these policies would receive direct credit to offset their annual fund contributions.

The second program would cover fire and all other perils, excluding named windstorm and high hazard flood. This program includes insurance, but with a significant deductible. To finance the self-insurance portion of this program, component institutions would make annual contributions to a self-insurance fund in addition to paying insurance premiums.

Allocation of the $5.5 million of Available University Fund monies will follow precedent and will offset the first year fund contributions to provide relief to the institutions who faced significant premium increases last year.

9. U. T. System: Report on Investments for the Fiscal Quarter Ended May 31, 2002

REPORT

Pages 45 - 51 contain the Summary Reports on Investments for the fiscal quarter ended May 31, 2002.

Item I on Pages 45 - 46 reports summary activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the quarter was 2.47%. The PUF's net investment return for marketable securities for the quarter was 2.98% versus its composite benchmark return of 1.92%.

Item II on Pages 47 - 49 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 quarter was 2.61%. The GEF's net investment return for marketable securities for the quarter was 3.05% versus its composite benchmark return of 1.92%.

Item III on Page 50 reports summary activity for the Short Intermediate Term Fund (SITF). Total net investment return on the SITF was 0.63% for the quarter versus the SITF's performance benchmark of 0.93%.

Item IV on Page 51 presents book and market value of cash, fixed income, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of component operating funds held in the Dreyfus money market fund, decreased by $140 million to $1,163 million during the third quarter. Market values for the remaining asset types were fixed income securities: $412 million versus $110 million at previous quarter-end; equities: $155 million versus $160 million at previous quarter-end; and other investments of $0.6 million versus $1 million at previous quarter-end.

I. PERMANENT UNIVERSITY FUND (1)

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

($ millions)

	FY00-01	FY01-02			
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	Year-to-Date
Beginning Net Assets	8,452.3	7,540.1	7,079.2	7,114.0	7,540.1
PUF Lands Receipts (3)	115.6	29.2	14.7	16.8	60.7
Investment Return	(693.2)	(148.7)	25.0	178.5	56.8
Expenses	(17.5)	(5.0)	(4.9)	(6.0)	(15.9)
Distributions to AUF	(317.1)	(338.4)	-	-	(338.4)
Ending Net Assets	7,540.1	7,079.2	7,114.0	7,303.3	7,303.3
AUF Distribution:					
From PUF Investments	317.1	338.4	-	-	338.4
From Surface Income	9.2	0.9	2.7	1.1	4.7
Total	326.3	339.3	2.7	1.1	343.1
Total Net Investment Return	-8.64%	-2.03%	0.32%	2.47%	0.71%

(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, 2001 values of $524.6 million and $156.7 million, respectively.

(3) PUF Land Receipts - As of May 31, 2002: 1,177,421 acres under lease; 521,708 producing acres; 3,171 active leases; and 2,071 producing leases.

I. PERMANENT UNIVERSITY FUND (continued)

b.) Comparison of Asset Allocation Versus Endowment Neutral Policy Portfolio and Net Investment Return for the quarter ended May 31, 2002

	Asset Allocation	Endowment Neutral Policy Portfolio	Actual Net Investment Return	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash	1.6%	0.0%	-0.53%	0.49%	90 Day T-Bills Average Yield
Domestic Common Stocks:					
Large/Medium Capitalization Equities	19.7%	25.0%	0.09%	-3.24%	Standard & Poor's 500 Index
Small Capitalization Equities	10.1%	7.5%	3.47%	4.18%	Russell 2000 Index
Total Domestic Common Stocks	29.8%	32.5%			
International Common Stocks:					
Established Markets	12.0%	12.0%	8.46%	7.45%	Morgan Stanley Capital International Europe, Asia, Far East Index (net)
Emerging Markets	4.5%	3.0%	4.91%	4.06%	Morgan Stanley Capital International Emerging Markets Free
Total International Common Stocks	16.5%	15.0%			
Inflation Hedging	8.4%	7.5%	7.04%	3.69%	33% (Goldman Sachs Commodity Index minus 100 basis points) plus 67% (National Commercial Real Estate Index Fund)
Fixed Income:					
Domestic	16.4%	15.0%	1.11%	1.10%	Lehman Brothers Aggregate Bond Index
International	2.6%	5.0%	8.27%	8.12%	Salomon Non-U.S. World Government Bond Index, Unhedged
Total Fixed Income	19.0%	20.0%			
Marketable Alternative Equities	11.8%	10.0%	1.43%	2.25%	90 Day T-Bills Average Yield + 7%
Total Marketable Securities	**87.1%**	**85.0%**	**2.98%**	**1.92%**	
Nonmarketable Alternative Equities	**12.9%**	**15.0%**	**-0.80%**		(2)
Total	**100.0%**	**100.0%**	**2.47%**		

(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 the valuation and illiquid characteristics associated with Nonmarketable Alternative Equities, short-term benchmark comparisons are not appropriate. Nonmarketable Alternative Equities are expected to produce a return premium when compared to a marketable investment alternative, such as the Standard and Poor's 500 Index. The Internal Rate of Return (IRR) since inception through May 31, 2002, for the PUF's Nonmarketable Alternative Equities program, was 12.8%, including distributed stock. For comparison, the IRR for the same cash flow stream as if it had been invested in the Standard and Poor's 500 Index was 7.5%.

II. GENERAL ENDOWMENT FUND (1) (2)

a.) Summary Investment Report at May 31, 2002

($ millions)

	For the Period from Inception (March 1, 2001) to August 31, 2001		FY01-02 1st Qtr		2nd Qtr		3rd Qtr		Year-to-Date	
Beginning Net Assets	-		3,723.9		3,640.3		3,633.2		3,723.9	
Net Contributions	3,818.2		(47.6)		(14.9)		(100.2)		(162.7)	
Investment Return	(81.2)		(55.3)		12.5		96.6		53.8	
Expenses	(3.4)		(1.5)		(1.7)		(2.2)		(5.4)	
Distributions (3)	(9.7)		20.8		(3.0)		(1.3)		16.5	
Ending Net Assets	3,723.9		3,640.3		3,633.2		3,626.1		3,626.1	
Net Asset Value per Unit	97.811		96.325		96.612		99.099		99.099	
Units and Percentage Ownership (End of Period):										
PHF	9,009,891	23.7%	8,897,012	23.5%	8,784,469	23.4%	7,784,304	21.3%	7,784,304	21.3%
LTF	29,062,538	76.3%	28,895,291	76.5%	28,821,969	76.6%	28,806,706	78.7%	28,806,706	78.7%
Total	38,072,429	100.0%	37,792,303	100.0%	37,606,438	100.0%	36,591,010	100.0%	36,591,010	100.0%
Total Net Investment Return	-2.14		-1.50%		0.32%		2.61%		1.40%	

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

(2) On March 1, 2001, the Permanent Health Fund (PHF) and Long Term Fund (LTF) purchased units in the newly created General Endowment Fund (GEF). The initial number of units was based on the PHF's and LTF's contribution of its net values as of February 28, 2001.

(3) The GEF distributes its net investment income and realized gain (loss) to its unitholders based on their ownership of GEF units at month end. The distributed amounts are reinvested as GEF contributions. The distribution is proportional to the percentage of ownership by the unitholders, and therefore, no additional units are purchased.

II. GENERAL ENDOWMENT FUND (continued)

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

($ millions)

	FY00-01	FY01-02			
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	Year-to-Date
PERMANENT HEALTH FUND					
Beginning Net Assets	1,016.6	881.4	857.2	848.8	881.4
Withdrawals	-	-	-	(88.2)	(88.2)
Investment Return	(92.1)	(13.4)	2.6	21.8	11.0
Expenses	(1.1)	(0.1)	(0.2)	(0.1)	(0.4)
Distributions (Payout)	(42.0)	(10.7)	(10.8)	(10.7)	(32.2)
Ending Net Assets	881.4	857.2	848.8	771.6	771.6
Net Asset Value per Unit (2)	0.964617	0.938062	0.928935	0.940949	0.940949
No. of Units (End of Period)	913,765,506	913,765,506	913,765,506	820,000,000	820,000,000
Distribution Rate per Unit	0.04600	0.01175	0.01175	0.01175	0.03525
Total Net Investment Return	-9.24%	-1.53%	0.28%	2.56%	1.27%
LONG TERM FUND					
Beginning Net Assets	3,136.2	2,843.3	2,783.3	2,784.5	2,843.3
Net Contributions	113.2	16.8	26.4	34.1	77.3
Investment Return	(276.5)	(43.5)	8.4	72.7	37.6
Expenses	(2.3)	(0.1)	(0.1)	(2.6)	(2.8)
Distributions (Payout)	(127.3)	(33.2)	(33.5)	(33.9)	(100.6)
Ending Net Assets	2,843.3	2,783.3	2,784.5	2,854.8	2,854.8
Net Asset Value per Unit (2)	5.412	5.266	5.219	5.286	5.286
No. of Units (End of Period)	525,401,525	528,498,599	533,513,842	540,048,019	540,048,019
Distribution Rate per Unit	0.24500	0.06275	0.06275	0.06275	0.18825
Total Net Investment Return	-8.80%	-1.50%	0.32%	2.58%	1.37%

(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 asset allocation of the PHF and LTF, beginning in the 3rd fiscal quarter of FY00-01, 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 quarter ended May 31, 2002

	Asset Allocation	Endowment Neutral Policy Portfolio	Actual Net Investment Return	Endowment Neutral Policy Portfolio Return (1)	Benchmark
Cash	0.1%	0.0%	0.77%	0.49%	90 Day T-Bills Average Yield
Domestic Common Stocks:					
Large/Medium Capitalization Equities	20.0%	25.0%	0.25%	-3.24%	Standard & Poor's 500 Index
Small Capitalization Equities	10.7%	7.5%	3.62%	4.18%	Russell 2000 Index
Total Domestic Common Stocks	30.7%	32.5%			
International Common Stocks:					
Established Markets	13.0%	12.0%	8.42%	7.45%	Morgan Stanley Capital International Europe, Asia, Far East Index (net)
Emerging Markets	4.9%	3.0%	4.82%	4.06%	Morgan Stanley Capital International Emerging Markets Free
Total International Common Stocks	17.9%	15.0%			
Inflation Hedging	8.8%	7.5%	7.05%	3.69%	33% (Goldman Sachs Commodity Index minus 100 basis points) plus 67% (National Commercial Real Estate Index Fund)
Fixed Income:					
Domestic	16.2%	15.0%	1.05%	1.10%	Lehman Brothers Aggregate Bond Index
International	3.0%	5.0%	8.24%	8.12%	Salomon Non-U.S. World Government Bond Index, Unhedged
Total Fixed Income	19.2%	20.0%			
Marketable Alternative Equities	13.2%	10.0%	1.42%	2.25%	90 Day T-Bills Average Yield + 7%
Total Marketable Securities	**89.9%**	**85.0%**	**3.05%**	**1.92%**	
Nonmarketable Alternative Equities	**10.1%**	**15.0%**	**-1.33%**	(2)	
Total	**100.0%**	**100.0%**	**2.61%**		

(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 the valuation and illiquid characteristics associated with Nonmarketable Alternative Equities, short-term benchmark comparisons are not appropriate. Nonmarketable Alternative Equities are expected to produce a return premium when compared to a marketable investment alternative, such as the Standard and Poor's 500 Index. The Internal Rate of Return (IRR) since inception (refers to the time period when acquired by the LTF or PHF) through May 31, 2002 for the GEF's Nonmarketable Alternative Equities program, was 11.2%, including distributed stock. For comparison, the IRR for the same cash flow stream as if it had been invested in the Standard and Poor's 500 Index was 8.9%.

III. SHORT INTERMEDIATE TERM FUND (1)

Summary Investment Report at May 31, 2002

($ millions)

	FY00-01	FY01-02			
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	Year-to-Date
Beginning Net Assets	1,844.4	1,704.6	1,714.0	1,451.9	1,704.6
Contributions					
(Net of Withdrawals)	(194.7)	2.1	(254.5)	31.4	(221.0)
Investment Return	161.2	27.5	10.6	9.6	47.7
Expenses	(0.5)	(0.2)	(0.2)	(0.2)	(0.6)
Distributions of Income	(105.8)	(20.0)	(18.0)	(15.1)	(53.1)
Ending Net Assets	1,704.6	1,714.0	1,451.9	1,477.6	1,477.6
Net Asset Value per Unit	10.152	10.195	10.150	10.110	10.110
No. of Units (End of Period)	167,909,159	168,126,090	143,051,739	146,147,403	146,147,403
Total Net Investment Return	8.96%	1.60%	0.63%	0.63%	2.89%

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

IV. SEPARATELY INVESTED ASSETS

Summary Investment Report at May 31, 2002

($ thousands)

	FUND TYPE													
	CURRENT PURPOSE				ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		OPERATING FUNDS		TOTAL	
	DESIGNATED		RESTRICTED											
ASSET TYPES														
Cash & Equivalents:	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
Beginning value 3/1/02	4,097	4,097	2,131	2,131	38,444	38,444	1,011	1,011	75	75	1,257,091	1,257,091	1,302,849	1,302,849
Increase/(Decrease)	(215)	(215)	(839)	(839)	(10,365)	(10,365)	(508)	(508)	-	-	(128,154)	(128,154)	(140,081)	(140,081)
Ending value 5/31/02	3,882	3,882	1,292	1,292	28,079	28,079	503	503	75	75	1,128,937	1,128,937	1,162,768	1,162,768
Debt Securities:														
Beginning value 3/1/02	-	-	263	167	48,595	48,435	12,978	13,766	-	-	41,506	47,516	103,342	109,884
Increase/(Decrease)	-	-	-	-	883	859	420	6	-	-	297,783	301,188	299,086	302,053
Ending value 5/31/02	-	-	263	167	49,478	49,294	13,398	13,772	-	-	339,289	348,704	402,428	411,937
Equity Securities:														
Beginning value 3/1/02	40	8,207	1,982	1,950	29,976	36,119	20,559	16,526	-	-	135,562	97,430	188,119	160,232
Increase/(Decrease)	-	(1,096)	316	7	950	(2,506)	811	1,235	-	-	13	(3,163)	2,090	(5,523)
Ending value 5/31/02	40	7,111	2,298	1,957	30,926	33,613	21,370	17,761	-	-	135,575	94,267	190,209	154,709
Other:														
Beginning value 3/1/02	-	-	401	401	573	573	108	21	-	-	-	-	1,082	995
Increase/(Decrease)	-	-	(379)	(379)	3	3	12	-	-	-	-	-	(364)	(376)
Ending value 5/31/02	-	-	22	22	576	576	120	21	-	-	-	-	718	619

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

10. U. T. Board of Regents: Request for Approval of the Annual Budget and Management Fee Schedule for The University of Texas Investment Management Company (UTIMCO)

RECOMMENDATION

The Chancellor and the Executive Vice Chancellor for Business Affairs concur in the recommendation of the Board of Directors of The University of Texas Investment Management Company (UTIMCO) that the U. T. Board of Regents approve UTIMCO's Annual Budget and Management Fee Schedule for the fiscal year ending August 31, 2003, as set forth on Page 53.

BACKGROUND INFORMATION

The Investment Management Services Agreement by and between the U. T. Board of Regents and UTIMCO requires that UTIMCO submit its annual budget and management fee schedule to the U. T. Board of Regents for approval. The annual budget consists of UTIMCO's management fee and a budget for direct expenses of the funds managed by UTIMCO.

The total budget for the fiscal year ending August 31, 2003, is $33,320,032, an increase of $1,351,185 or 4.2% from 2002. UTIMCO's management fee for the fiscal year ending August 31, 2003, will increase by $2,904,225 from $6,698,276 to $9,602,501. Budgeted direct expenses will decrease by $1,553,040 from $25,270,571 to $23,717,531. The UTIMCO Board of Directors approved the proposed budget and management fees on June 18, 2002.

UTIMCO Budget ($)
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2003

	The Permanent University Fund (PUF)	The Permanent Health Fund (PHF)	The University of Texas System Long Term Fund (LTF)	General Endowment Fund (GEF)	The University of Texas System Short Intermediate Term Fund (SITF)	Short Term Fund (STF)	Separately Invested Endowments and Charitable Trust Accounts	Total
UTIMCO Management Fee (1) (includes all operating expenses associated with the general management of the Funds)	**5,187,122**	**676,877**	**3,135,100**		**603,402**			**9,602,501**
Direct Expenses of the Fund:								
External Management Fees	8,703,690			4,640,801				13,344,491
External Management Fees-Performance	4,597,210			2,174,330				6,771,540
Other Direct Costs	2,082,812	21,700	54,270	1,320,868	116,850		5,000	3,601,500
Total Direct Expenses of the Fund	**15,383,712**	**21,700**	**54,270**	**8,135,999**	**116,850**		**5,000**	**23,717,531**
TOTAL UTIMCO Budget for the fiscal year ending August 31, 2003	**20,570,834**	**698,577**	**3,189,370**	**8,135,999**	**720,252**		**5,000**	**33,320,032**
Market Value of Funds Managed by UTIMCO as of 2/28/02 ($ millions)	**7,114.0**	**848.8**	**2,784.5**	**3,633.3** (3)	**1,451.9**	**1,257.1** (2)	**171.9**	**13,628.2**
Percentage of Market Value								
UTIMCO Services	0.073%	0.080%	0.113%	0.000%	0.042%	0.000%	0.000%	0.070%
Direct Expenses of the Fund	0.216%	0.003%	0.002%	0.224%	0.008%	0.000%	0.003%	0.174%
TOTAL	**0.289%**	**0.083%**	**0.115%**	**0.224%**	**0.050%**	**0.000%**	**0.003%**	**0.244%**

(1) Allocation Ratio: PUF-54%, PHF-7%, LTF-33%, SITF-6%
(2) *Interest Income is net of fees and is not budgeted*
(3) Pooled fund for the collective investment of the PHF and LTF

UTIMCO7/17/02

11. U. T. System: Proposed Increases in the Annual Distributions from the Permanent University Fund, the 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 increased by 7.3% from $338,433,636 to $363,022,043 effective September 1, 2002

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 $0.251 per unit to $0.258 per unit effective November 30, 2002.

BACKGROUND INFORMATION

For comparative purposes, the recommended distributions from the PUF, PHF, and LTF represent 5.10%, 5.06%, and 4.94%, of the respective funds' market value as of February 28, 2002.

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 FY 2002-2003 is $363,022,043 as calculated in the chart on the following page.

Quarter Ended		Net Asset Value
5/31/99	$	7,437,047,422
8/31/99		7,465,560,698
11/30/99		7,697,888,965
2/29/00		7,924,756,395
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
02/28/02		7,114,025,229
	$	91,710,831,994
Number of quarters		12
Average Net Asset Value	$	7,642,569,333
Distribution Percentage		4.75%
FY 2002-03 Distribution	**$**	**363,022,043**

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 of Regents' 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 $363,022,043 is substantially greater than PUF Bonds debt service of $148,502,000 projected for FY 2002-2003.

System		Debt Service
U. T.	$	94,200,000
TAMU		54,302,000
Total	$	148,502,000

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

2. The U. T. Board of Regents 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 U. T. Board of Regents may increase the FY 2001-02 distribution of $338,433,636 by 7.3%, as proposed, because 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, 2002, was 1.91%.

Average Annual	Percent
Rate of Total Return	9.57%
Expense Rate	(.05)% (1)
Inflation Rate	(2.52)%
Distribution Rate	(5.09)%
Net Real Return	**1.91%**

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 of Regents 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 of Regents, 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
$7,642,569,333	$363,022,043	**4.75%**	7.00%

(1) Source: UTIMCO

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 12 fiscal quarters.

The recommendation for the PHF rate of $.047 per unit to remain unchanged for FY 2003 is based on the PHF's net asset value of $848.8 million at February 28, 2002, being less than the original PHF contributions of $915.0 million. The PHF's average distribution rate since inception is 4.5%, within the range of 3.5% to 5.5% set forth in the PHF Investment Policy. The recommended distribution rate of $.047 per unit was approved by the UTIMCO Board on February 19, 2002.

The 2.8% increase in LTF distribution rate from $0.251 per unit to $0.258 is recommended based on the investment policy to increase the distribution by the average rate of inflation for the trailing 12 fiscal quarters. The consumer price index for the prior three years as of November 30, 2001, was 2.7%. The increase of 2.8% above results from rounding the per unit rate as provided in the investment policy. The recommended distribution rate of $.258 per unit was approved by the UTIMCO Board on February 19, 2002.

INFORMATIONAL REPORT

U. T. System: Discussion of the June 2002 Monthly Financial Report

REPORT

Mr. Kerry L. Kennedy, Executive Vice Chancellor for Business Affairs, will discuss the June 2002 Monthly Financial Report for the U. T. System.